

Local Investing for Impact

Community Foundations and Local Impact Investing: *Elements of Program Design*

February 2021

Making the Case of Community Foundation-Specific Resources

Local impact investing by community foundations is a still evolving practice. A handful of leading innovators have built robust programs in the absence of a defined practice and field-level consensus. Over time, private foundations have developed their own library of resources on impact investing, but there are unique features of community foundations – unique governance structures, restricted assets, and principles of community leadership – that should be considered in the design of local impact investing programs.

Take the Baltimore Community Foundation (BCF), for example. BCF is a very different kind of impact investor than its large, globally-focused philanthropic peers – say, the Bill and Melinda Gates Foundation. Why? First, BCF serves one place in perpetuity. This naturally focuses BCF's impact investing program on Baltimore. Consistent with BCF's mission, it practices local impact investing or investing in local businesses, nonprofits, and funds to create community impact and financial return. Second, BCF is a public foundation. Public foundations, such as community foundations, are

unconstrained by IRS rules that created subfields of “program related” and “mission related” investing. Instead, BCF has greater leeway to focus on mission fulfillment as it goes about unlocking additional assets for investments. These are just two of the numerous structural differences between community and private foundations that materially impact the elements of local impact investing practice.

Thankfully, trailblazing community foundations have paved the way for others to embrace local impact investing. These early adopters created



Pictured: A local impact investment, the Tribune Building, was proposed and invested in by Incourage Foundation, a community foundation serving Wisconsin Rapids. *Source: Incourage.*

durable models from scratch from which we were able to identify a distinct set of practice design elements that shape the scale, complexity, and community impact focuses of local investing work. Foundations new to local impact investing or those looking to formalize an approach can understand these elements through a set of design questions:

- What kind of impact are we seeking?
- What kind of investments can we make?
- How do we make investment decisions?
- How do we hedge towards success and mitigate risk?
- Where does the capital to invest come from? Can there be multiple sources?
- When investments are repaid, where do the assets go and how do we account for those assets?
- How will we cover the costs of local impact investing activities?

In 2020, LOCUS took a first step towards addressing the common questions that community foundations encounter during the exploration of local impact investing. Our methodology was simple – go directly to the source! We created a simple interview protocol – covering a range of “nuts and bolts” topics around local impact investing practice at community foundations (listed above on page 1). We contacted and interviewed leaders at six community foundations with established local investing programs. Through these exchanges, we were able to see how different responses to these design questions create an abundance of approaches, some of which other foundations might replicate.

The following table is a first attempt reflect our learnings to the field in hopes that greater understanding of the key design elements in local impact investing will lead to greater adoption of the practice by community foundations.



Pictured: The Austin Community Foundation made a local impact investment into the Austin Habitat for Humanity. This investment was to support the construction of 11 row homes in an East Austin affordable housing development. *Source: FundATX.*

This tool was drafted as a partnership between [LOCUS Impact Investing](#) and [The Giving Practice](#). Contributors include Sydney England, Travis Green, and Lisa O’Mara – of LOCUS Impact Investing and Rosalie Sheehy Cates – of The Giving Practice. The research team interviewed field leaders Coralie Pledger (Austin Community Foundation), Mark Crosswell and Jonny Newburgh (Community Foundation for Greater Atlanta), Robert Killins (The Greater Cincinnati Foundation), Melissa Freeman (Oregon Community Foundation), and Chelsea Lewis (Vermont Community Foundation). We are grateful for the contributions of these and other partners.

Using the Tool

The following table is setup to be a self-guided tool. The first column (lettered A-I) identifies the nine major components of local impact investing programs. The columns to the right of each component detail the methods and manner that community foundation employ to manage that aspect of the local investing program.



The Elements of Program Design

<p>A. Capitalization Source</p>	<p>Donor Grant Funds The foundation invites donor advisors to make permanent interfund grant for local investing.</p>	<p>Foundation Grant Funds The foundation uses discretionary grant resources for local investing.</p>	<p>Donor/Agency Investments Donor or agency fundholders use a portion of their investments for local investing.</p>	<p>Foundation Investments The foundation allocates resources from specific pools or across all pools for local investing.</p>		
<p>B. Capitalization Method</p>	<p>Fixed Dollar Setting a fixed-dollar allocation to local investing. Sometimes this strategy permits investment returns to be added for reinvestment.</p>		<p>Fixed Percent Setting a fixed-percent target allocation to local investing. Sometimes instead of a target percent, the percent is an upper or lower bound.</p>			
<p>C. Program Structure</p>	<p>Transaction Direct The foundation underwrites and funds transactions one at a time. Each transaction has its own set of direct donor "investors".</p>	<p>Term-Limited Pool The foundation manages time-limited pool of capital that holds multiple local investments. Allocations are made to the pool, not to individual transactions.</p>	<p>Indefinite Pool The foundation manages an ongoing pool of capital that holds multiple local investments. Allocations are made to the pool, not to individual transactions.</p>			
<p>D. Capital Uses <i>Source: MacArthur Foundation & Tideline</i></p>	<p>Interest Price Accepts a rate of return or price that is lower than expected relative to expected investment risk.</p>	<p>Guarantee Provides a credit enhancement by guaranteeing payment (or a portion of payment) in the event of default.</p>	<p>Position Provides a credit enhancement by forgoing claims on collateral or prioritizing repayment of other lenders.</p>	<p>Term Accepting long or uncertain time periods for repayment.</p>	<p>Flexibility Allowing for flexible or non-traditional terms to meet specific needs of investee.</p>	<p>Non-Catalytic Investing Seeking investments at traditional terms within the foundation's service area.</p>
<p>E. Board Governance</p>	<p>Investment Committee The foundation's investment committee sets program parameters, considers investment opportunities, and oversees deployed assets.</p>	<p>Program Committee The foundation's program committee sets program parameters, considers investment opportunities, and oversees deployed assets.</p>	<p>Dedicated Committee A new committee or investment/program sub-committee sets program parameters, considers investment opportunities, and oversees deployed assets.</p>		<p>Hybrid Process Multiple committees share responsibility for setting program parameters, considering investment opportunities, and overseeing deployed assets.</p>	



<p>F. Fees and Spending Policy</p>	<p>General Fees & Policy The foundation’s existing fee and spending policies apply to impact assets.</p>	<p>Custom Fees & Policy The foundation establishes tailored fee and spending policies specifically for impact assets.</p>	<p>Fee & Policy Exempt The value of local impact assets is not used when calculating foundation fees or spending policy.</p>	
<p>G. Sourcing, Assessing, and Servicing</p>	<p>Program Staff The foundation’s program officers source, assess, and service local investments in addition to traditional program responsibilities.</p>	<p>Finance Staff The foundation’s finance staff source, assess, and service local investments in addition to traditional finance responsibilities.</p>	<p>Dedicated Staff The foundation hires or dedicates staff positions to sourcing, assessing, and servicing local investments.</p>	<p>Consulting Support The foundation uses external consultants, CDFIs, or other resources to support local investing activities.</p>
<p>H. Message</p>	<p>Impact Message Messaging about local investments is part of impact reports and impact stories created by the foundation.</p>	<p>Finance Message Messaging about the foundation’s investments and investment performance include conversation about impact investments.</p>	<p>Stakeholder Message The foundation builds customized communication tools for local investment ecosystem stakeholders such as development organizations, CDFIs, banks, and others.</p>	
<p>I. Program and Strategy</p>	<p>Investment Focused The local investing program operates independently and primarily as a program created to accomplish the goals of the investment or invest the foundation’s assets.</p>		<p>Capital Focus Area The local investing program is part of a community leadership strategy of the foundation seeking to increase equitable access to capital for community development. The foundation uses its other assets – convening, grantmaking, research – to support local investing.</p>	

Accessing More Thoughts

This resource was developed by **LOCUS Impact Investing**. LOCUS believes that philanthropy should work alongside communities to grow economies that work for all. It is our mission to encourage the growth and improve the effectiveness of place-placed impact investing to advance greater economic justice in communities. We hope that this resource will support foundations as they advance their place-based impact investing practice. Other resources and field building materials are available by emailing

info@locusimpactinvesting.org or by visiting www.locusimpactinvesting.org.

