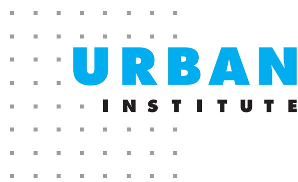


Collaborative Place-Based Impact Investing Models: Deploying Capital on the Ground Together

Practitioner Brief
Erika Poethig, *Urban Institute*
Matt Onek, *Mission Investors Exchange*
Matt Eldridge, *Urban Institute*

Collaborative place-based impact investing (PBII) is the practice of mobilizing and deploying capital on the ground together to maximize impact. Although this can be a one-time or investment-specific undertaking, many collaborative investing efforts are longer-term endeavors with formalized approaches.

This brief outlines some of the identified benefits of collaborative PBII, describes four common approaches, elevates collaborative PBII examples, and synthesizes lessons from practitioners in this space.

Benefits of Collaborative Investing

Collaboration offers place-based impact investors a range of benefits that going it alone does not:

1. **Achieving greater impact because of a larger scale of investments:** One of the clearest benefits of PBII collaboration is increasing individual investors' impact by allowing them to leverage resources from others.
2. **Blending different types of investor capital and risk appetite:** Collaborations can accommodate partners' different interests and resources by leveraging and blending different types of capital aligned with investors' capacities and risk appetites. For example, some investors might provide grants for technical assistance and capacity building

This brief is one of several resources developed through collaboration between the Urban Institute, the John D. and Catherine T. MacArthur Foundation, and Mission Investors Exchange to advance the development and exchange of knowledge on the practice of place-based impact investing (PBII). PBII refers to the local deployment of impact capital, or investments made with the intent to yield a financial return as well as a social or environmental return. This effort focuses on understanding the roles of foundations and collaborative models in nurturing the development and expansion of PBII efforts. A practitioner convening discussed key issues and two Urban Institute research papers—a scan of PBII approaches and a review of capital gaps and flows methodology— helped expand the evidence base on these topics.

This brief and two accompanying briefs ("Collaborative Place-Based Impact Investing Models: Deploying Capital on the Ground Together" and "Mapping and Assessing Local Capacities and Opportunities for Place-Based Impact Investing")[1] are designed to focus on elements of PBII that research and conversations with practitioners have identified as opportunities for knowledge exchange. We draw insights for these briefs from the research we have already published and from conversations with PBII field leaders. These briefs elevate practices and understandings from the field while highlighting lessons from existing efforts.

[1] Melanie Audette, John Balbach, and Shena Ashley, "Place-Based Impact Investing Ecosystems: Building a Collaboration to Boost Your Effectiveness" (Washington, DC: Urban Institute; New York City: Mission Investors Exchange, 2019); and Nhadine Leung and Brett Theodos, "Mapping and Assessing Local Capacities and Opportunities for Place-Based Impact Investing" (Washington, DC: Urban Institute; New York City:
Mission Investors Exchange, 2019).

Copyright © May 2019. Urban Institute and Mission Investors Exchange.

while others provide guarantees and credit enhancements that jointly facilitate the debt and equity investments of other, less risk-tolerant investors.

3. **Increasing capacity and yielding operational efficiencies:** Collaborating lets partners benefit from shared information and insights and reduce investment costs and entry barriers for newer and smaller investors by providing shared due diligence, common tax and legal counsel, and centralized management. Even if partners have separate contracts with investees, these shared processes help minimize transaction costs and capacity requirements for all parties.
4. **Leveraging comparative strengths:** Collaboration lets partners harness the distinctive social, technical, and reputational capital and capacities of different partners. Each entity brings its own expertise, networks, and skills that partners can use, enabling the collaborative to seek out and support better projects.
5. **Elevating a wider range of voices and perspectives:** Collaboratives with a broad and diverse group of stakeholders will be better equipped to connect to the specific needs of a community and elevate voices and perspectives that are too often left out of the conversation, especially those from people of color.
6. **Simplifying the marketplace for investees:** A patchwork of investors, each with very different processes and expectations, may be daunting for new and established social enterprises and funds, but an established collaboration can provide greater clarity and scale. By creating shared approaches and more unified investor perspectives, priorities, and processes, collaborative investing may create easier on-ramps to capital for investees.
7. **Diversifying a portfolio to mitigate risk:** Investing jointly can allow money to be deployed across more deals, allowing investors to diversify risk across different impact investments. This benefit may help mitigate risk and can be useful for securing broad support for impact investing efforts.
8. **Attracting high-quality fund managers:** Strong investment fund managers are attracted by a sufficiently sized impact investment base in a place. PBII collaboratives help establish that base.

Aligning efforts and harnessing the financial resources and institutional capacities of multiple partners through collaboration can translate into more, better-designed impact investment projects and into other, wider benefits for funders, investees, and their communities.

Approaches to Collaboration

Partners in different PBII ecosystems have many different options or strategies for collaborating with each other. Trust, capacity, and mission alignment all shape the approach a collaborative will take to achieve joint or aligned investing. Over time, groups of partners may advance to a deeper level of collaboration as their understanding of PBII grows, as does their perspective on, and appetite for, collaborative investing.

Groups can often collaborate through

- informal convening or networking,
- formalized learning groups,
- sourcing deals or sharing diligence,

- one-time coinvesting, and
- formal investing collaboratives.

As described in the Urban Institute report *Investing Together: Emerging Approaches in Collaborative Place-Based Impact Investing*,[2] four primary models of collaboration can support and enhance PBII, with two of those models (alliances and platforms) representing the deepest form of collaboration—these models are particularly well suited to deploying capital on the ground and achieving the benefits outlined above.

Networks

In networks, partners will primarily exchange information for mutual benefit. These networks are most common at the earliest stages of ecosystem development, but they can also serve as valuable standalone activities at later stages. They focus on creating opportunities for learning and peer-to-peer exploration of PBII strategies. Networks can help partners build trust and develop a shared understanding of community issues to progress toward shared goals.

Consortia

Consortia involve more organizational involvement, time, and trust than networks (while yielding attendant benefits). Collaborators in a consortium have achieved a high degree of coordination and have established formal or informal arrangements to share information and collaborate on joint services (such as due diligence) to create efficiencies, enhance capacities, or reduce costs. Although investing coordination is facilitated by the joint services, investment decisions take place separately within each institution.

Alliances

When groups deploy capital together through a fund or by pooling their resources for direct investments, they create an alliance. Alliances require greater organizational commitments than networks or consortia and may require legal agreements. These efforts often combine functions or services to reduce costs and give partners more capacity.

Platforms

Anchored by a core group of complementary organizations that aim to invest at scale, platforms are designed to connect impact investors from the community with social ventures and funds. Platform members are particularly willing to enhance each other's capacity for mutual benefit.

[2] Shena R. Ashley and Joycelyn Ovalle, *Investing Together: Emerging Approaches in Collaborative Place-Based Impact Investing* (Washington, DC: Urban Institute, 2018).

Examples of Collaborative Investing

The following two examples llustrate these collaborative investing approaches.

Western New York Impact Investment Fund

Anchored by the Community Foundation for Greater Buffalo, the Western New York Impact Investment Fund is an alliance that brings together philanthropic investors, corporations, and private individuals into a single pooled fund. It has raised about $8 million in impact-oriented capital. Investors are seeking a market return while investing in social impact projects in western New York.

The effort is grounded in the belief that this region has significant demand for impact capital and a current lack of supply. A long-term goal is to see more investment in the region with a social impact objective. In other words, the fund aims to boost the overall pool of social impact funds rather than to compete with other private efforts.

The fund evolved from a four-year development process that started with an exploration by the community foundation of what types of opportunities were lacking in the greater Buffalo region. Although the effort is locally driven, the Heron Foundation helped nurture the idea by funding a feasibility study and supporting community foundation efforts to secure buy-in. The feasibility study, confirmed capital gaps existed in the area, particularly for later-stage funding.

All the fund partners agreed to pool funds to deploy capital together and cede investment decisions for the fund to the fund's board and staff. The fund has sought to learn how to conduct impact diligence and measurement and how to ensure these efforts are not disconnected from other diligence. To complement partners' financial knowledge, the fund created an advisory group to support due diligence and monitoring activities related to impact.

Photo via iStock.com/DenisTangneyJr.

Benefit Chicago

Launched in 2016 by the Chicago Community Trust, the MacArthur Foundation, and Calvert Impact Capital, Benefit Chicago is a collaboration that makes impact investments in the Chicago area. The effort has three goals: job creation, job readiness, and wealth creation.

So far, it has raised over $96 million, with investments from the Chicago Community Trust and the MacArthur Foundation totaling $65 million and the remaining $31 million coming from individuals and other institutions. Individual investors can purchase Chicago-targeted Community Investment Notes offered by Calvert Impact Capital for as little as $20, allowing a wide range of nonaccredited individuals to support PBII.

Benefit Chicago provides risk-tolerant capital to Chicago-serving nonprofits and social enterprises and has welcomed applications from nonprofits with income potential, social enterprises, social purpose funds, and community development financial institutions (CDFIs). The minimum loan size is $500,000, and so far, Benefit Chicago has made 12 investments worth over $33 million total and has approved an additional $20 million in commitments that are currently closing.

Benefit Chicago has been navigating the complexity inherent in collaborative investing efforts by establishing clear standards for impact measurement and management; maintaining a flexible, nimble approach to addressing clear community needs in a timely manner within the context of its strategic themes; and ensuring a rigorous additionality standard for its capital, especially with the CDFI partners that are so essential to a thriving Chicago ecosystem.

Benefit Chicago also observed that although it provides financial capital, this is often not its most important value. Instead, Benefit Chicago's role in connecting people and groups, including by coordinating with CDFIs, has enabled investees to be more successful and have greater impact. Benefit Chicago reports that its investments have led to increased market interest for its investee organizations, thus opening additional investment and expansion opportunities.

Photo via iStock.com/Sean Pavone

Practitioner Lessons

Forging a successful impact investing collaborative requires patience, resolve, an appreciation of the risk preferences and choices of others, and an embrace of collaboration that begins with the process of creating and designing the collaborative investing model itself.[3] Conversations with practitioners have surfaced several insights.

Identify an organization to be the lead mover

Every collaborative investing model identified by practitioners benefited from having a lead organization or several lead organizations help set and execute the collective vision, drive efforts forward, and provide the "grease and glue" for action. These lead organizations sometimes become the lead investors that set replicable terms, create drafts of key documents, and accomplish other key tasks.

Establish clarity on investing goals

Ensuring partners have a common and clear understanding of the motivation for collaborative investing helps improve cohesion and coherence. This enables partners to be clear with investors and investees and helps with referrals. When crafting this vision, partners should balance missions and goals that are specific enough to be meaningful but are also broad, adaptive, and flexible enough to attract coinvestors and to allow the partners to "learn by doing" (discussed in more detail later in this section). For example, a collaborative vision may aspire to attract skilled jobs but be open about which sectors or geographic location (within a given region) these jobs are located in.

Attend early to governance of the collaborative investing model

Setting clear expectations about governance is critical to creating a solid foundation for effective partnership. This could include agreeing on how the collaborative will be organized and governed, outlining dispute resolution processes, and specifying fiduciary responsibilities. Partners may also wish to create a common framework and protocols for shared diligence, screening, and contracting to simplify the process for investees and reduce investor transaction costs. To ensure that the collaborative embraces a diversity of perspectives from the start, partners should identify leadership with diversity in mind, including across race, ethnicity, gender, geography, and other dimensions. These important governance matters should be addressed early in the engagement but, at the same time, partners should ensure that they don't overwhelm conversations and create unnecessary delays in taking steps toward coinvestment; the goal of a collaboration is to get capital where it can be impactful, not to craft the perfect governance framework.

Ensure the collaborative has adequate professional guidance

Investment laws and regulations might not be familiar to the staff of nonprofit organizations (such as philanthropy-serving organizations) or to certain staff at community or private foundations. Partners should make sure they are aware of any potential red flags in the heavily regulated investing world (such as Securities and Exchange Commission rules). Consider bringing in (potentially pro bono) adequate guidance for investors and intermediaries communicating about investing opportunities. Doing so will ensure communications comply with regulations and do not threaten partners' and investees' work in communities.

[3] Eric White and Susan Hammel, "How to Launch a Collaborative Impact Investing Fund," Minnesota Council on Foundations, October 18, 2018.

Get started and learn by doing

Early adopters of the collaborative investing approach encourage others considering it to start investing together sooner rather than later. Although partners can take a long time to discuss goals, governance, and strategy, it's important to take the first step, even if it is small. Not all partners may be ready to coinvest at the same time—those that are ready to move forward should do so, and others can join when ready. These first movers can provide examples that demonstrate the benefits of collaborative investing. Collaborations provide knowledge through experience, and perhaps no experience is as critical to the effort as the first investment. Early adopters help collaboratives test key theses, generate data and information, and provide lessons on how to adapt. And although some elements of collaborative PBII are new, there is no need to reinvent the wheel: partners can draw from others' efforts and from examples of other collaboratives.

Measurement is important, but don't let the perfect be the enemy of good

There is no universal definition or standard of performance or success that collaboratives must meet. Each investor will have different perspectives on what a successful return means, both in terms of impact and finances. To get started, collaboratives should get comfortable with impact measurement frameworks that are sufficiently robust rather than perfect. Collaboratives can then iterate and improve as they go. Collaboratives can also tailor measurement frameworks to what is valued by the consumer of the evidence (e.g., foundation boards, other investors, strategic government partners, and local communities) and what is compatible with the size, scale, and substance of the investment. Partners must also verify that proper reporting on both impact and financial returns is possible before investing.

Group processes present challenges and risks

Although collaboration yields benefits, group processes and collaborative arrangements can also present challenges. PBII stakeholders note that the time and energy required to reach decisions on coinvestments or intentionally aligned investments is almost certainly more than what it would take to do a deal independently. And if a community of investors makes a large bet and the investee unexpectedly changes course, the whole community of investors is affected. For investees, collaboratives can be high-risk, high-reward scenarios. Although collaboratives can streamline processes and could allow an investee to tap a much larger pool of resources at once, a negative decision from a single investor could cause the investee to be shut out of the entire collaborative portfolio.

Collaborative investing can lead to partnership opportunities in other areas

Effective collaboration requires new behaviors, provides opportunities for reflecting on capacities, builds trust among partners, and demonstrates comparative institutional strengths. All of these elements are conducive to partnering more broadly, and collaborative investing can encourage partnering on topics such as policy advocacy, grantmaking, development, and business operations.

Accommodate donor or investor intent while maintaining fund integrity

Many donors or impact investors have preferences in how their contributions are used. For example, some will prefer the fund uses their contributions solely for specific sectors, neighborhoods, or types of projects. In a collaborative fund, where resources are pooled, such carve-outs are challenging and, in some cases, can cause friction among fund partners. One way that donors or impact investors with particular interests can be accommodated is through a coinvestment process that aligns the donor or impact investor's capital with an investment made by the pool or platform. This facilitates coordination and the ability to leverage additional resources while preserving the fund's integrity and mission.

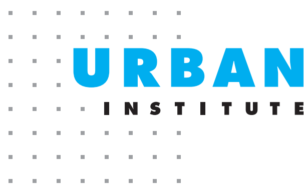
Acknowledgments

This brief and the Place-Based Impact Investing project was funded by the John D. and Catherine T. MacArthur Foundation. The authors are grateful to Margaret Berger Bradley of Ben Franklin Technology Partners, Robin Hacke of the Center for Community Investment, Susan Hammel of Cogent Consulting and the Minnesota Council on Foundations, Joohee Rand of the Santa Fe Community Foundation, and James Wahls of the Annie E. Casey Foundation for commenting on early drafts of the briefs.

www.missioninvestors.org

About Mission Investors Exchange

Mission Investors Exchange is the leading impact investing network for foundations dedicated to deploying capital for social and environmental change. With over 250 members, we provide resources, inspiration, and connections to help our members increase the scale and impact of their impact investing practice. Members come to Mission Investors Exchange and each other for best practices, new investment opportunities, deal partnerships, and innovations in impact investing around the world.



500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org

About the Urban institute

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.

Copyright © May 2019. Urban Institute and Mission Investors Exchange. Permission is granted for reproduction of this file, with attribution to the Urban Institute and Mission Investors Exchange.