



Equity Advancing Equity

Community Philanthropy, Social Equity and Mission Investing

EXECUTIVE SUMMARY

This paper brings together two ostensibly disparate definitions of equity—one which relates to the distribution of resources across economic and racial groups and the other that looks at capital market concepts and processes—into a single frame for consideration.

The pursuit of financial and social equity through mission investing—making financial investments that offer a return while advancing mission—offers a tested, additional means for community foundations to deliver on their long-standing value of protecting local assets for the long-term and catalyzing resources from a community on behalf of a community. The benefits include recycling philanthropic capital, engaging the energy and scope of capital markets to achieve social good, and bringing foundation investment activities into better alignment with charitable mission.

The paper is part of The Futures Project, and draws on the insights of the 2006 report, *On the Brink of New Promise: The Future of U.S. Community Foundations*. Specifically, *Equity Advancing Equity* shows how community foundations are deploying mission investing practices to meet the three key principles for success that were identified in *On the Brink of New Promise*:

- Focusing on community effectiveness
- Demonstrating long-term community leadership
- Looking to make coordinated impact

It reveals strategies that community foundations are already using to demonstrate their value as creative, effective and committed philanthropic partners. This value relies on foundations' commitments to community leadership for the long term, which in the arena of mission investing strategy depends on leaders from different parts of the community

working together. They have the opportunity to change the conversation from short-term grantmaking to poor parts of a community to long-term investment strategies that strengthen business, home ownership, education, and wealth creation opportunities for the betterment of all. It is in this spirit that interest in mission investing is moving from the margins to the middle of community foundation strategic discussions and opportunities.

Equity Advancing Equity is divided into three main sections. The first section presents a pragmatic frame that ties together mission investing and social justice. It outlines three intersecting spheres—place, race, and space—that distinguish community foundation focus in the marketplace of philanthropic options, and shows how mission investing with a long-term social equity intent advances the work in each of those spheres.

THE IMPORTANCE OF PLACE

Community foundations are, by and large, defined by and committed to place, even as they expand their services to donors seeking broader, often global philanthropic impact. However, this commitment by itself is not enough to dramatically improve the state of those places. Community foundations understand that they can, and must, more effectively mobilize resources and expertise from the community for the community—to both counter disparities and realize the potential for strong ties between all the places and people they serve. Mission investments at the community level can

expand a foundation's capacity for stewardship thus broadly defined, making real the commitment to inclusion. These investments also increasingly incorporate environmental criteria, allowing for stewardship of place that sustains the earth's resources and protects vulnerable residents from environmental risks while creating local opportunity.

THE IMPORTANCE OF RACE

Community foundations derive legitimacy and value in the market through their inclusion of, and commitment to, their community, often reflected in programmatic choices, personnel decisions and board selection procedures. While many community foundations have made strides—and most embrace a vision of diversity that includes faith, income levels, sexual orientation, generation, and disability as well as race—most would admit to the ongoing nature of their effort. Community foundations are using both the strategy and processes of mission investing to ensure that inclusion also applies to organizations the foundations backs as a vendor or investee. There are many opportunities to invest in institutions that are minority-owned, managed or focused—in urban and increasingly in rural communities. Making these investments work in the long-term requires listening to and partnering with leaders from those institutions now. While community demographics often continue to change, strong leadership typically embraces these changes through further diversification in their institutions' management, products, services, and outreach.

THE IMPORTANCE OF SPACE

The call to leadership for community foundations means serving not only as the keeper of local assets, but also as a keeper of vision and aspiration. As both cities and rural communities become more diverse, community foundations are extending their reach to ensure that space at the tables of power and opportunity are open to those of all races, income levels and life experience. In complementing this outreach with mission investments, they are expanding and targeting their resources to recharge and diversify the engines of wealth creation, thereby broadening the base of philanthropy for the long haul. While this definition of "space" hinges on the decisions of individual foundations, their actions support community foundations' collective need to distinguish themselves in the philanthropic market as deploying the range of strategies to most aptly mobilize and build resources in their local communities.

The second section more closely examines opportunities and challenges of mission investing for community foundations. It draws from the extensive work of independent foundations and addresses the unique issues community foundations face.

As for all foundations, the strategic benefits of mission investing for community foundations include the opportunity to recycle and leverage philanthropic dollars, harness capital markets resources, and align foundation investment strategy

with missions and values. While not all charitable activities can repay an investment—so grants remain an essential tool—community foundations are identifying organizations and projects that support mission investments with both market-rate and below market-rate expected returns on a risk-adjusted basis. Some community foundations make below-market rate investments from the grants budget or create a special below-market rate investment pool for investments with clear charitable purpose following guidelines for private foundation program-related investing (PRI) set out in the Tax Code of 1969.

To conserve grant dollars and better align the full range of foundation

assets with mission, an increasing number of community foundations make market-rate mission investments, sometimes called mission-related investments or MRI. Putting their local market knowledge to work, they are applying these strategies across asset classes and within the context of conventional asset allocation. Examples include insured deposits in Community Development Financial Institution (CDFI) banks and credit unions that provide loans and financial services in low- to moderate-income and minority communities, fixed-income securities that support local affordable homeownership or senior living, and private equity that supports regional business and job expansion.

Community foundation process for launching a mission investing strategy must take into account the mix of restricted and unrestricted funds, the need and opportunity to manage a broad range of donor intent, and the need to coordinate with outside investment managers. The report contains numerous examples of how community foundations are successfully managing these issues. While some engage in a detailed planning process before they begin, most start with one or more well-tested investments in their local community, such as insured deposits in a CDFI bank, a bank loan guarantee or a direct loan to a grantee whose performance they know well.

The third section provides stories—real examples—of community foundation investment strategies that are



A loan from the New Hampshire Community Loan Fund's Vested for Growth program allowed Bortech, Inc. to preserve manufacturing jobs in the town of Keene.

producing long-term social change in communities while also meeting established financial goals. These include:

- **Barberton Community Foundation's** loans for small business, homeownership and home rehab in partnership with local community banks and a community development corporation.
- **Baton Rouge Area Foundation's** catalytic commercial real estate projects with social and financial return—a one million square foot vacant mall redevelopment into an industrial park and call center that now employs 6,000 workers and rehab of a long-boarded up hotel as part of BRAF's work with the City to create a vibrant downtown.
- **The Boston Foundation's** proxy voting and shareholder engagement, which apply the Foundation's values on issues of the environment, community well-being and citizenship, diversity and equity, and good corporate governance to its role as fiduciary.
- **California Community Foundation's** partnerships with a land trust and leading CDFI intermediaries to finance and provide technical assistance to nonprofit organizations in its priority program areas of Neighborhood Revitalization, Education, Health Care, Arts, and Human Development.
- **Cleveland Foundation's** debt, equity, real estate, deposit, and loan guarantee investments to spur affordable housing, minority small business expansion, green building, and more recently, both foreclosure prevention and regional business competitiveness. Over 30 years, the Foundation's PRIs have helped to create a local community development intermediary and also attract leading national CDFIs to establish local operations.
- **Greater New Orleans Foundation's** recoverable grants and a loan guarantee on an urgently needed multi-family rental housing development.
- **Kalamazoo Community Foundation's** charitable loans and equity investments for transformational real estate projects and regional growth businesses that create jobs, as well as its guarantees for affordable mortgages to low-to moderate-income households, some fifty percent of which are minority households.



With financing from the African American-owned CDFI bank, Liberty Bank & Trust, Robért super-market brings fresh food to one of New Orleans' most distressed communities.

- **Marin Community Foundation's** in-house loan fund to finance local affordable housing and nonprofit organizational sustainable growth.
- **New Hampshire Charitable Trust's** catalytic investments to create one of the nation's first CDFI intermediaries, New Hampshire Community Loan Fund, which has been a leading innovator of non-predatory lending for owners of manufactured housing. Loans finance manufactured housing residents in both purchasing their homes and forming cooperatives to purchase the land on which the homes sit.
- **The Rhode Island Foundation's** equity investment in a for-profit, out-of-state health insurance provider in order to maintain coverage for its residents in-state.
- **The Seattle Foundation's** market-rate, fixed income strategy to purchase bonds that support the development of local senior housing and other needs, as well as its PRI loans for education and economic development. TSF encourages its donors to co-invest in the Foundation's PRIs and supports donors in executing individual mission investing strategies through donor-advised funds.
- **The Vermont Community Foundation's** integrated "5% for Vermont" strategy that uses five percent of pooled assets to advance the Foundation's mission through investments across asset classes including holdings in a Vermont-focused venture capital fund geared toward companies creating local jobs, fixed-income securities that support local affordable housing, CDs in a local CDFI credit union, and a loan to a CDFI loan fund that supports local affordable housing and small business.

Readers may choose to start at the beginning or jump to the stories. The report will be hosted with appendices and resource links on www.communityphilanthropy.org. Additional online tools for planning and implementation are under development in coordination with existing associations and websites focused on both mission investing and diversity.

This report was prepared with support from the Ford and Charles Stewart Mott Foundations. Project leaders are Lucy Bernholz, president, Blueprint Research and Design, Inc. (www.blueprintrd.com) and Lisa Richter, principal, GPS Capital Partners, LLC (www.gpscapitalpartners.com), with assistance from Tony Wang, Blueprint Research & Design, Inc.

RESOURCES

A selection of networks that support social justice philanthropy and mission investing are available at www.communityphilanthropy.org and below:

Social Justice Philanthropy resources for community foundations include:

- **The Denver Foundation**, which has developed tools for community foundations and their grantee organizations. <http://www.denverfoundation.org/page30157.cfm>.
- **The Black Belt Community Foundation** in Alabama, a wonderful example of a community foundation created within a social justice framework, <http://www.blackbeltfound.org>.
- **Community Foundations of Canada** has developed resources for staff and boards of community foundations, and led a nationwide initiative focused on social justice, <http://www.community-fdn.ca/socialjustice/index.cfm>.
- **Emerging Practitioners in Philanthropy** offers social justice workshops, <http://www.epip.org/transformphil.php>.
- **Kellogg Foundation's Culture of Giving Project** has produced several revealing case studies, www.wkkf.org.
- **Grantcraft** has guides on racial and gender lenses on grantmaking and on starting a PRI program, <http://www.grantcraft.org>.
- Other resources including identity-based affinity groups,¹ **MDC**, **JustPhilanthropy**, the **Philanthropic Initiative for Racial Equity**, **Rockefeller Philanthropy Advisors**, **PolicyLink**, and the **Diversity Partnership** serve all types of foundations.

Mission Investing resources for community foundations are available from both philanthropy and the social investment industry. Affinity groups include:

- **The PRI Makers Network**, a trade association of some 200 foundations that make program-related investments or are planning to do so. The PRI Makers Network offers a national conference, intensive PRI Institute, member database of PRI activity, listserv, webinars, and extensive resources at www.primakers.net.
- **More for Mission**, a campaign started by three private foundations that encourages and supports mission investing from private and community endowments and institutional investors (see sidebar). www.moreformission.org.
- **Fiscal Officers & Administrative Group (FOAG)** draws community foundation interest and increasingly offers mission investing content. <http://www.cof.org/members/content.cfm?ItemNumber=619&navItemNumber=2718>.
- **Social Investment Forum**, a national nonprofit membership organization promoting the concept, practice and growth of socially and environmentally responsible investing; SIF also sponsors a web-based Community Investing Center, www.socialinvest.org and www.communityinvest.org.

MORE FOR MISSION CAMPAIGN

The More for Mission Campaign's challenge to foundations—private, community, and corporate—is to increase the percentage of a foundation's endowment allocated to mission investments, and to help other foundation endowments do the same. The approach is to align foundation investments with their mission while maintaining long-term targeted financial returns. The More for Mission Campaign has taken as its goal the generation of \$10 billion worth of new mission investment commitments over the next five years. Primary goals are to:

- Support mission investing in practice with the intent of growing mission investing activity.
- Create a network of foundations that are committed to advancing mission investing within their organizations and beyond.
- Facilitate a robust mission investment environment that is encouraged and supported by the development of a broad range of informational and institutional resources for investors.
- Generate the knowledge necessary for an informed group of investors to leverage their portfolios to support their mission. www.moreformission.org.

Mission Investing Photo credits:

New Hampshire Community Loan Fund's Vested for Growth program, <http://www.vestedforgrowth.com>. Launched in 2002, ViG puts capital and tested tools to work for small businesses in New Hampshire. It is rooted in a business philosophy that entrepreneurs outperform their peers in growth and profitability when they engage their employees in decision-making and share profits with them.

Liberty Bank & Trust, New Orleans—*We belong together*—<http://www.libertybank.net>. Liberty financed the Rob ert supermarket in a New Orleans' neighborhood with a 23% poverty rate, creating 65 temporary and permanent jobs and bringing critical services.

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Notes:

1. Joint Affinity Groups includes Asian Americans/Pacific Islanders in Philanthropy (AAPIP), Association of Black Foundation Executives (ABFE), Disability Funders Network (DFN), Funders for Lesbian and Gay Issues (FLGI), Hispanics in Philanthropy (HIP), Native Americans in Philanthropy (NAP), and Women's Funding Network (WFN), www.jointaffinitygroups.org.

