Shelley Strickland
U-M Office of Development

1. Beyond dollars but often synonymous with financial gifts
2. Known as third sector, but lines now blurred
3. Individualistic yet collective
4. Historic yet contemporary
5. Initial investment significant for potentially high yields
6. Sustainable funding source

Philanthropy is voluntary action for the public good.
Philanthropy, in its noblest sense, has the proven potential to transform and empower individuals, groups, and organizations.

2012 Total Giving = $316 Billion

<table>
<thead>
<tr>
<th>2012 Donors</th>
<th>2012 Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>Religion 32%</td>
</tr>
<tr>
<td>Bequests</td>
<td>Public Benefit 7%</td>
</tr>
<tr>
<td>Corporations</td>
<td>Education 13%</td>
</tr>
<tr>
<td>Foundations</td>
<td>International 6%</td>
</tr>
<tr>
<td></td>
<td>Human Services 13%</td>
</tr>
<tr>
<td></td>
<td>Arts/Culture 5%</td>
</tr>
<tr>
<td></td>
<td>Foundations 10%</td>
</tr>
<tr>
<td></td>
<td>Enviro/Animals 3%</td>
</tr>
<tr>
<td></td>
<td>Health 9%</td>
</tr>
</tbody>
</table>

Source: Giving USA Foundation

Philanthropy, in its noblest sense, has the proven potential to transform and empower individuals, groups, and organizations.
Cheryl Elliott

*Ann Arbor Area Community Foundation*

1. Inter-generational equity
2. Only represents 13% of total annual charitable giving
3. Significant concentration of assets among the largest foundations
4. Broad range of investment classes
5. Funded by one family, profits of a single company, or broadly by the public on an ongoing basis

A foundation is a type of nonprofit whose principal purpose is to make grants to other organizations to advance a charitable cause.
While there’s room for reform in the foundation world, it’s an important mechanism for ensuring that private capital continues to be directed to charitable causes in a thoughtful, long-term manner.

The growth of the AAACF Oscar Reimold Fund

Since 1981, initial gift amount given away more than three times, and the Fund is still growing!
1. Regulated by the IRS
2. Count toward the foundation’s 5% annual payout requirements
3. Provide below-market returns
4. Can be to for-profits or non-profits
5. Can be across asset classes and vehicles (equity, debt, etc)
6. In use for 30 years: $320M from 221 investments

An investment from a foundation that aligns with its mission and where financial gain is not a significant purpose.
PROGRAM RELATED INVESTMENTS

- Provides long-term capital for social change
- Allows investment dollars to be recycled for social good
- Can be used together with grants and market rate investments in the same deal or at different growth stages
- Are currently focused on low-risk investments in non-profits (real estate), while need exists in other areas
- Foundation staff capacity/expertise to do this work is limited

A PRI provides a 3rd funding method for social change beyond grants and market rate investments, filling a funding gap and allowing for significant value creation.

Urban Retail Loan Fund
Financing for primarily small neighborhood-based retail businesses not provided by traditional lenders.

- Investment Amount: $3 Million
- Investment Period: 10 years
- Asset Class: Debt/Fixed Income
- Type: Loan (PRI)
- Rate of Return: 1.00%
- Collateralized: Yes

A PRI provides a 3rd funding method for social change beyond grants and market rate investments, filling a funding gap and allowing for significant value creation.
1. Banks, credit unions, and insurance are funders
2. Special purpose Community Development Financial Institutions (CDFIs) serve under-banked populations
3. Capital is generally in the form of loans and tax credit financing
4. Funding is most suitable for organizations that have been in business for over three years

Any financial institution that uses social impact as a success metric may be included in the community banking sector.
- Debt bridges the timing differences between cash inflows and outflows
- Debt finances large, long-term acquisitions like buildings
- Debt is leverages complex investment structures

- Debt is not a substitute for a lack of revenue
- Debt requires skillful management

Community banking has a double bottom line: financial and social return.

**EXPLORING SOCIAL FUNDING METHODS**

- Lender
  - Provided low-interest loan

- Youth Arts Group
  - Pre-paid lease on performance space
  - Secured discounted rate
  - Saved group thousands $
  - Advanced mission to reach low-income teens

- Landlord
  - Received enough revenue to upgrade performance space

Community banking has a double bottom line: financial and social return.
1. Also known as a Pay for Success model, the term “Social Impact Bonds” is a misnomer - these are **not** bonds.

2. More like “bridge financing” to outcome/performance-based payments to be made by government contracting agencies if outcome/performance targets met.

3. Best suited for funding proven, scalable interventions that address those social problems, which, if not tackled, will cost government (and society) more to cure than prevent (eg interventions result in cost savings for government).

Social Impact Bonds (SiBs) attract private capital into financing structures aimed at tackling social issues that are preventable.
SOCIAL IMPACT BONDS
EXPLORING SOCIAL FUNDING METHODS

- Shifts risk for cost of funding failing interventions from government to private investors
- Transaction costs can be high relative to deal size (so need large deals to justify)
- Encourages a new government mindset – to pay for performance outcomes (not outputs)
- Can be challenging to develop reliable and statistically significant data measurements of performance outcomes
- Only certain social issues/problems are well-suited for this method
- Has potential to attract large amounts of capital necessary to scale important social interventions
- Need appropriate legal, enabling environment (such as appropriate government procurement rules and appropriations legislation)

“I am deeply hopeful and deeply skeptical of the future of social impact bonds.” Ted Levinson, RSF Social Finance

SOCIAL IMPACT BONDS
DELIVER

What is a Social Impact Bond?

Cash flows
Services

© Social Finance (adapted)
1. Millions on the table
2. Foundations, Corporations, and Universities incentivize you to participate with few barriers
3. Typically non-diluting “grants” with various binding/non-binding terms (sector specific use, impact targets, distribution arrangements, values alignment)
4. Idea and seed stage competitions are common (scale/expansion are less common)

Secure impact capital in the form of competition funding.
Good ideas sometimes suffice

• Early incentives to build a team, test your ability to work together
• Competition lays groundwork for the real work (building an innovative product or service and generating impact!)

Distraction from building an innovative product or service and generating impact!

Do the “real” work and you’ll get noticed by competitions.

Qlovi has secured > $300K with more grant funding on the way.

Do the “real” work and you’ll get noticed by competitions.
1. Seed and early stage investments, intended to help the company grow
2. Equity-based impact investing is restricted to for-profits, but other models for nonprofits can provide debt financing
3. Impact investing derives from impact investing funds – may be for-profit or nonprofit
4. Works across sectors

Investing in the equity of a company with the intent to support financial growth and social impact.
Equity-based impact investing encourages companies to bake the social mission into business and growth strategies, driving financial return and social impact.
Nonprofit and Public Management Center

Requests for re-use of materials can be directed to NPM Managing Director Rishi Moudgil at nonprofit@umich.edu.