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# MacArthur Commits \$150 Million to Make Impact Investing Easier for Others

By Nicole Wallace



SPARK AND OMIHYAR NETWORK

"Patient financing" was critical in the development of Spark Schools, a for-profit company that runs low-cost schools in South Africa.

The MacArthur Foundation wants to call attention to the need for financing that doesn't seek market-rate returns to help impact investing grow and achieve its potential. To that end, it has created the Catalytic Capital Consortium and committed \$150 million in "patient financing."

As interest in impact investing — the idea that investments can also generate social or environmental benefits — has grown, there's been a disproportionate focus on deals that promise market-rate financial returns, says Julia Stasch, president of the foundation. Those investments will not be enough to solve the tough problems the world faces, she says, which is why MacArthur is shining a spotlight on "catalytic capital."

"It is patient, risk-tolerant, concessionary, and flexible in ways that really are different from conventional investment," she says.

## Spurring Others to Invest

The Rockefeller Foundation and the Omidyar Network will contribute their expertise and financial resources to the consortium, which will focus on investments that help meet the United Nations' sustainable-development goals. The three foundations will together make \$10 million in grants for research on catalytic capital.

Foundations are well suited to provide patient financing, Stasch says. "We have the mission for it, and we have the flexibility." But she hopes the new consortium will encourage other players, such as family offices and financial institutions, to get involved as well.

MacArthur's first investment through the consortium is \$30 million in Rockefeller's Zero Gap portfolio, which provides grants and program-related investments for innovative efforts that advance the sustainable-development goals. Rockefeller will match MacArthur's investment.

Solving really big problems, like extreme poverty around the world and climate change, will take trillions of dollars, says Rajiv Shah, president of the Rockefeller Foundation. "To bring that kind of capital to bear on the problems we hope to solve, we will need to work closely across philanthropic, public, and private sources of capital."

Oftentimes, Shah says, small investments of catalytic capital that seeks below-market rates of return can make an investment less risky for the conventional capital that comes in later.

Through the Zero Gap portfolio, Rockefeller and MacArthur made a \$4 million early-stage investment in Sixup, a company that makes student loans to promising low-income students who can't pay for college with financial aid alone and don't qualify for private student loans. By taking a higher-risk position, Shah says, the foundations helped the company attract a \$24 million investment from Goldman Sachs.

MacArthur and Rockefeller hope that the \$60 million they invest through the Zero Gap portfolio will spur at least \$1 billion in additional capital.

## **Building Markets**

Catalytic capital can also be critical in building new markets within the field of impact investing and helping them mature to the point where they no longer need patient financing to attract market-rate investment, says Amit Bouri, chief executive of the Global Impact Investing Network. Over its 10-year history, the network has received grants from all three foundations participating in the consortium.

"Things that require catalytic capital now may not in the future," he says. "That's what we've seen in many parts of microfinance and many areas of clean-energy access."

The size of MacArthur's commitment has the potential to bring down the costs of matching catalytic capital and the deals that need it, says Maya Chorengel, a partner at TPG Global who leads a market-rate impact-investing fund called the Rise Fund. Pierre Omidyar is on the founders' board of the Rise Fund.

Patient financing isn't a new idea, but in the past, it's typically been very fragmented, Chorengel says. An investor finds one energy project to finance in sub-Saharan Africa or on maternal health in Central America.

"The deal sizes are relatively small, and the transaction costs of pulling everyone together and making these investments are rather high," she says.

Chorengel says that by working with partners and matching investments in funds, rather than individual deals, MacArthur could help bring down the transaction costs often associated with impact investments.

## **Call for Proposals**

The remainder of MacArthur's catalytic-capital commitment will provide matching investments of \$10 million to \$30 million to five or six additional impact-investment funds and intermediaries that, in turn, make investments in individual projects. The foundation has put out a call for proposals, which it will assess with input from Rockefeller and Omidyar. Stasch hopes MacArthur will have a slate of investments to present to the foundation's board by the end of the year.

The money that MacArthur and Rockefeller have committed will take the form of program-related investments, which foundations can count toward their 5 percent payout requirement.

Growing interest in impact investing has not, for the most part, led foundations to invest their endowment funds in ways designed to further the funds' social and environmental goals. A *Chronicle study* found that less than 0.3 percent of the endowments of the 15 biggest foundations — a group that includes both MacArthur and Rockefeller — are invested in ways that are in line with their missions.

MacArthur and Rockefeller resist the idea that their program-related investments come at the expense of traditional grant making.

"Different problems require different tools," Stasch says. "Sometimes the grant is absolutely the right thing, and sometimes financing is absolutely the right thing."

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