

Impact Investing:

Harnessing Capital Markets to Solve Problems at Scale

*Antony Bugg-Levine*¹

Rockefeller Foundation

John Goldstein

Imprint Capital Advisors

There is not enough charitable and government capital to meet the social and environmental challenges we face. Where, then, will we find the money to complement charity and government to bring solutions to scale? The Rockefeller Foundation launched its Harnessing the Power of Impact Investing initiative in November 2008 because it believes that impact investing can be part of the answer. Imprint Capital was similarly founded in 2007 to help the growing ranks of institutions and high-net-worth individuals create and execute strategies to drive impact with their investments.²

However, as the report *Investing for Social and Environmental Impact* by the Monitor Institute highlights, the ability of this new industry to deliver on its potential is not inevitable. Industry leaders must work together to measure and articulate the industry's successes, build infrastructure to increase its efficiency, and create products that respond to investors' demand for transparency and liquidity.

Impact investing helps solve social or environmental problems while generating financial returns. The pioneering investors are diverse, with a variety of motivations. Despite the current market turmoil, by recognizing they are part of a broader industry, participants can learn from recent innovation and work strategically to improve the efficiency and broaden the capacity of impact investing. These developments present new opportunities for banks in new investments, co-investors, and collaborators. Consider the following examples:

A family in New Jersey is moving into a newly renovated, previously foreclosed home. The home is affordable because the nonprofit organization Housing and Neighborhood Development Services Inc., received timely access to a low-cost loan. That loan enabled it to buy 47 distressed mortgages from JP Morgan Chase from the Washington Mutual portfolio, renovate and sell them for a profit. The capital for the purchase of the loans came from Prudential's Social Investment Fund.

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- 1 An earlier version of this article appeared in the May/June, 2009 edition of *Beyond Profit* magazine (www.beyondprofitmag.com).
 - 2 Disclosure: The Rockefeller Foundation currently has investments with Root Capital. As of the writing of this article, Imprint Capital Advisors has client investments in Southern Bancorp, Community Capital Management, Acelero, Habitat for Humanity, and OneCalifornia Bank; is reviewing Root Capital, Revolution Foods, and E & Co on behalf of clients; and has client relationships with the Kellogg Foundation, the Hull Family Foundation, the Annie E. Casey Foundation, the MacArthur Foundation, and RSF Social Finance.

A four-year-old child in Clark County, Nevada, will be ready for kindergarten thanks to Acelero, a for-profit company that takes over failing Head Start programs. Acelero's growth has been fueled by equity investments from Boston Community Ventures (a Community Development Finance Institution), New Schools Venture Fund (a philanthropic investor in high-impact educational enterprises), Ironwood Ventures (a double bottom line private equity firm), and the Kellogg Foundation.

The National Community Stabilization Trust (NCST) is partnering with cities around the United States to augment state and federal funds allocated to combat the foreclosure crisis. With seed funding from the MacArthur Foundation and a \$50 million program-related investment from the Ford Foundation, NCST bids on properties on an exclusive basis as they are prepared for auction, stretching scarce grant dollars farther to buy and rehabilitate properties and preserve communities.

Around Virunga National Park in the Eastern Congo, farmers are receiving premium prices for vanilla and coffee sold to Gourmet Gardens, a Ugandan exporter. Despite the political instability that keeps mainstream lenders away, Gourmet Gardens secured a working capital loan for these purchases from Root Capital, a U.S.-based nonprofit organization that lends to farmers' cooperatives and agriculture aggregators around the world. Its balance sheet is capitalized by corporate investors such as Starbucks, social investors such as Prudential, and various private foundations and investments from high net worth individuals.

In Los Angeles, a six-year old girl gets a healthy lunch and snack every school day made with fresh ingredients thanks to Revolution Foods. Since launching in 2006, Revolution Foods has served more than 2 million healthy school lunches to nearly 25,000 kids, 80 percent of whom qualify for free or reduced lunch. Revolution Foods has been financed by a combination of high net worth individuals, conventional venture capitalists and a double bottom line venture fund backed by banks and foundations.

In Toledo, Ohio, an unemployed factory worker who previously worked for an auto supplier is interviewing for a job with Xunlight at a reopened factory. This former glass factory is located in a neighborhood that is 79 percent minority, with income at 73 percent of the area's median income. It is now manufacturing thin-film solar panels and is generating green jobs with financing provided by a bond issued by the Ohio Enterprise Bond Fund and purchased by Community Capital Management.

In Oakland, California, a family receives financial literacy training and a bank account that offers a savings match via their local Head Start chapter. In Berkeley, an innovative program for financing residential solar power receives bridge financing. In San Francisco, a group of previously unbanked Hispanics build credit histories by having a bank administer and document their previously informal lending circle. OneCalifornia Bank supports all these efforts. OneCalifornia Bank is a financial institution capitalized initially with

\$22.5 million from Tom Steyer and Kat Taylor, owned by the OneCalifornia Foundation, and supported by mission deposits from organizations like the Annie E. Casey Foundation and the Hull Family Foundation.

Although they may not know it, these people—from the family moving into a new home in New Jersey, the factory workers in Ohio, and residents of Berkeley installing solar panels—are all participating in the rapidly emerging industry of impact investing. Like the individuals and institutions who invested in the New Jersey housing group, impact investors seek for-profit investments that can also provide solutions to social and environmental challenges. In the United States, this field brings together an assortment of players with a range of motivations, from banks investing for Community Reinvestment Act (CRA) purposes, to financial institutions fulfilling their corporate responsibilities and responding to client interest, to foundations engaged in mission-investing, to individuals and family offices expressing their values through their investments.

These impact investors offer a bridge between traditional philanthropy, which incubates innovation and mobilizes attention to exciting solutions, and the private-sector capital markets that ultimately hold the wealth required to advance these solutions to a level proportionate to need.

Why Impact Investing Now?

The seeds for impact investing were sown in the last quarter of the twentieth century with the socially responsible investment and corporate responsibility movements. In the United States specifically, these included the CRA and the rise of the Community Development Finance sector. These efforts challenged the prevailing attitude that companies' and investors' only responsibility is to maximize financial returns. At the same time, as the community-finance movement and microfinance gained international renown and as advocates of a commercial approach to achieving social objectives gained visibility, the idea spread that investment, rather than pure philanthropy, could generate development outcomes. Innovators from a range of quarters have also led the way, including:

- Faith-based investors (e.g., the United Methodist's General Board of Pensions, which has invested across approaches ranging from shareholder engagement to affordable housing);
- Pension funds (e.g., CALPERS with its California initiative; work supporting emerging minority and women-led managers; and Greenwave initiative);
- Private foundations (e.g., The F.B. Heron Foundation's pioneering work in developing investment tool kits for foundations to make impact investments across asset classes and return profiles);
- Insurance companies (e.g., Prudential, whose social investing unit has invested more than \$1 billion across the United States);

- Banks (e.g., Citibank’s work in developing the EQ2 structure to capitalize community-based financial institutions more effectively);
- High net worth individuals (e.g., Investor’s Circle, an angel network that has since 1992 facilitated the flow of more than \$130 million into more than 200 companies and small funds addressing social and environmental issues);
- Hybrid organizations (e.g., Omidyar Network, a distinctive philanthropic investment firm that has committed more than \$270 million to for-profit companies and nonprofit organizations in sectors including microfinance, property rights, government transparency, and social media).

The efforts and examples of these and other organizations have, in turn, encouraged other investors to follow their lead and inspired entrepreneurs and fund managers to develop innovative new impact investing offerings and opportunities. These developments have brought us to the point where these different threads, born from different contexts and driven by various factors, are beginning to form the tapestry that is increasingly recognized as the impact-investing industry.

It would be naïve to believe that the wealth destruction and credit market contractions of the past 18 months have not shaken this new industry. Structural changes that spurred its emergence, however, remain in place to drive its growth when the credit markets revive. These include:

- Wealth concentration among the “investment-oriented”: Many individuals and families acquired significant discretionary capital in the past decade. This capital has been concentrated among precisely those people—entrepreneurs and financiers—whose personal life experiences primed them to see investment as a potent tool for pursuing social impact. They reject the canard that presence of profit is evidence of exploitation.
- Impatience with traditional approaches: After half a century of both remarkable success and failure, traditional philanthropic options are uninspiring to some. This frustration can be counterproductive when it dismisses the experience and insights of those who have been on the frontlines of addressing key challenges, both in the United States and globally. It can also be counterproductive when the frustration ignores the complexity of the challenges at hand. Such frustration, however, creates an opening for social entrepreneurs who offer a compelling alternative to philanthropy.
- Growing societal interest in addressing social and environmental challenges: An interest in using enterprise, investment, and human capital to address core social and environmental challenges has gone from a niche concern among idealists to a mainstream focus. Business schools report oversubscribed classes on social enterprise; mid-career professionals see attractive employment opportunities in roles that enable them to address key social challenges.

- Perception of social and environmental issues as material to business performance and sources of opportunity: Businesses and financial institutions are increasingly viewing their ability to manage social and environmental issues as material to their financial performance. Financial analysts are regularly publishing reports on the impact of climate change on corporate profits and emerging investment opportunities driven by a green stimulus package. Mainstream hedge funds such as GLG have prominently included impact-oriented issues in their fund management approach for purely commercial reasons. Cleantech investments have become commonplace with some leading venture capital firms (e.g., Kleiner Perkins) setting up dedicated funds in the sector.
- Increased interest in public-private partnerships: With both private and public capital constrained in the wake of the financial crisis, interest from both business and government in creating mutually attractive public-private partnerships is moving from a rhetorical assertion to an imperative. Many pressing social challenges—from stabilizing the housing market to addressing climate change—cannot be addressed by governments or private markets alone. The impact-investing industry offers exciting examples of specific deal structures that can enable public and private capital to work together.

What Will It Take to Harvest the Fruits of Impact Investing?

Despite, and sometimes because of, this proliferation of activity, the impact-investing industry is poised at a delicate moment. Impact investors have already made their mark in a few subsectors, most notably low-income housing in the United States and, more recently, micro-finance and green energy. Yet, impact-investing capital has not yet reached the requisite scale of hundreds of billions of dollars.

The industry remains beset by inefficiencies and distortions that currently limit its impact, even in areas where impact investing should be viable (such as health care delivery, agriculture development, and education). The field's language, analytical tools, capital markets, and legal system do not fully support impact investing, mainly because they are still structured to support the binary poles of either philanthropy or profit maximization. The diverse players who have helped build the field include groups that do not generally collaborate, adding to the complexity and fragmentation of the space.

In this context, impact investing can be frustrating. But these frustrations are not unique. They are the archetypal challenges that confront pioneers in new industries. Fortunately, investors' frustrations are also entrepreneurs' opportunities. Global innovations and collaborations are now pointing to potential solutions to these barriers, including:

Building platforms for industry development: Although various efforts, outlined below, address specific barriers to efficient investing, impact investors need a broader understanding of the contours and structures of this new industry to enable them to work together. Investors need to know how big this industry is, who its participants are, who has capital, who

has deals, and how to connect them more efficiently. In response to this need, the concept for a Global Impact Investing Network is gaining momentum, with hubs of activity coming together across the United States and globally. The network is designed to help build the public goods infrastructure that can lead to a more efficient and effective impact-investing industry. Part of its role is to support, connect, and complement existing organizations focused on specific sectors or markets. These include groups in the United States, such as the Opportunity Finance Network, PRI Makers Network, Social Investment Forum, Investor’s Circle, Social Venture Network, and More for Mission. They also include more internationally focused groups, such as the Aspen Network of Development Entrepreneurs, the International Association of Microfinance Investors, and the Emerging Markets Private Equity Association.

Creating credible standards for measuring social impact: Commonly understood terms reduce transaction costs for mainstream investors. The profusion of approaches to assessing impact adds complexity and cost for entrepreneurs and investors seeking or deploying capital in this developing marketplace. Research supported by the Rockefeller Foundation and corroborated by Imprint Capital and others indicates that, among wealth advisors and private bankers, developing a credible, independent rating agency to serve as a “Good House-keeping seal of approval” for impact investments can help unlock capital from this channel. A crucial element of creating these standards is convening leaders within the prominent subsectors of impact investment (e.g., community development, international development, environmental investing, etc.). These leaders can build from existing practice to develop consensus for standards tailored to the specific investing issues in each area. In light of this need, the recent efforts to develop an Impact Ratings and Investment Standards and Global Impact Investing Ratings System is particularly exciting. By mobilizing investors, activists, academics, and entrepreneurs, these initiatives can break through the historic logjam that kept similar efforts fragmented.

Developing capital markets: Intermediation within impact investing is generally subscale and inefficient. Impact investors face high transaction costs in sourcing deals, conducting due diligence, and closing and syndicating investments. Investment funds, investment bankers, and market platforms have not yet achieved the scale and visibility to provide viable conduits for billions of dollars of latent impact investment capital. The intermediation challenge is, however, being addressed by innovators working across a spectrum of segments and business models, including:

- *Impact investment banking:* An increasing number of organizations and firms are working, in different ways, to provide investors with more efficient deal-sharing capability, more attractive investment structures, and the liquidity that many require. In the United States, organizations such as Wall Street Without Walls, Calvert Investment Partners, GPS Capital Partners, Godeke & Associates, Brody Weiser Burns, Urban Advisors, Aquillian, NextStreet, and others can serve an array of would-be impact investors.

As investors look abroad, intermediaries with local market knowledge and relationships are proliferating. In London, Social Finance was launched in 2007 as an integrated investment bank serving social-sector clients in structuring and placing impact investment capital. Intelicap in India is expanding its advisory services bouquet to include a range of impact investment services. Yes Bank and Unitus Capital in India are both building up impact investing franchises primarily around sell-side banking services for Indian firms. Similarly, ShoreCap International (an affiliate of Chicago-based ShoreBank) helps connect investors in the United States and Europe with opportunities in Asia and Africa.

- *Wealth advising:* Money managers are tapping client interest in impact investment to expand their customer base and deepen client loyalties. San Francisco-based RSF Social Finance offers their donor-advised fund clients multimanager diversified portfolios of impact investments across asset classes. Building on its work with the KL Felicitas Foundation, Guggenheim Partners has begun to develop a suite of impact investment products, including internally developed and third-party managed options. Wealth advisors based in the United States, ranging from the large private banks to independent firms such as Veris, Baydush Simon Weaver, and Baldwin Brothers offer clients impact investments and screened fund options. ResponsAbility, a Zurich-based money manager launched in 2003, manages more than US\$650 million in impact investments (with net assets growing at approximately \$20 million per month) on behalf of clients of European Union-based private banks. Developed with the support of Credit Suisse, Vontobel, Swiss Re, and other financial players, ResponsAbility demonstrates the potential for specialized managers to partner with mainstream financial players to leverage existing distribution channels and raise assets for impact investing products.
- *Fund management:* A number of impact-oriented fund managers have achieved reasonable scale. Impact Community Capital manages more than \$750 million on behalf of eight large insurers. Bank of America's Capital Access Funds manages or advises on more than \$800 million focused on underserved markets in the United States. Community Capital Management and Access Capital Strategies (recently purchased by Voyageur Fixed Income) manage more than \$900 million and \$600 million, respectively, in community development fixed income on behalf of pension funds, banks, and foundations. Innovators in established fund management companies, such as the managers of impact investing units in TIAA-CREF and Prudential, are building portfolios that total hundreds of millions of dollars across asset classes. Internationally, both Root Capital and E+Co. –US-based non-profits investing in rural businesses and energy services respectively in developing countries—recently launched ambitious scale-up plans. Bridges Ventures in London, the Acumen Fund (an investor in social enterprise in India, Kenya, and Pakistan), GroFin in Africa, and Alsis Funds in Latin America have all increased their balance sheets substantially in recent years.

- *Retail client mobilization:* Innovators have developed mechanisms to make impact investing accessible to retail investors. The Calvert Community Investment Note can be bought in the United States for \$1,000 minimum from brokers (\$20 minimum when purchased online via Microplace). It offers up to a 3 percent coupon. Similarly First Affirmative Financial Network supports its members (registered investment advisors serving socially conscious investors) in offering impact-oriented investments to their clients. Efforts to launch “Social Stock Exchanges” for raising public equity for social enterprises are also gaining momentum in London and Singapore. A number of similar efforts, focused on alternative approaches to public offerings for social enterprise, are at very early stages of development in the United States.

Building on structuring innovation: Although the diversity of the social objective and investors’ return expectations can make the impact investing marketplace seem chaotic, an increasing range of innovations in structuring transactions and funds are turning these differences into assets.

One approach is to create tranching structures that enable investors focused on social return to leverage their capital while reducing the risk for more commercial investors:

- The New York Acquisition Fund leveraged grant money and subsidized investment capital from foundations with senior debt from banks to create a \$230 million pool to finance the purchase of land and buildings for affordable housing. Shaun Donovan, the head of the New York City Department of Housing Preservation and Development and one of the fund’s main architects, is now the Secretary of Housing and Urban Development (HUD) in Washington.
- Internationally, the Alliance for a Green Revolution in Africa (AGRA), a Kenya-based private foundation, recently announced a deal with South Africa’s Standard Bank in which \$100 million of commercial investment in African agriculture will be unlocked by a \$10 million loan guarantee from AGRA. AGRA’s board is chaired by former United Nation’s Secretary General Kofi Annan. In India, the Gates Foundation, Acumen Fund, and ICICI Bank created a similarly structured vendor finance facility for the clean water provider, WaterHealth International.

Innovative fund managers are also becoming increasingly sophisticated in how they provide impact investors the specific investment exposure that meets their social impact goals. For example:

- Community Capital Management and Access Capital Strategies offer investment products that combine the efficiencies of managing a single national fund while allowing different social investors to receive an “allocation” of investments meeting their specific needs (e.g., specific census tracts for banks seeking CRA consideration, specific mission interests for foundations).

- Actis, a prominent global private equity fund with a developmental heritage from the United Kingdom, used a similar approach in raising \$2.9 billion for its Actis Emerging Markets 3 Fund. It gives development agencies with specific geographic interests an allocation to specific countries within their global fund.

Investors are also partnering creatively with foundations and nongovernmental organizations (NGOs) to provide impact-investment funds with both strong investing fundamentals and social impact credibility. The Northwest Louisiana Community Development fund is a double-bottom-line real estate fund partnership between the Strategic Action Council (a 38-member coalition of community groups) and Kennedy Wilson, a national real estate manager. Both the fund manager and the council will receive a carried interest tied to the performance of the fund. Kennedy Wilson will take responsibility for investment decisions while SAC will be responsible for impact objectives. This distinctive hybrid approach brings strong community buy-in and support that aids in meeting the fund's financial and social objectives. As a result, it has attracted a range of investors, including the F.B. Heron Foundation, TIAA-CREF, JP Morgan Chase, the Annie E. Casey Foundation, and the Kellogg Foundation.

Securing Supportive Policy Reform

Despite this proliferation of innovation, for-profit businesses and investors who seek to create social value are still too often left to force-fit their aspirations into existing nonprofit or for-profit legal structures. Legal innovation, however, is also gathering steam. The Dutch government provides capital gains tax breaks to environmentally beneficial investments, which sets a precedent for supportive regulation. The UK government created a new corporate form of for-benefit “Community Investment Corporations” in 2005. In France and South Africa, recent legislation will compel investors to place some of their capital in impact investments.

In the United States, private efforts to create a “B Corporation” (a new classification of company that uses the power of business to solve social and environmental problems) and LC3 legal form are starting to build momentum for a new regulatory regime to meet the interest of impact investors. Clarifying guidance from the Internal Revenue Service could also ameliorate some of the arguably misplaced conservatism that has held many foundations back from engaging in impact investing for fear of legal consequence.

More broadly, the Obama administration's commitment to supporting social innovation coupled with pragmatic partnerships that join government, the social sector, and the investment present the potential for new types of financial and institutional arrangements in sectors ranging from community development, education, to the environment. These arrangements are increasingly crucial to securing the political legitimacy of the Troubled Assets Relief Program (TARP) and other major federal stimulus and bailout expenditures.

Will Impact Investing Survive the Current Market Turmoil?

Like a butterfly emerging from its cocoon into a hurricane, the impact-investing industry is coalescing just as international credit markets reel. Certain challenges are rooted in the credit crisis, including:

- **Lack of tax credit equity:** In sectors ranging from renewable energy to affordable housing, the lack of tax credit equity investors, owing to both the broader credit crunch and a lack of value for these credits amid corporate and investment losses, has left a significant gap, making many transactions that were once routine challenging or not viable.
- **Lack of access to senior financing:** A general lack of available senior finance has sharply curtailed the ability of risk-tolerant impact investors to catalyze substantial senior capital by taking a subordinate position in tiered risk arrangements. This paucity is rooted in the broad de-leveraging across the global financial system, which affects bank lending, bond markets, and nonbank finance. Credit-enhancement mechanisms (such as monoline insurers) to help address these issues have also disappeared or become prohibitively expensive.
- **Cut-back in Community Reinvestment Act investments:** Many U.S. community development players report a cut-back in investments from CRA groups as banks (appropriately) shore up their balance sheets. In addition, although several new banks have emerged during the prior 12 months, the consolidation among banks has shrunk the field of CRA investors.
- **Capital scarcity:** Budget cuts in government, foundations, corporations, and among individuals have constrained the financial positions of social enterprises and nonprofit organizations, exacerbating the financing shortfalls.

However, there is good news as well. The financial crisis seems to have created a boon in available talent. Around the world, experienced finance professionals, recent business school graduates, and talented expatriates face much lower opportunity costs to enter this industry. In some cases, they are returning to work in emerging markets of increasing interest to impact investors.

Although impact investors are not immune to the challenges of raising capital and syndicating deals in this credit market, anecdotal evidence shows that many remain committed to this new industry. Many of the impact investment asset management, advisory, and banking organizations have remained solvent, and in many cases are growing during a period that has brought mainstream financial services to their knees. Indeed, initial anecdotal indications are that some impact investment portfolios fared well relative to market benchmarks - while the median foundation corpus declined by 26.1% in 2008 according to the Foundation Financial Officers Group, the program-related investment (PRI) portfolios of a number of foundations delivered positive returns. Some of these PRI portfolios have remained

somewhat insulated from recent market volatility and, against that broader backdrop, their modest (< 5%), relatively stable returns have provided a welcome contribution to portfolio diversification and risk management.

Indeed, this environment presents distinctive opportunities. For example, Southern Bancorp, the country's leading rural community development finance institution, is seizing the opportunity to acquire the deposits and selected assets of several institutions in its home state of Arkansas (in one case, at the behest of regulators). These acquisitions, funded primarily with \$11 million in TARP funds, give Southern a low-cost way to expand its integrated rural development work in the Delta region of Arkansas and Mississippi. Similarly, various affordable housing groups are stretching their capital with innovative impact investments to acquire land and properties during the current real estate downturn.

Community groups, foundations, and government have discussed a range of areas for prospective collaborations, ranging from the Department of Education's \$650 million "Invest in What Works and Innovation" fund, to securing TARP funding for Community Development Financial Institutions (CDFIs), to thinking about how the social sector could partner with the FDIC as it disposes of loans and properties from seized banks.

If we could predict with certainty what effect market conditions will have on this industry, we would be making venture capital investments rather than writing articles. In the end, the interplay of income and substitution effects will determine the medium-term trajectory of the impact-investing industry. Industry participants can do little in the short term to address the wealth destruction that is reducing available capital. We can, however, work strategically to position the industry to absorb a greater share of investment capital when markets inevitably thaw.

The success of this new industry is not certain. The danger remains that "impact investing" will become a mere marketing tool that investment promoters use to raise funds without generating substantial social and environmental benefit. It may also be only a convenient means to meet a regulatory or societal requirement. If leaders in the subsectors—community development, microfinance, education finance, health care finance etc.—do not realize the value of coming together to build a single industry infrastructure, they will suffer from duplication and fragmentation. Their individual voices, capabilities, and potential clout are minor compared with what could be accomplished with constructive cross-sector collaboration.

Where Does Impact Investing Go From Here?

We know from the success of other innovations, such as the development of the private equity industry, that a small group of leaders must work effectively to accelerate the pace and manner in which an industry matures. The impact-investing industry will reach its potential in the early years of the twenty-first century if the innovation and stamina of entrepreneurial risk-takers can be coupled with industry-building leadership.

Building a mature impact-investing industry will also require brave self-examination by impact investors and the businesses and funds with which they invest. The impact-invest-

ment industry must be realistic about the returns it will offer and investment products it must develop to become a viable proposition for the institutional investors, who control most of the world's investable assets but are bound by rules that limit their freedom to invest in unproven and submarket products. The industry also must become more confident and honest about explaining the need for subsidy in many areas, through lower returns and higher risk tolerance.

The Monitor Inclusive Markets report on business models to provide basic services to poor customers provides a new benchmark for a thorough analysis of the opportunities and requirements of a specific subsector of impact investing. The report is built on the willingness of enterprises and investors to expose their business practices to public review. It shows that impact investors must accept that subsidies will be temporarily necessary in some subsectors as social enterprises test and refine applicable business models. Subsidies will be permanently appropriate in subsectors where investment generates substantial positive externalities that cannot be internalized into a company's profit.

The economic crisis has shaken confidence in established investment ideologies and their mainstream proponents. The emergence of the impact-investing industry provides a potentially compelling alternative by offering to imbue investment with social purpose and, ultimately, to increase the scope of solutions to social problems that continue to proliferate even as philanthropy resources dwindle.

Antony Bugg-Levine is a managing director of the Rockefeller Foundation in New York where his responsibilities include leading the Harnessing the Power of Impact Investing Initiative. A native of South Africa, he previously ran the Kenya-office of the NGO TechnoServe and worked as a consultant with McKinsey & Co. He is also currently an adjunct professor at Columbia Business School where he teaches on business and international development.

John Goldstein is a managing director of Imprint Capital, a buy-side advisor that helps foundations, financial institutions, and families develop and execute mission investment strategies. Imprint made \$68 million in mission investments across impact areas and asset classes last year. Previously, John co-founded Medley Capital Management, a large global private investment firm, and was senior managing director of Medley Global Advisors, the leading macro-political advisor to the world's largest financial institutions.