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Editorial

Dear readers,

Foundations occupy a unique role in the financial and nonprofit marketplaces. They generally seek to preserve if not grow their corpus and advance their public charity mission; they invest in the market for financial returns and in nonprofits for social return. More and more these functions are finding common ground through *using a foundation's investment portfolio to further the charitable mission of the foundation while still achieving a financial return*. The uptake has been inconsistent, yet the lessons learned from those who have done so offer much for the field and the larger financial marketplace, especially in terms of advancing, measuring, and managing social impacts. This issue represents a step toward sharing those lessons with the field.

Sherman and Olazabal provide an introduction and overview of the "why" and "so what" of impact investing. Investing in nonprofit and for-profit companies that offer clear social and financial returns, investing their corpus in companies whose products and services align with their missions, using social bonds to inject new resources into their programs, offering guarantees to help grantees manage risk, and avoiding companies whose practices run counter to their grantees' efforts — exemplify the innovative full balance sheet approaches taken by some foundations. This paper describes the context in which these efforts are occurring and provides the landscape of actors and leaders. It concludes with key opportunities and challenges for philanthropic foundations and all investors wanting to ensure a sustainable planet and the wellbeing of all people.

Kerman and Miller share a recent evaluation of the Western New York Impact Investment Fund. This place-based fund, born of a collaboration between regional and national philanthropies, catalyzed a broader partnership with private individual and corporate investors. Five years into a diverse portfolio, the fund has achieved a variety of social impact and financial results, including living wage jobs, reduced carbon footprints, and financial returns for investors.

Impact investing may be highly targeted for specific populations. **Bolinson and Allan** argue that foundations can play two critical roles in the impact investing ecosystem: to commission and/or support research that helps build more equitable and socially just impact investing and to fund grantee-specific experimentation in areas of developing impact investing. This article presents action research conducted on gender-lens investing, describing a 2019 Mastercard Foundation grant to Engineers Without Borders Canada. The results for both the project and for the field are detailed.

A guarantee instrument is a credit enhancement tool that can enable philanthropies to unlock dollars for societal impact. **Reisman, Baek, Newsome, and Ryan** describe the Community Investment Guarantee Pool, created in 2019 by a collaboration of philanthropies and allied impact investors, and share early challenges and insights related to the underlying theory of change. This article discusses investor "but for" contributions; treatment of risk (perceived versus actual), both for the guarantors and intermediary recipients; and adaptations for specific markets.

Brandenburg and Iqbal share the role the Ford Foundation has played in seeking to grow the field of impact investing. This support has enabled the development of the metrics, engagement, policies, and norms needed to underpin capital markets at scale. Ford has chosen to augment its Program-Related Investments and Mission-Related Investments portfolios with a dedicated field-building initiative that can grow the field, and its impacts, in the timeframe required to make progress against the Sustainable Development Goals.

Ligonde, De Temple, and Ajuyah argue that the long-term pursuit of values-based goals and financial performance are mutually inclusive and self-reinforcing and can be combined to great effect with more traditional forms of philanthropy (i.e., grantmaking). Further, they argue impact investing provides the opportunity for the engagement of additional stakeholders and members of the community.

Any discussion of foundations embracing impact investing must include some discussion of one of the largest — and growing — sources of philanthropic capital: donor-advised funds. **Marks** reflects on the unique challenges sponsors of these funds face in catalyzing impact investments. Like the larger institutional foundations that have led the way as mission investors, sponsors must often educate and inspire governance boards and investment committees. Unlike foundations with professional program staff, decisions regarding philanthropic resources at sponsors of donor-advised funds are guided by multiple account holders, often numbering in the hundreds or thousands. This article takes a practitioner's view on the issue, reflecting on lessons learned by a sponsor of donor-advised funds that has long accommodated the impact investing interests of its donors.

There are many individuals and organizations working as practitioners and advocates for impact investing. Thanks to the sponsorship of the Max M. & Marjorie S. Fisher Foundation and Mission Throttle, the issue is open access and free for anybody to download. We hope this issue contributes to developing the knowledge base needed to support practice.

Teresa R. Behrens, Ph.D.
Editor in Chief

Using Foundation Capital for Good: Opportunities in the Balance Sheet

John Sherman, M.P.H., Sherman Impact Consulting, and Veronica Olazabal, M.A., BHP Foundation

Keywords: *Impact investing, ESG, PRIs, MRIs, social bonds, guarantees, catalytic capital, balance sheet, finance, sustainability, policy, advocacy*

Introduction

Money. Philanthropic funders have a lot of it — over $1 trillion in assets as of June 2022 (Foundation Mark, 2023). Nonprofits want to access it, and investment houses want to manage it. At the 30,000-foot level, how foundations meet those demands is clear — every year, in keeping with the U.S. tax code, 5% of those assets on average is deployed for charitable purposes and the remaining 95% is managed by firms that invest it in for-profit companies. Closer to the ground, how that 95% is invested — on what, for what, for whom — is changing.

Just as they want their grants to have an impact, many foundations — like other investors — want their investments to better serve society; to do well and do good. They seek investments that at best have dual social and financial impact (i.e., impact investing), and at the worst do no harm — investing in companies with superior environment, social, and governance (ESG)[1] ratings, for example. Wanting to utilize more of their capital for good, some also aspire to reduce the countervailing effects their investments may have on the social impacts sought by their grantees. Many belong to funder-focused impact investing groups such as Mission Investors Exchange, the U.S. Impact Investing Alliance, and Confluence Philanthropy, three foundation-oriented groups that focus on informing the field and advancing the policies and practices of

Key Points

- Foundations increasingly use their full balance sheets to unlock more of their capital for good. They look beyond conventional grantmaking to pursue their charitable purposes in many ways that exemplify innovative, full-balance sheet approaches: investing in nonprofit and for-profit companies that offer clear social and financial returns; investing their corpus in companies whose products and services align with their missions; using social bonds to inject new resources into their programs; offering guarantees to help grantees manage risk; and avoiding companies whose practices run counter to their grantees' efforts.
- This article looks at the structures, pathways, and tools for foundations wanting to use all their assets and strategies to enhance their positive impact, describes the context in which these efforts are occurring, and provides the landscape of actors and leaders. It also notes countervailing arguments to foundations using their balance sheet or grant dollars for anything but awarding grants mainly focused on opportunity costs and net social impact. In addressing some legitimate concerns, this article offers considerations and suggestions that may help foundations identify and evaluate their investment options.

(continued on next page)

[1] ESG is a set of criteria used by investors to assess a company's operations in terms of its environmental performance; management and quality of its social relations with its employees, suppliers, customers, and the communities where it operates; and its internal governance, including company leadership, executive pay, audits and internal controls, and shareholder rights. Third-party ESG ratings firms use these criteria (individually and collectively) to assign ESG ratings to businesses. Investors may include these ratings in assessing the level of financial and social risk of a company prior to investing in it or in monitoring a current investment.

Key Points (continued)

- Amid the rapid evolution of impact investing, much remains to be done; there are gaps to fill and value to be created. This article concludes with a discussion of key opportunities and challenges for philanthropic foundations and all investors wanting to ensure a sustainable planet and the well-being of all people.

impact and do-no-harm investing within philanthropy and beyond.

Groundwork laid over the past 15 years offers structures, pathways, and tools for foundations wanting to use all their assets and financial tools to enhance their positive impact on people and planet. For example:

- The Global Impact Investing Network (GIIN), established in 2008, provides an organizational structure for defining, tracking, and informing the impact investing field.
- The GIIN-sponsored IRIS+ system provides a set of tools for impact investors to measure and manage their impacts by sector and for cross-cutting themes such as racial and gender equity.
- The Impact Management Platform (formerly called the Impact Management Project), managed by Impact Frontier (n.d.), offers standard ways to consider impacts, including its widely adopted five dimensions of impact.
- The United Nations (2022) Sustainable Development Goals Impact Standards provide businesses and investors detailed internal management standards to help them integrate sustainability and the SDGs into their management systems and decision-making practices.
- The International Finance Corp. (2019), a global development institution affiliated with the World Bank, developed a set of impact management operating principles that identify essential features of managing impact investments.[2]

Context

Definitions of impact investing vary, though the "spectrum of capital" model offered by Bridges Fund Management Ltd. (2015) is a frequent reference. (See Figure 1.) Note that impact investing ranges from requisite competitive returns to requisite below-market returns.

ESG-sustainable investing is frequently included in conversations about impact investing. Public and government investment is excluded. Critically important, it focuses on risk mitigation, while impact investing intentionally seeks to have positive environmental and social impacts. From a "why does it matter" perspective, the ESG market dwarfs the impact investing and philanthropic foundation markets. Bloomberg (Kishan, 2022) placed the ESG market in 2021 at $35 trillion, 30 times larger than the $1.164 trillion impact investing market (Hand et al., 2022) and the $90.88 billion granted by U.S. foundations in the same period (National Philanthropic Trust, 2022). Scale matters.

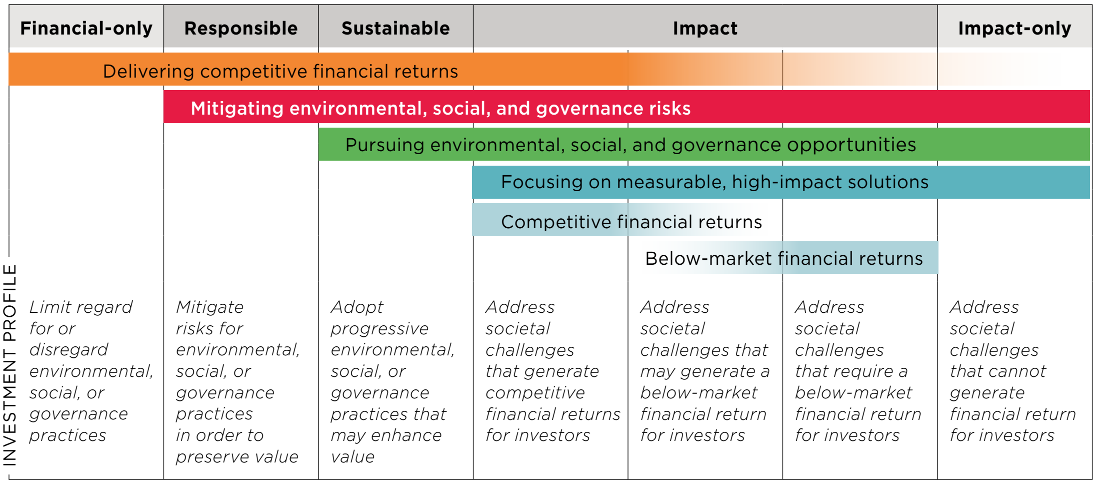
Foundations' Position In the Investment Space

Foundations clearly occupy a unique position within the spectrum of capital. As investors, as opposed to grantmakers, they can make impact investments and they can invest in companies with high ESG scores. Moreover, as investors and shareholders they can use their influence to seek improvements in how companies identify, assess, report, and manage ESG "impacts." They can also inform and educate policymakers and regulators (e.g., the U.S. Securities Exchange Commission) on ways to ensure investors have access to comparable impact risk information on companies before investing in them.

Foundations already do a lot in the nontraditional investment space. Many support

[2] In 2022, the GIIN took over as Impact Principles Secretariat from the IFC.

FIGURE 1 Spectrum of Capital



Source: Bridges Fund Management Ltd. (2015)

program-related investing (PRI),[3] many position some or all their investments to align with mission (mission-related investing, or MRI),[4] some support pay-for-performance, and others support undercapitalized, higher-risk markets through catalytic capital and direct investments. In response to the need for an immediate tranche of funds at the onset of the COVID-19 pandemic, several funders issued social bonds collectively providing over $2 billion to fund crisis-created needs and support building the long-term resiliency to such crises (Beaty, 2022). A handful of funders also provide guarantees to nonprofits so they may extend their loans and investments to higher-risk, capital-starved communities; some of these have created pooled guarantee funds (e.g., the Community Investment Guarantee Pool) in the hopes of reducing transaction costs, demonstrating utility to other funders, and spurring innovation within the nonprofit lending community and conventional lenders.

And even more could be done, noted Hilary Pennington, a Ford Foundation executive vice president. Commenting on the foundation's social bond issue, she said: "It just kind of shows you how much value we leave off the table that people don't actually imagine how much more we could do if we just thought a little bit more creatively" (Beaty, para. 27).

Perhaps the biggest impact investing role to date for foundations is as grantmakers to support infrastructure development and conveners for field building. They led establishment of and provide ongoing support for the GIIN and IRIS+ and were critical early supporters of the Impact Management Platform. Nonprofit engagement in the SDG Impact Standards and the IFC efforts made them more robust because of foundation support. All these efforts continue to evolve; the field would benefit if foundations continued their support for and engagement with them.

An underserved role of foundations is to support the many ways grantees can educate and inform investment-related public policy (i.e., strengthening of laws and regulations). Whether through the SEC, Community Reinvestment Act, Opportunity Zone policies, Community

[3] PRI refers to foundation investments whose primary purpose is to accomplish one or more of the foundation's exempt purposes — its programs — and for which earning income or appreciation of property is not the significant purpose. They often are loans and loan guarantees to, and may be equity investments in, charitable organizations or in commercial ventures for charitable purposes.

[4] MRI refers to investments made by foundations that align with their charitable missions with the primary purpose of earning income.

Development Banking and Financial Institutions Act, or the myriad policies supporting investments in underserved communities and businesses, foundations can support their grantees' policy advocacy efforts. Individual funders are doing this, and some, like the Tipping Point Fund,[5] are doing it together. All are important, and still more needs to be done.

Opportunity Costs and Net Social Impact

Countervailing arguments to foundations using their balance sheet or grant dollars for anything but awarding grants mainly focus on opportunity costs and net social impact. What opportunities to advance social good are missed if some of those dollars are removed from the corpus, thus reducing the amount of grant dollars available and invested in other socially impactful ways?

While legitimate concerns, if you are a foundation, then we offer some considerations and suggestions that may help.

Consider that risks to the corpus, the mission, and social impact accompany all investments — including grants. Grants awarded that fail to or only partially achieve their desired social impacts means that there was missed opportunity to invest those dollars in another nonprofit or perhaps for-profit organization. While not affecting or threatening the corpus, such grants certainly affect fulfillment of the foundation's mission. And, while such underperformance may be considered a problem only for the program side of the foundation, it diminishes the foundation's raison d'etre. Similarly, as mentioned above, the foundation's mission is also threatened by investments whose practices or products run counter to it as reflected in the foundation's programs. Unlike programmatic underperformance, investment underperformance vis-à-vis the foundation's mission is fully controlled by the investment side of foundations.

To manage risks to the balance sheet, we suggest the following:

- Start with lower-risk investments that have less financial impact on the balance sheet. PRIs, while intended to provide a return at market or below-market (i.e., concessionary) rates also are issued from grant dollars and thus have no impact on the balance sheet. If the principal and interest are fully paid, there is zero financial risk; if the PRI defaults, then it can be charged off as a grant. Or perhaps join a guarantee pool. Unfunded guarantees may only affect the balance sheet if the underlying loan defaults, and then the terms of the guarantee (e.g., percentage of loan covered, the position of the guarantee relative to other guarantors) can be written to further limit exposure to the balance sheet. And if a guarantee is called, then it can be paid out of grant dollars and not the balance sheet; the choice from which bucket — balance sheet or grant dollars — the guarantee is covered is the foundation's decision.

- Another low-risk impact investing strategy is to align investments of the corpus with the mission and values of the foundation. Like PRIs, several foundations employ this strategy. The Mission Investors Exchange provides case studies of MRI-using foundations that demonstrate the strategy's low-financial risk, high-mission benefits.[6]

- Providing loans or making equity investments in individual companies is considered the riskiest impact investment strategy. However, just as chief financial and investment officers seek a balanced investment portfolio, so too can a foundation have a balanced impact investment portfolio, both across different "asset classes" (i.e., PRIs, MRIs, direct loans or investments in companies) and within an asset class. Impact Frontiers developed and leads this portfolio approach, offering principles, practices, and trainings for foundations and other impact investors.

[5] See https://tpfii.org/

[6] See https://missioninvestors.org/resources/examples-how-foundations-are-using-mission-related-investments

Filling the Gaps

The breadth, depth, and rapid evolution of impact investing, even as applied just to foundations, is beyond the scope of one journal and its several articles. Much remains to be done; there are gaps to fill and value to be created. Five gaps — thus opportunities — we see that foundations could help fill and continue to build the field are:

Providing loans or making equity investments in individual companies is considered the riskiest impact investment strategy. However, just as chief financial and investment officers seek a balanced investment portfolio, so too can a foundation have a balanced impact investment portfolio[.]

1. *The SDG funding.* Impact investing alone will not fill the annual $2.5 trillion SDG funding gap (United Nations, 2014) or bend the curve on our global social and environmental challenges. Capital from public sources and a lot more from private sources via ESG investing and public-private partnerships is necessary. Foundations possess an abundance of useful tools to assist in bridging the funding gaps. They can use their traditional tools of convening, educating, and informing through their own influence and their interested grantees to help mobilize more private and public funds. They can use the more innovative financial tools, such as guarantees and social bonds, or other ways to leverage the markets to help lower the financial risks and accelerate funding. They can also, as the John D. and Catherine T. MacArthur Foundation is doing through its Catalytic Capital Consortium,[7] provide the risk capital to support high-risk, undercapitalized emerging markets that address some of the world's most pressing challenges.

2. *Sustainability.* The health of our planet needs to be elevated into the way in which markets assess risk and consider investment policies. Much of impact and ESG work focuses on single investments and single companies, not on cumulative and systemic impacts or opportunities. Lack of systems thinking, combined with the limited impacts of single investments and the absence of enforceable validation markers to ensure sustainability, beg for resourced attention. Foundations can support intentional, focused support to elevate assessment, management, and verification of individual and collective issues of sustainability into the market and policy discussions.

3. *Materiality.* Fundamental to financial risk is the "materiality" of the risk being assessed. Existential risks to the planet and people may rise to financial review of a single investment, but not necessarily. Such risks may be cumulative and systemic. Like sustainability, the issue of what constitutes "nonfinancial materiality" remains outside consideration in current markets and most public policies. Foundations can play the same role here as they do in sustainability.

4. *Stakeholder engagement.* One of the knottiest issues with which foundations could play a role is community engagement. From the SDG Impact Standards[8] to the IMP[9] and the World Economic Forum,[10] stakeholder engagement receives hallowed attention. However, the ways in which communities

[7] See https://www.macfound.org/programs/catalytic-capital-consortium

[8] See https://sdgimpact.undp.org/practice-standards.html

[9] See https://sptf.info/images/SIWG-WEF-AG3-Engaging-all-affected-stakeholders-December-2017.pdf

[10] See https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

can and should be engaged when issues of their communities' sustainability or non-financial risks are considered (and measured, reported, and managed) remain maddeningly sparse. Foundations can play a role in supporting their grantees and communities along with investors, trade associations, and financial market regulators in finding common ground on acceptable, effective community engagement principles and practices.

5. *Infrastructure*. This article highlights the foundation community's leading role in building the impact investing field. The dynamism of the field and of the changing financial and social context requires ongoing field-level infrastructure investments. The roles of organizations like the Impact Frontiers, IMP, GIIN, the SDG Impact Standards, and the New Capital Project are critical to the continued evolution of the field and to utility of impact investing. These and other nonprofit groups are shaping the necessary impact investing practices, policies, and trainings.

Conclusion

Foundations occupy a critical and unique perch in the investment landscape. As investors they can influence and inform investment practices. As grantmakers they support the field building and enhancement of sustainable investing practices and principles, while also supporting advocates to shape finance and market-oriented public policies. Fully using this powerful dual ability to harness their money for market-scale change with social purpose intent remains the opportunity and challenge for foundations.

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A Promising Place-Based Collaborative Impact Investing Fund Strengthens Community and Informs Philanthropic Practice

Benjamin Kerman, Ph.D., Ben Kerman Consulting LLC; and Clara Miller, M.R.P.

Keywords: *Social impact investing, evaluation, philanthropy, community strengthening*

Key Points

- A recent evaluation of the Western New York Impact Investment Fund adds to the proof-of-concept literature regarding "doing good and doing well" while pointing to experience-based best practices in philanthropic impact investing. Born of a collaboration between regional and national philanthropies, the fund brings together corporate, individual, and philanthropic investors to deliver an inclusive impact investment mechanism. Founded in 2017, the fund evolved from concept to operating entity, focusing on mitigating capital gaps, long-term economic decline, and wealth divides.
- Evaluation at Year 5 describes how the professionally managed, collaboratively governed fund has attracted and deployed capital, contributing to ecosystem improvements and concrete results. Portfolio companies have created jobs with livable wages, reduced carbon footprints, reclaimed abandoned space, and committed to maintain operations in the region long term.
- Alongside these impacts, investors' stakes have increased in value and realized returns. Performance bred opportunity and its second round of fundraising, 42% larger than the first, brought the total under management to over $20 million. With this evaluation, the Western New York Impact Investment Fund articulates lessons for the fund, foundation investors, and intermediaries seeking to nurture place-based impact investing.

Introduction

Socially responsible investing to benefit the health, wealth, and fabric of society has grown in volume and sophistication since 18th-century Methodists and Quakers avoided supporting tobacco, alcohol, and gambling industries. Private and public investors as well as philanthropies have worked in this space for decades. Yet, only more recently have U.S. philanthropies begun explicitly to deploy their endowments to do well by preserving or expanding their purchasing power and to do good by advancing their missions.

In 2007, a group of foundations led by the Rockefeller Foundation coined the term "impact investing" and sought to develop the practice. The strategy involved directing endowment capital to specific enterprises and entrepreneurs whose missions and purposes aligned with the foundations. Success would expand the foundation "toolkit" as well as the available resource base that could be focused on mission.

As the practice developed, Wood (2020) described six foundation roles: Some invest, demonstrating by example that impact can be achieved with competitive financial returns. Some provide "catalytic capital," using patient or below-market funds to leverage reluctant private investors into unfamiliar markets. Some build the field, helping develop intermediaries that operate in abandoned or pioneer markets. Some fund impact investing infrastructure for data provision and data standard setters. Others build networks, promoting learning and advocacy.

Experience in familiar settings can provide philanthropies an opportunity to deploy and build local market knowledge regarding impact investing outcomes and to strengthen investment infrastructure, increase opportunity, and identify best practices.

Lastly, foundations become practice leaders spotlighting roles for investors to address particular social needs.

Foundations' embrace of "doing well and doing good" has been modest, perhaps reflecting the sector's tendency to avoid change (Soskis & Katz, 2016). Estimates suggest that the share of foundation endowment and program funds used for impact investing is 2% to 3% (Buchanan et al., 2015).

As early adopters, the Heron Foundation aligned its entire $300 million endowment with its anti-poverty mission (Miller, 2016). Among very large foundations, the Ford Foundation (2017) signaled a second watershed moment in carving out $1 billion (over 8% of its endowment) for mission-related investing encouraged by a maturing market of asset managers and improvements in impact measurement.

Still, obstacles to implementation persist related to foundation culture, belief, and means. Complexities include longtime relationships with asset and enterprise managers, fear that impact investing lowers returns, a belief that investments leverage less change than grants, and a lack of internal skills and systems cultivated for impact investing (Buchanan et al., 2015; Agrawal & Hockerts, 2019; Soskis, 2021). A survey of 125 institutional impact investors identified their top challenge to be the shortage of high-quality investment opportunities (Saltuk et al., 2014). On the supply side, potential investees note parallel challenges that hamstring efforts to match capital supply and demand. These include inefficient ecosystems of intermediaries and investees, as well as difficulties measuring enterprises' social dimensions connected to investments (Phillips & Johnson, 2019). In response to these concerns, intermediaries have developed templates for deal/fund structures, impact measurement schemas, and online platforms to help investors find opportunities (Hand et al., 2020).

A Targeted Response: Philanthropic Place-Based Impact Investing

Experience in familiar settings can provide philanthropies an opportunity to deploy and build local market knowledge regarding impact investing outcomes and to strengthen investment infrastructure, increase opportunity, and identify best practices (Ovalle, 2018). Regional foundations with a strong place-based mandate, such as community or health conversion foundations, may be well positioned to use impact investing to advance missions locally (Berliner & Spruill, 2013). Philips and Johnson (2019) point to enabling factors such as strong embeddedness in place, matching investment scale with investee and investor requirements, flexible capital instruments, and availability of intermediaries. Promising landscape features include public and private investors supporting local entrepreneurs with locally grown products and problem solutions; proximal financial institutions, accelerators, and educators nurturing new entrepreneurs and enterprises; and other social capital such as committed community members, affinity associations, and convening institutions (Leung & Theodos, 2019).

National foundations such as Rockefeller, Kresge, Ford, Heron, John D. and Catherine T. MacArthur, Annie E. Casey, and David and Lucile Packard have sponsored place-based efforts and infrastructure. Some foundations focus on specific impacts or replicate distinct models (Walker et al., 2010). Others nurture indigenous efforts that unite local leadership and homegrown innovation on familiar ground (Miller, 2016).

Research informing fund development and implementation is mainly based on information from recent "adopters" who share anecdotal experience (Agrawal & Hockerts, 2021). Mission Investors Exchange convened a community of practice that produced the *Community Foundation Field Guide for Impact Investing* (Berliner & Spruill, 2013). It provides examples of best practices from community foundations deploying assets through debt, equity, and cash vehicles. Subsequently, MIE and the Urban Institute convened emerging place-based funds and intermediaries to capture insights into early-stage structure and practice (Leung & Theodos, 2019). Despite these efforts, much remains unclear regarding the course, success, and survival of startup funds. Examining efforts facing different challenges at different developmental stages across lengthy life and death cycles can be instructive (Rider & Swaminathan, 2011).

The Western New York Impact Investment Fund Evaluation

As early as 2014, the Community Foundation for Greater Buffalo began convening potential partners to explore impact investing. They envisioned investing alongside other contributors in a pooled fund to serve both local enterprise and nonprofits. In partnership with private individuals, foundations, and corporate investors, the fund would tap the strengths of the for-profit and nonprofit communities. This model was expected to strengthen the investment ecosystem of fund seekers, intermediaries, and funders. The fund would benefit from enhanced market size and scope, public awareness, a public stake in success, a diversity of expertise, and effective infrastructure. Demonstrated success would lead to follow-on investments, sustaining and amplifying impact over time.

The theory of change draws on the Community Foundation's convening repertoire to foster collaboration among foundations and private investors. Together, they employ local knowledge, networks, institutional capacity, and influence to stand up a professionally managed fund. The goal of the hybrid fund is to invest in new and existing enterprises, yielding financial returns to investors and social benefits to the community. Key activities include attracting interest among entrepreneurs, enterprises, and institutions; screening potential applicants; identifying applicants lacking access to capital through standard providers; negotiating deal structures, including finding ways to fill capital gaps and amplify social benefits; conducting due diligence to identify and mitigate meaningful impacts and potential risks; and developing, with investees, monitoring terms to promote likelihood of success and document outcomes. An active, adaptive board of directors, alongside modest staffing screens, underwrites and approves deals, working with diverse community partners. The fund also documents and incorporates lessons learned. If successful, the fund deepens the capacity to attract capital and entrepreneurs from within and beyond the region.

The goal of the hybrid fund is to invest in new and existing enterprises, yielding financial returns to investors and social benefits to the community.

Providing early support, the Heron Foundation recognized the opportunity to help amplify homegrown leaders and capacity. Having invested in Buffalo since 2012, Heron hoped to empower locally led and locally owned enterprises to improve the economy for all. Heron reasoned that the substantial social capital and the Community Foundation's ability to "connect the dots" could enable collective ownership of ideas and projects, outstripping any benefit from a hermetic program imposed by an outside player (Miller, 2016).

The evaluation reported in this article focused on four developmental phases during the fund's first five years: early exploration, preparation for launch, early operations and investment, and refinement and growth. Focal questions include:

- At each developmental point:
    - o What activities aimed to accomplish those goals?
    - o What challenges and additional opportunities were encountered?
    - o What were the results for infrastructure, financial return, and social impact?
- To what extent were investors' other activities affected, influenced, and informed by participating in the Western New York Impact Investment Fund?
- What are possible implications for fund refinement and internal application, as well as potential best practices for foundations and partners with similar goals?

Methodology

This external evaluation employed a two-stage appreciative inquiry approach (Coghlan et al., 2003). First, the evaluator facilitated participative hypothesis generation regarding organizational success and facilitating factors. Second, the evaluator used data triangulation between multiple data to assess alignment of preliminary hypotheses with available evidence and interpret results. Both stages were informed by past reflection: Anticipating the need to adapt to emergent conditions, the Community Foundation and the fund applied both formal monitoring and informal reflective practice, seeking to continuously improve operations and planning. Thus, in the first stage of the analysis, exploration of the observations and interpretations of fund principles produced a set of facilitating factors and implications concerning fund practice and process development.

In the second stage, reexamination of records and semistructured interviews enabled integration of third-party and other observations to corroborate, refine, or reject earlier interpretations.

Data for this article drew from across the fund's first five years, including:

- a landscape analysis, two founding documents, two pitch decks, five due diligence reports, and notes from earlier quality improvement conversations;
- two annual investment monitoring reports and portfolio financial updates;
- interviews with fund staff, founding board members, and new board members (n = 11);
- interviews with representative investees (n = 3);
- interviews with independent community partners (e.g., investors and incubators) (n = 4); and
- observations of committee and board meetings over 2.5 years.

An inquiry and analysis heuristic drawing on seven elements articulated by Ashley and Ovalle (2018) framed inquiry, assessment of alignment, and synthesis. Developed from multiple case studies, the heuristic points to the common presence of anchor partners committing to catalyze and sustain; impact investing champions for engagement to broaden ownership; market or ecosystem mapping to guide planning and implementation; adaptive planning capacity to make adjustments to changing conditions; attention to impact measurement and management; concern about racial equity or system inequalities; and community involvement to embed a broad spectrum of community as contributors and informed stakeholders. Care was taken to explore other critical factors based on observation and participant experience. The project was presented as intended to benefit the fund refinement and share lessons of both success and challenge to inform the field. All participation was voluntary and confidential.

Findings: Fund Development

In this first section, evaluation findings are organized by developmental phase, which reflect successive developmental goals for the enterprise as it took shape. (See Table 1.) Adaptations, insights, and possible best practices are noted at each phase.

TABLE 1 Western New York Impact Investment Fund's Developmental Course

Phase	Key Tasks	Activities	Adaptations	Key Results
Early Exploration 2014–2016	Identify capital needs Understand fund options Gauge, promote investor interest	Potential partner meetings Commission landscape analysis Group discussion	Prepared consultants and interviewees Incorporated education on models Sustained host organization leadership	Identified gaps in capital markets in western New York Established a common understanding of model, options among likely participants Identify parties willing to consider Clear sense of developmental steps
Preparation and Launch 2017–2018	Recruit investors Organize new enterprises Hire staff	Case studies & business planning Outreach Hiring Legal/accounting consultation	Early contributions to overcome impasses Narrowing focus to manage complexity, reach critical mass Lean into interested investors	Core investment adequate for launch commits to business plan Hired flexible staff using traditional, not venture fund, terms Developed founding docs, promoting readiness, confidence, and ownership
Early Operations and Investments 2019–2021	Establish pipeline Develop, pilot, refine procedures Create exemplars	Outreach Website and branding Due diligence, negotiation, decision Extensive board discussion	Lean into most promising opportunities Drawing on contributed expertise Dual due diligence committee structure Experience, reflections inform metrics, side letters, board composition	Established exemplars to inform operations and communications Demonstrated social impacts potential Diversifying financial terms enable covering of operating expenses and first distribution to investors Successes kindle early confidence and interest in developing second series
Growth and Expansion 2021+	Expand deal volume and scale of impact	Self-assessment Outreach, marketing	Comprehensive presentation of results Use of challenges to manage expectations	Second series fully subscribed Evolving board includes deepening, broader engagement Options for practice and goal setting developed

Exploration Phase (2014–2016)

The primary goal was determining feasibility of a place-based impact investment fund in western New York. Beginning in 2014, the Community Foundation worked with Heron Foundation support to explore developing a free-standing social impact fund. The Community Foundation hosted individual meetings with public and private community leaders, culminating in a forum bringing regional and national funders alongside key local stakeholders. While the commitment to community engagement meant most details would be determined collectively, the fund was predicated on two non-negotiables: the fund would be place-based, seeking social impact in the eight counties of western New York; and financial returns were expected for investors.

With those founding principles established and interest expressed in several meetings, the Community Foundation and Heron commissioned a formal landscape analysis and feasibility study by outside experts. The study was released in 2015, showing the community's capacity for a fund and charting a pathway to engage investors, establish procedures, and create infrastructure. By late 2016, the foundation and a few initial partners felt confident there was enough potential commitment to continue.

Adaptations, insights, and possible best practices:

- *Education and reconnaissance.* The Community Foundation's staff and board-appointed task force first educated themselves, honing their reasoning and messaging when new participants doubted the appeal, feasibility, and effectiveness of investing for both social impact and profit. Basic background information on underlying impact investing models was essential to address unfamiliarity and potential misunderstanding of model concepts. Once oriented, many participants contributed more to the reconnaissance, though some remained reticent.

- *Local anchor organization.* The foundation's board and management's ability to sustain attention proved essential to keeping a continuity of vision as the project evolved. While consultants brought technical expertise, knowledge of local context and relationships proved critical. Effective community engagement required extensive preparation by both respondents and consultants, followed by cofacilitated discussions exploring implications of recommendations.

- *Compass points.* The two primary nonnegotiables provided helpful scaffolding to ground and organize the extended conversation. A dearth of local prototypes underscored the importance of holding central principles while remaining open to lessons learned from past experience in other contexts and brainstorming homegrown adaptations.

Preparation Phase (2017–2018)

The primary goal was to establish governance and implementation capacity. An independent board comprising philanthropic, corporate, and private investors as well as staff with the ability to operationalize plans was needed. Activities included case studies to think through business models, operational implications for investment identification, assessment, and negotiation. Led by a new chair, the emerging Western New York Impact Investment Fund (WNYIIF) team established a board of founding investors experienced in philanthropic, corporate, and private equity settings; secured a first series with $8.15 million from individuals, corporations, and foundations; established initial criteria and processes focused on broad impacts but concentrated on western New York health, economic, and environmental outcomes; and hired an experienced CEO with expertise in startups, familiarity with the locale, and a commitment to growing a successful place-based impact fund.

Adaptations, insights, and possible best practices:

- *"Lean in" to early investor interests.* As a rough plan for a fund with a wide front door took shape, national foundations proved uninterested in joining a broad-impact fund. They preferred to wait for opportunities to advance specific deals with impacts closely aligned with their missions, such as racial justice or climate change. Participants feared that waiting for national foundations as well as the ideal cross-sector financing would likely result in missed opportunities and lost momentum. To establish credibility, branding, and broader interest, the fund used local investor excitement to cultivate broad enough engagement with strong local talent, networks, and reputation in advance of launch. At the same time, negotiations with possible investors helped refine early compass points into more defined aspirations. For instance, the goal became "market-level financial returns," a term ambiguous enough to rally a broadening consensus while holding off further definition for experience-based discussion.

- *Learning while doing.* From the start, flexible adaptation helped mitigate risk and use early experience and resources well. The Community Foundation's recognition of developmental impasses and its willingness to invest financial and social capital by contributing money, drawing on networks, and recruiting pro bono consultation to overcome early challenges were key to fostering progress (e.g., the "chicken and egg" of simultaneously needing staff to develop appealing deals, appealing deals to engage investors, and investors to hire staff).

- *Careful hiring and transition.* As the Community Foundation's anchor support gave way to increasingly engaged board members, hiring a CEO marked the transition to full autonomy. As with most startups, the

WNYIIF required a founding CEO committed to learning and adapting given the diversity of needs, multiple uncertainties, and limited infrastructure. While case studies based on market gaps identified in the reconnaissance phase were helpful for anticipating infrastructure needs, the CEO and a part-time assistant continued fitting the vision to reality. For example, in the early phases of an investment fund, revenue lags operations by a substantial period, sometimes years, even though the need for staffing is apparent. Managers and staff had to adapt to this reality. While several options for providing technical assistance, deal coordination, and linked grantmaking were explored, the WNYIIF opted to reduce complexity, narrowing the focus and shaping the staff's role to match the skill set, resources, and time available. This approach allowed timely progress.

Early Operations and Investments (2018–2020)

The primary goal was to formalize procedures for acquisition, underwriting and disbursement of demonstration investments that were both viable and reflected the diversity of long-term goals. Emphasis was placed on continuing the startup operations and instituting the first deal; piloting and refining procedures with input from the new CEO; and implementing a communications strategy targeting both investors and investees.

Adaptations, insights, and best practices:

- *Lean into available investment opportunities.* Over time, the pipeline sources expanded from board members and investors to include referrals from marketing, websites, prospect research, partner companies, incubators, intermediaries, and investors. Yet, contrary to expectations, the pipeline continued to bring forward primarily early startups and few nonprofit or mezzanine-stage opportunities. The fund decided to select the best readily available deals, sequencing an effort to diversify and strengthen the pipeline. This meant more and earlier opportunities to prove worth, as well as more work with new and small enterprises that had little track record of success, more risk, and a longer path to payoff from equity stakes. At the same time, the fund needed revenue to begin offsetting its costs. The result was a mix of patient capital instruments and income production balancing the risk of stressing new portfolio enterprises with less reliable revenue and compromising on the goal of expanding access to capital.

- *Facilitate self-selection.* At first demand was misaligned with supply, risking community support — too many "no's" can discourage partners as well as potential investees. Fund staff took steps to help investees self-select out of the pipeline with precise messaging, an informative website, and an instructive but brief application. Ultimately, better-fit applicants entered the pipeline.

- *Questions remain.* Even with the broad structure and founding documents, there were practical questions to be answered. Board members recognized the importance of continuing to use early investment experience to "figure out what we meant." Extensive discussion among leadership and staff helped clarify definitions, decision criteria, and assessment processes. For instance, the board began to detail due diligence criteria, such as early signs of capacity to generate financial returns and create social impact, and the presence of experienced, confident, and open-minded management.

- *Apply insights into structure and procedures.* A consistent process to assess impact potential and describe measurable progress took shape over the course of the early investments. At first, the board preferred to keep impact criteria open: "we'll know it when we see it." After outsourcing the earliest due diligence, the fund embraced a dual committee structure that facilitated broad board involvement augmented by foundation and other community members with relevant expertise in impact. Moreover, the dual diligence stimulated internal discussion and underscored the importance of both kinds of returns.

While important to investment decisions and management, good assessment data and storytelling play an animating role in the growth of both new and repeat investors. The voices of investees and beneficiaries alongside those of investors keep these stories authentic, credible, and compelling.

Refinement and Growth (2021+)

In this current phase, the goal is to raise additional capital to scale benefits for investees and investors and to contribute to the impact investing ecosystem.

Adaptations and insights that are currently informing activities:

- *Celebrate success.* While important to investment decisions and management, good assessment data and storytelling play an animating role in the growth of both new and repeat investors. The voices of investees and beneficiaries alongside those of investors keep these stories authentic, credible, and compelling.

- *Revisit conditions and decisions.* Internal conditions change as investor pools grow, boards diversify, and staff extend capacity. New investors bring new priorities to a collaboratively governed fund. External opportunities also evolve as economies change, potential partners change, and new market gaps emerge. Revisiting fund history and choices with new sets of stakeholders can point to important opportunities and new directions, such as setting targets for impact or asset allocation, or seeking investees at different stages of capital needs.

- *Purpose-built and sustainable infrastructure.* Growth and key personnel transitions provide an opportunity and an imperative to ensure adequate infrastructure. The WNYIIF's increasing volume of investment and the need to orient and engage with new investors require thoughtful rebalance or capacity expansion. Moreover, the long-term life cycle of portfolios requires sustainable operations. Board and staff consider how best to tend outstanding investments, align staff incentives with portfoliowide success, train successors, and maintain networks of good will to sustain operations through transitions among staff and board governance.

Fund Outcome to Date

The WNYIIF aspires to a double-bottom-line return along a long-term horizon. While all investments remain open, intermediate indicators drawn from the most recently available fund reports and progress on key milestones signal positive financial results and social benefits, as well as contributions to a growing, inclusive culture and capacity for impact investing.

Financial Results

The fund has generated substantial new capital committed to new impact investments (WNYIIF, personal communication, April 23, 2022). In the first round, closed in 2017, four private foundations, one corporate foundation, and four private investors committed $8.15 million. A second series is expected to close around press time and already has nearly $12 million in signed subscription agreements, reflecting at least 42% growth. Notably, all existing Series 1 investors enlisted in Series 2, alongside three new private foundations, four private investors, one multinational bank, and one large regional bank.

While the reach is broad, the investments seek to meet diverse investee needs with flexible instruments. To date, over 150 enterprises have been considered, a fraction of which have been subjected to due diligence, and eight have negotiated one or more contracts. The mean investment per organization has been $850,000, and four investees have received follow-up investments. Eleven contracts have involved equity stakes with a median total of $500,000. Four have included debt instruments averaging $525,000, with terms ranging from 24 to 84 months.

Fair market valuation for the equity portfolio is $16.5 million. While none have closed, six of eight investees are valued at multiples of 1.0 or greater (mean = 3.5). The total realized gain from the debt so far is $418,000. Comparing favorably to the generally high rate of early venture failure, only two of nine enterprises are described as distressed, high risk, and/or nonperforming.

Achievement of several key financial milestones suggest the WNYIIF is on a successful trajectory. Beyond survival and expansion in the second series value, the fund's debt investments are providing revenue offsetting a significant portion of operating expenses. Moreover, a modest distribution was made to initial investors, a milestone many venture funds never reach.

Social Impacts

Early social benefits are reflected in quantitative and qualitative indicators monitored by the fund. Furthermore, an evolving "transformative" approach has been coalescing to amplify significant and sustainable impact.

Like other impact investors, the WNYIIF is challenged to summarize impacts across the portfolio. With a modest and diverse portfolio, the relevance and sensitivity of generic cross-cutting indicators can be limited, yielding an incomplete story. That said, the fund, through interaction with its investees and community partners, has integrated selected indicators from standardized systems (e.g., IRIS+) into a menu-driven social impact matrix. (See Figure 1.)

According to staff, board, and investees, the matrix serves a dual purpose, amplifying an investment's social impact while ensuring strategic alignment with the fund's mission. This is accomplished through the co-selection of relevant indicators with an intentional focus on marginalized groups and communities to set targets and populate impact score cards. For instance, across the initial portfolio:

While all investments remain open, intermediate indicators drawn from the most recently available fund reports and progress on key milestones signal positive financial results and social benefits, as well as contributions to a growing, inclusive culture and capacity for impact investing.

- Over 200 living-wage jobs have been created in western New York, 49% of those to members of marginalized groups (e.g., individuals living in poverty, people of color, the formerly incarcerated).
- Operations and capital improvement resulted in 866,000 square feet of adaptive reuse.
- Operational improvements and green product prototypes resulted in 1.4 million-ton reduction in greenhouse gas.

In addition to the health and/or environmental benefits, other common categories that contribute to inclusive economic growth include increased reliance on local supply chains and expanded workforce training in concert with regional nonprofits and businesses.

With experience, the fund has marshaled its influence along a "transformative" path to facilitate more impact over time. Stimulated by a recognition that opportunities may have been missed to encourage greater impact alongside financial success, fund staff is formalizing steps to build its ongoing engagement. In contrast to transactional approaches identifying impact targets at a point in time in exchange for investment, the WNYIIF cultivates deeper capacity and commitment through interactions

FIGURE 1 Social Impact Indicator Matrix

WNYIIF Social Impact Indicators - Matrix REV. 3.0 (Q2-2022)

*Mission Alignment w/h IRIS+ System Standards**	*Workforce Education/Development, Diversity, and Job Creation*		*Neighborhood Revitalization*	*Health*	*Environment*
	EMPLOYMENT	OPERATIONS	NEIGHBORHOOD REVITALIZATION	HEALTH	ENVIRONMENT
	DIVERSITY, EQUITY, AND INCLUSION (DEI) — *Cross-Cutting Strategy: Measuring the Impact on Marginalized Groups** (MGs) and Communities (MCs)*				
	A	B	C	D	E
1	**Individuals Trained** (Total # / % MGs)	**Management Team** (Total # / % MGs)	**Building Area - Adaptive Reuse** (sq. ft.)	**Health Care Spending on Workforce** (Total $ / % MGs)	**Building Area - Energy Efficiency Improvements** (sq. ft.)
2	**Learning Hours Provided** (Total# / % MGs)	**Board of Directors** (Total # / % MGs)	**Adaptive Reuse Buildings** (Total # / % MCs)	**Disease/Condition Addressed** (Primary care, infections, cancer, diabetes, cardio-vascular disease, oral conditions, etc.)	**Renewable Energy Expenditures** ($)
3	**Job Placements** (Total # / % MGs)	**WNY Suppliers/ Vendors** (Total # / % MGs)	**Housing Type** (Rent, sale, or other)	**Health Intervention Completion Rate** (% Total / % MGs)	**Greenhouse Gas Emissions Reduced/ Avoided** (CO2)
4	**Full-Time Employees** (Total # / % MGs)	**Units/Volume Purchased from WNY Suppliers/ Vendors** (Total # / % MGs)	**Housing Units Constructed/Preserved** (Total # / % MCs)	**Patients Completing Treatment** (Total # / % MGs)	**Water Treatment Level** (gal.)
5	**Full-Time Employees Earning a Living Wage***** (Total # / % MGs)	**Purchase Contracts** (Total # / % MGs of buyers or clients receiving products/ services)	**Community Facilities Type** (Schools, day care facilities, health treatment clinics, etc.)	**Patients with Improved Diagnostics and Outcomes** (Total # / % MGs)	**Recycled Materials** (lbs.)
6	**Full-Time Employees Residing in Economically Disadvantaged Zip Codes****** (Total # / % MGs)	**Bill of Materials Sourced from Western New York** (% Total) - 2022	**Community Facilities Constructed/Preserved** (Total # / % MCs)	**Integrated Health Care Delivery Systems** (Total # / % MCs) - 2022	**Energy Savings from Product Sold** ($)
7	**Nonfinancial Support Offered** (Wraparound services for new hires - Y/N)	**Direct Economic Impact from Local Supply Chain** (Total $) - 2022	**Business Type** (Service, merchandising, manufacturing, etc.)		**Waste Reduction Rate from Product Sold** (%)
8		**Production** (Actual) - 2022	**Businesses Started/ Supported** (Total # /% MCs)		**Greenhouse Gas Emissions Reduction Strategy** (Y/N)
9		**Sales** (Actual) - 2022			**Water Quality Practices** (Employs management practices for watershed protection - Y/N)
10		**HR Policies and Practices** (Anti-discrimination, diverse representation, fair compensation, fair hiring/recruiting - Y/N)			
11		**Social and Environmental Performance Training** (Board, management, and staff training sessions - Y/N)			

*Source: IRIS+ System Standards (https://iris.thegiin.org/metrics/)

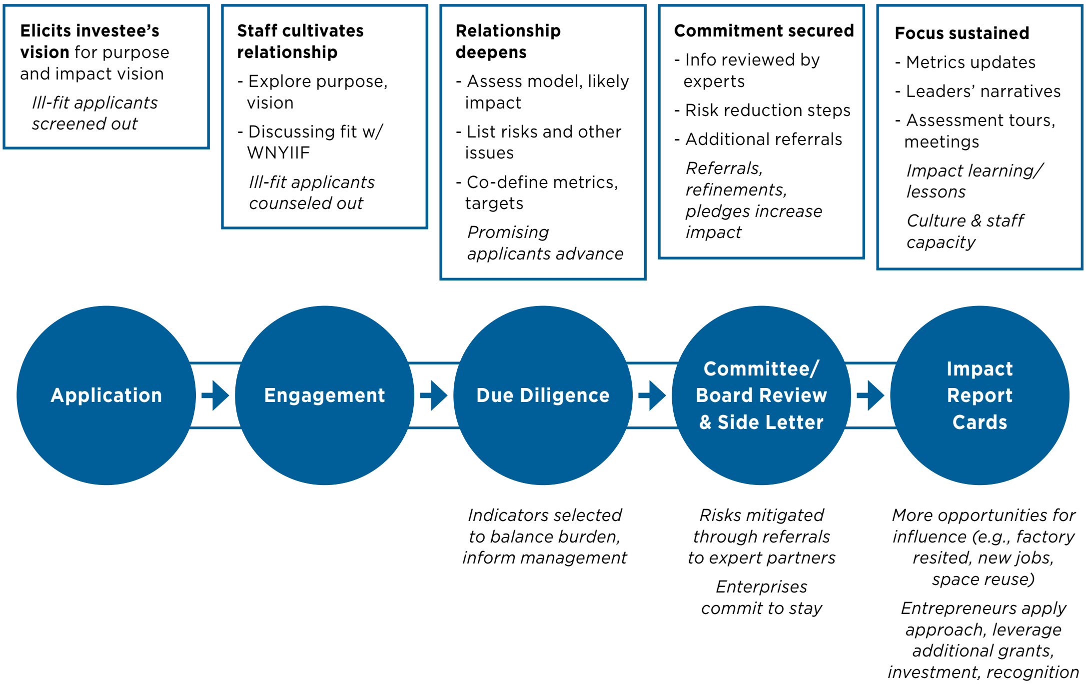
**Marginalized Groups refers to immigrants/refugees, women, racial/cultural minorities, LGBT, military combat veterans, developmentally delayed, physically disabled, mentally ill, persons living in poverty, the homeless and formerly incarcerated.

***MIT Living Wage Calculator by County in Western New York (https://livingwage.mit.edu/states/36/locations)

**** WNY Zip Codes with Poverty Rates Exceeding 25% (14213, 14207, 14212, 14211, 14301, 14208, 14201, 14303, 14204, 14305, 14214, 14209, 14215, 14210, 14779)

Qualitative Assessment: Free-form statement from investees and potential new investments on social impact goals and/or progress.

FIGURE 2 Transformative Relationship Helps to Amplify and Sustain Impact



incorporating sustained attention and ongoing adjustment. Staff use repeated touch points to explore potential impacts, set goals, mitigate risk, monitor progress, and tailor supports. (See Figure 2.) Staff and board members point to a variety of valued impacts added (e.g., discovering that an investee was going to create another factory and encouraging them to convert space in the region, resulting in additional adaptive reuse and a potential for 500 new living-wage jobs). Investee response has generally been positive, noting that the deeper consideration, impact coaching, and the fund's endorsement have led to additional recognition, investment, and grants.

Ecosystem Impact

Participants and beneficiaries of the impact investing and startup ecosystems see the fund as a welcome contributor, educating the community, championing the approach, taking risks, and demonstrating the potential of greater investment in local startups. Inclusive governance has helped to promote ownership, build faith, and create ambassadors to share lessons that strengthen the ecosystem, scaling benefits and advancing philanthropic mission. The regional business newspaper recently noted "that a number of high-profile support entities have joined the fray. The Western New York Impact Investment Fund has turned the theory of impact investment into practice in Buffalo" (Miner, 2021). At the same time, the fund has helped the region achieve recognition as being among the top five fastest-growing startup centers in the country (York IE, 2022).

Among local philanthropies, investment committee discussions are described as shifting from "Should we be involved with socially responsible and impact investing?" to "How do we make sure we get more impact?" Like many local high-net-worth individuals reconsidering their investing strategies, participating foundations are reassessing their endowment utilization. In addition to program grants to incubators and educators training entrepreneurs, strategies being considered or enacted include contests and awards to encourage social enterprise development and identify good investment candidates;

responsibly fostering inexpensive retail impact investing; adding to their own capacity through new positions; and realizing more value from current staff via deployment to impact investing partners.

Two challenges highlight the importance of greater partnering across the ecosystem. First, how can the region attract more impact investing capital from beyond the region? Competing demands on the WNYIIF infrastructure point toward exploring collaborative marketing of "sidecar" investments that feature specific community benefits that would appeal to topical mission-based investors. Second, how can the fund expand its networks and cultivate a broader pipeline to include more marginalized groups and communities? Again, the efficient pathway forward may include exploration of strategic partnerships with a diverse network of incubators and educators reaching out to those most marginalized and invisible to the WNYIIF.

Discussion and Broader Implications

The fund's developmental plan did not unfold accidentally or in a vacuum. It was shaped intentionally in response to local conditions, opportunities, and events both anticipated and unplanned. This responsive evolution is most clear in the development of the fund's approach to diversity and inclusion. Initially, the board was largely racially and socioeconomically homogeneous. While members valued impacts that benefited low-resource or underserved groups in discussions of possible investments, the board resisted articulating formal criteria in due diligence. This changed gradually over years 2 through 4. Exposed to a range of community-based initiatives including a high-profile Race Equity Roundtable and related trainings, board members actively questioned how and whether they could help the whole community. When the George Floyd murder and Tops Market attack triggered still more intense focus, the WNYIIF recognized the opportunity to continue to analyze its own contributions, both positive and lacking. Board and staff self-study and group discussions resulted in diversification of their own composition to better reflect western New York's demographics and the integration of a formalized DEI lens through which all social impacts would be filtered.

The pandemic and ensuing economic instabilities have created conditions that continue to challenge navigation of the WNYIIF. With numerous and hard-to-predict threats to investee enterprises, there could be a tendency to suspend pressure for social impact. The fund, however, can also ask which impacts are not distractions from economic viability, but rather indicators of resilience and contribution to community recovery. Internally, the reduction of face time in committee and full board meetings could hamper efforts to build consensus, orient new members, or engage the full range of perspective and networks just as the fund expands.

Overall, this locally developed venture appears to be working well, yielding returns to investors, social benefits to the community, and support for a growing impact investing ecosystem. Catalyzed by an anchor community foundation and handed off to professional management and a collaborative board of investors, the structure demonstrates the advantages of local leaders, investors, and partners synthesizing community knowledge, squeezing out efficiencies, deepening relationships, preparing investors and community resources, and strengthening impact investing infrastructure (Audette et al., 2019). If a philanthropy or local investor is considering a homegrown venture fund, it may be useful to anticipate the challenges and adaptations made from conception to fund establishment to fund expansion at WNYIIF.

National funders have the opportunity to support and benefit from efforts like WNYIIF. Seeking out local leaders and anchor organizations can help them connect the dots between strategy and the human and social capital needed to succeed in vivo. Reconnaissance and early engagement activities provide both an opportunity for the team to coalesce and for the national partners to continue their own due diligence as they fit their strategy and ability to contribute to the emerging effort. Beyond nurturing and investing in broad place-based funds, nonparticipating philanthropies can seek guidance and assistance getting behind specific investment "sidecars" aligned with their topical missions. Grantmaking can boost success and learning as well through training for investors and investees, rigorous evaluation and research, and dissemination of lessons.

While the WNYIIF adds another model and a developmental description to consider, this is still the experience of one fund in one region. Moreover, final outcomes are still unknown. As a place-based effort, there is no guarantee that the model will fit and produce similarly positive intermediate results in other settings. Indeed, with an ever-changing economic and social landscape roiled by economic distress, fluidity, and pandemic disruptions, there is no bell jar in which to definitively test models and validate best practices. For instance, success factors and candidate best practices highlighted here, such as the board members' intimate knowledge and embeddedness in place, may not have the same salience in virtual communities or industry/impact-focused funds. Methodologically, this descriptive and retrospective assessment warrants caution in suggesting causal conclusions. That said, the parsing of goals and insights into developmental phases may help those seeking to enable impact investment anticipate challenges and consider responses.

Routine reflective practice enables building both adaptive capacity and contextualized lessons. Considering the lack of funding for research and dissemination of locally funded models, practitioners may need to seek grants, pro bono learning partners, and perhaps drawing additional support from foundations investing equity in the fund.

In sum, catalyzing and investing in a fund like the WNYIIF is not for everybody, every place, and every moment. Indeed, the final assessment is incomplete. If the approach fits with community needs and a core group can catalyze action, these planning considerations will inform local and national efforts to promote a greater capacity to integrate assets and ambitions to benefit investors, investees, and communities.

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The Field-Building and Grantee Experimentation Role of Foundations in Impact Investing as Illustrated by a Gender-Lens Investing Case Example

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Keywords: *Gender-lens investing, impact investing, foundations*

Key Points

- This article argues for foundations to play two critical roles in the impact investing ecosystem: to commission and/or support research that helps build more equitable and socially just impact investing and to fund grantee-specific experimentation in areas of impact investing and social enterprise that are nascent or developing.
- To illustrate what this can look like, this article presents action research conducted on gender-lens investing, describing in detail a 2019 Mastercard Foundation grant to Engineers Without Borders Canada. The project involved two main goals: testing and developing gender-lens investing tools and processes with seed-stage investees during pre- or post-investment phases and evaluating the implementation of Engineers Without Borders Canada's gender-lens investing strategy and the assumptions underpinning it. Field-building products that resulted from the grant included a report on the lessons learned and a comprehensive literature review on gender-lens investing in sub-Saharan Africa that contributes to a growing evidence base.
- This article details the purpose, approach, results, and immediate impact of the action research and evaluation for Engineers Without Borders Canada for Mastercard Foundation and for the field. Further, the article highlights how the grant continues to impact Engineers Without Borders and the participating ventures today, and why it is important for foundations to play the role of field builder and make grants to support experimentation and field building, especially around issues of equity.

Introduction

Foundations have played diverse roles in the impact investing sector, including facilitating the development of impact investing infrastructure by funding pilots, studies, technical support, and intermediaries; and contributing to market building by providing capital, supporting capacity building to increase deal flow, sharing best practices, and reducing transaction costs (Martin, 2013). As investors themselves, foundations have engaged in a variety of approaches, including program-related investments, social impact bonds, taking part in blended finance deals, and providing catalytic capital. Foundations often prioritize an impact return over a financial one by allowing for below-market-rate financial returns, which is sometimes known as "impact first" investing (Thornley & Dailey, 2010; Yaşar, 2021). This is in line with another role that foundations have played in impact investing — emphasizing meaningful impact returns and strengthened evidence of social impact (Reisman et al., 2018).

In line with the roles that foundations have traditionally played in the impact investing sector, this article emphasizes and argues for two approaches that are critical for the success of impact investing:

1. Commission and/or support research that helps build more equitable and socially just impact investing.

2. Fund grantee-specific experimentation in areas of impact investing and social enterprise that are nascent or developing.

The impact investing sector has faced sharp critique regarding the potential for "impact washing," which can stem from a lack of meaningful stakeholder engagement and the resulting lack of materiality on the way impact is determined and reported (Busch et al., 2021; Carroll et al., 2013). We know from experience in other sectors, such as international development, that equitable approaches to program design, implementation, and evaluation that involve meaningful stakeholder engagement are critical for success (Bayiley & Teklu, 2016). Foundations, with their decades of experience in social sectors, are ideally positioned to lead in equitable and socially just impact investing and are already demonstrating this when it comes to racial equity (Onek, 2019). Foundations are also already demonstrating their support of academic and nonacademic research, case studies, good practices, and more to push the impact investing sector toward a more participatory and effective investment practice. The Impact Management Project is a demonstration of this type of support. It was supported and funded by the Impact Management Project Advisors, a group made up of diverse organizations including the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, and the W.K. Kellogg Foundation. Similarly, the Global Impact Investing Network's lead supporters include the Ford and Rockefeller foundations. It is critical that foundations continue to commission and support these types of projects.

Another area where foundations are poised to play a key role in impact investing is in supporting nascent or developing areas. In their article, "The Investment Gap that Threatens the Planet," Burger et al. (2018) argue that "the most effective portfolio to achieve climate change mitigation will require thoughtful investments in climate solutions along the entire 'innovation continuum,' from conceptual ideas to solutions that are ready for commercial deployment and widespread impact" (para. 4). However, the authors also determine that there is an investment gap at the conceptual level and, in order to correct it, new financing vehicles are needed that tolerate long development timelines and accept high risk in exchange for high social and environmental impact, adding that philanthropists are the investors best suited to fund these vehicles.

We broaden this argument to all social and environmental challenges facing our world. Whether in the space of public health, housing solutions, women's empowerment, sustainable agriculture, or any other complex problem facing our communities, we see foundations as playing an important role in funding experimentation and early-stage innovation. Unlikely to be able to dedicate their own resources to innovation while ensuring profitable returns, entrepreneurs and investors rely on injections of support from patient capital — something foundations are poised to provide (Deeg & Hardie, 2016). Indeed, foundations are already doing this. For example, the MacArthur Foundation hosts the Catalytic Capital Consortium, "an investment, learning, and market development initiative bringing together leading impact investors to encourage greater impact and use of catalytic capital" (n.d., para. 1).

Gender-lens investing (GLI) stands as one area that is both developing and an important part of socially just impact investing. As an approach, GLI promotes gender equality through women's economic empowerment, primarily by investing in women-led businesses, businesses that provide critical products and services for women and girls (Maheshwari et al., n.d.), and/or businesses that will address gender inequality through targeted products and services. The Global Impact Investing Network (2018) defines GLI as:

- investing with the intent to address gender issues or promote gender equity, by investing in:
    - o women-owned or women-led enterprises,
    - o enterprises that promote workplace equity (in staffing, management, boardroom

representation, and along their supply chains), or

  - o enterprises that offer products or services that substantially improve the lives of women and girls;

- and/or investing with the following approaches to inform investment decisions:
  - o a process that focuses on gender, from pre-investment activities (e.g., sourcing, due diligence) to post-deal monitoring (e.g., strategic advisory, exiting); or
  - o a strategy that examines, with respect to the investee enterprises,
    - ▪ their vision or mission to address gender issues;
    - ▪ their organizational structure, culture, internal policies, and workplace environment;
    - ▪ their use of data and metrics for the gender-equitable management of performance and to incentivize behavioral change and accountability; and
    - ▪ how their financial and human resources signify overall commitment to gender equality.

To illustrate what it can look like when a foundation supports research and grantee experimentation to build a more equitable impact investing sector, this article describes Mastercard Foundation's 2019 grant to Engineers Without Borders Canada (EWB) to conduct action research on GLI. The project involved two main goals: 1) test and develop GLI tools and processes with seed-stage investees during pre- or post-investment phases, and 2) evaluate the implementation of EWB's GLI strategy and the assumptions underpinning it with a plan for sharing lessons learned and contributing to a growing evidence base on GLI. Field-building products that resulted from the grant included a report on the lessons learned, and a comprehensive literature review on GLI in sub-Saharan Africa.

This article details the purpose, approach, results, and immediate impact of the action research and evaluation for EWB, for Mastercard Foundation, and for the field. Further, this article highlights how the grant continues to impact EWB and the participating ventures today, and why it is important for foundations to play the role of field-builder and make grants to support experimentation and field-building, especially around issues of equity. Finally, this article provides a discussion of the role of foundations in impact investing, based on the experience of the case study.

Action Research on GLI Case Example

Engineers Without Borders Canada is a registered charity that invests in people and ideas to tackle the most crucial causes of poverty and inequality. Over the past 20 years, EWB has iterated an impact model for social ventures in sub-Saharan Africa that combines seed capital, talent, and mentorship. EWB Ventures, a seed-stage investment vehicle operated by EWB, is an "impact first" investment vehicle, dedicated to supporting innovative early-stage, highly scalable social enterprises in sub-Saharan Africa. In addition to recruiting and placing strategic talent within these ventures, EWB Ventures makes tailored, long-term investments of up to $100,000 in ventures that have high potential to drive systemic change for the benefit of the underserved.

The Mastercard Foundation is an international nongovernmental organization established by Mastercard in 2006 that emphasizes skill development and access to finance, with a focus on improving access to education and employment through multiple sectors, especially agriculture.

In seeking to better understand how to incorporate a gender lens as an early-stage investor, EWB, with financial support from the Mastercard Foundation, undertook a pilot to support early-stage ventures in sub-Saharan Africa in order to integrate a gendered lens for business and social impact. This is a case example of the foundation funding research to develop nascent GLI approaches which simultaneously help build a more equitable and socially just impact investing sector.

The primary objective of the project was to test and refine EWB's GLI strategy. At its outset, EWB identified a gendered approach to its due diligence and post-investment support processes. The specific goals of the Mastercard project were to learn and iterate this, as well as to develop new tools and processes around gender-inclusion interventions in social enterprises, in relation to both pre- and post-investment support. The opportunity to iterate and innovate through this grant funding was pivotal for EWB in having the space to focus on this work.

A secondary objective of the project was to disseminate the lessons learned in order to provide thought leadership, unify the field, increase impact investing sector knowledge on GLI, and get feedback on EWB's tools and approach. EWB implemented the project with four ventures: MPost, Patasente, Numida, and Viamo. It also implemented its GLI strategy during pre-investment with two of the four participating ventures, with one receiving a financial investment. The strategy was implemented post-investment with all four ventures, though one was not part of EWB's portfolio.

Testing the EWB Gender-Lens Investing Strategy

The two pre-investment ventures signed a memorandum of understanding to undertake the gender project before they received their investment decisions. A gender lens was incorporated into the initial meetings with prospective ventures. During these meetings, EWB portfolio officers asked gender lens questions to vet whether prospective companies fit EWB's GLI strategy, which highlights the importance of gender in three key business areas: business model, operations, and intentions. Questions included topics such as how gender can be brought into the venture's business; demographics of the founding team; what gender data are already tracked or could be tracked; current gender inclusion thinking and perceptions at a company, such as how they target women in the team; and the overall role of gender in the company.

During due diligence, the EWB investment team applied a gender lens, utilizing tools such as the Gender Scoring Tool and the development of a post-investment support plan based on these results. The gender score and information regarding the business' degree of gender inclusion and its inclination to work with a gender lens was provided to the EWB investment committee to support its decision-making around a venture's progression.

For the venture that received investment during the Mastercard project, EWB was one of many investors but did not lead the round, so it did not set the terms of investment. Yet because of EWB's gender lens and NGO status, the venture did sign an additional document including very specific gender metrics and reporting requirements to which the venture committed. In addition, EWB was offered an observer seat on the board in part due to its gender lens.

Refining the Gender-Based Technical Assistance Package

EWB took a systematic approach to this process while remaining nimble and flexible to accommodate each venture's context, needs, and speed. Implementation of the GLI strategy during post-investment involved a process of designing and implementing tailored gender strategies to the four participating ventures. The first step, if it hadn't been completed during pre-investment, was a gender frameworks analysis (see Appendix A) and gender score. This process involved a prequestionnaire, phone interview, and gender scoring tool. (See Figure 1.)

Using what was learned from the initial interview and score, EWB's gender inclusion officer drafted a proposed gender inclusion strategy and garnered venture feedback. The strategy included both operations and business model opportunities for a gender lens to be applied. The strategy also included a contextual analysis, including the country or global context, business sector context such as financial technology, and an analysis that included the strengths,

FIGURE 1 EWB Gender Scoring Tool

Venture: Date:	Baseline (0)	Bronze (1)	Silver (2)	Gold (3)	Score
Business Model	Product or service has no obvious implications, positive or negative, for women, girls, and other marginalized populations	Product or service recognizes women, girls, and other marginalized populations as a segment, but does not specifically target them or consider their needs	Product or service targets women and girls, but does not address a specific gender inequality	Product or service directly targets gender equality or the empowerment of women and girls for systemic social change	3-5: Bronze 6-8: Silver 9: Gold
	Venture does not collect any data around their operations	Venture collects minimal information around the use of their product/service (i.e., number of users, number of staff), but not enough to guide strategy	Venture collects information broken down by gender around the access and usage of their product or service by engaging through customer consultation, feedback, collecting data, etc., but does not actively use this to influence their operations.	Venture explicitly collects information around access and usage of their product or service broken down by gender through customer consultation, feedback, collecting data, etc., and uses this feedback responsively to shape their operations	
	Venture has not considered how their business will affect women and girls	Venture has taken a strategic marketing and business plan which includes women, but has not directly considered specific implications for women and girls	Venture has taken a strategic marketing and business plan which directly considered specific implications for women and girls	Venture has strategic marketing and inclusive business plan to ensure their product or service is both accessible and responsive to women and girls	
Operations	None of venture's employees or founders are women	Venture has women team members but less than 20% women representation in senior leadership	Venture has minimum 20% women representation in senior leadership and a minimum of 30% women representation of all team members	Venture has a minimum of 35% women representation in senior leadership and a minimum of 50% women representation of all team members	4-7: Bronze 8-11: Silver 12: Gold
	Venture does not have a strategic method to their leadership team or future hiring plans	Venture has intentions on creating a strategy to diversify their team members to include more women	Venture has a diverse representation of women throughout their team, with a clear and tangible strategy to improve diversity within their senior leadership team	Venture has diverse overall staff and leadership team representative of the market they work in and a strategy to ensure their commitment to continue to build women in leadership and promote, recruit, and hire diverse leadership team	
	Venture has no formalized policies or procedures	Venture has no formalized policies and procedures for employee protection (specifically marginalized populations, including women and girls) but is open to getting these systems in place	Venture has policies and procedures in place to facilitate safe and conducive working environment for all employees, including a code of conduct and sexual harassment policy	Venture has policies and procedures explicitly targeting gender equality which may include but are not limited to paternity leave, flexible working hours, standardized promotions, treatment of whistleblowers, etc.	
	Venture's supply chain and/or strategic partners have been established to align with their business model with no explicit positive social impact	Venture has women representation in their supply chain/strategic partners, but no explicit reasoning behind how they've created these relationships	Venture has explicitly analyzed their supply chain/strategic partners to identify gaps where they could promote gender equality, but have not achieved a holistic representation of women and girls throughout this process	Venture has explicitly analyzed their supply chain and strategic partners to ensure women and girls are included and empowered in all aspects of their business	
Intentions	Venture recognizes impact, but doesn't explore how this can include women and girls	Venture recognizes gender equality as an indicator of impact, but does not continually consider women and girls holistically throughout their outward-facing operations	Venture continually and actively looks for ways to positively impact the lives of women and girls in their community and greater ecosystem	Venture recognizes gender equality as a key measure of impact, they act in a responsive manner to ensure their business operations positively impact their community and greater ecosystem for improvement of the lives of women and girls	2-4: Bronze 5: Silver 6: Gold
	Venture has no explicit opinion on gender inclusion within their business	Venture believes gender inclusion is important, but does not have tools and/or capacity to implement strategically	Venture has actions that could fall under a gender inclusion strategy, but has not formalized these intentions or actions	Venture has a holistic gender inclusion strategy with clear metrics and milestones and continually works to actively modify and improve this strategy for overall operational success	
Any Additional Comments:				Overall Score:	9-17: Bronze 18-26: Silver 27: Gold
				Previous Score & Date:	

opportunities, and challenges. Resources, such as examples from other ventures and articles on why gender inclusion is good for business, were recommended at the end of the strategy document. Once drafted, the proposed strategy was shared with multiple individuals at the venture to glean feedback on feasibility, actionability, gaps, and critical gender objectives or actions to include for each part of the strategy.

Once a gender strategy was drafted, the gender inclusion officer completed a comprehensive venture analysis. This was a process of learning more deeply about a venture —including its internal culture, ongoing activities, thoughts and perspectives of staff members, and its internal capacity to conduct gender activities. The information was gathered through a variety of methods, including interviews, desk review, and a survey. Interviews were conducted with a diverse range of staff, such as technical teams, program staff, leadership, and executive team members. The venture analysis identified actionable activities that could be done within the gender strategy and scope of the project, while allowing the gender inclusion officer to learn more deeply about the businesses and establish a baseline of the venture's existing gender understanding, thinking, engagement, etc. The survey was confidential and asked questions about topics such as gender understanding and background knowledge, gender-related mission or policies within the company, extent of staff members' feelings about gender in their work, and current gender-related activities around product or service provision.

When possible, a site visit took place. Three of the four ventures received a site visit (the fourth was a globally distributed team, so there wasn't a clear site to visit). The site visits involved multiple days at the venture's office, seeing the day-to-day context of staff responsibility, becoming familiar with different members of the team and their work, and learning about daily activities. The site visits also sometimes included field visits to customers or partners of companies, to provide further context for the gender strategy.

Following the gender analysis, enough data and context were understood for the gender inclusion officer to develop a detailed gender action plan. (See Figure 2.) The gender inclusion officer worked collaboratively with the contact person at each venture to develop a realistic and attainable gender action plan. Information from the gender frameworks analysis, gender score, gender inclusion strategy, and comprehensive venture analysis was used to identify core activities for each venture to focus on, given the timeline, interest, and resources available. It was a collaborative process of back-and-forth, with the EWB gender inclusion officer leading the drafting and the ventures providing feedback, ideas, and suggestions.

While each venture's gender action plan was tailored to its unique gender strategies, focus areas, capacity, etc., there were some common activity areas such as creating gender-inclusive policies and procedures (e.g., recruitment strategies, inclusive job description templates, professional development opportunities), gender lens product design and development, gender lens app design and development, activities in support of serving more female customers and serving them better, and hiring and retaining a more diverse team. The gender action plans included timelines and deadlines to help make them actionable and accountable.

Once finalized, the gender action plans were implemented by their respective ventures. Depending on the venture, and the activities in the gender action plan, a variety of company employees might be involved with implementation. For example, if human resources policies were being revisited and developed, HR staff was involved. If gender-disaggregated data were being collected and used, various technical staff might be involved.

The gender inclusion officer provided a mix of high- and low-touch ongoing support to the ventures throughout the project. The high-touch support involved providing templates and resources, such as gender-inclusive job descriptions or recruitment strategies, and reviewing the ventures' drafts. Most of these activities were

FIGURE 2 Sample Gender Action Plan

Objectives	Activities	Sub-Activities	Responsibilities	Time Frame/ Deadline	Relevant Links	Notes
1. Attract and retain more women to venture and ensure a work environment where they can achieve their full potential	1.1 Create gender-inclusive recruitment strategy	Create inclusive job description templates and recruitment guidelines that include: • Required vs. preferred skills • Equal Employers Statement • Screening for gendered language • Added guidelines around networking approach to recruitment	**EWB:** Share templates **Venture:** Provide feedback	March		Will be hiring two new sales reps in the beginning of March
		Define interviewing policies that could include but aren't limited to: • Minimum of one woman on interviewing panel, or make sure at least one woman speaks to the candidate • Minimum of one local staff member on the interviewing panel • Strive for 30% women candidates	**Venture**	March		
	1.2 Introduce new policies for enhanced employee protection and satisfaction	Deep dive into current policies and procedures, and look to develop policies that could include but are not limited to: • Salary bands • Standardized promotions • Code of conduct (including clothing guidelines) • Parental leave • Flexible work schedules	**EWB:** Share templates **Venture:** Share current policies and procedures	February	Ventures' current employee handbook	Really want to get the ball rolling; this is a priority as venture grows and we want to have formalized policies and practices
	1.3 Increase professional development and leadership opportunities for employees	Develop a bank of resources and opportunities for both entry-level and management staff to improve their professional and leadership skills	**EWB:** Support building this resource	March		
		Managers to work with each employee to develop a professional development plan and identify relevant learning and leadership opportunities	**EWB:** Support templates and frameworks **Venture:** Buy-in from managers	June		Will develop these at the same time as performance reviews (in June and December)
		Hold one all-team professional development activity each quarter	**HR Head** (in collaboration with relevant stakeholders)	Ongoing (first in February)		Ideas: Excel training, leadership, confidence building, innovation workshops, human-centered design
2. Serve more women customers and serve them better	2.1 Improve collection of sex- disaggregated data and develop metrics to track in order to shape operations and strategy	Task each workstream to pick aspect of work to monitor gendered metric. Starting point: company objectives and key results metrics	**Venture:** Each department head	February		
		Check gendered metrics at set time frame to ensure recognition of any trends	**Data Analyst**	Ongoing		
		Explore all areas where venture could gather more sex- disaggregated data and do cost-benefit analysis of collecting that additional data. Examples: • CSS feedback form • % of women repeat customers	**Data Analyst**	Ongoing		
	2.2 Conduct experiment with product development in order to better understand needs of current and potential women customers	Design survey to better understand current and potential women customers using a gendered lens and gender-sensitive metrics	**EWB:** Support and provide any templates **Venture:** Product team	April	Current market research tools and findings	
		Conduct experiment and analyze data to shape future strategy and operations	**Product Team**	June		Potential experiments could be incorporating new/different products or training (i.e., financial literacy trainings) to support women MSME owners
	2.3 Pilot gender-specific messaging to market service to women-specific channels	Design what "gender-specific messaging" looks like when related to venture and marketing	**EWB:** Share resources **Venture:** Marketing team	May		Want to have some of the sex-disaggregated data points to build off before starting this.
		Identify women-centric channels to attract new customers and pilot using gender-specific messaging (example: WhatsApp groups of women entrepreneurs)	**Marketing Team**	August		

internally facing, but the gender inclusion officer also provided reviews and feedback on externally facing activities as well, such as best practices in collecting sex-disaggregated data. While the gender action plans were being implemented, the EWB gender inclusion officer maintained ongoing relationships with each of the ventures, namely through monthly check-in calls.

Evaluation

Evaluation was a consistent feature throughout the life cycle of the project. EWB engaged an external consultant who gathered and evaluated data on:

1. implementation of aspects of the EWB investment team's GLI strategy throughout the Mastercard Foundation project;
2. early outcomes of venture gender strategies on the venture (e.g., staff) and a sample of their clients/beneficiaries, implemented during the Mastercard Foundation project; and
3. assumptions behind the EWB investment team's GLI strategy (program theory) and gender-lens investing generally.

The purposes of the evaluation included improvement of the GLI strategy tools and process, knowledge development, and accountability, and centered around four main evaluation questions:

1. Is there evidence that the intended GLI outcomes are being (or will be) achieved?
2. How and how well was the GLI strategy implemented?
3. What early outcomes (e.g., employee satisfaction) for ventures and their beneficiaries resulted from participating in the EWB GLI strategy and individual venture gender strategies?
4. What existing evidence supports or denies the assumptions behind GLI at EWB and generally in the impact investing sector? In particular, what evidence exists that GLI does or does not lead to increased or improved jobs for women and girls in sub-Saharan Africa?

Dissemination

Internally, lessons learned and recommendations were disseminated via a comprehensive evaluation report. Externally, lessons learned and recommendations were disseminated via two EWB publications. The first, "Supporting Early-Stage Ventures In Sub-Saharan Africa With Gender Inclusion: A Gender Lens Investing Pilot," was a descriptive report with a set of four case studies from the gender action research (Allan & Gregory, n.d.). Readers of this manuscript who are interested in more details on the ventures and the pilot can find them in this first publication. The second, "Gender Lens Investing in Sub-Saharan Africa: Key Findings from a Systematic Review of the Literature," reported on the methodology and findings of a systematic literature review (Bolinson & Wakiaga, 2020).

Immediate Results

Immediate results of this project were seen by both EWB and the participating ventures, signaling an initial success and the importance of this work.

This project allowed EWB to make a new investment in MPost, using its newly defined gender approach. While the investment capital did not come from the grant from Mastercard Foundation, this project allowed EWB to use and refine its GLI strategy, testing and validating its approach to applying a gender lens to the pre-investment and post-investment process. This was a key learning for EWB, which can be carried over into its future investing approach.

Additionally, this project allowed EWB to test and validate newly developed tools, such as the Gender Analysis Questionnaire, the Gender Scoring Tool, and the Gender Action Plan template. Site visits and close collaboration with the participating ventures increased EWB's understanding of venture realities, resulting in the adaptation and iteration ensuring its GLI strategy and tools had the ability to be context specific and relevant.

Gender-inclusion work within a venture is a journey and not a final destination. This project allowed both EWB and the participating ventures to iterate their approach to gender inclusion to identify the results and outcomes unique to their work. Through this project the participating ventures reported immediate results, including:

- drafting and implementation of gender-equitable policies and processes,
- increased collection of sex-disaggregated data for reporting and analysis purposes,
- increased use of sex-disaggregated data to make business decisions,
- increased professional development opportunities that were well received by staff,
- creation of a unique and realistic gender action plan, and
- increased gender knowledge, including operational dynamics and customer dynamics with a gender lens.

As a result, the project closed with the intention and expectation of seeing longer impacts. These results highlight the importance of having the freedom to innovate and experiment as both an early-stage impact investor (EWB) and a participating venture. The immediate results signaled to all participating in this project that the work was validated and important, and allowed for the expectation of seeing longer impacts and increased buy-in to continue pursuing gender outcomes.

Lasting Impact

The 12-month span of the specific project offered a relatively short time to track and monitor organizational change, as it can take years to come to true fruition, especially within the context of gender and social inclusion. Writing this article provided an opportunity to reconnect with the participating ventures, capture the longer-lasting impacts, and explore what the sustainability of projects like this may look like.

The immediate results signaled to all participating in this project that the work was validated and important, and allowed for the expectation of seeing longer impacts and increased buy-in to continue pursuing gender outcomes.

Key informant interviews were conducted with representatives from each participating venture nearly two years after the project closed. It is important to note that these two years coincided with the COVID-19 pandemic, which had significant impacts on social entrepreneurs all over the world and forced many businesses to close or lay off staff (Donthu & Gustafsson, 2020). Despite these external and contextual challenges, all four of the ventures supported through this project were able to survive — and even thrive — during the pandemic, all had continued the integration of gender through their work and all had identified three lasting impacts.

1. *Ensuring sustainability of a gender lens through a key point of contact:* Having the opportunity to participate in this project allowed all four ventures to explore what integrating gender into their business looked like and the specific approach they would take given their unique contexts. With each venture, EWB worked with one key point of contact who often became a leader for gender inclusion within the company. While the contact's level varied — from co-founder to mid-level manager depending on the venture — having a gender champion allowed the conversation and gender inclusion to be top of mind and to continue after direct support from EWB finished.

2. *Supporting the organizational building blocks for an inclusive company:* Each company identified areas to incorporate a gender lens based on its organizational priorities and areas

By injecting capital, expertise, and space for experimentation, foundations can play a pivotal role in furthering the impact investing industry.

for opportunities, including HR, data, and market research. Further, the longer-term impact of the expertise which EWB provided supported the development of building blocks upon which the businesses built new processes to ensure an inclusive workplace. Examples given through the key informant interviews identified what policies and practices should be in the work handbooks; the tracking and measuring of sex-disaggregated data, such as the number of women in certain positions; or the disaggregation of employee satisfaction by gender. These building blocks provide ventures with a strong foundation of inclusion as they continue to grow and scale.

3. Supporting mindset shift and an inclusive culture among leaders and employees in social entrepreneurship: The dialogue as it pertains to gender — and more broadly, social inclusion — is constantly evolving and improving. However, it can be a daunting conversation for social entrepreneurs and business leaders to address. EWB was able to bring in external expertise through a gender inclusion officer who guided conversations with the ventures in order to better understand why and how gender can play a role in the organization, especially given each venture's sector, region, and other specific context. Each participating venture noted a mindset shift within its teams toward more inclusivity. The space to encourage ventures to innovate and really think about what gender inclusion means for their business, as funded through this project, was important in spurring this mindset shift and, ultimately, offered an opportunity to thrive more as an employer and business.

To understand whether there was a lasting impact on EWB, we conducted a key informant interview with EWB CEO Boris Martin, who highlighted what an opportunity such as grant funding can offer impact investors as they define a new investment thesis and strategy. At the time of the grant, EWB was working toward launching a new investment fund, Hummingbird, which was scoped to be a gender-first investment fund. According to Martin, EWB used a number of the key findings and learnings from the Mastercard pilot to shape Hummingbird's investment thesis and process. Unfortunately, due to COVID-19, EWB was unable to launch Hummingbird as planned. Yet, as Martin explained, EWB hopes to re-enter this space in the future and will utilize the findings and analysis of this pilot to inform an updated GLI strategy.

Foundations can look at the lasting impacts as outlined above and recognize the important role that they can play in the impact investing sector. Ultimately, the ventures that participated in this project were all able to speak two plus years later about the benefits they saw and conversations that started due to the external support and expertise of EWB.

Lessons Learned for Foundations

The case study above highlights the successes and approach to gender inclusion for ventures through the support of impact investors and foundations. By injecting capital, expertise, and space for experimentation, foundations can play a pivotal role in furthering the impact investing industry. One key takeaway that emerged from this project for foundations was that iteration is necessary for ideation.

A key objective of this project was for EWB to improve its GLI strategy as an investor supporting early stage ventures in sub-Saharan Africa. This pilot allowed a process of testing and iterating tools EWB had created, such as the Gender Scoring Tool, Gender Analysis, and its GLI strategy. Additionally, the ventures themselves could test these tools to find suitable and effective ways to integrate gender into their business, according to their unique needs.

An important lesson for foundations to take away from the pilot is that both the investor and ventures had allotted time for iterating, brainstorming, and editing a gender-strategy approach. Improvements were made not only to the process and approach of this pilot, but also to the different tools, in order to better their applicability and usability. Foundations that can support impact investors and ventures that can take a nimble approach to integrating gender inclusion will amplify the overall social and business impact of their work.

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Discussion

At the outset of this pilot, EWB hypothesized that incorporating a gendered lens into its investment process and post-investment support would strengthen a venture's business and social impacts. The venture case studies found there were noticeable business and workplace culture impacts for businesses participating in the pilot. Additionally, EWB showcased how early-stage investors in sub-Saharan Africa could integrate a gendered lens into their process in a lean and workable manner. The project provided helpful insights to inform the way EWB should move forward with any new investment and identified what worked well and what hindered gender inclusion approaches with early-stage ventures. These experiences with four ventures impacted the way EWB will think about technical assistance vehicles in the future, and also emphasized the importance of having advisory support for ventures looking to incorporate a gendered lens. The results show that external support can spur innovation and change and allow companies to build a strong foundation.

Extensive evidence in emerging markets shows that ventures that take specific efforts to increase gender diversity in leadership and raise internal awareness of gender diversity have seen both employee and overall business benefits. A study found that teams with gender-diverse leadership had 23% more profits, 13% higher organic growth, and overall improved employee satisfaction, client retention and other business-level improvements (Landel, 2016). Similarly, McKinsey's "Women Matter Africa" study found that companies in the top quartile of those with women's representation on executive committees outperformed industry margins on earnings before interest and tax by an average of 14% (Moodley et al., 2016). Lastly, teams with a higher proportion of women have demonstrated greater levels of "collective intelligence" when it has come to solving visual puzzles, brainstorming, making moral judgements, and negotiating over limited resources — thus highlighting that gender diversity spurs innovation, which is an essential aspect of solving tough problems (Woolley et al., 2010).

Supporting gender inclusion within a workplace is not only important in leadership and workforce. It also has been proven to increase business productivity and efficiency. A report from the World Bank found that eliminating all forms of discrimination against women employees and managers and promoting inclusivity could increase productivity per worker by 25% to 40% (World Bank, 2011). To illustrate this further, Safaricom, a Kenyan telecom company, found that after introducing a creche, both men and women employees increased their work productivity and concentration (International Finance Corporation, 2017).

Given the discussion and case study this article has introduced and the evidence shown above, it can be recognized that gender and other forms of social inclusion are important for the success of economic and societal development in the impact and social entrepreneurship space. We see foundations playing a key role in facilitating experimentation and funding for impact investors, ventures, and other actors in the social entrepreneurship space. This is especially true — and important — for nascent or developing sectors such as GLI, given the competing priorities of ventures and investors especially in emerging markets such as sub-Saharan Africa. As highlighted through the project and subsequent follow-up conversations nearly two years later, both EWB and the participating ventures were enthusiastic for this work and would welcome additional support for similar initiatives from foundations in the future.

Alongside overall support for experimentation and innovation, ventures had other key requests which foundations should consider as they think strategically about the role they can play in the entrepreneurship space:

1. Support enterprises to upskill and be trained. Thinking specifically about GLI, the ventures valued the expertise brought in through EWB to upskill their employees and leaders on the importance of considering a gender-lens in their business. Ventures were hungry for increased upskilling and support, especially in areas that may not seem essential to business operations at early stages of a venture, but are known and recognized to play a big part in the long-term success of a business.

2. Create accountability for businesses to consider other social impact measures. By having a formalized support mechanism via a grant-funding program, ventures were held accountable to their commitment and goals, as outlined in the gender action plans. Ventures highlighted that having EWB as an accountability measure was a key mechanism in the success of the project. Foundations should act in a nonpunitive manner, but provide accountability and guidance for businesses to prioritize matters, such as gender, that are often deprioritized. Foundations can also support by advocating for the buy-in of gender inclusion within the impact investing space by sharing resources and providing a knowledge hub for enterprises to utilize as they figure out the best approach.

Conclusion

Foundations can and should play a pivotal role in the social entrepreneurship space, especially to commission and/or support research that helps build more equitable and socially just impact investing. This also includes funding grantee-specific experimentation in areas of impact investing and social enterprise that are nascent or developing. The gender-lens investing case study with EWB demonstrates what this type of role can look like, and the lasting results it can generate for both impact investors and entrepreneurs. Foundations should look for additional nascent areas of impact investing, particularly those that would contribute to a more equitable and just impact investing sector, such as meaningful stakeholder engagement or equitable and meaningful impact measurement and management that will push the impact investing sector to be more positively impactful for those communities and individuals we ultimately seek to support.

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APPENDIX A EWB Gender Analysis Frameworks

GENDER ANALYSIS FRAMEWORKS

PURPOSE:

In order to ensure each portfolio venture has a clear strategic plan on how to better incorporate gender inclusion into their operations, as part of EWBs Venture Offerings, a Gender Analysis will be conducted by an EWB Team Member, with cooperation from the venture. The purpose of this analysis is to identify gaps and leverage points, while taking into consideration a venture's capacity, resulting in improved profitability and success. The analysis will act as a baseline of gender inclusion for the venture, creating a roadmap of tangible actions and recommendations to improve the ventures gender inclusion, diversity and business growth. The ventures will also receive a document from EWB staff to look at the local and sectoral context of gender inclusion to ensure they are equal or leading from other actors. ***It is a requirement for ventures to undergo the Gender Analysis Frameworks and work with the EWB Staff to create an attainable Gender Inclusion Strategy, the implementation of this strategy will be flexible depending on the capacity and stage of a venture. The venture will be required to re-visit these frameworks and the Gender Scoring Tool on an annual basis to ensure gender inclusion is kept in mind.***

GUIDELINES:

These frameworks are to be used as an initial document to create a baseline for all EWB Ventures. The aim is to take a collaborative approach to creating each venture a unique and attainable gender strategy. The responses will be recorded and a clear gender inclusion strategy will be created out of the findings from this analysis. These questions are meant to be a guiding framework, in conversations there may be other responses recorded or opportunities identified. The venture will be given a pre-questionnaire in order to prepare for the call. The call itself should take **no more than 2 hours,** and the objectives will be to delve deeper into the gender inclusion opportunities of the venture. Following this call, the venture and EWB staff member will work in coordination to **create an attainable gender strategy with clear action items within 1 month of having the call.** Ventures that are implementing their Gender Strategy are expected to update their Portfolio Associate on any successes, challenges or action items surrounding their gender strategy. It is then the expectation that the Portfolio Associate flags any notable updates to the Venture Gender Support Consultant or Gender Advisor at EWB. The Portfolio Associate will sit with the venture on an annual basis to review the Gender Scoring Tool and if necessary also review these frameworks to ensure the venture is moving towards greater gender inclusion.

VALUE-ADD FOR VENTURE:

By completing the Gender Analysis Frameworks and working with the EWB Staff to create a tailored Gender Strategy, the venture **receives a free Gender Consult and Strategy**, resulting in a clear list of attainable action items and recommendations that will guide their venture to organizational and financial success. This strategy will cover up to 1 year from the initial date —with the flexibility to pivot as the ventures business model does. Reasons that a venture should implement their gender strategy is:

- *Improved Business Operations* — there is copious amounts of research that shows how companies with stronger gender inclusion have higher profits and better business strategy

- *Investor Interest* — many investors are increasingly interested in the way a company approaches gender inclusion

FRAMEWORKS:

Business Model

Product or Service

1. What is your product or service?
2. What is the intended impact of your product or service?
   a. Have you recognized any unintended impacts?
   b. How does your product or service impact women, girls and other marginalized populations specifically?
3. How did you consider women, girls or other marginalized populations in the design process of your product/service?
4. How does considering women, girls or other marginalized populations shape the way you pivot your product or service as your venture grows?
5. How do you engage with customers to garner feedback around your products?
   a. What is primary feedback from your male customers? Your female customers?
   b. What demographic of customer requires the assistance of customer support most often?
   c. Do you have knowledge around if the buyer is also the end user of your product? (i.e., the male of the household is the 'customer' and bought the product, however the female and children use it more often)
6. How do you market or advertise your product or service?
   a. Who is portrayed in your advertisements?
   b. What medium do you use to advertise?
      i. What time of day/week/month do you advertise?
   c. Where are your advertisements located?
7. Do you have sales targets or KPIs?

a. Do you have specific targets for reaching female customers?

Strategic Plan & Forecasting

1. What is your plan to scale?
   a. How have you considered women, girls and other marginalized populations in this plan to scale?
2. Have you identified any strategic ways to:
   a. Reach more female customers
   b. Employ more females
   c. Incorporate more women into your supply chain, distribution channels and/or strategic partnerships?
3. What is your mission and/or vision?
   a. Can you see an opportunity to embed a gendered lens aspect?

Business Challenges

1. What is the largest challenge your venture is facing as a business right now?
2. How do you conduct sales?
   a. Are you currently facing any obstacles related to sales?
      i. What tactics have you taken to mitigate this?
   b. How do your male sales agents perform compared to your female sales agents?

<u>Operations:</u>

Composition of the team (where necessary)

1. What is the breakdown of male to female employees?
   a. Breakdown of male to female board members? (If relevant)
   b. Breakdown of male to female senior leadership (High Level Managers & Decision Making Positions)?
2. Who are the various actors and stakeholders in your supply chain or strategic partnerships?
3. Do you plan to hire any new employees in the next 6 months?
   a. If so, what are the roles and do you have a strategic approach on how to ensure you have a broad applicant pool?
4. How do you measure Employee Engagement?
   a. If through an Employee Engagement Survey, what do these results look like broken down by sex?

Collection & Utilization of Data

1. Does your venture produce weekly/monthly/quarterly sales reports?
   a. Does this include sex-disaggregated reporting?
   b. Does this include product offering (if more than one product/package available) broken down by sex?
   c. Does this include product retention rates broken down by sex
2. Do you have data on your customers? What is the breakdown of male to female customers?
3. What other data do you collect?
   a. Is this sex-disaggregated?
4. How does the data you collect influence your Business model and/or strategy?

Human Resources

1. What are the current policies and procedures your venture has in place?
   a. Do you have and/or are interested in implementing the following policies:
      i. Anti-Sexual Harassment Policy
      ii. Anti-Discrimination Policy
      iii. Maternity/Paternity Leave Policy
      iv. Flexible Working Hours Policy
      v. Standardized Promotions Policy
      vi. Equal Pay Policy
      vii. Code of Conduct
      viii. Whistle-Blowing Policy
      ix. Sexual Misconduct Policy
2. How do you recruit, interview and hire for positions at your Venture?
   a. Do you have an Equal Employer's Statement in your job descriptions?
   b. Do your job descriptions specify between required skills vs. preferred skills?
   c. Do you have the following information around recruitment recorded by sex-disaggregated data
      i. Applicants
      ii. Shortlisted

    iii. Interviews
    iv. Offers given
3. What are your Employee Leave Policies?
    a. Annual Leave
    b. Sick Leave
    c. Unpaid Leave
4. What benefits do you provide to your employees? (Healthcare, Childcare etc.)
5. What trainings do you provide to your employees?

Professional Development

1. What opportunities does your venture have for employee professional development or leadership skill training?
    a. If relevant, how are these opportunities utilized broken down by sex?
2. What is the promotion rate within your venture?
    a. How does this compare broken down by sex?
3. What is the turnover rate within your venture?
    a. How does this compare broken down by sex?
4. Does your venture typically grow employees within to be in leadership positions, or do you often externally hire leadership?

Office Space

1. Does your venture have a physical office space? If so:
    a. What safety precautions have been put in place for the safety of your employees?
    b. What is your protocol on employees children being in the office?
2. Does your venture work in a co-working space? If so:
    a. How do you ensure the safety of your employees while working in the co-working space?

<u>Intentions:</u>

Capacity Assessment

1. What is your #1 priority for the upcoming year
2. Is there anyone on your team that has shown an interest in being a gender champion throughout the venture? What is stopping them from operationalizing this?
    a. Funding
    b. Time
    c. Knowledge/Resources
    d. Other

<u>Closing Logistics:</u>

1. Solicit Feedback
    a. Will send an email in 1 week to ask for feedback.
2. Ask if they would like to check-in 1 years time to measure progress (put in EWB Ventures Calendar if so)

Leveraging Foundation Balance Sheets for Greater Impact: Piloting a Pooled Guarantee Program

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Keywords: *Guarantees, foundations, racial equity, community finance, risk, impact investing, developmental evaluation, emergent learning*

Introduction

Guarantees, a credit enhancement financial tool commonly used in traditional financial markets, has the potential for leveraging billions of dollars to address pressing societal challenges. Simply put, this tool improves the risk–return profile of particular investments that have the potential to channel more capital to underserved communities. According to a recent issue brief published by the Global Impact Investing Network, foundations that engage in impact investing through program- or mission-related investments are well positioned to use this tool to further their impact (Schiff & Dithrich, 2017).

Spurred by that issue brief, the Community Investment Guarantee Pool (CIGP) was launched in 2019 as a collaborative syndicated approach to guarantee use. Created for philanthropies and allied impact investors, or guarantors, CIGP provides a novel opportunity to learn how to or advance existing practice of enhancing credit for intermediaries in the affordable housing, small-business, and climate markets while allowing investors to keep their endowments invested in the conventional financial market. The pool emphasizes addressing systemic barriers that sustain significant racial and gender wealth gaps. Participating guarantors derive operating efficiency from CIGP's dedicated guarantee sourcing, structuring, and portfolio management while also sharing risk with a syndicate of other guarantors.

Key Points

- A guarantee instrument is a credit enhancement tool that can enable philanthropies to unlock millions or billions of dollars for societal impact. The Community Investment Guarantee Pool, created in 2019 by a collaboration of philanthropies and allied impact investors, or guarantors, is a novel initiative that uses guarantees to leverage the balance sheets of foundations and other institutional investors for enhancing the credit of intermediaries in the affordable housing, small-business, and climate markets. As the guarantees are unfunded, foundations continue to keep their endowment invested in the conventional market.
- This article describes the Community Investment Guarantee Pool, details its theory of change, and shares early challenges and insights related to the underlying theory of change. It discusses investor "but for" contributions; treatment of risk (perceived versus actual), both for the guarantors and intermediary recipients; and adaptations for specific markets.

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A guarantor advisory committee (GAC), finance advisory teams for climate and affordable housing, a GAC evaluation subcommittee, and external teams for evaluation and learning and for racial equity have been created to support and advise the pool and the guarantors. Importantly, CIGP is using a developmental evaluation

Key Points (continued)

- The pool is using developmental evaluation and emergent learning to surface insights for philanthropic and other impact investors. These insights can inform practices that hone the use of guarantees and a pooled impact investing approach. Foundations will benefit collectively and individually from the pool's experience as they learn how to best integrate the use of guarantees in their own foundations and initiate other collaborative guarantee pools focused on sectors or geographic regions. Additionally, financial intermediaries can become more familiar with this financial tool and will be able to experiment with innovative and equitable lending and investment decisions with greater confidence due to the guarantee backing and lessons surfaced through a learning community.

Glossary of Terms

Enterprise guarantee: CIGP provides a guarantee that enables an organization to receive debt or equity it otherwise could not.

Pool guarantee: CIGP provides a guarantee for a portfolio of loans/assets

Program guarantee: CIGP provides a guarantee that can be allocated on a loan/asset-by-loan/asset basis within a portfolio of loans/assets.

Qualified Beneficiary (QB): An organization with a formal guarantee agreement with CIGP which allows the organization to call for funds from CIGP if a program experiences losses (e.g., a CDFI).

Qualified Commitment (QC): A transaction by a QB which is covered by the guarantee agreement with CIGP (e.g., a loan to an affordable housing developer).

Ultimate Beneficiary: The individual or organization with whom the QB makes the QC (e.g., an affordable housing developer). This may sometimes also refer to the end user of the final product (e.g., an inhabitant of a new affordable housing unit).

approach along with emergent learning to surface insights for philanthropic and other impact investors. These insights will hone the use of guarantees and a pooled impact investing approach. Foundations will benefit collectively and individually from CIGP's experience as they learn how to best integrate the use of guarantees in their own foundations and initiate other pooled guarantees.

This article describes CIGP's aspirational potential and emergent learning about its implementations to date.

The Problems Addressed

The Community Investment Guarantee Pool addresses several problems faced by both philanthropic and impact investors and the qualified beneficiaries the guarantees support.

- *Increase supply of capital and products.* Demand for flexible, supportive community development capital outstrips supply. More readily available capital, especially debt, typically comes with conservative parameters, for instance the "five Cs" of credit risk assessment (Segal, 2023), even within the community development marketplace:
  - Character — the creditworthiness of potential borrower,
  - Capacity — the applicant's debt-to-income ratio,
  - Capital — the amount of money a person has,
  - Collateral — an asset that can back or act as a security for a loan, and
  - Conditions — the purpose of the loan, covenants, the amount involved, and prevailing interest rates.

  Collectively these discourage intermediaries like community development financial institutions from thinking outside the box, testing their credit policies, or taking on more perceived risk. The products financial intermediaries offer reflect the capital they receive, and therefore they do not always match their community/end borrowers' capital needs.

- *Building infrastructure.* Foundations and impact investors tend to focus on siloed programmatic objectives rather than taking a comprehensive, infrastructure approach to their work. In so doing, support for long-term systems change in economic development or community finance remains difficult to secure. While funders may work together when their programmatic objectives align, it is far less common for funders or impact investors to collaborate on investments that support infrastructure, systemic, or transformative change.

- *Technical knowledge and capacity.* The Global Impact Investing Network's issue brief focused on the use of guarantees in impact investing and documents barriers to the widespread use of this credit enhancement tool in community investing (Schiff & Dithrich, 2017). Due to its limited deployment outside of conventional finance, there is a significant amount of learning and testing that both investors and financial intermediaries need to do to reduce the complexity associated with the use of this tool. Both groups have misperceived that structuring guarantees is inherently complex. Difficulty in aligning expectations and interests of the multiple parties is also a misperception. Lastly, a general lack of awareness of guarantees as a community development tool creates its own barrier.

- *Utilization of innovative financial tools to create impact.* Foundations and impact investors have invested billions of dollars in societal impact, but these investments predominantly use grants as a tool to achieve it. Guarantees are still considered to be a new tool for philanthropies in community development finance. Guarantees that have been done between a single foundation and beneficiary are often highly bespoke and time-consuming. This approach in the medium term does not leverage efficiencies, build field support, or enable scaling. To unlock catalytic capital from foundations and other impact-focused investors, foundations' executive and investment teams (and potentially boards) need to learn more about and commit to using guarantees and other innovative social impact investing tools.

To unlock catalytic capital from foundations and other impact-focused investors, foundations' executive and investment teams (and potentially boards) need to learn more about and commit to using guarantees and other innovative social impact investing tools.

How CIGP Works

The Community Investment Guarantee Pool receives and uses unfunded commitments from various foundations and mission-aligned investors (i.e., the guarantors) to issue financial guarantees to CDFIs, social enterprises, and other intermediaries (qualified beneficiaries) with the goal of helping them secure the capital needed to launch new programs/products or expand existing initiatives. (See Figure 1.) Guarantors are also asked upon joining to support the CIGP infrastructure and evaluation alongside their guarantee commitment. The pool targets the community development finance marketplace, which focuses on serving and benefiting communities of color, low- and moderate-income households, and other undercapitalized communities. In sourcing and considering guarantee opportunities, CIGP prioritizes those use cases that seek to help advance social equity, in particular racial equity, and innovation for the community development finance sector. (See Figure 2.) These use cases are systematically rated with an impact criteria rating tool.

FIGURE 1 CIGP Core Activities

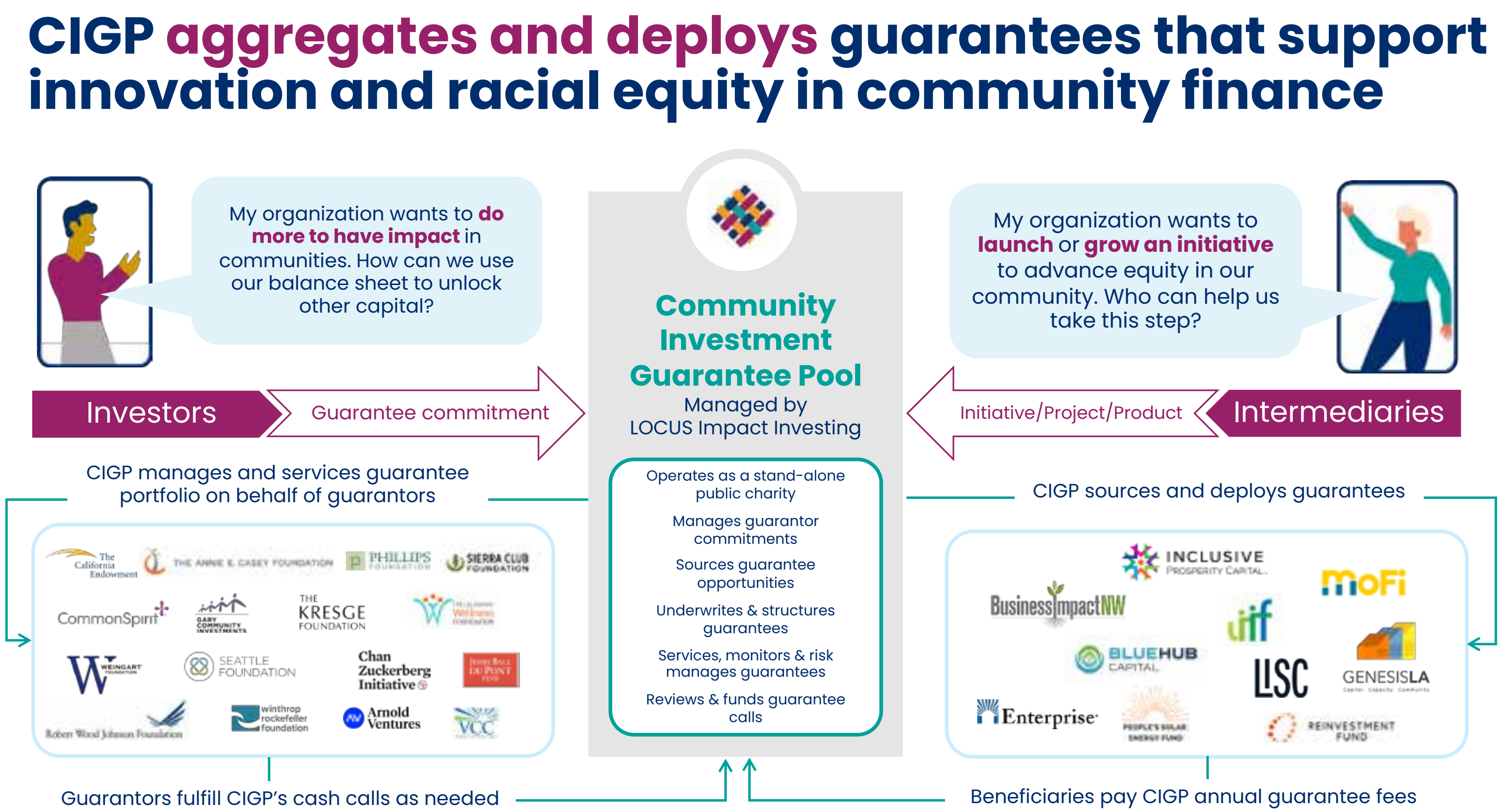

FIGURE 2 CIGP Program Parameters

CIGP works with beneficiaries to co-design guarantees that unlock capital for innovation and racial equity

Program Parameters	
Community Finance Sectors:	Climate, small business, affordable housing
Uses:	Liquidity, equity substitution, collateral substitution, credit enhancement in order to create or expand programs that can drive innovation and racial equity
Structure:	Enterprise — Provide a guarantee for an organization to receive debt or equity Pool — Provide a guarantee for a portfolio of loans/assets Program — Provide a guarantee that can be allocated on a loan/asset-by-loan/asset basis
Size:	$1 to >5M (can increase as pool grows)
Leverage:	Should "unlock" at least five (5x) times the amount of the guarantee
Preferred Geographies:	AR, CA, CO, DE, FL, GA, MD, NC, NM, TX, VA, WA
Pricing:	-2% of guarantee annually based on risk, impact, and program factors
Term:	Currently <13 years (15 years from inception)
Risk Tolerance:	Up to 15% losses across portfolio, beneficiary must have some exposure (e.g., first loss)
Equity Lens:	Should advance racial and/or gender equity and benefit low or moderate-income communities

Focus on Learning

The pool's intentional focus on learning how guarantees can best be used by foundations who invest in or provide grants for community finance is an important characteristic of this initiative. This framing positions the initiative to use emergent learning and adaptive management throughout its development, implementation, and evaluation. While learning and adaptive management are embedded across all CIGP activities, an evaluation team is engaged in developmental evaluation that provides data and evaluative thinking to facilitate learning for action. The intentional learning cuts across the full CIGP ecosystem, with regular emergent learning exercises, an evaluation and learning subcommittee comprised of guarantors, evaluation and learning discussions built into quarterly guarantor meetings, and facilitated peer-learning sessions for the financial intermediaries.

Essential for supporting emergent learning and adaptive management are finance advisory teams comprised of sector experts and market participants. The climate finance advisory team and affordable housing advisory team provide market-specific:

- deal flow; market and policy insights; emerging opportunities/needs for guarantees;
- subject matter expertise to strengthen underwriting and risk analysis; and
- thought partnership to aid ideation on how to use guarantees to scale climate change solutions for community development.

Theory of Change

The evaluation team led the development of a theory of change over several months in early 2021. (See Figure 3.) It was informed by CIGP's

FIGURE 3 CIGP Theory of Change

CIGP THEORY OF CHANGE *DRAFT*[1]

The Community Investment Guarantee Pool (CIGP) is a first of its kind platform allowing guarantors to combine resources and share in risk to create easy access to guarantees for intermediary lenders to take on greater risk across climate, affordable housing, and small business

Resources

- **Capital**
  - $40 million in centralized unfunded guarantee pool (envision growing this to $100 million)
  - Shared 15% accepted loss rate
  - $3 million in grants
- **Commitment to learning**
  - Guarantor commitment to collective learning and action
  - Evaluation and emergent learning model
- **Engaged group of guarantors**
  - Field leadership and influence
  - Standing committees (e.g., executive, evaluation, credit, guarantor advisory committees)
- **Stand-alone and sustainable public charity**
  - Dedicated operations team
- **Expertise and innovation**
  - Expertise in guarantees and community development finance
  - Thematic based finance advisory teams
- **Equity focus**
  - Commitment to racial, gender, and economic equity

Strategies

Investor Focused

- **Aggregate capital in the form of a guarantee pool**
  - Increase the scale and impact of guarantees
  - Develop a financially sustainable operational model
- **Manage guarantees on behalf of guarantors**
- **Create collective learning experience on using guarantees as an innovative finance strategy**
  - Build and refine the business model
  - Understand risk in community development finance across climate, small business, and affordable housing
  - Learn how a collaborative guarantee pool can change systemic barriers faced by intermediaries and businesses led by women and people of color

Qualified Beneficiary Focused

- **Intentional portfolio construction**
  - Balance guarantee risk
  - Balance guarantee uses across climate, small business, and affordable housing
  - Apply equity lens
- **Provide guarantees to qualified beneficiaries**
  - Conduct due diligence and clarify potential risk
  - Structure custom guarantee products
  - Encourage co-creation and innovation with qualified beneficiaries
- **Document, surface, and share learnings about use of guarantees**
  - Clarify use of guarantees in climate, small business, and affordable housing
  - Understand power and limitation of guarantees for mitigating risk
- **Provide technical assistance for qualified beneficiaries to use guarantees**

Outcomes

Short Term Outcome (1-5 years)

CIGP
- Increased guarantor commitments
- Greater diversity of types of guarantors (e.g., health systems, insurers)

Guarantors
- Increased use of unfunded guarantees
- Increased comfort with making community investments

Qualified Beneficiaries
- Improved efficiency in accessing capital
- Greater understanding of risk perceptions across climate, small business, and affordable housing
- Increased capital to intermediaries and developers led by women and people of color
- Improved capacity of qualified beneficiaries to use guarantees
- Expanded the number and type of organizations that utilize guarantees

Communities
- Increased capital to communities of color and those with low incomes
- Increased capital to businesses led by women and people of color
- Increased capital towards climate adaptation, resilience, and sustainability

Long Term Outcomes (5-10 years)

CIGP
- Attained financial sustainability and balanced use of guarantees
- Established part of community development finance market infrastructure
- CIGP model replicated at a regional level

Guarantors
- A greater proportion of guarantors' assets are committed to community investments
- Increased acceptance of syndicated approach for deploying capital

Qualified Beneficiaries
- **Revised lending approaches reflecting greater risk tolerance**
- Improved balance sheets and available assets of smaller intermediaries or those led by women and people of color

Communities
- Measurable positive effects through investments in affordable housing, small business, and climate. For example[2]:
  - Increased renewable energy produced
  - Reduction in greenhouse gas emissions
  - Greater FT, PT, contract, and or temporary jobs created or retained
  - Greater living wage and high wage jobs created or retained
  - Increase in businesses created/expanded/preserved
  - Greater affordable housing units available in low-income communities

Desired Impacts

- **Widespread and innovative use of guarantees to scale community investing**
- **Change the definition and criteria of risk that is used by the industry (e.g., CDFIs, banks, government agencies' criteria for credit risk, etc.)**
- **Reverse systemic barriers in community development finance that disadvantage women and communities of color**

Key
Core
Aspirational

1 – This draft does not address Contribution and Risk (IMP Framework) will be addressed in an associated assumptions document
2 – Examples based on output metrics listed in ***CIGP Impact Metrics*** from ***July 9, 2020***

LOCUS CIGP

BOX 1 Methods and Tools for Assessing Impact and Advancing Learning

Methods and Tools for Assessing Impact and Advancing Learning

The evaluation and learning framework employs a variety of evaluation and learning tools used to test the theory of change's hypotheses and generate insights all CIGP actors can use in utilizing guarantees.

- Co-creation and implementation of a learning agenda, aligned with the theory of change and coordinated with the evaluation process throughout the full CIGP ecosystem. Included are:
  - active use of emergent learning practices, tools, and exercises developed by Fourth Quadrant, such as development of framing questions, emergent learning tables, and before and after-action reviews, and
  - development of regular practices that "return learning to the system."
- Co-creation and implementation of numerous evaluation tools, including:
  - an impact rating tool applied ex ante to assess anticipated impact and to compare with actual performance;
  - an annual survey of guarantors about their practices;
  - annual interviews with guarantors, partners, and intermediaries to interrogate the theory of change;
  - "most significant change" stories, collected for and processed with intermediaries and their borrowers and investees; and
  - peer-learning sessions to explore and share evaluation experiences, practices, and plans.

written documents and communication materials along with perspectives gathered through interviews with the guarantors, LOCUS, and grant funders. Interviews with intermediaries (both those funded and those who had considered seeking a guarantee) were instrumental in validating the initial theory of change.

In a nutshell, the theory of change recognizes that CIGP was designed to influence the actions and conditions for four groups: 1) guarantors; 2) LOCUS Impact Investing (project manager); 3) intermediaries (qualified beneficiaries); and 4) borrowers and their communities (target beneficiaries). Short-term and longer-term outcomes are described for each of these groups. All of the outcomes feed into a longer-term impact statement which envisions a greater flow of capital to community finance efforts that address racial and gender equity wealth gaps.

Putting the Theory of Change into Action

The theory of change frames and guides CIGP strategy implementation. For example, the collaboratively developed impact criteria rating tool screens potential deals during due diligence to ensure deals align with the theory of change and therefore help ensure alignment of projected outcomes and impacts with the theory of change. Moreover, the evaluation and learning framework and its implementing activities seek to test the underlying hypotheses posed by the theory of change. (See Box 1.)

Developing and implementing the framework has to date surfaced several key insights, developments, and challenges. Given the developmental evaluation approach, these learnings will inform the next iteration of the theory of change.

Investor Contribution

As clarified by The Impact Management Project (IMP) (Impact Frontiers, 2023), impact investors offer two unique contributions: the unique contribution of the investors and the impact contributed by the underlying investments.

The pool's two unique investor contributions track with IMP specifically by:

1. providing access to flexible capital (higher-risk capital) relative to capital that is more readily available for affordable housing and

small-business lending, such as the Small Business Administration, the federal low-income housing and new markets tax credit programs, and traditional lenders, such as banks and investors; and

2. growing new or undersupplied capital markets by demonstrating importance of guarantees for advancing racial equity.

Early data indicate that the first contribution — flexible capital — has been important to the intermediaries that work within constrained environments dictated by conventional finance rules. For example, a CIGP's guarantee allows one intermediary affordable-housing lender to make early-stage development loans that extend up to 160% of the loan to value, while more conventional loans restrict lending to 80% or 90% loan to value.

This flexibility provides a security to intermediaries who want to test new products and initiatives to advance racial or gender equity but are less likely to shoulder the risk of applying nontraditional underwriting criteria if they were fully responsible for the full amount of potential loss in the case of loan default. It also allows for more loans to be made to people of color, women, and other developers from underrepresented groups who do not meet conventional criteria but demonstrate their creditworthiness in ways not typically part of the criteria. Without this flexibility, these developers are more likely to subcontract with larger, more established firms (often white-male owned). Caught in a cycle of earning less for their work than if they were the primary developer, they lose out on opportunities to build their wealth and creditworthiness and demonstrate their ability to lead projects.

Growing new markets, the second investor contribution, is more challenging. Ironically, CIGP was designed prior to two globally significant events: the coronavirus pandemic, well recognized as disproportionately impacting women and communities of color, and 2) the racial reckoning spurred by the murder of George Floyd. The unprecedented flow of capital from the private, public, and philanthropic sectors following these events has affected the uptake of the guarantee program.

Yet, while the increased flow of capital to address the widening wealth gap is encouraging, much of it is in the form of time-bound grants (Hadero, 2021; Wells Fargo, 2020). Historically, grants alone have not offered sustainable solutions to equity gaps (Holly, 2020; Dorsey et al., 2020; Rockefeller Brothers Fund, 2022). Nonetheless, interviews with intermediaries who considered applying for a guarantee but did not complete the process as well as intermediaries who did receive guarantees indicated that the unprecedented availability and ease of obtaining grant dollars has been affecting their use of guarantees. For those intermediaries who did not pursue a CIGP guarantee, the cost of the guarantees was a limiting factor considering the less-expensive capital available from grant sources in the wake of COVID-19 and the Floyd murder. Furthermore, for those intermediaries who did engage with CIGP and availed themselves of this guarantee program, the availability of inexpensive capital has, in some cases, limited their deployment of loans tied to the guarantee.

Impact on Intermediaries

Early data signal that the greatest impact of the underlying investments is likely to be on the financial intermediaries. They identified that the most profound impact will be on their risk-assessment systems and investment practices informed by the innovations in programs and products secured by the guarantees.

As noted previously, testing perceived risk is a key part of the learning agenda for both the intermediaries and the guarantors. If the innovations the intermediaries have created and applied to existing or new programs or products yield data that challenge the conventional view of perceived risk, then the intermediaries will have evidence that could support significant practice changes that would be aligned with more equitable economic and community development.

Impact on Borrowers and Communities

A third area of change — at the borrowers and community level — is more difficult to track and will likely vary widely. Nor has it historically been required by most funders or investors, thus there is little experience or culture of doing so. Evaluation of CIGP has been influenced by a normative evaluation culture in the financial intermediary community focused on performance monitoring outputs as proxies for outcomes. The philanthropic grantmaking world commonly operates in a culture of theories of change, outcome measures, and data collection throughout the life cycle of investments. The community investment world focuses mainly on pre-investment due diligence and active investment output data; follow-up outcome data is difficult to obtain and post-investment outcome evaluation is infrequent.

Furthermore, each guarantee deal is deliberately intended to be a unique use case. This places another constraint on tracking, quantifying, and analyzing trends. The quantitative descriptive data gathered about borrower and community change focuses on diversity of borrowers and investees, and community-level demographic data on housing developed (types and amount), jobs created and retained, and reduced greenhouse gas emissions. Using the pre-investment impact rating tool, a systematic quantitative comparison of it to active investments periodically during the investment life cycle will be conducted.

To capture more meaningful impacts on and insights from the borrowers and communities, the "most significant change" (MSC) story will be utilized. These stories will capture and lift up specific ways that the guarantees have affected entrepreneurs, housing developers, and climate solution providers, as well as the communities and customers served by these businesses and organizations. An approach widely used in development evaluation, significant change stories articulate the kinds of outcomes that the guarantees facilitated from the point of view of stakeholders most affected (e.g., underrepresented developers and entrepreneurs). Each intermediary will assemble multiple stories and select a representative one to demonstrate how the guarantee has made a difference. Those selected will receive a stipend for the additional work, as will the community borrowers asked to tell their MSC story. The collection of these case illustrations will represent the range and depth of positive outcomes that are associated with this innovative finance tool.

Investment Infrastructure for Guarantors

The building of a syndicated approach to guarantee deployment is another significant area for evaluation and learning. CIGP's intentional learning journey is anticipated to provide the guarantors and the broader field of philanthropy with policies and how-to practices on structuring, managing, and using guarantees.

The investment in LOCUS as project manager for the guarantee pool as an infrastructure model to support use of guarantees offers one learning opportunity. The baseline study of guarantors conducted in 2022 points to other opportunities. It indicates a low level of field knowledge about how guarantees fit into the philanthropic capital stack of the impact financial equation. Indicative of a large amount of room to learn and grow, the survey revealed low-level interest or commitment to using guarantees at the executive level. Building the infrastructure intends to demonstrate the potential of guarantees to advance a philanthropy's financial and impact performance goals as part of a blended finance approach, create predictive models for risk exposure, and develop portfolio-level risk profiles.

Equity Considerations

Another recently surfaced notable challenge is clarity about racial equity goals and how gender and economic equity are weighted in relation to racial equity. The nature of the CIGP collaborative syndicate approach necessitates consensus-building about equity goals and priorities. The impact rating tool used as part of the due diligence and co-created with the CIGP, the guarantors, and evaluation team provides equal weight to gender, racial, and economic equity — each worth 20% of the total point allocation.

The impact rating tool development and early application of it sparked a deeper conversation about racial equity — with a focus on defining equity as more than demographic diversity data. To clarify and sharpen the focus on race, racial equity consultants were engaged. Their conclusion? Systemic racism cannot be successfully addressed through applying a "racial equity lens." Rather, transformative change requires a racial equity mandate.

The impact rating tool development and early application of it sparked a deeper conversation about racial equity — with a focus on defining equity as more than demographic diversity data. To clarify and sharpen the focus on race, racial equity consultants were engaged. Their conclusion? Systemic racism cannot be successfully addressed through applying a "racial equity lens." Rather, transformative change requires a racial equity mandate. As one of their recommendations put it, LOCUS should

> leverage all our staff and guarantee resources to provide financial guarantor resources to provide financial guarantees in service of initiatives that help beneficiary organizations advance racial equity as well as identify and elevate racially equitable guarantee practices in service of intermediaries led by people of color.

This mandate is viewed as a precondition for replicating and scaling the use of guarantees as a financial tool that promotes racial equity.

CIGP was asked to reimagine, resource, reflect, and refine its theory of change accordingly. It is currently discussing with the guarantors and the guarantee recipients how best to make the recommended changes. Meanwhile, CIGP is adapting; its most recent guarantee takes the greatest risk to date in terms of financial due diligence with the community of beneficiaries intended to be 100% people of color.

Adaptations for Market

CIGP has found early success in identifying compelling guarantees in the affordable housing market (greater than 80% of its current guarantee portfolio); however, identifying qualified beneficiaries and suitable use cases for its climate equity guarantees has been more challenging. Among the reasons:

- The U.S. affordable housing market has a history of guarantee utilization, whereas guarantees, particularly those unfunded guarantees issued by philanthropy, are less familiar to the climate finance market.
- Affordable housing and small-business finance are core, well-established segments of the community development finance marketplace, whereas climate finance is relatively young and underdeveloped. This is especially true for climate finance that serves communities of color and those whose members have low and moderate incomes.
- Because climate finance — and in particular, community climate finance with an equity focus — are relatively underdeveloped, CIGP found that many of the qualified beneficiaries advancing climate guarantee use cases were themselves young and often had lower financial and operational capacity — making development and consummation of a CIGP guarantee more challenging for the beneficiary.
- The climate community finance market also features a different type of beneficiary/intermediary compared to housing or small business. The current pipeline includes a significant number of non-CDFIs, whereas small business and housing are dominated by CDFIs.

- Learnings through the climate finance advisory team established that venture capitalists are active in the climate space and willing to invest large sums of capital and take significant risks because of potential payoffs. This also affects the pipeline development.

CIGP actively looks to issue guarantees to back initiatives that can help address the racial gap in homeownership in the United States. Along with climate, this has been challenging; CDFIs, the most prevalent intermediary in the community development finance marketplace, have historically focused on financing rental housing. Not surprisingly, then, affordable rental housing use cases predominate among the early guarantees issued by CIGP.

Building a pipeline of guarantees with the same type of intermediaries as housing and small business has been challenging for the community-focused climate market. The climate finance advisory team has developed recommendations for adapting the climate market strategy, one that differs from the one originally envisioned. An example of adaptive management, CIGP and the GAC will share and discuss the team's recommendation in determining how to adapt CIGP's approach to the community-focused climate market.

Going Forward

Using a developmental evaluation approach from the onset has allowed for a productive, transparent, engaged learning journey — one that started with ambitious goals and is becoming more sculpted through the developmental evaluation processes and additional learnings from other associated efforts (e.g., GAC, financial advisory teams, racial equity consultants). Each guarantor committed to the evaluation as part of their engagement with GAC. LOCUS, in its role of program manager to execute CIGP, holds the evaluation and learning process. Learning over a decade will provide proof of concepts across multiple use cases that shine a light on use of guarantees as a unique addition to the community finance ecosystem and innovations that are impactful.

CIGP's flexibility and transparency in learning and adapting will be significant in demonstrating guarantees' value for advancing philanthropy's contribution to community finance and social equity.

CIGP's flexibility and transparency in learning and adapting will be significant in demonstrating guarantees' value for advancing philanthropy's contribution to community finance and social equity. The pool will have developed a proof of concept that can lead to replication and the ability for guarantees to be used more often, as is currently done in the private and public sectors. This proof of concept will be relevant for both foundations and intermediaries (qualified beneficiaries) alike — as well as impact investors and other investors writ large. In particular, the proof of concept has the potential to help reframe the credit risk calculations and traditional "five Cs" of loan underwriting and credit decisions. Through the various use cases that comprise CIGP, alternative criteria for risk assessment will be better understood and validated where appropriate. This understanding and validation will hopefully offer increased comfort among philanthropic and other investors to use the strength of their balance sheet to unlock capital for community finance, improving social equity, and reducing the racial and gender wealth gap.

The intentional use of unfunded guarantees for increasing capital in community finance will also be instructive to philanthropy for strengthening connections between grantmaking efforts and investment activities — replacing the current state of affairs in which the connection of investments to philanthropic mission is largely opaque.

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The Ford Foundation's Work to Build the Field of Impact Investing

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Keywords: *Impact investing, field building, ESG investing, program-related investment, mission-related investment, Ford Foundation*

Introduction

Foundations are increasingly using impact investments to complement grantmaking in service of their mission. These typically take the form of program-related investments (PRI) or mission-related investments (MRI) made from the foundation's endowment. Less common but arguably as impactful, foundations can also help shape the development and growth of impact investing through dedicated grantmaking, convening, research, and investments in industry infrastructure. Without this funding, however, the metrics, engagement, policies, and norms needed to underpin impact capital markets at scale will be slow to materialize.

Impact Investing in Historical Context

Foundations were not the original investors, nor were they the first to seek to align their investments with their values. Many faiths as well as Indigenous cultures have long considered the impact of their financial decisions on others and have had formal guidelines prohibiting investment in certain products or services — such as slavery, alcohol, tobacco, and gambling — that violate their traditions and beliefs. In current parlance, this would be called "negative screening."

It wasn't until the 1960s, however, that socially responsible investing began to gain wide attention. The decade's civil rights activism and early opposition to the U.S. military's involvement in the Vietnam War led to pressure on American businesses and industries that were seen as profiting from and enabling segregation and war. Activism evolved through the 1980s, most notably into efforts to dismantle apartheid in South Africa — individual and institutional investors pulled away from companies with operations in

Key Points

- Impact investing has grown dramatically over the past 15 years, with foundations playing a critical role through their program-related and, increasingly, mission-related investments. A smaller number, including the Ford Foundation, have dedicated grant and other programmatic resources toward growing the field. Without this funding, the metrics, engagement, policies, and norms needed to underpin capital markets at scale will be slow to materialize.
- This article looks back at the long history of aligning financial investments with social values; touches on the Ford Foundation's pioneering role in the emergence of PRIs as a tool to stretch grantmaking budgets; and details the impact of its 2017 decision to commit $1 billion to MRIs, using a portion of its endowment to invest in such vital areas as affordable housing, quality jobs, and health technology and demonstrating that an investor need not sacrifice financial return for a commitment to social impact.
- This article highlights several reasons for foundations to strengthen the infrastructure of impact investing: the scale of the problems they seek to address, the proliferation in approaches to social impact, and the innovation potential of cross-sector partnerships. And it discusses a number of ways Ford has worked to build the field, specifically its focus on policy and regulation, impact reporting and management, and company engagement and collective action among investors. For Ford, impact investing is the tip of the spear, and sustainable investing is a bridge between the status quo and capital markets where all investments are made with intent to create positive impact.

the country, and students pressured universities to divest from companies that conducted business there.

The work of civil rights activists spurred passage in 1977 of the Community Reinvestment Act. The act, which addressed historical disinvestment in America's low-income and minority communities, requires financial institutions to provide credit to people of all income levels in the communities where they do business. The CRA would lay the groundwork for the federal Low-Income Housing and the New Markets tax credits, aimed at enhancing returns to community investing, as well as the emergence of community development financial institutions, which have a specific mandate to make credit and capital available to underinvested communities. These CDFIs, with support from foundations, have financed such high-impact projects as community health centers, affordable housing units, and schools.

Public demand in the 1970s also led to the first sustainable mutual funds, which developed positive and negative screens for stock selections. The field of socially responsible investing, which uses environmental, social, and governance (ESG) data to screen or weight stocks in a portfolio, has grown steadily since. Outside the United States, microfinance institutions emerged to provide underbanked communities with access to basic financial services. In Bangladesh, Muhammad Yunus established the Grameen Bank in 1983 "fueled by the belief that credit is a fundamental human right" (Nobel Foundation, 2023, para. 5). His objective was to help low-income people escape the poverty trap by providing credit on terms suitable to them. His work advanced to the forefront of a flourishing global movement toward eradicating poverty through microlending.

Corporate social responsibility — a term coined in 1953 by American economist Howard Bowen — came into common use in the 1990s with the growing awareness of the environmental consequences of economic activity. In 1992, the first United Nations Conference on Environment and Development — or "Earth Summit" — produced Agenda 21, a framework for implementing global environment protection and sustainable development. The Kyoto Protocol convened world leaders in 1997 to set goals for reducing greenhouse gas emissions. These events increased pressure on multinational corporations for meaningful CSR efforts and underscored the need for industry to consider its environmental impact at the global level. Early in the following decade the Global Compact (2004), a joint initiative of the United Nations and international financial institutions, issued a call for "better inclusion of environmental, social and corporate governance (ESG) factors in investment decisions" (p. 3).

Impact investments are one of a number of approaches built on these antecedents that seek to involve the private sector in addressing social and environmental problems. Intended to generate positive social and/or environmental impact alongside financial return, impact investing was as well as a burgeoning movement by social entrepreneurs seeking innovative and nontraditional solutions that were often financially self-sufficient and thus sustainable without ongoing philanthropy.

Impact investing has grown exponentially over the past 15 years. According to the Global Impact Investing Network, the global impact investing market had grown to $1.16 trillion at the end of 2022 (Hand et al., 2022). The International Finance Corp. estimates that the market is even larger, at $2.3 trillion (Volk, 2021). The number of signatories to the Operating Principles for Impact Management (n.d.), known as the Impact Principles, now stands at 173. In recent years, the COVID-19 pandemic, the movement for racial justice in the United States, and other political and economic developments have increased awareness of our shared challenges and created greater urgency to address them.

The Role of Foundations in Impact Investing

Foundations have been making impact investments for over 50 years, well before the term came into existence. In 1968, the Ford

Foundation and the Taconic Foundation pioneered the program-related investment — a programmatic tool that allows foundations to offer not only grants, but also loans, equity investments, deposits, and guarantees to create positive impact. It was developed for cases where a foundation interested in funding an organization or initiative has identified returnable capital — typically equity or loans — as more effective than a grant. Internal memos enthused that "the philanthropic dollar could be stretched further to do double, triple, or even higher multiple duty" (Wimpee, 2019, para. 8). Changes in tax laws in the 1960s, developed with input from Ford and Taconic, made PRIs possible provided their primary purpose is to advance an IRS-approved charitable cause rather than producing income. The Ford Foundation made its first PRIs to promote minority business development, increase the supply of low-income housing, and tackle environmental issues.

Foundations have been making impact investments for over 50 years, well before the term came into existence. In 1968, the Ford Foundation and the Taconic Foundation pioneered the program-related investment — a programmatic tool that allows foundations to offer not only grants, but also loans, equity investments, deposits, and guarantees to create positive impact.

Program-related investments gave Ford and other philanthropies a new tool to stretch grantmaking budgets. Funding for PRIs counts against a foundation's 5% payout requirement and is generally managed separately from the endowment. As the investment generates returns, the principal is usually returned to the grant or PRI budget, while investment earnings are allowed to return to a foundation's general corpus. Ford's budget for PRIs grew from $10 million in 1968 to nearly $300 million by 2017. The foundation's success in managing PRIs, combined with the growth and maturation of the impact investing ecosystem, eventually encouraged Ford to consider the next step: mission-related investments out of its endowment.

The Other 95%

A few decades after foundations started making PRIs, some began examining their assets more broadly. In 1996, the board of the four-year-old F. B. Heron Foundation (2023) concluded that because of its mission and tax-exempt status,

> the foundation should be more than a private investment company that uses its excess cash flow for charitable purposes. Without changes, in the board's view, there could be very little to distinguish the foundation from a conventional investment manager. The board began to view the 5 percent payout requirement as the narrowest expression of the foundation's philanthropic goals. By looking to the other 95 percent of assets, the "corpus," the board could conceive a broader philanthropic "toolbox" capable of generating greater social impact than by grant-making alone. (para. 2)

Heron initially committed 40%, then ultimately 100%, of its endowment to what became known as mission-related investments. Distinct from PRIs, MRIs are impact investments made out of a foundation's endowment. For a foundation with a mandate to exist in perpetuity, MRIs essentially need to generate a risk-adjusted market rate of return. Both MRIs and PRIs are impact investments, but typically have different requirements for both financial return and charitable purpose. Heron's decision ushered in a more expansive way of thinking about the resources a foundation could bring to bear on its mission.

Other foundations have followed Heron's lead. In 2017, the Ford Foundation committed $1 billion of its endowment — 8% at the time — to

Through PRIs and eventually MRIs, U.S. foundations have been allocators of capital to impact investments. Some have gone a step further, dedicating their grantmaking and convening power to build the field of impact investing.

MRIs. Its MRI portfolio was initially targeted at investments in affordable housing and financial inclusion, two of Ford's longtime programmatic focuses and areas with relatively greater investment opportunity. Soon three additional impact themes were added: quality jobs, diverse managers, and health technology. Ford's MRI commitment remains the largest by dollar value to date, although a number of smaller foundations have made more significant commitments as a percentage of their total assets.

Building the Rails (and the Field)

Through PRIs and eventually MRIs, U.S. foundations have been allocators of capital to impact investments. Some have gone a step further, dedicating their grantmaking and convening power to build the field of impact investing.

The concept of impact investing had long existed in practice in certain sectors — notably microfinance, community development finance, and clean technology — but an overarching definition had not previously situated it under a single tent until 2007, when the term itself was coined at a meeting convened by the Rockefeller Foundation (Madsbjerg, 2018). The following year, Rockefeller's board approved a $37 million, three-year initiative to build a field of impact investing that included substantial grant funding as well as limited PRI capital.

Rockefeller was perhaps the single largest field builder in the early days of impact investing, but other foundations — including the Omidyar Network and the Ford, Sorenson, and John D. and Catherine T. MacArthur foundations — provided instrumental early support for field-building organizations such as the Global Impact Investing Network, B Lab, and Social Finance. Others, notably the Skoll Foundation, made available commensurate levels of funding in the form of grants to social entrepreneurs — a number of whom raised capital from impact investors.

Foundations that engage in field-building typically use grant funding to support public goods — research, impact measurement frameworks, network development, convening, and advocacy — that aren't "monetizable" and that even concessionary investment capital cannot pay for. Over time, many field-building organizations have used membership fees or other earned revenue to lessen dependence on philanthropy. At the same time, growth, expansion, and increased sophistication and specialization in the field have led to an evolving set of philanthropic needs. A conservative estimate is that total foundation grantmaking dedicated to impact investing field-building exceeds $30 million annually.

Some foundations, in particular Ford and Omidyar, have expanded their grantmaking beyond impact investing to focus more broadly on the field of "inclusive capitalism" — also known as "stakeholder capitalism" — which includes the ESG investors that represent a much broader slice of the capital markets than the relative sliver that self-identify as impact investors. Admittedly, the blurry line between "ESG" and "impact" often lies in the eye of the beholder. In general, ESG investing is almost always associated with market-rate returns, while impact investing often implies concessionary investments. Ford's experience with MRIs, however, proves that impact investing need not require an investor to sacrifice financial return. As of May 2022, five years after it started making MRIs, returns on the Ford Foundation's MRI was 28% — three times its hurdle rate for the endowment overall.

Why Should Foundations Focus on Field-Building?

There are several reasons for foundations to build and strengthen the infrastructure of impact investing. These include the scale of the problems they seek to address, the proliferation in approaches to social impact, and the innovation potential of cross-sector partnerships.

The Imperative to Mobilize Resources at Scale

Philanthropy provides critical grant resources to social and environmental causes, but many problems are likely too large for philanthropy to solve with grants alone. For example:

- The number of people living in extreme poverty, defined as living on less than $1.90 a day, was projected to increase to between 657 million and 676 million in 2022 (United Nations, 2023).
- Two billion people globally have no access to drugs and vaccines and 100 million people fall into extreme poverty each year due to health expenses, forcing them to choose between their health and other necessities (World Health Organization, 2017).
- Thirty-one percent of the global adult population remains unbanked and an even larger percentage is underserved, with limited access to financial services (World Bank, 2022).
- Ongoing structural and systemic discrimination and income inequality is found not only between countries, but also across communities. This holds back millions of people — in particular women and girls, Indigenous peoples, and ethnic and other people of color.

These situations have only been further exacerbated by COVID-19 and will further deteriorate with climate change, which acts as a "crisis multiplier" and whose impacts are already being felt across the globe. Extreme weather events — heat waves, droughts, and floods — are affecting billions of people globally, contributing further to poverty, food insecurity, and inequality. The pandemic further delayed the urgently needed transition to greener economies. Based on current national commitments, global greenhouse gas emissions are set to increase by almost 11% over the current decade (United Nations, 2022).

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Foundations can devote all of their resources directly to addressing these problems, but they also have the option to fund the field-building infrastructure that can attract larger sources of nonfoundation capital to address them. The latter has the potential to ultimately free up greater resources for impact. The combined outstanding value of global bond markets and global equity market capitalization is estimated at $185 trillion (United Nations, 2023). Mobilizing even a fraction of that could finance the estimated outstanding $5 trillion to $7 trillion annual funding gap to achieve the U.N. Sustainable Development Goals.

Shifts in Consumer, Employee, and Investor Behavior

Technology and social media have made it possible to bring awareness of the world's problems to the doorsteps of many people, arousing empathy for those affected. As a result, more individuals are now contributing to charitable causes. Ethical consumer behavior, which incorporates the consideration of environmental and human welfare issues into consumption

The Ford Foundation believes that an inclusive capitalism strategy must take a systemwide approach that engages companies, asset managers, and asset owners, as well as the range of stakeholders impacted by their behavior.

choices, is also on the rise. Additionally, many workers no longer want to just do work — they want to do good: some 70% of Americans, for example, say they define their sense of purpose through work (Dhingra et al., 2021). Millennials, in particular, are looking for opportunities in their work to contribute to what they believe is their wider purpose. Individuals are also increasingly adopting sustainable investing principles, with millennials leading the charge. According to a study by Allianz (2019), nearly 64% of millennials said ESG issues are important in their investing decisions, with Generation Xers reporting 54% and baby boomers reporting 42%.

These trends in consumer, employee, and investor sentiment mean that "doing good" is no longer the sole province of 501(c)(3) organizations. Many social entrepreneurs, tired of the prospect of being dependent on philanthropy, are starting for-profit entities. While nonprofits will likely always play a critical role in social movements, foundations can tap into and shape this wider range of impact activity by helping mature the "impact capital markets." These markets allow a broad range of entities to attract resources, as well as to hold them accountable for their claims.

Impact investing has attracted a wide array of actors over the past two decades. The field now includes, but is not limited to, nonprofits, government-backed international finance and aid organizations, business, institutional investors, and fund managers — a breadth of talent and diversity of thought that the nonprofit sector would not have access to on its own. It is well documented that diverse teams perform better than homogenous teams; it stands to reason that diverse coalitions of stakeholders, if united around similar goals, also have great potential.

Ford's Ecosystem Strategy

The Ford Foundation is one of the largest funders of field-building in the areas of impact investing and inclusive capitalism. Its focus was initially on growing impact investing with integrity, through which it hoped to crowd in other, larger sources of capital for the types of investments it was making with its own PRI and MRI capital. However, it soon expanded to the broader goal of shifting the economy "from the paradigm of maximizing shareholder value to one that seeks to maximize stakeholder value" (Walker, 2017, para. 13). This expanded focus was born from the recognition that impact investing, while growing steadily, remains a small portion of the overall capital markets — but that the broad capital markets impact all the other work the foundation cares about: quality jobs, racial and gender equity, healthy democracy, and more. For Ford, impact investing is the tip of the spear, and ESG or "sustainable investing" is a bridge between the status quo and capital markets where all investments are made with intent to create positive impact.

The Ford Foundation believes that an inclusive capitalism strategy must take a systemwide approach that engages companies, asset managers, and asset owners, as well as the range of stakeholders impacted by their behavior. In the absence of systemwide changes, individual companies and investors face challenging headwinds as they attempt to make meaningful investments. Ford's field-building strategy is housed within its mission investments team, where it sits alongside and is informed by the foundation's MRI and PRI portfolios. Wherever possible, this work is done in partnership with other programs and regional offices across the foundation.

Ford's PRI and MRI work is a critical source of insight and credibility for its grant-driven work to build the field. And the reverse appears to be true as well. As one grantee shared, "systems change requires a thriving ecosystem of organizations that are building the market infrastructure that will replace the legacy field. Without those organizations, who need philanthropic support to build the field ahead of everyone else's buy-in, we just have nice ideas that can't possibly compete."

Ford's work to build the fields of impact investing and inclusive capitalism includes the following areas of focus:

Impact Reporting and Management

Investors need consistent, standardized, and widely used definitions for impact and ESG metrics if they are to consider these factors in decision-making. However, nonfinancial disclosure has been highly fragmented and variable across companies and portfolios. For example, there are more than a dozen metrics alone used to report on worker health and safety, which makes it impossible to make an apples-to-apples comparison across companies. This fragmentation can be paralyzing for companies and investors of good intent; conversely, it enables greenwashing by allowing companies to pick the metrics that paint them in the most favorable light. A study by the Sloan School of Business at the Massachusetts Institute of Technology found that differences in metric definitions were responsible for more than 50% of divergence among ESG ratings — a finding it dubbed "aggregate confusion" (Mayor, 2019, para. 1).

Ford was among the earliest supporters of the Sustainability Accounting Standards Board (SASB), and more recently made a significant grant to support the board's merger with the International Sustainability Standards Board. It has also been a longtime supporter of the Global Impact Investing Network, whose Impact Reporting and Investment Standards, or IRIS, drive comparability among impact investors. Most of the foundation's support for impact reporting takes the form of grant funding; however, it also made an equity investment from its MRI portfolio in a company called Novata, which provides ESG reporting and benchmarking services for private companies.

In addition to a baseline of ESG disclosure that Ford hopes will constitute a floor for global capital markets activity, the foundation has supported better impact performance standards. It has been a longtime supporter of B Lab's B Impact Assessment, which is also used by some of its fund managers to manage their own impact performance. Ford has also gone deeper on parts of impact reporting and management that the foundation feels are underdeveloped in the ecosystem, such as supporting PolicyLink's Corporate Racial Equity initiative and working with Just Capital to convene a group of academics and other experts on human capital management. Ford also invested in BlueMark, an impact verification company that verifies the practices and reporting of impact investors.

In most cases, Ford's support for robust, standardized impact metrics and disclosure is intended to be time-bound in order to free up grant resources for other purposes. In some cases, the "exit" for philanthropy is financial self-sufficiency for the entity — whether for a for-profit company like Novata or BlueMark or a nonprofit that earns income from certification or licensing fees. In other cases, it might be a regulatory or quasi-regulatory mandate that "takes out" a nonprofit. The best recent example of this is SASB's merger into the International Financial Reporting Standards Foundation with the creation of the International Sustainability Standards Board.

Company Engagement and Investor Collective Action

An investor's impact on stakeholders is typically intermediated by companies, which employ workers, deliver products and services, etc. The second component of Ford's impact investing and inclusive capitalism strategy consists of engaging companies to act in the interest of all their stakeholders, through a combination of voluntary corporate leadership initiatives and investor-led shareholder engagement. A number of Ford's grantees — B Lab, Just Capital, the Coalition for Inclusive Capitalism, and others

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— build community and capacity among companies seeking to lead the way toward a stakeholder economy. Their combined experience has proven that a range of companies, from sole proprietorships to large public companies, can successfully do business in a way that benefits their stakeholders as well as their shareholders.

In these instances, the role of a foundation is often to set and maintain a high bar for impact, and to guard against the inevitable pressure to water down commitments. It may also be to facilitate conversations with civil society organizations, often other grantees, that do not themselves have access to corporate leaders.

Some companies have chosen to go a step further and institutionalize their commitment to stakeholders in their corporate form. Ford and other foundations have supported B Lab to develop the Public Benefit Corp. (PBC), a corporate form that allows companies to obligate themselves to consider the interests of stakeholders and that is now available in 42 states and nine countries. This grant-funded work now appears in Ford's impact investment portfolios, where it often invests in PBCs.

Of course, not all companies voluntarily choose to operate in a transparent, stakeholder-centric fashion. Therefore, in addition to corporate-led leadership, Ford's field-building work has included support for a number of organizations that use shareholder engagement as a tool to advance a more inclusive economy. Shareholders generally also operate with a fiduciary duty that obligates them to pursue maximum financial returns, but they may be more likely to do so with the mindset of a "universal owner" that is invested broadly across the economy and over a long time horizon. As explained by The Shareholder Commons (n.d.), a Ford grantee, "Universal owners — diversified investors with long-term perspectives — dominate capital markets. Their primary interest is in preserving the critical social and environmental systems in which their investments and lives are embedded" (para. 4). Ford has provided grant support to this and other organizations that are working with asset owners and managers to engage the companies they are invested in on ESG matters, such as workers' rights and diversity, equity, and inclusion. These insights from the broader ecosystem have also influenced the way the foundation thinks about its own approach to the public market investments in its mission investments portfolio.

Beyond shareholder engagement, Ford's field-building work provides support for a broad range of collective action among investors interested in deepening their impact. Global Impact Investing Network, Institutional Investors Roundtable, Mission Investors Exchange, Taconic, and similar organizations bring investors together to learn from one another, share strategies and sometimes deal flow, benefit from research and best practices and advocate for enabling policy and regulation. They also contribute to a narrative change about the role of investment capital in addressing social and environmental problems and create proof points that make such a journey more palatable to investors who may still be sitting on the sidelines.

Given the U.S.–European focus of many impact investors and networks, Ford — which has offices in 10 countries across the Global South — makes a dedicated effort to catalyze impact investing networks across regions. The foundation has funded and worked with the Global Steering Group on Impact Investing to support the development of national advisory boards across Asia and sub-Saharan Africa, and the mission investments team works particularly closely with Ford's China office to support the growth of impact and ESG investing there.

Policy and Regulation

Impact investors often innovate in service of a better world, and generally volunteer to go above and beyond what is legally required of them. Mainstreaming this work, however, often requires changes in policy and regulation that level the playing field and raise the floor for how capitalism operates. As was noted earlier, one of the most mature sectors of impact investing — community development finance in the United States — was made possible through policies like the Community Reinvestment Act. For stakeholder capitalism more broadly, relevant policies and regulations include disclosure requirements like those being considered or implemented in the United States, Europe, India, South Africa, Malaysia, and elsewhere; ERISA and other regulations that clarify interpretations of fiduciary duty; and affirmative policies like Opportunity Zones that mandate or incentivize investors to invest in underserved communities. Conversely, policy and regulation can actively impede consideration of impact or ESG — such as the "boycott the boycotter" laws that certain states have contemplated or enacted in the past year, which prevent state pension funds or government contracts from working with financial institutions that they perceive to be pro-ESG. While largely targeting negatively screened funds in public markets, these bills can have a chilling effect on private market impact investments.

As part of its field-building strategy, Ford has made direct grants in support of policy development. Over the past year, the foundation has been increasingly called upon to support analysis and engagement with policies that have been proposed as part of the ESG backlash. However, its largest contribution to policy is implemented through its participation in the U.S. Impact Investing Alliance. Its current policy agenda — backed by a coalition of more than 50 organizations, many of them Ford grantees — includes community investing and stakeholder capitalism. While policies that require legislative change remain challenging in the current

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political environment, there have been recent successes in regulatory and administrative actions that have, for example, proposed to mandate climate disclosure for public companies and clarified that ERISA-regulated pension funds can consider ESG factors when making investments.

Narrative and Normative Change

While laws play an important role in shaping fiduciary duty, narratives and norms are arguably as influential. Ford supports narrative change across its programs, including its work on inclusive capitalism. The team feels that the narratives, norms, and biases that define and drive business and investment decision-making can work for or against the goal of a more equitable capitalism. An often-singular focus on quarterly financial performance, for example, is the result of norms rather than laws. The misperception — still widely held — that any impact investment must necessarily be concessionary is also the result of a powerful narrative. As Roy Swan (2022), head of mission investments at Ford, wrote in *Barron's:*

> There is an overwhelming — and understandable — fear of the unknown in capital markets. It is human nature. That fear, coupled with the extreme and worsening market volatility of the last two years, has nurtured broader

> misconceptions that double-bottom-line investing and fulfillment of fiduciary duty are mutually exclusive — and that peer rankings, compensation, and employment would be at stake were managers to dip their toes in a nascent investment strategy. As a result, many have frozen, rather than investigate novel investment vehicles such as impact investing. (para. 7)

Better information on impact investment portfolios that have generated commercial financial returns is, in and of itself, one way to refute this misperception. Ford's MRI portfolio has provided one such data-driven proof point. In parallel, a number of Ford's grantees argue that standard benchmarks for performance are not sustainable, or desirable. Grantee Imperative 21 (2023), itself a coalition of other grantees, took out a full-page ad in the *New York Times* on September 13, 2020 — the 50th anniversary of Milton Friedman's seminal essay on shareholder primacy — arguing that the economy needed a reset toward a more just and long-term approach.

Narrative and norms also underpin the massive racial inequities that exist in the capital markets. There is research to document that fund managers of color, particularly those with the best performance, are judged more harshly than their white counterparts by institutional investors (De Witte, 2019). In 2021 the U.S. Securities and Exchange Commission's asset management advisory committee also concluded that gender and racial discrimination "has effectively been codified" in the manager selection process through factors like track record and minimum size of assets under management (Garcia et al., 2021, p. 10–11). While laws do not exist to prohibit asset owners from investing in women or fund managers of color, the power of these norms and biases is such that diverse managers control less than 1.4% of institutional assets under management. Ford's mission investment team deploys capital to diverse managers, and its grantmaking focuses on anti-bias training, support for emerging managers, and tools and metrics that assess progress toward greater equity in investment portfolios.

Conclusion

For foundations with a mission to make progress against the world's most intractable problems, impact investing represents a way to marshal substantially more resources toward solutions. Foundations are increasingly adding PRIs and MRIs to their grantmaking strategies, but fewer have dedicated grant and other programmatic resources toward growing the field of impact investing. Without this funding, however, the metrics, engagement, policies, and norms needed to underpin capital markets at scale will be slow to materialize. Ford has chosen to augment its PRI and MRI portfolios with a dedicated field-building initiative that can grow the field, and its impacts, in the time frame required to make progress against the U.N. Sustainable Development Goals.

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Defining Your Double Bottom Line: Philanthropy and the Investment Landscape

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Philanthropy and the Investment Landscape

Philanthropy, from the Greek *philanthrōpia,* meaning "love of humankind, especially as evinced in deeds of practical beneficence and work for the good of others," today describes the myriad ways in which organizations help others, primarily expressed through donations of money to worthy causes of interest.

Philanthropy is almost as old as human civilization itself. A brief perusal throughout history of the tenets of any organized religion or belief structure, from Christianity to the Hindu Vedic scriptures, generally reveals a deep respect for charity and selfless benevolence. From an early modern perspective, the 16th century saw a rise in conscious state-sponsored activity, from Juan Luis Vives' influential text "On the Relief of the Poor," in which he maintained it was the duty of civil administrators to provide welfare to the needy to maintain social cohesion, to the resurgence of the Islamic philanthropic tradition with the expansion of the Ottoman Empire in the form of public complexes constructed to provide board and services to the poor and orphaned (National Philanthropic Trust, 2016). Throughout history people have relied on the kindness of others to help correct the arbitrary nature of birth and circumstance, and in providing such services and funding through public and private means, humankind has in the most hopeful instances been able to alleviate the suffering of others.

Foundations usually have well-defined missions, which they are charged with supporting in perpetuity. One of the ways this has traditionally

Key Points

- Grantmaking traditionally has been at the heart of philanthropy, whereas impact was the exclusive expectation of any desired result. While there is still a place for this kind of pure push for change, many investors today expect more, leveraging the power of the markets to invest in a way that is both impactful and able to maximize their financial rewards. This is particularly true of foundations with an eye toward supporting the perpetuity of their missions and organizations.
- This approach also offers a range of innovative mission-based benefits, including extending the utility of philanthropic capital and generating more capital to reinvest into impact initiatives, potentially in partnership or in tandem with grantmaking. However, the focus of impact has also shifted in radical new ways, especially over the last few years, in response to social developments and generational shifts in value. These shifts call for greater intentionality in defining the nuance and complexities involved in any use of the term "impact."
- This article argues the key importance of defining and crystalizing specific thresholds, metrics, and language around foundations' missions to ensure demonstrable qualitative and quantitative measures of progress toward success (financially and impact-based); discusses how the long-term pursuit of values-based goals and financial performance are mutually inclusive and self-reinforcing, and can be combined to great effect with more traditional forms of philanthropy (i.e., grantmaking); and demonstrates how impact investing provides the opportunity for the

(continued on next page)

been accomplished is through grantmaking: as just one of many examples, the $258.3 million in grants provided by the Bill & Melinda Gates Foundation (2005) to combat malaria as part of its broader global goal of ending poverty, disease, and inequity around the world. This activity is generally separate from the investment activities that support the funding of such grants and focus on financial return. However, today, as concerns for the future of society and the health of our planet increasingly permeate activities formerly shielded from such scrutiny, many investors and organizations are becoming aware of the power of investing to both supplement and buoy missions beyond such direct assistance as grants, in essence demanding impact as well as financial returns from their portfolios.

Key Points (continued)

engagement of additional stakeholders and members of the community.

- This article also addresses several key questions: How has the use of philanthropic capital evolved from an investment perspective? What does an effective impact definition include? In which ways do impact and financial priorities buoy each other? How does one find credible sources of ESG/impact data and what determines high-quality data? And, finally, how can organizations best articulate their missions in their investment policy statements to better define their double bottom line?

ESG, SRI, and Impact

Since goods and services have been exchanged, people have invested their time and resources according to their personal prerogatives or moral inclinations. Early Jewish law (collected or developed over 2,000 years ago) encouraged a principle of justice in business and economic dealings, *tzedakah,* reflecting an early form of socially responsible investing (Telushkin, 1991, as cited in Jewish Virtual Library, n.d.). In the United States in the 18th century, the Christian Protestant branch of Methodists avoided the slave trade, gambling, and alcohol- and tobacco-related ventures as unaligned with their religious convictions (Christian History Institute, n.d.).

Every dollar invested is a vote cast for the future in a certain direction, regardless of investor intentionality. Today, myriad "sustainable investing" solutions have emerged in response to demand from capital owners and allocators to find ways to increase returns, diversify portfolios, and target sustainable investing outcomes. These solutions largely fall into three broad frameworks:

- *Environment, social, and governance (ESG) investing* — enhancing traditional investment analysis by incorporating environmental, social, and governance factors to identify potential risks and opportunities;

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- *Socially responsible investing (SRI)* — applying positive or negative value/impact screens to decide specific investment priorities; often involves implementing factor tilts to address specific risk factors; and

- *Impact investing* — investing funds with the primary intent of delivering specific, measurable, and permanent near-term improvements in the real world alongside expected financial returns.

While these definitions make impact, ESG, SRI, and subsequent measures of success sound monolithic, the reality is that most solutions carry elements that fit into more than one of those categories. As the world has advanced and technology has progressed, ethical, social, and environmental issues have become more convoluted and wide-ranging (Steinbarth, 2021). In the past, philanthropic capital would be deployed through grantmaking or gifts to tackle these issues. Today, there is a growing awareness of the power of the markets themselves to enhance the response to these issues and align portfolio investments with the philanthropic mission. To be truly effective, such investments still need to be able to satisfy the financial objective of the portfolio to support the broader organization in perpetuity, ensuring its core functions and services remain intact. This is achievable through a disciplined approach to defining mission and desired impact.

Impact in Action

Incorporating ESG, SRI, or impact in investments requires a process of factorizing the issues/topics the investor deems relevant — for example, using a workforce diversity metric to determine the level of commitment to inclusivity, or measuring an organization's carbon emissions as a tool to assess its commitment to environmental sustainability. This factorization process depends on subjective definitions of the issues. To add further complexity, ESG and SRI are not asset classes themselves, but rather a way of investing within each class, subject to the idiosyncrasies and particularities of the services and products represented by the relevant sectors. It is highly contextual, and generally subjectively defined by relevant capital stakeholders. For example, if a religious-affiliated organization today chooses to comprehensively halt investment in traditional "sin" stocks such as tobacco, alcohol, or gambling, an exclusionary screen can filter these from its investment universe. However, depending on one's definition of mission and impact, ESG criteria can be applied based on the specifics of each of these industries to responsibly invest in context: for example, in the case of tobacco or alcohol, a reduction in water use and waste, a responsible use of limited, sustainable farmland, and fair trade agreements to ensure labor practices protect those workers harvesting and preparing the raw materials; for gambling, stricter regulation to prevent excessive or underage play, resources dedicated to prevention, detection, and intervention, and lower-risk options for a safer gaming environment.

This is where impact investing can be leveraged in tandem with the above to determine which outcomes an organization finds most conducive to their definition of success, and underscores the primary importance of crystallizing the mission of each portfolio to determine measurable metrics that reflect such success. Importantly, success is how each organization defines it, based on its own values and financial expectations.

At this juncture, it is important to note the dependence of this process on ESG/impact data. To incorporate ESG, SRI, and impact into the investment process, appropriate data proxies for the issues must be identified.

In prior years, this activity proved difficult due to the limited availability of data. This situation has improved recently, especially as we continue to see a proliferation of ESG data providers — ISS ESG, Sustainalytics, MSCI, RobecoSAM, and Reprisk, to name a few. Since "perfect" data remains a goal to aspire to, a keen eye is needed to assess the quality of the available information. However, to gain a better understanding of such sources, several criteria can be assessed to help validate the usefulness of the information — for example, review for disclosures on methodology, data collection, and verification to determine the comprehensiveness of the data set. This includes identifying time periods to understand the timeliness of the data and evaluate how frequently data are updated. Consistency and relevance are also key inputs. Check if the data are consistent with other publicly available information, and relevant to the issue or industry being analyzed; for example, a financial services company may report low carbon emissions, but this may not necessarily be as meaningful a metric for assessing its ESG performance as are carbon emissions from a company in the transportation industry. The general quality of the information source can be assessed by looking into its level of detail and transparency — for example, determining the source uses verifiable raw data inputs according to well-defined metrics across companies based on industry, as opposed to offering amalgamated scoring with less underlying transparency or using data only relevant to ESG-identifying managers.

The Double Bottom Line (Achieving Outsized Returns and Impact)

Traditionally, foundations that have deployed grantmaking capital have done so with impact in mind and have structured their assessment process to measure success at achieving the defined impact. In parallel, investors who have put capital to work in the financial markets have structured their assessment processes to measure financial return. Impact investing creates an intersection of these ideas and allows for the achievement of multiple objectives — the double bottom line.

Investors have historically considered the achievement of their mission-based goals in investing to necessitate a trade-off, or relatively small financial rewards for demonstrable impact. In the past this may have been true, and earlier periods may not have offered viably profitable alternatives for ESG-responsible investment in certain industries — for example, across much of the early modern period through the 19th and early 20th century, a broad swath of the U.S. and global economy, from textiles to livestock, deeply depended on the institutional exploitation of workers without feasible legal protection; completely divesting of one's involvement in goods and services produced in this manner across industries would in many cases necessitate not participating at all.

However, cultural mores and the direction of society have a significant influence on the future landscape of industries and their ultimate direction, and with an increasing focus on supporting inviolable human rights and civil liberties, the advent of the information age, exponential scientific advancement, and mounting crises surrounding human exploitation of the man-made and natural world (e.g., COVID-19), society is becoming more aware of broader socio-environmental concerns (Rousseau & Deschacht, (2020). Investing to make the world a better place, however defined, is likely to overlap with continuing to make the world investable, period. ESG and impact concerns, beyond the ethical implications and mission achievement, anticipate trends and developments that will eventually be necessary for all companies to address to maintain competitive, sustainable positioning across their respective industries. Some of these concerns, as applied, already suggest engagement is more profitable than avoidance.

Investing to make the world a better place, however defined, is likely to overlap with continuing to make the world investable, period.

For example, diversity, equity, and inclusion, as a consideration of socially responsible investing or as part of a mission to facilitate greater diversity at higher levels of management, is not just desirable for the basic justice underlying its cause. Diversity of life experiences, across age, race, gender, etc., allows for diversity of perspective, and adding value through active management in finance requires a differentiated way of considering the markets, or personal and professional insight unavailable to others. A truly diversified portfolio will reflect a range of such perspectives, enhancing the chances of generating outsized returns or mitigating losses across a variety of market environments; incorporating specific DEI thresholds into an investment policy is a fundamental way of capturing this value-add. This is not just theoretical; diversity is correlated with stronger risk-adjusted performance in private equity (Mirchandani, 2022). In such a case, the greater amount of capital generated by the enhanced performance of the portfolio can be either reinvested into other or similar impact- or mission-based initiatives, or the surplus can be appropriated to expand the reach of more direct mission-based work, such as grantmaking or programmatic funding.

Importantly, every organization cannot solve every challenge all of the time. Achieving a double bottom line of potentially outsized financial returns alongside relevant, desired impact outcomes requires a disciplined definition of

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objectives, parameters, and intentionality. The first step is to memorialize the impact sought in an organization's investment policy statement, with clear thresholds to determine allocation amounts, results desired, and appropriate measurement tools based on the specifics of each organization's ultimate objectives. This facilitates accountability and transparency at the manager and portfolio level, allowing for a more meaningful assessment of success or failure, with the ultimate goal of a repeatable strategy aligned with a foundation's overarching mission to ensure long-term investment-committee conviction and a sustained long-term investment horizon toward outsized returns.

Crystalizing Metrics and Thresholds

The ability to merge the objectives of philanthropic and investment capital has piqued the interest of many foundations. Purely philanthropic capital deployed toward a specific impact goal without an investment objective may lack a financial return or feature relatively concessionary returns compared to the market-rate performance expected from capital earmarked strictly for investment purposes. While these two types of capital have different objectives, combining their objectives can lead to synergistic benefits. The pertinent question here is, "Can capital be invested for both impact and financial returns without one outcome cannibalizing the other?" The answer is strongly reliant on an organization's ability to define the desired impact and outline an investment strategy to achieve that impact with a specified financial return profile. As a result, many foundations are now tasking their boards and investment committees to invest their endowments in mission-aligned strategies that maintain the return profiles they are used to seeing in the market. This in turn allows the return on capital to be reinvested in an increasing number of mission-aligned opportunities, thereby expanding the scope of impact without sacrificing investment returns or depleting a corpus.

This evolution increases the stakeholder pool and changes the ways in which organizations consider impact. For instance, grantmakers within a foundation might find they are required to expand their understanding of fixed-income asset classes to structure agreements with grantees constituting impact investments — for example, the Ford Foundation's partnership with various money managers has led to the creation of mission-related fixed-income products investing in debt instruments with the goal of generating market-rate profits alongside a positive social or environmental impact, including affordable housing and financial services for people in developing countries (Chasen, 2017). Similarly, on the donor side, capital allocations may be structured with ESG and impact requirements for designated investment pools reflecting an interest in specific areas. Our investment advisors at Crewcial Partners are seeing more scenarios in which clients direct capital into both a core investment pool and separately managed mission-aligned investment pools. Whatever the situation, the changes would involve adaptation on the part of an expanded pool of stakeholders to comprehensively enhance their understanding of both the investment and impact landscape to develop actionable solutions.

As with all innovative strategies, some opportunistic managers have sought to take advantage of a new angle to attract investors, and the vague nature of ESG and impact is particularly susceptible to such exploitation. This is colloquially known as "greenwashing," when an organization presents itself as ostensibly environmentally or impact friendly without sufficient impact follow-through, effectively playing on the concept as a marketing tool to attract consumers and investors. As a result, the industry has started to see policy changes that regulate this evolving investment path. Though more progress has been seen in Europe and in some Asian countries (e.g., the Sustainable Finance Disclosure Regulation, Japan's FSA Social Bonds Guidelines), the United States is beginning to catch up.

On May 25, 2022, the U.S. Securities and Exchange Commission (2022a) proposed two amendments to improve and standardize ESG-related disclosures, and to increase regulation around the naming of funds with a purported ESG focus. This follows the SEC (2022b) proposal announced on March 21, 2022, that would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related results of operations and certain related metrics in their audited financial statements.

These developments by the SEC are attempting to broadly categorize certain types of ESG strategies, requiring funds and advisors to provide more-specific disclosures in official documents (e.g., fund prospectuses) based on the ESG strategies pursued. Among the stipulations, funds claiming to achieve a specific ESG impact would be required to define in more detail the impact intended and report on progress.

It cannot be overstated how nascent this space is in regard to determining the best or most transparent ways to address impact as a broader function of investment management. For organizations today, defining impact based on mission and measurable outcomes becomes a function of each organization's goals.

For foundations, the impact on an investment policy statement is tied to a need for greater intentionality and better articulated language around objectives. Determining acceptable parameters for impact and financial rewards defines each organization's definition of success, which is dependent on each organization's particular values-based goals, funding needs, funding goals, etc. A questioned commitment is most likely also a weakly defined commitment. Long-term investing, which widens the path toward eventual outsized returns, underlined by a specific commitment toward buoying the mission of an organization, should not be derailed by short-term market events or macro-economic headlines. While investing mandates can be amended when necessary to account for structural or long-term developments that must be accounted for from a values- or financial-based perspective, a well-defined plan for amplifying the impact of one's mission through high-return-potential investing should constitute the primary focus of each organization, to ensure the money entrusted to such organizations is being put to work in support of its goals and can be sustained in perpetuity (or over the defined timeline).

Conclusion

Mission-forward investing does not preclude strong financial returns. By anticipating or leaning into changing trends and progressive industry developments, one can get ahead of ESG-friendly and value-aligned shifts to be on the vanguard of change and generate returns able to support missions in perpetuity. The continued health of our planet and the orderly functioning of society calls for a shift toward more sustainable and efficient means of production and solutions to the ever-growing complications introduced by globalization, geopolitical tension, and environmental degradation. In tandem with broader legislation and more comprehensive information conducive to greater transparency, by thoughtfully defining a portfolio's role in measurably supporting one's overarching vision alongside financial goals, foundations can enjoy the double-bottom line of mission-based success and long-term financial rewards, complementing such traditional philanthropic activities as grantmaking to buoy each organization's overall impact.

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Donor-Advised Funds and Impact Investing: A Practitioner's View

Sam Marks, M.P.P., FJC - A Foundation of Philanthropic Funds

Keywords: *Donor-advised funds, DAFs, DAF sponsors, impact investing, nonprofit lending, program-related investments, mission-related investments, microloans, tax-exempt bonds, underwriting, risk assessment, loan servicing*

An Introduction to Donor-Advised Funds

A donor-advised fund is a charitable account whereby donors make irrevocable, tax-deductible contributions to a charitable sponsor. Donations to DAFs are not only tax-deductible at the moment they are made, but they also grow tax-free. Donors give up legal control of these donated assets to the DAF sponsor, but donors retain advisory privileges that allow them to recommend how those funds are distributed to the nonprofits of their choosing. Donors can also recommend how funds in the account are invested. Although the ultimate decision-making authority regarding grantmaking and investments resides with the DAF sponsor, as a practical matter, most DAF sponsors defer to the recommendations of their donors as long as they are recommending activities that are permissible by law and regulation.

Donor-advised funds are held at charitable sponsors — tax-exempt nonprofits that include community foundations, national charities (e.g., National Philanthropic Trust, FJC), and those created by large financial institutions (e.g., Fidelity Charitable Foundation, Vanguard Charitable). At least 976 charitable sponsors host over 1 million DAF accounts (National Philanthropic Trust, 2021). On behalf of their donors, DAF sponsors take on the administrative burden, typically for a modest asset-based fee. As a result, donors can focus solely on mission and grantmaking, relying on the sponsor to handle tax filings, audit, compliance, and the mechanics of grant disbursements.

Key Points

- Any discussion of foundations embracing impact investing must include some discussion of one of the largest — and growing — sources of philanthropic capital: donor-advised funds. These philanthropic accounts allow donors of all sizes to access many of the functions of a private foundation, including the potential to invest for impact. Sponsors of these funds, however, face unique challenges in catalyzing impact investments.
- Like the larger institutional foundations that have led the way as mission investors, sponsors must often educate and inspire governance boards and investment committees. Unlike foundations with professional program staff, decisions regarding philanthropic resources at sponsors of donor-advised funds are guided by multiple account holders, often numbering in the hundreds or thousands. This may help to explain why these funds and their sponsors have not yet achieved their potential in investing for impact.
- This article takes a practitioner's view on the issue, reflecting lessons learned by a sponsor of donor-advised funds that has long accommodated the impact investing interests of its donors. Experience demonstrates some promising approaches that build on sponsors' particular strengths: their deep expertise of the nonprofit sector; the scaled platform offering operational efficiency along with technical assistance; and their ability to apply their operational expertise to new areas of collaboration with foundations and other philanthropically minded actors.

On a parallel track to the growth of assets held in DAF accounts, the philanthropic sector has been increasingly adopting innovative approaches to its deployment of capital for positive change. This trend, impact investing, has been adopted at varying levels across the field of philanthropy, including by DAF account holders and their sponsors.

Donor-advised funds share many characteristics with private foundations, but they are set up as individual accounts operating under a single organizational umbrella. Accounts can range in size from a few thousand dollars to multiple millions. At FJC we have seen a number of private foundations decide to close down and open up DAF accounts with their remaining assets, viewing this option as a more cost-effective and efficient approach to managing philanthropic assets. These philanthropists must get comfortable transferring ultimate governance authority to the board of the DAF sponsor, but they generally find that they can retain the same or similar flexibility around grantmaking and investment stewardship.

The DAF industry has undergone a major expansion, particularly over the last five years. The National Philanthropic Trust (2021) releases an annual survey of the DAF industry, for which it analyzes the IRS Form 990 filings of over 900 DAF sponsors. The trust estimates that as of 2020 there were nearly $160 billion in assets in DAF accounts, an amount that has doubled since 2016. To give a further sense of the industry's scale, in 2020, six of the top seven charities receiving the most contributions were sponsors of DAFs, including a number affiliated with large financial institutions such as Fidelity, Schwab, Goldman Sachs, and Vanguard (Collins & Flannery, 2022).

Recent critiques of the industry cite the fact that unlike private foundations, DAF accounts currently do not carry minimum annual payout requirements. But in aggregate, arguably, DAFs deploy funds to nonprofits at a greater rate than private foundations. National Philanthropic Trust notes: "Private foundations hold nearly seven times the assets held by DAFs. Grants from DAFs to qualified charities totaled $34.67 billion in 2020, equating to 54.5 percent of the estimated $63.60 billion granted by independent foundations" (2021, p.12).

DAF Sponsors and Impact Investing

On a parallel track to the growth of assets held in DAF accounts, the philanthropic sector has been increasingly adopting innovative approaches to its deployment of capital for positive change. This trend, impact investing, has been adopted at varying levels across the field of philanthropy, including by DAF account holders and their sponsors.

In their 2011 book *Impact Investing: Transforming How We Make Money While Making a Difference,* Antony Bugg-Levine and Jed Emerson argue for a broad definition of impact investing, going beyond investors willing to trade off return for social or environmental impacts. They define the impact investing around the notion of blended value: an integration of economic, social, and environmental components, whose impact can be evaluated as more than the sum of their parts. The authors' focus on blended value allows them to create a "broad, rhetorical umbrella" (Bugg-Levine & Emerson, p. 8) that includes investors across many asset classes and return expectations (market rate and below-market): investors in microfinance and affordable housing, shareholder activists shaping corporate culture, venture investors in companies and projects, and many others that seek to create positive impacts alongside various levels of financial return.

The field of philanthropy (particularly foundations in the United States) tends to view this notion of blended value through the lens of Internal Revenue Service rules; in other words, what investment tactics count toward a private foundation's 5% minimum payout requirement. The Mission Investors Exchange (2018) defines a program-related investment (PRI) as "an IRS term of art specifically for foundations that refers to foundation investments made with the primary purpose of accomplishing mission, not the generation of income" (para. 5). PRIs can legally be counted toward a private foundation's annual distribution requirement (5% of assets) and are typically used to provide loans, equity, or other types of investments that are below market rate or offer more flexible terms. On the other hand, a mission-related investment (MRI) is "a foundation-specific term referring typically to risk-adjusted, market-rate impact investments made from the foundation's endowment or corpus" (MIE, 2018, para. 8). Unlike PRIs, MRIs are not an official IRS designation, and they typically seek market-rate returns. PRIs and MRIs are tools by which foundations attempt to achieve the goal of blended value: they seek to create social and economic value alongside various levels of financial return (either market rate or below market).

One might reasonably expect that the DAF industry, which attracts generous donors, might also attract creative impact investors who are seeking blended value in their philanthropic activities. Bugg-Levine and Emerson identified DAFs for their high potential for impact investing:

> Impact investing offers a potentially exciting enhancement to the social value a donor-advised fund can generate. Instead of waiting until the eventual donation for the assets to generate social value, they can generate value along the way if they are placed in impact investments. (2011, p. 229)

The authors predicted "many others will soon follow" the example of first-movers, like RSF Social Finance, on impact investing with DAFs.

Reflecting more recently on this prediction, Bugg-Levine noted that the uptake for impact investing among DAFs has not met his and his co-author's expectations. "It is surprising, given the fact that these are funds that have already been given away for charitable purposes," he said (A. Bugg-Levine, personal communication, June 21, 2022). He noted the emergence of ImpactAssets as a center of gravity for donors interested in impact investing, particularly among the Silicon Valley crowd. By focusing on 100% impact investing as its core identity, ImpactAssets has rapidly grown to over $2 billion in assets.

Bugg-Levine notes that this growth has been fueled in part by initial public offerings of donated stocks in companies like Beyond Meat, whose greater than 20-fold increase in valuation following its initial public offering was captured tax-free by account holders. (Since the securities were held by ImpactAssets for philanthropic purposes, they were exempt from capital gains taxes). In terms of DAFs' adoption of impact investing in the field overall, Bugg-Levine views the rapid growth of ImpactAssets as more the exception than the rule.

In their educational primer, *Mobilizing Donor Advised Funds for Impact Investing,* Katherine Pease and Clara Duffy (2018) provide a dozen case studies across various DAF sponsor types about promising strategies for DAF impact investing, from direct investments in social enterprises to the organization of pooled funds, investments of endowments, loan guarantees, and more. However, they note that "only a minor fraction of donor advised fund assets are invested for positive social and environmental impact"; furthermore, "most donor advised fund providers are only beginning to explore the diverse ways that capital can be used to increase the impact of donor advised funds" (p. 3).

In 2021, the impact finance and advisory nonprofit Social Finance initiated a survey, funded

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by the Rockefeller Foundation, that yielded some promising results about the potential appetite for impact investing among DAFs. It found that 72% of the DAF account holders surveyed indicated interest in making impact-first investments. DAF holders also expressed a willingness to allocate up to 20% of their DAF balance to impact-first investments to augment traditional grantmaking (M. Grossman, personal communication, July 14, 2022). However, it is notable that the survey was far from comprehensive; of the many hundreds of DAF sponsors, only five participated in the survey, and only 269 account holders, of the many hundreds of thousands. Michael Grossman of Social Finance stated that they reached out to 90 DAF sponsors as part of this survey and that many were nonresponsive, citing various reasons: donor survey fatigue, competing organizational priorities, lack of capacity, etc. (M. Grossman, personal communication, July 7, 2022). It is also possible the survey results reflected some selection bias in that there was an inclination toward impact investing among sponsors who volunteered to distribute the survey (including FJC) and the donors who responded. This modest participation may be another indication of the slow uptake of impact investing by the broad DAF industry.

Another indicator of the DAF industry's slow adoption of impact investing: with the exception of several community foundations, the sponsors of DAFs are largely absent from the membership lists of organizations like Global Impact Investing Network or Mission Investors Exchange.[1] These industry affinity groups create spaces where practitioners gather to learn, draw inspiration, and build relationships that result in collaboration or transactions. In general, the sponsors of DAFs have not made a seat for themselves at these tables.

Nonprofit Lending as a First Step

Since its founding FJC has allowed donors to invest some or all of their philanthropic capital in loans to nonprofits, growing donors' philanthropic accounts while putting the funds to work for mission. For sponsors of DAFs eager to offer impact investing opportunities to their account holders, FJC's experience indicates that lending to nonprofits can be an easy point of entry.

FJC was not founded with the specific intent to focus on impact investing. Rather, it was founded in 1995 by donors who were looking in general for more creative philanthropic solutions. At the time, DAFs were invested primarily in low-risk, low-yield financial products like money market funds. FJC's founding donors were business-savvy professionals who wanted their philanthropy to be just as sophisticated as their day jobs in law, business management, and finance. They believed that by more aggressively investing their philanthropic funds, they could grow their accounts and be able to provide even more support to their favorite charities. They also understood that nonprofits were also businesses with unique needs, which

[1] GIIN membership (retrieved April 18, 2023) is available online at https://thegiin.org/current-members/; Mission Investors Exchange membership (retrieved April 18, 2023) is available online at https://drive.google.com/file/d/1XBvysRjZhexzx KzASHA_ujB-IdBOH3-Z/view

could be met with bridge loans, revolving funds, and other vehicles.

From its early days, however, as part of its focus on creative solutions (indeed, long before the term "impact investing" was coined, circa 2007), FJC offered participation in its nonprofit lending program as its own impact investing opportunity. It offered this opportunity to invest in loans made to nonprofits, known as the Agency Loan Fund (ALF), to all donors as part of our core investment menu, alongside a variety of low-cost mutual funds (which offer more traditional stocks, bonds, and money market funds). The ALF typically returns 3% to 4% per annum to donor accounts, depending on the interest rate environment and the fund's utilization. Our donors generally view this return as competitive on a risk-adjusted basis; credit enhancement on the pool provides comfort to donors that risk of principal loss is remote. For our donors, it is just a matter of ticking the box on the FJC investment menu; the staff and board of FJC do the rest: sourcing lending opportunities among nonprofits, underwriting and performing risk analysis, approving, closing, and servicing the loans.

If viewed through a private foundation lens, the ALF would be considered closer to a mission-related investment (investment of a foundation's corpus, seeking market rate returns), rather than a program-related investment; after all, the investment offers a competitive risk-adjusted return with the goal of growing the DAF accounts of participating donors. But there is also a clear mission motivation that delivers blended value. Bridge loans from the ALF help nonprofits achieve their missions in a variety of ways that are similar to community development financial institutions.[2] Loans help nonprofits acquire properties for affordable housing development or community facilities. They bridge public-sector capital commitments or government contracts that are slow to pay. The interest rates are market rate (a floating prime + 3%), which makes the loans' pricing similar to those offered by other nonprofit lenders and CDFIs. Our approach to underwriting is flexible and we can move quickly to make credit decisions and close on loans, in many cases in a matter of weeks from initial inquiry to closing.

To spark the imagination of our donors and stakeholders we disseminate stories and case studies, inspiring them to learn about entrepreneurial nonprofits. These case studies also serve to educate our donors about the particular challenges nonprofits face as businesses.

To spark the imagination of our donors and stakeholders we disseminate stories and case studies, inspiring them to learn about entrepreneurial nonprofits. These case studies also serve to educate our donors about the particular challenges nonprofits face as businesses. Over the last year our most impactful loans have included a $4 million emergency bridge loan to the nonprofit legal services organization The Bronx Defenders, to assist with a timing issue related to public-sector contract receivables. The organization's commercial bank had decided not to renew its line of credit, and The Bronx Defenders needed to buy some time while shopping around for a new banking relationship. According to Executive Director Justine Olderman, "the loan could not have come at a better time. We had run out of options and were facing the possibility of having to close our doors and turn away New Yorkers in dire need of our services" (J. Olderman, personal communication, May 31, 2022).

[2] FJC has not sought certification from the U.S. Treasury as a CDFI, but our lending program has qualities similar to many of these institutions.

Another notable example was a loan to PCI Media, a nonprofit media company that partners with local organizations across the world to shift social norms and mobilize communities through culturally resonant radio programs, social media, and interactive communication campaigns. In 2021, the organization has drawn up an ambitious strategic plan, with the goals of increasing impact, developing new partnerships, and achieving economies of scale. What's more, the startup capital to achieve this vision came from out of the blue, in the form of a bequest. A donor who had made occasional grants over the years had passed away and selected PCI Media for a major gift. A $550,000 loan from FJC (and co-lender SeaChange Capital Partners) will bridge a $4 million to $8 million bequest while PCI Media waits for the estate to wind its way through probate. This loan required a specialized nonprofit lender; as PCI Media Executive Director Meesha Brown noted, "bridge lending against donor bequests is not a typical product in the banking sector" (M. Brown, personal communication, September 26, 2021).

These case studies, and many others, underscore the particular business challenges nonprofits face when managing cash flow and strategic growth and acting entrepreneurially in a constrained resource environment. The examples suggest an important role that DAF sponsors can play, not just in bridge lending, but in creating a conceptual bridge between well-resourced account holders (who often have run businesses in their professional lives) and the nonprofit sector. Sponsors of DAFs are well positioned to act as that trusted intermediary, matching targeted resources to the nonprofits that need them. This approach has the added benefit of encouraging donors to consider the impact of their philanthropic resources, not just as grants but as investments.

For Donors, PRI Technical Assistance

Our Agency Loan Fund program socializes our donors to the idea of nonprofit lending and, as a result, from time to time we receive inquiries from donors about nonprofits that need financing. Often, they get to know an organization intimately as a longtime donor or board member and, through their conversations with leadership, may hear about particular challenges the organization is facing. Sometimes these inbound inquiries from donors take the form of referrals to our ALF program. In other cases, the donors may want to take on more risk than our program or they may be willing to provide a loan at a below-market rate of interest (relative to the risk), in essence deploying their DAF funds as program-related investments. In those cases, we provide donors the expertise to collaborate with them from concept to closing, with the goal of deploying funds in the donor's DAF account.

For example, FJC's recent loan to Brighter Tomorrows, a domestic violence organization based on Long Island, N.Y., began with Sandy Wheeler, a longtime donor to the organization. Over time, Wheeler developed a trusted relationship with Dolores Kordon, the executive director, who often lamented the difficulties she faced running an organization that relied heavily on state contracts that were typically slow to pay. "It seemed like the chronic cash flow challenges of Brighter Tomorrow could be creatively addressed with philanthropy," Wheeler said (S. Wheeler, personal communication, July 21, 2020). Within a few weeks, staff at FJC worked with Wheeler to open and fund a new DAF account, review Brighter Tomorrow's financials, and prepare the legal documents with terms customized according to Wheeler's wishes. This DAF account now functions like a zero-interest revolving line of credit, to help Brighter Tomorrows manage its cash flow. (If any portion of the loan was uncollectable for some reason, that portion would be converted to a grant and deducted from Wheeler's DAF account.)

This credit resource allowed Brighter Tomorrows to continue meeting the urgent needs of clients, even in the face of slower contract payments. In the first year since the loan was closed, the funds have been fully drawn, repaid, and drawn again. "I can't say enough about the importance of having a donor provide this resource," Kordon said. "It was a godsend for us" (D. Kordon, personal communication, June 16, 2021).

FJC facilitated a more complex transaction with the Tenement Museum, a vital organization that has been researching and telling the stories of immigrant New Yorkers for 25 years. In the early days of the COVID-19 pandemic the organization faced significant financial distress. A New York Times article noted that 75% of the museum's revenue came from earned income, reflecting admissions and gift shop revenue of its 285,000 annual visitors. As a result of the pandemic revenue had dried up, but the museum carried significant fixed costs due to its mortgage, which cost the museum $585,000 per year (Pogrebin, 2020).

One of FJC's donors read the article and reached out to inquire whether he could refinance the museum's mortgage with funds in his DAF account. Upon further conversation with the museum's leadership, it was revealed that the mortgage was in the form of a tax-exempt bond issued by the City of New York. In coordination with the donor, FJC purchased the bond from the bondholder and amended the terms to interest-only at 1% per year, reducing the museum's annual debt service payment from $585,000 per year to $80,000. "We are paying $2.5 million less out of pocket for debt service over these five years," said museum Executive Director Annie Polland. "This has bought us time to figure out how we manage through this pandemic year, but it also freed us up to think of creative ways to operate" (A. Polland, personal communication, June 16, 2021).

In short, this was a donor who had a passion for the work of the Tenement Museum, significant resources in his account, and a creative idea, and who was willing to trade off some investment return for mission. What he needed to execute the transaction, however, was the legal and technical capacity, which FJC could offer through its staff and board.

Just as DAF sponsors provide a scaled approach to managing multiple (sometimes small) philanthropic accounts, they can also provide technical expertise to execute transactions that the donors may not have the capacity to do on their own. After all, lending requires a mindset (and skill

Certainly, providing technical expertise to execute complex transactions is a significant opportunity for DAF sponsors to accelerate impact investing, but we have only just begun to imagine the possible use cases for DAF sponsors.

set) different from that of a grantmaker. The prospective lender needs to be able to review financial statements and cash flow projections, perform due diligence and assess the risk of repayment, negotiate terms with the prospective borrower, and then move to a legal agreement. Working through a DAF sponsor can reduce transaction costs as well, particularly if the legal work can be done in-house, using standardized loan documents that have a tried-and-true history. In the case of the Tenement Museum bond purchase, the legal expertise required being able to amend the bond documents to allow for a lower interest rate and a forbearance of principal, as well as work with city officials at the agency that issued the bonds to obtain their consent. In both cases, the donors benefited from the financial, technical, and relationship capacities of the sponsor.

Applying Operational Efficiencies to New Cases

Certainly, providing technical expertise to execute complex transactions is a significant opportunity for DAF sponsors to accelerate impact investing, but we have only just begun to imagine the possible use cases for DAF sponsors. They can also bring significant operational efficiencies to more institutional philanthropy, acting as a financial intermediary. This notion is nothing new; DAFs have long been considered efficient vehicles to donors' philanthropic goals, and it's notable that many DAF sponsors (particularly community foundations) also

Apart from the efforts of DAF sponsors, the entities that structure impact investing opportunities can also make efforts to accelerate adoption by DAFs.

provide fiscal sponsorship services to nonprofit organizations, which entails acting in a financial back-office capacity. In other words, DAF sponsors are routinely executing many hundreds of transactions per week, receiving tax-deductible contributions, receipting donors, disbursing grants and vendor payments, and managing all the related complex accounting, compliance, and reporting functions.

FJC recently initiated a new application of these operational capabilities: facilitating foundation microloans to underserved small businesses that are taking advantage of a crowdsourced lending program. This loan participation fund vehicle was designed by FJC in partnership with Honeycomb Credit, a loan crowdfunding platform, with input from Upstart Co-Lab, a nonprofit focused on increasing impact investment for arts and creativity. Honeycomb Credit essentially allows small business owners to raise debt capital in small increments from "the crowd" — small, local investors including family, friends, customers, and other stakeholders.

Through the loan participation fund, three foundations — the Builders Initiative, the A.L. Mailman Foundation, and the Souls Grown Deep Foundation — will invest $600,000 with Honeycomb Credit. The capital will be used to provide loans to small businesses across the United States that have been underserved by traditional financial institutions. The foundations will participate alongside "the crowd."

The foundations agreed that providing loan capital to underserved small businesses fit their missions, but none of the foundations was set up to efficiently disburse loan capital in small, $5,000 to $10,000 increments (as well as receive loan repayments). Upstart Co-Lab and Honeycomb Credit invited FJC to arrange loan participation funds, a customized solution that provides efficient financial intermediation for any foundations participating in the initiative.

The three investments have specific areas of focus. The capital from Souls Grown Deep and the A.L. Mailman Family Foundation, for example, will be invested in Black-owned businesses in nine southern states. Loans from these foundations have supported the campaigns of Black-owned bakeries, breweries, and other creative endeavors, like Dope Pieces Puzzles, an artistic puzzle business in Atlanta, Georgia.

Each of the foundation participants considers the transactions as MRIs, although at least one additional foundation is considering participating as a PRI. The loan participation fund accounts are not technically DAF accounts; they are structured as fiduciary accounts where the participating foundations maintain ownership of the funds they place there. FJC simply acts as the financial intermediary, efficiently moving funds to the small businesses for their crowdfunding campaigns and upstreaming regular interest and principal payments back to the foundations as needed.

Impact Investing Opportunities That Open a 'DAF Lane'

Apart from the efforts of DAF sponsors, the entities that structure impact investing opportunities can also make efforts to accelerate adoption by DAFs. The national impact investing nonprofit Social Finance, for example, has taken this on as a strategic priority. As Social Finance co-founder and CEO Tracy Palandjian put it, "the DAF market represents a significant pool of assets already earmarked for charitable purposes that largely remain in traditional market-rate investments without a mandate to generate social and/or environmental outcomes" (T. Palandjian, personal communication, January 20, 2022). Social Finance has taken proactive steps to focus on this potential market for impact capital, and has intentionally engaged DAF sponsors and account holders.

For example, it intentionally created a mechanism for DAF participation in its UP Fund, a $50 million pool of catalytic capital raised by Social Finance. The goal of the UP Fund is to help low-wage earners secure good jobs in a changing economy, using a model called the career impact bond (CIB). Through the CIB, impact investors fund training programs that enable students to enroll free of charge. Students complete their training with the aid of wraparound supports, like an option to finance living expenses. If their salary after the program exceeds a certain threshold, they repay program costs as a fixed percentage of their income, capped at a set dollar amount and fixed number of months. Those who do not obtain meaningful employment following graduation pay nothing.

Social Finance partners with high-quality training programs that upskill workers and help place them in good-paying jobs. Programs include training for entry-level diesel technicians, mostly for trucking companies and dealerships, increasing access to software development careers for those who have traditionally been locked out. The program also aims to increase diversity in the technology sector, particularly for people of color, women, and LGBTQIA+ individuals.

The majority of capital raised for the UP Fund comes from institutional impact investing foundations: Blue Meridian Partners, the John D. and Catherine T. MacArthur Foundation, the W.K. Kellogg Foundation, and many others. However, Social Finance created a special "lane" for investors whose funds are in DAF accounts. The goal was to allow DAF account holders to participate in the UP Fund with terms similar to those for limited partners, but at smaller dollar increments, and through a recoverable grant agreement that structured the investment as more grant-like than investment-like. This structure facilitated an easier approval process for DAF sponsors, because they could be considered disbursements similar to a typical grant.

The initiative caught the attention of FJC donor Ted Huber, a longtime investment professional who has been interested in supporting initiatives that anticipate recycling philanthropic dollars, providing both social and financial returns. Huber recommended an investment in the fund via his DAF account and, following approval by FJC's board committee, the staff at FJC worked with him to execute the investment through Social Finance. "I like how the UP Fund aligns incentives to give people a leg up," Huber said:

> Workers looking for better skills and higher-paying work, the schools that can train them, and us funding the education are all pulling in the same direction. The UP Fund is helping people who otherwise couldn't afford these training programs. (T. Huber, personal communication, January 20, 2022)

Huber participated alongside 23 other DAF account holders in the UP Fund, eventually comprising 17% of the $50 million in total committed capital. The successful uptake of the UP Fund by DAF account holders suggests that arrangers of funds and impact investment opportunities also have a role to play, marketing directly to DAF sponsors and their account holders, and created mechanisms and specialized documents that making it easy for DAFs to participate.

Advancing DAF Impacting Investing: The Work To Come

Despite the case studies outlined in this article, FJC's donor base reflects the DAF industry as a whole: we have a small number of committed philanthropists who are excited about investing for impact, seek out opportunities to do so, and engage us for the expertise and technical capacity to help them execute. The vast majority, however, view themselves as grantmakers first, and recommend investments for their account that they believe will increase their giving capacity. In other words, like many foundation boards and members of endowment investment committees, our donors continue to think about maximizing profit first and grantmaking after the fact.

In the end, the potential for DAF sponsors to accelerate impact investments may also come from their ability to aggregate not just dollars but inspiration.

For example, at FJC we aim to be maximally responsive to donors who have customized approaches to their philanthropy, whether it's the type of assets they want to donate, or the investment approaches. These requests tend to come from our larger and more sophisticated donors, and they typically involve bringing on their preferred wealth advisor to manage the funds in their accounts, or investing in alternative investments, hedge funds, or other esoteric vehicles. As the end of our fiscal year 2022 (March 31), approximately 40% of FJC's assets by dollar volume were invested in these types of customized investments. The donors who take advantage of our ability to customize, however, are doing so because they expect to increase their returns and grow their accounts more aggressively than our core investment menu, which is largely comprised of low-cost mutual funds. By contrast, only approximately 2.5% of our assets are invested in customized loans to nonprofits. As another data-point comparison, DAF account holders at FJC recommended 6,343 grants in fiscal year 2022 (ending March 31), but we had only five customized impact investments on our books at fiscal year-end that same period.

So, like the field at large, the demand is quite modest from our donors to customize investments for the purposes of driving social impact. However, where we can make impact investing easy (and provide a decent risk-adjusted return) a large portion of them participate, as our Agency Loan Fund demonstrates. Over half of our DAF accounts have chosen to invest some of their account in our ALF (comprising about 12% of our DAF assets).

In the end, the potential for DAF sponsors to accelerate impact investments may also come from their ability to aggregate not just dollars but inspiration. In reflecting on the adoption of impact investing by foundations, Matt Onek, the chief executive officer of Mission Investors Exchange, has found that the social and educational aspects of his organization have been major drivers of moving the field of philanthropy at large:

> This is purely anecdotal, but we hear time and time again from our members that the most effective aspect of what we offer to accelerate adoption of impact investing is a peer-to-peer network. People want to hear from their peers, hear what they have overcome. What helps is hearing what's worked, what hasn't, and having a safe space to really share what's working. (M. Onek, personal communication, June 1, 2022)

In fact, developing peer networks and communities of practice around impact investing is a major priority for FJC in the coming years. A new initiative we launched this fall involving a handful of our more imaginative donors is a test case for this approach. A number of our donors have joined forces to create a revolving fund to be used by Fortune Society, a New York City nonprofit developer of affordable and supportive housing.

The Fortune Society offers a comprehensive array of in-house social services to over 7,000 people each year to support their successful reentry from incarceration. The organization has a regular presence in four borough courthouses, on Rikers Island, and in numerous New York State prisons, but they also own and operate housing. Finding housing is, unfortunately, a significant challenge for people coming out of prison, with homelessness being much more prevalent for formerly incarcerated people than it is for the general public — estimates range from 7.5 times to 11.3 times more prevalent (Greenberg & Rosenheck, 2008). As a result, the Fortune Society has made the development of temporary and permanent supportive housing core to its mission.

The Fortune Society will use the revolving fund at FJC for early-stage, predevelopment expenses related to affordable and supportive housing development that have a high likelihood of recovery. The intent is to make the fund a resource that can be deployed quickly, at below-market pricing (1% interest), to be used for the Fortune Society to pay for zoning analyses, architectural fees, deposits, environmental reviews, and other eligible project costs. The revolving fund, which will operate for five years, comprises funds from DAF accounts of four FJC donors, which will be matched dollar for dollar by the Fortune Society and its major donors for a total of $600,000 at launch.

In addition to facilitating the development of housing with services for people coming out of incarceration, the initiative is also creating shared conception of blended value among a cohort of our donors. Shortly after Fortune Society CEO JoAnne Page and I conceived of this fund, I began shopping it around to a handful of FJC donors. I began with Ted Huber, who had demonstrated an interest in impact investing with Social Finance's UP Fund. He was interested, and brought the fund to the attention of his friend and former business colleague Jeff Kaplan, also an FJC donor, who is a principal and co-founder of A to Z Impact. The initiative also sparked the interest of Gary Hattem, who began his career in affordable housing nonprofits before spending decades at Deutsche Bank (and its U.S. predecessor, Bankers Trust), building its global impact investing and community development practice. The involvement of these finance and impact investing professionals made the initiative appealing to a fourth donor, a next-generation accountholder at FJC whose family has initiated some of our most imaginative uses of philanthropic funds as impact investments over the years.

As part of the process of due diligence, a number of these donors visited the Fortune Society's existing housing developments in Harlem. We spent the morning with Deputy CEO Stanley Richards, an expert in reentry with decades of criminal justice experience. (Richards was incarcerated on Rikers Island in the 1980s for two and a half years, and his professional perspective is informed by that formative experience.) We toured Fortune Society's emergency shelter building and met a resident who had just arrived at the residence and shared his positive first impressions. We visited its adjoining Castle Gardens housing development and met a tenant in one of the permanent supportive housing units, who spoke about the life-changing impact of the Fortune Society's job training and placement services. The donors were already inclined to participate in the revolving fund, but hearing the personal experiences of the individuals being affected by the Fortune Society's housing provided them with a renewed sense of commitment and inspiration. In this way, FJC has been able to provide not just blended value in terms of economic and social impacts of the transaction itself, but a social experience for its donors that made the work personally meaningful.

[D]eveloping peer networks and communities of practice around impact investing is a major priority for FJC in the coming years.

The Fortune Society initiative has brought together a small number of our donors that are early adopters of impact investing, but who may not have yet collaborated or joined together yet in collective action. Our hope is to use these donors as evangelists to expand the notion to the "impact curious," starting with the hundreds of donors who already invest in our Agency Loan Fund pool.

For academics and researchers, there are a number of empirical questions the answers to which may influence the velocity of impact investing's adoption by philanthropic actors, including DAF accountholders. For example, in a resource-constrained nonprofit environment, when does an impact investment make more sense than a general operating support grant? How does one measure the impact of a dollar granted to serve immediate needs against a dollar invested (and leveraged) to create a long-term asset that serves mission (like a unit of supportive housing)?

Practitioners, however, need not wait for clear answers to these questions. To spark the imagination of donors, practitioners can design opportunities for the "impact curious" to easily collaborate with entrepreneurial nonprofits that can put capital to work in compelling projects and initiatives. For DAF sponsors to play that role, the technical and financial acumen is a necessary first step. But changing hearts and minds, moving donors to learn and work together in collective action — that's a longer game.

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Executive Summaries

7 Using Foundations' Capital for Good: Opportunities in the Balance Sheet

John E. Sherman, M.P.H., Sherman Impact Consulting; and Veronica Olazabal, M.A., BHP Foundation

Foundations increasingly use their full balance sheets to unlock more of their capital for good. They look beyond conventional grantmaking to pursue their charitable purposes in many ways that exemplify innovative, full-balance sheet approaches: investing in nonprofit and for-profit companies that offer clear social and financial returns; investing their corpus in companies whose products and services align with their missions; using social bonds to inject new resources into their programs; offering guarantees to help grantees manage risk; and avoiding companies whose practices run counter to their grantees' efforts. This article looks at the structures, pathways, and tools for foundations wanting to use all their assets and strategies to enhance their positive impact. The article provides an overview of key actors and concludes with a discussion of key opportunities and challenges.

DOI: 10.9707/1944-5660.1630

13 A Promising Place-Based Collaborative Impact Investing Fund Strengthens Community and Informs Philanthropic Practice

Benjamin Kerman, Ph.D., BenKermanConsulting, LLC; and Clara Miller, M.R.P.

A recent evaluation of the Western New York Impact Investment Fund adds to the proof-of-concept literature regarding "doing good and doing well." The fund brings together corporate, individual, and philanthropic investors to deliver an inclusive impact investment mechanism. Evaluation at Year 5 describes how the professionally managed, collaboratively governed fund has attracted and deployed capital, contributing to ecosystem improvements and concrete results. Portfolio companies have created jobs with livable wages, reduced carbon footprints, reclaimed abandoned space, and committed to maintain operations in the region long term.

DOI: 10.9707/1944-5660.1631

27 The Field-Building and Grantee Experimentation Role of Foundations in Impact Investing as Illustrated by a Gender-Lens Investing Case Example

Courtney Bolinson, M.S., Head and Heart Evaluation, and Laura Allan, B.A., Independent Consultant

This article argues for foundations to play two critical roles in the impact investing ecosystem: to commission and/or support research that helps build more equitable and socially just impact investng and to fund grantee-specific experimentation. The article presents action research conducted on gender-lens investing, describing a 2019 Mastercard Foundation grant to Engineers Without Borders Canada. The authors detail the purpose, approach, results, and immediate impact of the action research and evaluation; highlight how the grant continues to impact Engineers Without Borders and the participating ventures today; and why it is important for foundations to play both roles.

DOI: 10.9707/1944-5660.1632

45 Leveraging Foundation Balance Sheets for Greater Impact: Piloting a Pooled Guarantee Program

Jane Reisman, Ph.D., independent social impact advisor; Jim Baek, M.B.A., and David Newsome, M.B.A., M.S., LOCUS Impact Investing; and Christine Ryan, M.S., The California Endowment

A guarantee instrument is a credit enhancement tool that can enable philanthropies to unlock millions or billions of dollars for societal impact. The Community Investment Guarantee Pool, created in 2019 by a collaboration of philanthropies and allied impact investors, or guarantors, is a novel initiative that uses guarantees to leverage the balance sheets of foundations and other institutional investors for enhancing the credit of intermediaries in the affordable housing, small-business, and climate markets. This article describes the pool and shares early challenges and insights related to the underlying theory of change. The pool is using developmental evaluation and emergent learning to surface insights for philanthropic and other impact investors.

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57 The Ford Foundation's Work to Build the Field of Impact Investing

Margot Brandenburg, M.P.A., and Abeda Iqbal, M.P.A., Ford Foundation

Impact investing has grown dramatically over the past 15 years, with foundations playing a critical role through their program-related and, increasingly, mission-related investments. A smaller number, including the Ford Foundation, have dedicated grant and other programmatic resources toward growing the field by supporting the development of the metrics, engagement, policies, and norms needed. This article looks back at the long history of aligning financial investments with social values, from the emergence of PRIs to the Ford Foundation's 2017 decision to commit $1 billion to MRIs, and highlights several reasons for foundations to strengthen the infrastructure of impact investing.

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Submit abstracts to submissions@foundationreview.org by **June 16, 2023**. If a full paper is invited, it will be due September 29, 2023, for consideration for publication in March 2024.

Abstracts are solicited in four categories:

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- **Tools.** Papers in this category should describe tools useful for foundation staff or boards. By "tool" we mean a systematic, replicable method intended for a specific purpose. For example, a protocol to assess community readiness and standardized facilitation methods would be considered tools. The actual tool should be included in the article where practical. The paper should describe the rationale for the tool, how it was developed, and available evidence of its usefulness.
- **Sector.** Papers in this category address issues that confront the philanthropic sector as whole, such as diversity, accountability, etc. These are typically empirically based; literature reviews are also considered.
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