

Rural Mission Investing: A Brief Overview of Stakeholder Perspectives

An Interim Report for Discussion at the PRI Makers Conference

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Mission investing (MI) offers foundations an expanded set of tools to achieve their organizational goals.¹ In the context of rural philanthropy, mission investing offers opportunities to address vital issues including sustainable economic development, poverty alleviation, and fundamental infrastructure needs. Through MI, foundations can direct increased financial resources and capacity building tools to rural areas, and they may also use MI to attract significant new sources of public, private, and non-profit investment to areas that have experienced declining investment, philanthropic and otherwise.

For all its potential, rural MI remains a relatively underexploited philanthropic resource. This brief note is a preliminary report on a project, funded by the Annie E. Casey Foundation, to explore the state of rural MI today, its potential for growth, and to identify some of the barriers to and opportunities for bringing rural MI to scale. From January to March, 2010, the Initiative for Responsible Investment at Harvard University, as part of its work on the More for Mission Campaign, interviewed nearly 40 stakeholders in rural mission investing including local and national foundations, investment intermediaries and researchers in the field. These interviews have augmented insights and hypotheses generated during discussions at the Council of Foundations Annual Conference in spring 2009, at the Rural Philanthropy Summit in Little Rock in summer 2009, and from on-going informal discussions with interested stakeholders.

The project's goal is to increase the capacity of foundations to engage in rural MI, and to help build an investment infrastructure that links together like-minded mission driven investors, high-performing investment intermediaries, and community stakeholders. Here we discuss several core issues and themes that are emerging from the project, as a way to provoke discussion and gain input from participants at the PRI Makers Conference. We

¹ Mission investments can be either market rate (mission-related investments) or below-market rate (program-related investments). Market-rate investments support the mission of the foundation and seek competitive risk-adjusted rates of return. See www.moreformission.org generally for our approach to mission investing in theory and practice. The More for Mission Campaign is currently a network of 66 foundations which collectively represent over \$30 billion in assets as of April 2010.

invite feedback, analysis, criticism, and other relevant examples of mission investing in practice.

Mission Investing in General: A Brief Overview

There are mission investing issues general to most any foundation or issue area, and rural mission investors face them like any other foundation or intermediary. Here are several key reasons for mission investing, and challenges to implementation, that can help place rural MI in context.

Reasons for Mission Investing:

Mission investing can serve a number of important purposes for foundations. It can:

- Expand the resources available to foundations to achieve their institutional mission
- Build capacity in investees for sustainable business models and expansion of activities
- Develop networks of foundations who pool resources and create leverage through shared investment opportunities
- Make markets that leverage private capital or public investment that might not otherwise be accessible to investees

Challenges to Mission Investing

Despite its potential, mission investing remains an underexploited field of foundation activity, for a variety of structural, cultural, and practical reasons.

At the institutional level:

- Boards of Directors may not be familiar or comfortable with the concept of Mission Investing.
- Mission investing strategies must carefully define what constitutes a mission investment from the foundation's perspective.
- Investment consultants and other gatekeepers may not be familiar or equipped to deal with emerging mission investing strategies.

- Staff may lack experience, skills, and time necessary to implement a new strategy.

At the portfolio level, mission investors may confront:

- More narrowly tailored issues or geographic focus than the investment vehicles available to them.
- Difficulty assembling the needed expertise to evaluate the product for financial soundness and mission impact.
- Mission investing products and services distributed unevenly across issues and geographies.

For all of these challenges, the fact remains that foundations are uniquely positioned – through their intellectual, social, and financial capital – to catalyze the growth of mission investing opportunities that conventional markets may not develop on their own. The field offers real opportunities to leverage foundation investments for impact.

Rural Mission Investing in Context

The general issues that foundations and intermediaries face with mission investing have rural manifestations. Foundation investors and intermediaries have suggested that smaller communities located at significant distances from financial centers can make rural investing (or appear to make it) more difficult in terms of being able to source deals and deploy capital. Similarly, interviewees frequently pointed to a relative underdevelopment of rural investment infrastructure – investment intermediaries, community partners, public support – in comparison to the urban mission investing market. For this reason, it may be particularly difficult to create a specifically rural mission investment vehicle.

At the same time, foundations and intermediaries both point to the potential impact of rural mission investing. Close contact on the ground, in areas potentially unfamiliar to mainstream financial institutions, offers mission investors outsized opportunities to develop markets. Other investors may lack the mission interest, local knowledge or social capital to develop pipeline opportunities, support infrastructure development, or adopt creative solutions to difficult problems in financing or technical assistance – in other words, there is a larger role for mission investors to play in the broader investment context. Local and

community foundations may often be best positioned to aggregate knowledge in addition to human and financial capital.

Finally, there is the issue of scale. While it may be more difficult to aggregate investments in rural areas, there is also the potential for relatively small amounts of money – in the overall scheme of US financial investment – to have outsized importance in rural communities for economic development and other forms of mission impact.

Where Can Rural Mission Investors Currently Find Opportunities?

Rural mission investing opportunities are found along the mission investing spectrum of risk return profiles and asset classes. To date the market has focused primarily though not exclusively on PRIs as investment vehicles. These include:

- Low income credit unions and community development financial institutions in rural areas which use their capital deposits to lend to individuals or small businesses in their area. (**Example: Southern Bancorp** is an intermediary development bank that was first funded by **The Winthrop Rockefeller Foundation** to provide access to capital in rural markets, tailoring investment opportunities is a narrowly defined geographic region.)
- Loan funds that target specific sets of borrowers that are just below conventional bank lending requirements for collateral, equity, or track record. (**Example: Lydia B. Stokes Foundation** and **Solidago Foundation** invested in the **Carrot Project**, a loan fund for sustainable agriculture development in Western Massachusetts.)
- Loan funds that provide capital to a broad set of community assistance such as childcare, education, low income housing, and human services. (**Example:** Community Development Financial Institutions such as **CEI Maine** and **IFF** include rural community assistance investments in their set of mission investment criteria for building their loan portfolios.)
- Venture capital private equity investments that make smaller investments than traditional equity funds which are more manageable for the entrepreneur and provide more sustainable growth opportunities for the business. (**Example: Meritus Ventures** makes equity investments in private, expansion-stage companies in predominantly rural areas in central and southern Appalachia.)

These various forms of investment cover a variety of mission focuses, though they tend to concentrate their efforts on economic development, job creation, and access to affordable housing in rural communities. Under this broad umbrella, interviewees pointed to a gap in financing for communities undergoing structural economic transformation (from extractive industries to renewable energy, for instance), sustainable agriculture, infrastructure development (including alternative energy), and the monetization of environmental assets. Interest from investors in these relatively new areas has been increasing.

How Can Foundations Help Grow the Rural MI Infrastructure?

As noted, many foundations interviewed expressed concern over the scarcity of investment intermediaries in rural areas – often contrasting this problem to the relative depth of investment intermediaries, as well as financially skilled community partners and like-minded investment partners, in metropolitan regions.

These foundations occasionally pointed to creative ways to address this challenge, in the process highlighting the need to opt for available solutions when optimal solutions were too difficult to achieve. Creative solutions included:

- Direct investments as a way to address specific problems or achieve specific goals in the absence of market capacity, though experienced mission investors frequently offer caution on direct investments for reasons ranging from opportunity costs for foundation staff, to the lack of resources for financial due diligence, to portfolio risk issues associated with large investments idiosyncratic projects. **(Example: The Community Foundation of the Ozarks** provided a \$1 million loan to a rural hospital for them to make improvements to their emergency room, largely because there was no other institution in place to do it.)
- Capacity building for CDFIs in rural communities to pave the way for future investment. **(Example: The Winthrop Rockefeller Foundation** has made capacity development grants for intermediaries to shore up staff and hire a development person to seek funds. By making a no risk grant investment in a CDFI, Winthrop was able to allow the CDFI to attract investments from three other foundations. The CDFI

was supported enough by the Foundation's grants that it was able to expand so that Winthrop Rockefeller was able to make a low interest loan investment.)

- Design RFPs that catalyze product development, to fill gaps in investment infrastructure. (**Example: Invest Northwest** is a venture fund that was created in response to an RFP put out by the **Northwest Area Foundation**. The fund's goal is to invest in the eight state region in which the Northwest Area Foundation operates. The fund invests in late stage companies where an investment will help companies to grow and increase employment, and has developed a compelling history of financial and social returns on investment.)

Stakeholder Insights

The series of conversations we have held with stakeholders often came back to a number of key insights on rural mission investing that help frame the field. Among these insights are recommendations for foundations, including:

- *Adjust your vision of scale.* Investors often look for impact investments that can achieve scale, but it may be that their vision of scale is not the appropriate lens through which to view rural investments. In many cases, rural businesses may not require large investments, and they may operate in markets that allow for massive growth. Smaller scale investments can provide for more sustainable growth while still creating new jobs and contributing to economic development. (**Example:** Pat Scruggs' recent study on the role of equity in community development highlights the potential for smaller scale investments in the community development venture capital arena. ²⁾
- *Be flexible with the path to mission goals.* Recognize the rural mission can be buried within larger funds; exclusively rural investments can be difficult to structure and many intermediaries are unable to build the capacity to do rural exclusively. If rural investors are flexible and allow for some non-rural impact, they will find that rural

² Scruggs, Patricia. "The Role of Equity Capital in Rural Communities." February 2009. Available at: <http://www.yellowwood.org/Role%20of%20Equity%20Equity.pdf>

products can be bound in larger investment pools and the universe of investment opportunities will grow.

- *Support development of intermediaries.* While foundations come at rural mission investing from different angles, they all agree that patient capital is a key element to a successful investment. It may take several years to build an intermediary that can efficiently develop strategies and opportunities, or absorb investments from private, public, and/or non-profit sources. The full range of foundation tools may be most effective in catalyzing intermediaries' development. **(Example: The Mary Reynolds Babcock Foundation** has used a combination of grants, PRIs and MRIs to create investable opportunities. In 1998, the Mary Reynolds Babcock Foundation made a grant to **Mountain BizWorks** (then Mountain Microenterprise) to support organizational development goals around increasing their staff capacity and geographic impact for entrepreneurial training and peer lending. In 2000, MRBF made a grant to support Mountain BizWorks' business technical assistance and lending program as they moved beyond peer lending and created a loan fund to offer small business loans up to \$50,000. Additional grant funds in 2005 supported the business program and included an equity grant of \$100,000 to capitalize the Mountain BizCapital loan fund and leverage additional capital from the U.S. Treasury Community Development Financial Institution (CDFI) Fund. In 2006, the Foundation made a \$200,000 PRI as debt capital to expand Mountain BizCapital's loan fund to meet growing demand for business loans and increase Mountain BizWorks' earned income and self-sufficiency.)
- *Support technical assistance for pipeline development.* Foundations can be also be creative in the varieties of technical assistance they provide to create investable opportunities for funds, for instance helping out entrepreneurs in rural areas who do not appear to have the necessary network and support structure for them to flourish. A facility that identified pipeline development opportunities by issue area or location could offer meaningful support for concrete investment opportunities by building ongoing support structures for investee identification and development. Programmatic use of this high touch approach would build a larger and more diverse universe of investments to choose from for pipeline development and provide foundations and others with a better sense of where to invest. **(Example: The**

Kellogg Foundation funded a study called [Mapping Rural Entrepreneurship](#) to gather information on institutions, programs, and activities that support entrepreneurship in rural America.³⁾

We have also heard suggestions for developing the field more generally. Among these are:

Build Board interest and capacity in MI. As with MI in general, rural MI requires significant board support and oversight to be effective, and many boards have not been much exposed to mission investing in practice. Engaging boards on core mission areas such as rural development may offer more concrete steps to building governance capacity for MI. Networks on funders in rural areas may also benefit from tailored information on tools for the practical implementation of MI such as those provided by PRI Makers and More for Mission.

Build place-based networks of MI stakeholders: Rural MI is often place-based, with many investors and other stakeholders having a strong geographic focus. Convening regionally specific networks of foundations, private investors, investment intermediaries, and other stakeholders in rural MI can facilitate the creation of pools of investors, technical support systems, and stakeholder networks needed to build investment infrastructure. And MI can be a tool to capture not only financial but multiple forms of capital that can support rural development.

³ Kellogg Foundation. "Mapping Rural Entrepreneurship." August 2003. Available at: <http://www.cfed.org/assets/documents/publications/Mapping%20Rural%20Entrepreneurship.pdf>