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Laying the Groundwork for a National Impact Investing Marketplace

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Introduction

Impact investing is an umbrella concept encompassing several investment tools, including mission related investments (MRIs), program related investments (PRIs), and screening mechanisms for environmental, social, and governance (ESG) priorities. The practice of impact investing is rapidly gaining momentum, but the level of activity among individual and institutional investors, including philanthropists and foundations, has barely penetrated projections of market potential.

Foundations are among the most reluctant investors and represent the smallest share of current activity. Barriers to entry are both real and perceived; opinions vary on what those barriers are and how to address them: “It is as if impact investors are lined up around the proverbial water pump waiting for the flood of deals, while no one is actually priming the pump!” (Bannick & Goldman, 2012). “Though most emerging social entrepreneurs have tried or are trying to get impact investment, they need basic education on impact investing and what it means for their organization” (Pease, 2015).

The academic, nonprofit, Denver-based Impact Finance Center¹ (IFC) has established a proof point for creating impact investing “marketplaces” at a statewide scale across all sectors, asset classes, and stages of growth. This approach

Key Points

- The practice of impact investing is rapidly gaining momentum, but the level of activity among individual and institutional investors, including philanthropists and foundations, has barely penetrated projections of market potential.
- The marketplace that should connect impact investors with investees or social ventures does not function effectively.
- Developing cost-effective ways to engage new investors and break down barriers to investment is an essential part of growing the industry.
- Developing cost-effective ways to “prime the pump” for social ventures to become investor-ready — through a capacity-building process that includes outreach, education, and technical assistance — is an essential part of growing the industry.
- The Impact Finance Center partnered with foundations and other investors in Colorado to create “CO Impact Days and Initiative” to demonstrate how to address this need for a more efficient and effective marketplace.
- CO Impact Days and Initiative was designed to expand regionally and be replicated.

¹The IFC is part of the Sustainable Endowments Institute, a special project of Rockefeller Philanthropy Advisors and the SEE Conference, and represents more than 250 academic faculty focused on sustainability, ethics, and entrepreneurship. www.impactfinancecenter.org

is intended to become the most efficient and effective way to confirm the available supply of impact-investment capital, gauge demand for capital by social ventures, and unleash investment capital to benefit communities, the economy, and the environment.

Definition of Impact Investing

Impact investing is an intentional strategy seeking risk-adjusted financial returns as well as social, economic, and/or environmental outcomes. The term is often used interchangeably

with PRIs and MRIs, two specific tools used by foundations to support their charitable purposes and activities. An MRI refers to any investment activity seeking to produce a positive social, economic, or environmental impact that is aligned with the mission of a foundation in addition to providing a (typically) market-rate financial return. A PRI is an investment made by a foundation, usually project-based, to support a charitable purpose and impact goals that include the potential return of capital — and possibly greater — within an established time frame.² For the social venture seeking investment, the primary benefit of an impact investment is access to capital not typically available to the project, organization, or fund, also typically at lower rates and with potentially longer time horizons for investment returns.

Impact-Investing Market Trends

The field of impact investing has grown dramatically in recent years in both the U.S. and Europe, and expansion is expected to continue. Assets in socially screened ESG portfolios rose from \$2.71 trillion in 2007 to \$3.4 trillion in 2012, and again to \$6.57 trillion in 2014 — a 76 percent increase in the most recent period. Approximately one of every six dollars under professional management in the U.S. is classified as an impact investment (Social Investment Forum, 2007; US SIF Foundation, 2014; Porter & Kramer, 2011).

However, while PRIs have been utilized by some foundations since the late 1960s, the total number of foundations that use this tool remains relatively low. During the decade 2000-2010, only 427 foundations in the U.S. reported using PRIs. This represents less than 1 percent of the universe of approximately 66,000 U.S. foundations,

Global Impact Investing Network Trends

Since 2010, the Global Impact Investing Network (2016) has tracked and published impact-investment trends. Its most recent survey of 157 global-impact investors, including 21 foundations, documented \$15.2 billion invested in 7,551 deals during 2015. In 2014, about the same number of respondents reported \$10.2 billion in such investments, with projections for \$12.2 billion in 2015. Clearly, the actual rate of growth resoundingly surpassed expectations. The growth projection for 2016 is an increase of 16 percent in capital and 55 percent in the number of deals.

Respondents collectively reported US\$ 116.2 billion in capital committed for impact investments since inception, at an average of US\$ 735 million and median of USD 87 million. Notably, US\$ 43.8 billion (38 percent of total capital committed since inception) has been committed by just three respondents (Global Impact Investing Network, 2016, p. 5).

Survey respondents also gauge challenges facing the industry. The top two: total capital appropriate to a deal across the risk spectrum, and the number of high-quality investment opportunities with a track record.

On the role of intermediaries: "Fund managers [and intermediaries and academic centers such as the Impact Finance Center] play an important role in connecting impact investing capital with investment opportunities" (Global Impact Investing Network, 2016, p. xiv).

²Program related investment is a technical term relevant only to private foundations. Other types of public charities, including community foundations, are not subject to the same rules and thus have adopted the more general nomenclature of impact investing. For private foundations, the principal benefit of a PRI is that repayment (return of capital) qualifies to meet the current IRS 5 percent distribution requirement and can be recycled for another charitable purpose. Program related investments are flexible instruments that can be used as loans, loan guarantees, linked deposits, equity investments, and more by charitable organizations or in commercial ventures for charitable purposes (Falkenstein & Jacobs, 2010).

FIGURE 1 Impact Investing Problems and Solutions

Impact Investing	
Problems	Solutions
Leaving money, impact, and risk on table	Save institutional capital and increase impact
Investors need impact investments	Identify, develop, and inventory impact investors
Social ventures need impact investment capital	Identify, develop, and inventory social ventures
	Scale regionally and replicate across regions

which collectively have \$511 billion in assets and distribute \$31.8 billion a year in grants. During this period, there were only 3,757 foundation PRI transactions, totaling \$3.4 billion (Lilly Family School of Philanthropy, 2013).

Since 2010, the pace of impact investing by private foundations has stepped up. A 2015 study by the Commonfund Institute, conducted in partnership with the Council on Foundations, found that 19 percent of private foundations use various types of impact-investing strategies, including negative screening and direct-impact investing. This represents a significant increase from the 9 percent rate quantified in a Commonfund Institute study from four years earlier.³

Market Failures and Barriers to Entry

Foundation Leadership Mindset

Ask almost any foundation about its financial return on grants: the reply is usually "zero;

nothing; you do not get your money back." In the lexicon developed by IFC, however, the answer of "zero" is incorrect. A zero percent financial return means that a foundation gets all of its money back. So, what is the correct answer? A grant delivers a minus 100 percent financial return.

Two of IFC's core tenets are that (1) all philanthropy is an investment with a minus 100% financial return attempting high positive impact and that (2) all investments have impact — both positive and negative. Instead of using the traditional language of grants, donations, and investments, IFC encourages philanthropists and investors to more holistically manage all their resources, taking into consideration financial return, impact, risk, and liquidity. IFC believes that impact investing provides a framework for this type of portfolio management.

Fiduciary Rules and Regulations

Welcome news for foundations interested in impact investing was announced in September 2015, when the U.S. Treasury Department clarified that private foundations may invest their

³Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations. Released August 23, 2016.

Welcome news for foundations interested in impact investing was announced in September 2015, when the U.S. Treasury Department clarified that private foundations may invest their endowments according to their own charitable purposes, even if doing so might reduce potential financial returns to at or below market expectations.

endowments according to their own charitable purposes, even if doing so might reduce potential financial returns to at or below market expectations (U.S. Internal Revenue Service, 2015). The guidelines for exercising prudence were expanded to include consideration of all relevant facts and circumstances, including an investment's relationship to social mission and charitable purpose. This means that managers are not required to select investments solely for highest return, lowest risk, or greatest liquidity. Although this guidance does not pertain specifically to community foundations or other types of endowments, efforts are underway to align policies and regulations.⁴

Access to Capital

Access to capital by social ventures is not widely understood, and further inquiry is necessary. Despite the widely accepted belief that small businesses drive economic activity, the entrepreneurship literature provides substantial evidence that such firms are capital constrained (Colombo & Grilli, 2010). Unfortunately, capital market imperfections often result in external investing that is too costly for small businesses.

⁴Additional resource from the U.S. Department of Labor on updated regulations: (see <http://www.pionline.com/article/20151022/ONLINE/151029940/departments-of-labor-opens-the-door-for-esg-considerations>).

If conventional firms encounter this barrier, it is logical to expect that the additional complexity of “impact,” complex structures, unconventional exits, lack of a critical mass of comparables, and gender bias might mean even greater difficulties for social ventures to access capital. In some cases, however, foundations have capital available to social ventures precisely because of these additional barriers.

Capacity to Absorb Capital

The Living Cities collaborative partnered with the Initiative for Responsible Investment to capture lessons learned from its experience with the Integration Initiative, a community development effort launched in 2010. Among those lessons, Living Cities posed a framework for community development investment using a definition that aligns with impact investing: it is a “vehicle for enhancing human capabilities, social equity, and environmental sustainability” (Wood & Hacke, 2012, p. 5). The framework places a pipeline of deals that contribute to defined community goals at its center. Surrounding individual deals is the financial ecosystem, including vision and legitimacy, enabling environment, innovation, and management and monitoring. Each component is viewed as a core function required to absorb capital effectively.

Strategy and Solution: ‘Prime the Pump’

The IFC believes that a successful impact-investing marketplace engages a minimum of five market segments: philanthropists, investors, non-profit social ventures, for-profit social ventures, and intermediaries and providers of professional services (e.g., community development financial institutions, attorneys, accountants, investment advisors, and consultants) — all of whom require unique education and mentoring before embracing impact investing for their diverse needs.

Developing cost-effective ways to “prime the pump” for social ventures to become investor-ready — through a capacity-building process that includes outreach, education, and technical assistance — is an essential part of growing the industry. The IFC believes that priming the impact investor pump for the flow of capital is

just as, if not more, important to catalyzing the market than priming the social-venture pump for the flow of deals. Preliminary analysis by the IFC of the PRI dataset from 2000-2010 shows a high statistical correlation of $R^2 = 0.73$ between asset size and completing a first transaction, which supports the idea that if a foundation completes one PRI, it will complete another one regardless of the outcome.

This theory of change is why the IFC focuses on identifying early-adopter impact investors and helping them complete their first impact-investment transaction. Accordingly, the IFC allocates 85 percent of its “priming the pump” activities (i.e., research, education, and technical assistance) toward future impact investors (philanthropists and investors) and 15 percent toward social ventures (projects, nonprofits, for-profits, and funds), intermediaries, and providers of professional services.

The IFC’s strategy is counter to the prevailing wisdom on market-resource allocation. Instead of focusing on social ventures that require investment, the IFC focuses on the generative pursuit to unleash impact-investment capital. In Colorado, for example, there are more than 50 accelerators and incubators producing social ventures, but few equivalent incubators focused on producing new impact investors. The IFC, while an academic center, essentially serves as an accelerator for philanthropists and investors who are willing to commit to becoming impact investors. It provides philanthropists and investors with capacity-building tools: awareness through presentations, education through workshops, and technical assistance, including analyzing existing transactions, hosting giving circles and impact-investing summits, and providing introductions to investment opportunities. Identifying early adopters is a critical component of this process.

A Case Study: Blending Value Through a 'Sources and Uses' Analysis

Like many foundations holding endowed assets for scholarship funds, Foundation X had a history of funding “gap” scholarships rather than making low-interest student loans. Why would a foundation give a \$5,000 scholarship grant (a guaranteed minus 100 percent return) to a student who has a \$40,000 student loan at 8 percent interest? It turns out that both the foundation and the student would be better off if Foundation X provided the student with a \$48,000 student loan at 1 percent interest.

Here’s how it works. The student would save money on interest payments and the foundation would increase its financial return 90 percent to 105 percent. By restructuring this type of transaction, a foundation could bolster the value of its endowment and save the student significant resources. A similar arrangement could benefit nonprofit organizations in situations where they have existing debt, assets that need improvements, or social-enterprise opportunities.

Example: In 2012, the IFC worked with a nonprofit and The Denver Foundation to conceptualize and facilitate a \$7.5 million, 1 percent loan and a \$2 million, zero percent loan from a donor-advised fund to a nonprofit for its building renovation. The loans would ultimately save the nonprofit \$4.5 million in interest and pave the way for a \$1.5 million federal historic tax credit (Foucher, 2014).

Example: As a result of the IFC’s work, an impact investment was made in Silvernest, a for-profit technology startup company that provides housemate matchmaking services for aging homeowners who need additional income, companionship, and help with household chores. If it were a nonprofit organization, Silvernest would likely have garnered a significant grant (a minus 100 percent financial return investment) to support outcomes in the areas of aging, economic development, affordable housing, and women-led social ventures. Securing an impact investment, while more difficult, offered the impact investor the chance to see a financial return, and the potential to scale the business more quickly to achieve greater impact. (See Figure 2.)

FIGURE 2 National Impact-Investing Marketplace: A Colorado Prototype

National Impact Investing Marketplace

CO Impact Days and Initiative

CO Impact Days and Initiative is a three-year strategy to elevate and accelerate impact investing in Colorado, catalyzing a flow of \$100 million in investment capital into social ventures in the state that deliver impact to communities, the economy, and the environment.

The IFC developed a series of workshops aimed at impact investing competency: Investor Readiness Workshop for philanthropists and investors, Nonprofit and Impact Investing Workshop, For Profits and Impact Investing Workshop, Deal Doctor Workshop, and Corporate Innovation and Impact Investing Workshop. During 2015–16, the IFC gave more than 50 outreach and educational presentations and workshops to introduce impact investing and the CO Impact Days concept, invite

participation, and provide technical-assistance opportunities. It also sponsored The Leeds Net Impact Case Competition, which featured 43 MBA programs from around the world to focus on Corporate Innovation and Impact Investing.

The IFC believes that another key strategy to increase the flow of philanthropic capital into impact investing is to lower the barriers to entry by creating safe “stepping stones” that allow a conventional philanthropist or investor to experience initial low-cost, low-risk impact investing. The IFC created Impact Commitments — 10 first steps into impact investing, such as “screening my investment portfolio for impact” or “evaluating my first transaction” or “implementing decision-based attribution or investment beliefs.” The IFC is also developing a series of experiential-learning opportunities to assist in those efforts, such as:

- providing business-case competitions that simulate a real-life experience;
- arranging experiential-learning or “shadowing” opportunities for organizations; and
- developing giving circles, donor-advised funds, and community-of-interest funds for impact investing to bring like-minded investors together around communities of interest such as gender lens, health and wellness, and place-based efforts.

CO Impact Days

Colorado is home to dozens of national impact investor leaders from foundations, investment advisory firms and practitioners, and academia that are providing hundreds of impact-investing education opportunities. Why create a statewide marketplace in Colorado when other segments of the industry have been priming the impact-investor pump for many years? Because a series of independent, one-off deals were not sufficient to create the critical mass needed to drive investments at scale.

The pace of interest and potential investment began to shift in Colorado with the launch of The Denver Transit-Oriented Development Fund (Grippe & Beyer, 2014) and when several foundations, including The Denver Foundation and the Colorado Health Foundation, stepped up to leadership roles. The game changed dramatically in 2011-12, when regional businessman and philanthropic leader Sam Gary of the Piton Foundation decided to sell his refinery and invest several hundred million dollars in Colorado over the next 20 years, creating Gary Community Investments to lead the way. A strategy to accelerate the supply of impact-investing resources in Colorado was built on Piton’s long experience with making PRIs.

With a new level of interest in impact investing, the IFC engaged dozens of foundations and philanthropists representing over \$1 billion of capital seeking Colorado impact-investment opportunities. However, questions were raised by investors about the demand side of the equation: Did Colorado have enough social-venture

opportunities to match investors’ requirements for financial return, impact, risk, and liquidity? Connecting supply and demand to reduce fragmentation in the impact-investing community was the main impetus for the IFC’s decision to create a statewide marketplace — social ventures and impact investors don’t know how to find each other.

In the fall of 2014, the IFC invited community leaders to form a steering committee that would create a discovery marketplace to test the strategy and surface answers to these questions:

1. How much impact-investment capital is seeking Colorado social-venture investments?
2. Are there social ventures seeking impact-investment opportunities that match what impact investors are seeking? How do you incentivize social ventures to participate?
3. Are there enough philanthropists who are willing to invest in impact-investing “infrastructure”? What is the cost of production, and who pays? What is the most efficient way to minimize due diligence costs?
4. How do you communicate the value of an impact-investing marketplace? Would CO Impact Days and Initiative garner the kind of qualitative feedback that might build on current momentum?

CO Impact Days, held March 2-4, 2016, thus became a key component of the overall CO Impact Initiative. The IFC launched Colorado’s first statewide marketplace for impact investing by identifying, connecting, and celebrating the state’s top social ventures and impact investors, from the Western Slope to the Front Range. Produced by the IFC in collaboration with dozens of partner organizations, CO Impact Days was designed to give philanthropists (e.g., individual donors and holders of donor-advised and other funds) and investors (e.g., foundations, family offices, angels, venture capitalists, and private-equity funds) the confidence, tools, and

Although there are many options for organizing a call for deals, the CO Impact Days process was designed to embrace all sectors and stages throughout Colorado. Because foundations and sponsors had interest in different communities of interest, communities of identity, and/or communities of place, IFC created six tracks and multiple awards intended to include every possible social venture connected to funder interests.

connections to take action in new, powerful ways (Boulton, 2016; Thorpe, 2016).

The three main elements of the CO Impact Days process included a call for deals (also known as impact scans), executive-level education curriculum, and the marketplace.⁵

Impact Scans or Calls for Deals

Sourcing high-quality social ventures is a critical component of the marketplace strategy. The CO Impact Days call for deals was intended to reduce the cost of engagement and early-stage due diligence. Although there are many options for organizing a call for deals, the CO Impact Days process was designed to embrace all sectors and stages throughout Colorado. Because

foundations and sponsors had interest in different communities of interest, communities of identity, and/or communities of place, IFC created six tracks and multiple awards intended to include every possible social venture connected to funder interests:

- health, wellness, and food;
- energy;
- environment, water, transportation, and agriculture;
- economic development and social justice;
- arts, culture, and creative enterprise; and
- education and early childhood.

Awards also included initiatives that benefited women, veterans, and the LGBT community, for example.

Curriculum

The IFC developed 2.5 days of executive-level curriculum designed specifically for philanthropists and investors, customized to address sector needs while ensuring that all participants left with the same knowledge and using the same terminology about impact investing. This approach to curriculum will, the IFC hopes, generate a higher level of cross-sector collaboration in solving social and environmental challenges. The CO Impact Days curriculum featured:

- a tax, legal, and accounting workshop, including PRIs, exits, term sheets, and maximizing endowments and investment portfolios;
- Investor-Readiness training, including best practices in governance, decision-based attribution evaluation, investment beliefs, investment policy statements and ESG evaluation;
- due diligence workshops to guide the process of evaluating an impact investment for both impact and financial return;

⁵Impact Finance Center. (2016). CO Impact Days 2016 Program. Retrieved from http://static1.squarespace.com/static/55f25657e4b01ed5bc414ea4/t/56d0949159827e095d018aa4/1456510101619/Colorado+Impact++Days_Program_Final_LOSPR.pdf

- sector-specific group discussions facilitated by foundation and investment leaders with experience managing the complexities of impact-investment partnerships; and
- keynote and workshop presentations by thought leaders in philanthropy and impact investing.

Marketplace

The centerpiece of CO Impact Days was an impact-investing marketplace where potential investors could network and explore investment opportunities with some of the state's most high-impact nonprofits and social ventures. The Social Venture Showcase highlighted for investors 60 social ventures selected from more than 280 applicants to the marketplace. Investors were encouraged to connect directly with the social ventures, and the IFC provided a way to connect anonymously with other investors who indicated an interest in the same social venture. Each booth provided a sign-up sheet for investors interested in learning more about the venture, its business plan, and the impact it hopes to achieve.

CO Impact Days Results

Gov. John Hickenlooper proclaimed March 4, 2016, the last day of the conference, as Colorado Impact Investment Day. It was attended by more than 700 people, including 200 impact investors (philanthropists, foundations, and investors); representatives from 60 of Colorado's top social ventures; and more than 470 members of the community.

"The sheer variety of perspective and people was one of the big wins," said Tony Macklin, IFC senior advisor who helped facilitate sessions and served as a coach for participants. "Mixing sectors, neighborhoods, cities — nobody seemed uncomfortable with it," he said. Awards were given by sector for the best potential investment opportunities, and Blue Star Recyclers, from Colorado Springs, received a People's Choice Award.

As of April 2016, 73 impact investors had made 309 CO Impact Commitments, and 56 social ventures had received 273 expressions of interest to

participate in a due diligence process by impact investors. Nearly two dozen active sets of due diligence are in progress.

Lessons Learned: Implications for Foundations

Whether CO Impact Days and Initiative achieves success in Colorado and is replicable in other states depends to a large degree on the role foundations can play in supporting the development of a marketplace strategy that connects investors with social ventures. The following section summarizes the data currently available to answer the questions CO Impact Days and Initiative set out to answer, and suggests ways in which foundations can leverage their influence as place-based investors to amplify traditional grantmaking activities with impact investments.

Supply of Impact-Investment Capital

Quantifying exactly how much impact-investment capital is available to invest in Colorado can be answered only in hindsight. However, early indicators suggest there is more than \$1 billion of such capital available not only from foundations, but also from individual donors and private investors. Six months after CO Impact Days 2016, and as a direct result of the awareness, education, technical assistance, and marketplace

Sector-Specific Group Discussions

Gary Community Investments, in partnership with the Michael & Susan Dell Foundation, focused on impact investing as a tool in education and early childhood. While concerns about a foundation's capacity to manage impact investments was discussed frankly, there was consensus among foundation attendees that the model adds diversification to their philanthropic strategies. This case study demonstrated that successful impact investments can be made by working with the right nonprofit and social-venture partners. It also helped to demonstrate that the right nonprofits and social ventures do exist — a question many participants brought to CO Impact Days.

innovation work of the IFC, 13 investors are pursuing 21 impact investments in various stages of development. Those furthest along have identified \$11.7 million in investment opportunities. These impact investors are a diverse array of 10 foundations, community, private, and health conversion foundations and donor-advised funds, as well as multiple individuals. Fourteen of the investments resulted from connecting potential investors with social enterprises during CO Impact Days, and the IFC is working with several foundations to apply Investor Readiness tools to their portfolio.

With the benefit of two key drivers — education on how to prepare for making an impact investment (investor readiness) and access to investment-ready social ventures (the marketplace) — foundations were able to either enter the impact-investing arena for the first time or significantly increase and diversify their impact-investing opportunities.

Investable Deals

Initially, the IFC had considered using a prize competition as a pilot to recruit social ventures. After researching several options, the IFC's steering committee decided to move directly to pilot the marketplace, skipping the competition. "There was clearly a critical mass to take this on with the leadership of the Impact Finance Center and with the help of a host of other partners," said Doug Johnson, IFC Senior Advisor and Colorado chair of TIGER 21 — The Investment Group for Enhanced Results in the 21st Century.

Identifying investable deals is one of the main hurdles faced by potential impact investors, including foundations that have regular exposure to grantees within their areas of interest. The statewide competitive process used in Colorado was challenging, but had far greater leverage to surface quality investment-ready social ventures than individual foundations could generate. The applications were vetted by 130 volunteer judges who completed more than 820 evaluations using a tool called "valid evaluation." The most challenging aspect of the evaluation process was developing an impact rubric applicable consistently across sectors and

reviews and to different types of social ventures. The IFC asked a smaller group of 28 foundations, philanthropists, and investors to review the final list of 60 prospects to ensure that the marketplace would offer a high-quality, diverse set of social ventures.

One final challenge is that the definition of "investor readiness" may differ for potential investors and for social ventures seeking capital. Better alignment and articulation of mutual time horizons during the review process will help foundations and other investors narrow the realistic prospects for making and receiving investments.

Production Costs

The IFC's approach to fast-tracking a pilot CO Impact Days was much like building a plane while flying it. The center went out on a limb, raising money to support the event and borrowing money to cover production costs — which came in at \$490,000 for CO Impact Days and \$120,000 for the more than 50 CO Impact Initiative activities that led up to the event. The total \$610,000 translated to about \$3,000 for each of the 200 investors who attended CO Impact Days.

The attendance fee for an impact investor was set at \$595 to encourage participation across all sectors. Despite the potential leveraged value of participating in the event, the IFC overestimated investor willingness to pay \$595 and created a "scholarship" plan for half of the attendees. CO Impact Days was a first-of-its-kind event, without a communications budget or team, and registration did not open until February 2016, a month before the event. As a result, it is unclear if the fee of \$595 is a price that future participants will be willing to pay. The true cost of attendance was revealed at the conference, and an additional \$40,000 in donations arrived following CO Impact Days.

Based on attendee feedback, our own market analysis, and data for consulting projects the IFC has completed, it is clear that participants received information, services, and networking opportunities that — if priced separately — totaled more than \$30,000 per investor. (See

Table 1.) This calculation should greatly improve our ability to market the event in subsequent years and tease out more of the true interest in impact investing.

The total cost of the inaugural CO Impact Days was covered by \$415,000 in gifts, grants, sponsorships, registration fees, and a short-term, \$40,000 impact investment at 4 percent to cover cash flow leading up to the event. This cost does not include thousands of hours of volunteer time provided by the steering committee or partner organizations. At one point in the planning it seemed ideal to recruit a major sponsor and offer naming rights, but the steering committee decided that this was not a desirable approach in the context of the CO Impact Days and Initiative brand. This meant that the IFC needed to rely on small gifts and focus valuable content and recruitment resources on fund-raising; the scholarship plan created a significant deficit. The steering committee has since conceptualized a three-year “Founder Circle” strategy whereby a philanthropist can make a minimum \$5,000 annual commitment for three years. Through this process, CO Impact Days has already prefunded \$300,000 toward events and programming in 2017 and 2018. Ideally, as the event matures, all expenses will be covered through a combination of donations, fees, and impact investments.

The IFC is also working to raise funds for a CO Impact Days and Initiative scholarship fund, which would allow more organizations access to IFC educational workshops and networking opportunities. Several impact investors have expressed interest in putting together a CO Impact Days angel investing fund to support more organizations and diversify risk; that idea is being explored.

Given these resource constraints, CO Impact Days and Initiative was not fully prepared to manage the due diligence process without additional philanthropic support. A collaborative effort among foundations to create a statewide impact-investing marketplace could add efficiencies and resources to the effort that could streamline the process, draw more

TABLE 1 Estimated Value per Impact Investor for CO Impact Days 2016

Description	USD
Executive education 2.5-day course	\$3,000
Custom call for deals ^a	\$25,000
Investor-readiness tools	\$2,000
Other impact investors – shared interest	\$500
Saved due diligence costs per venture	\$2,500–10,000
Total value	\$33,000

^aA custom call for deals is a term the IFC uses to describe when an impact investor creates a request for investment opportunities for a specific region or sector.

participants, and help to underwrite the entry of new impact investors.

Communicating Value

Communicating the value of a first-of-its-kind initiative to five diverse market segments is, at best, daunting. CO Impact Days and Initiative had minimal resources to spend on communications, which created limitations on introducing a concept that is inherently difficult to understand. For example, the IFC was able to connect with only one of Colorado’s 24 mental health organizations, and that organization submitted multiple applications to the marketplace competition. There is reason to believe that the other 23 organizations would also have submitted investable deals if they’d known about the competition. The IFC believes further that there is high demand for alternative financing among large institutions such as schools, health care entities, and public-sector organizations seeking to combine financing options to reduce cost, inefficiency, and risk.

With testimonials in hand and a better understanding of the need to budget sufficiently for

SECTOR

marketing resources, each successive statewide Impact Days will become easier to promote in a diversified manner to each sector.

Opportunities for Foundations

While a handful of foundations have been practicing impact investing for decades, they were the exception instead of the rule. Describing an important Keynesian concept about resistance to change, scholar Keith Ambachtsheer observes: "In any great organization it is far, far safer to be wrong with the majority than to be right alone" (Galbraith, 1989).

Testimonials

Just a quick note to congratulate you on CO Impact Days. You have started a movement here and I was absolutely blown away by the quality of social ventures that I saw. You certainly know what the impact-investing scene needs, and I hope that what you've started in Colorado can replicate quickly in other states and beyond!

— **Neeraj Agrawal, mission-investing program officer, Dell Foundation**

Events like this are critical to creating vitality in a community. Bravo, CO Impact Days.

— **Dr. Kimberly Gandy, founder, Play-It Health**

Being a Latina from Puerto Rico and discovering the connecting vessels with someone like you north of the border just makes me so excited about what it all means when we all come together. It's just one big family gone a little astray and in need of family reunions! Si, se puede!

— **Irene Vilar, Americas for Conservation and the Arts, Vilar Creative Agency**

The Impact Finance Center's work extends far beyond Colorado. It's part of the infrastructure of the impact space, and few states have anything like it.

— **Holmes Hummel, founder, Clean Energy Works**

Those foundations who attended the Mission Investors Exchange 2016 National Conference can attest that impact investing is on the rise; there was a sense that the field is on the precipice of change. During a plenary session, the Kresge Foundation's Rip Rapson, Julia Stasch of the John D. and Catherine T. MacArthur Foundation, the Case Foundation's Jean Case, and Darren Walker of the Ford Foundation each discussed their institution's impact-investing commitments (Mission Investors Exchange, 2016). Walker also argued that maximizing financial return without regard to impact as a foundation policy is no longer defensible:

We must interrogate our own behaviors, our own practices and internal policies. I have a deep and unwavering belief that philanthropy has the potential to play a transformational role in our society, and I also have a belief that it doesn't do it. It doesn't play the role fully. We do not bring all of the arrows in the quiver and, Julia [Stasch], to your point, we are not "all in" yet. My hope is that over the next five years that we in philanthropy — particularly the large institutions, the legacy institutions — can begin to experience the transformation that is essential if we are to remain relevant, impactful, and bring true meaning to our mission.

Whether or not we are truly at an inflection point, it is clear that foundations making impact investments no longer feel alone or isolated. A crowd is forming, and the conversation has shifted from "Are you doing impact investing?" to "What are you doing in the area of impact investing?" For those foundations that are new to impact investing, the overwhelming questions are where to begin and whom to trust.

There is also a growing set of resources available to help foundations understand the landscape of available impact-investing options and how to begin. Building on the previous work of Living Cities, for example, the Kresge and MacArthur foundations are sponsoring a project to aid communities in capital absorption. Hacke, Wood, and Urquilla (2016) suggest 10 roles foundations can assume to facilitate community capital absorption: convener, capacity builder, match-maker, data provider, investor, deal-maker, communicator, policy advocate, mission steward, and

ecosystems engineer. Some of these roles — convener, capacity builder, data provider, communicator — are a good fit for foundations seeking low-risk ways to explore becoming impact investors. Moving into the roles of matchmaker, investor, or deal-maker requires a degree of education and experience. And for the seasoned impact investor, using investments as leverage to advocate for policy and build the financial ecosystem are needed to fuel the expanded use of impact investing. *Community Foundation Field Guide to Impact Investing* (Mission Investors Exchange, 2013) can offer guidance to staff and trustees, and has sections that might be useful to small and midsize private foundations as well. The guide's suggestions on engaging donors through donor-advised and community-of-interest funds, tools the IFC is currently developing with foundations, might be of particular interest. (See also Cheney, Killins & Merchant, 2012.)

From a tactical, practical level, there is no “right” first step for a foundation preparing to engage in impact investing. That step is often dictated by the interests of the trustees and/or staff, or the needs of a grantee. In some cases, the focus is on aligning an endowment with its mission; in others, on direct investing. Some foundations are exploring impact investing with existing grantees, seeking opportunities to restructure long-term support more effectively while deploying foundation resources more efficiently. For foundations and investors unsure of where to begin, the IFC offers some practical first steps:

- *Awareness:* Host an impact investing presentation for your community; create an impact-investing book group within your organization or across organizations; establish a learning circle (e.g., the Colorado Association of Funders Impact Investing Peer Group).
- *Education:* Attend an impact-investing workshop or conference; join an association or affinity group (e.g., Mission Investors Exchange, Confluence Philanthropy, Investors' Circle).

From a tactical, practical level, there is no “right” first step for a foundation preparing to engage in impact investing. That step is often dictated by the interests of the trustees and/or staff, or the needs of a grantee. In some cases, the focus is on aligning an endowment with its mission; in others, on direct investing. Some foundations are exploring impact investing with existing grantees, seeking opportunities to restructure long-term support more effectively while deploying foundation resources more efficiently.

- *Action:* Develop your investment beliefs; philanthropically support impact-investing infrastructure; evaluate your philanthropic portfolio for opportunities to restructure grants as more-efficient impact investments; screen your foundation endowment for environmental, social, and governance factors; evaluate your endowment using a decision-based attribution for feeds and decisions, based on strategic allocation, tactical tilts, and manager selection; evaluate a first direct investment with another organization; create a community-of-interest fund to make direct investments, or invest in a Main Street “character” loan pool (one is offered by Colorado Lending Source); invest in a first pilot direct investment.

FIGURE 3 National Impact-Investing Marketplace: A Regional Scale

National Impact Investing Marketplace

A Vision to Scale Regional Marketplaces

The CO Impact Initiative is a three-year strategy to elevate and accelerate impact in just one state, catalyzing a flow of \$100 million in investment capital into social ventures that deliver impact to Colorado's communities, economy, and natural environment. What if this could happen in all 50 states? A new target might be to unleash \$5 billion within the five to 10 years it could reasonably take to replicate Colorado's initiative across the country.

Ambitious? Yes. Important? Absolutely. Realistic? The IFC believes that Colorado's marketplace — the model, tools, and lessons learned — are expandable to a multistate, regional scale and replicable across the United States. Colorado is a testing ground, the nation's first attempt to

create a state-scale impact-investing marketplace for direct deals across all sectors and stages of growth. The IFC plans to assemble a national team to determine the best structure and business model (e.g., a cooperative, a public benefit corporation, a public charity, investment banking) for expansion and replication.

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