# The Philanthropy Column

Teresa Araco Rodgers 23 September 2011

When I was in school, I looked forward to receiving the teacher's summer reading list. I enjoyed having goals and reading my way through the list every summer. With my school days behind me, I still always make a list, though typically only manage to get about a quarter of the way through it; summer is always busier than we think. Author Lucy Bernholz, Founder and President of Blueprint Research & Design, Inc., was at the top of my reading list this summer. With the guidance of Bernholz's Philanthropy and Social Investing Blueprint 2011, I am making my way through the vast landscape of impact investing. It is an area of philanthropy that I have been concentrating on and in the spirit of this edition of the Philadelphia Social Innovations Journal, I thought I would explore impact investing as it relates to health.

Both philanthropy and health are individually undergoing profound transformation with much debate privately and publicly. No doubt the result has been and will be a dramatic change in how each field is practiced. This column is about the confluence of these two sectors as it relates to the financial support received by health providers and organizations from foundations and other non-government funders.

# The landscape

For the purpose of clarity, the following are some definitions to set the stage for this discussion. The philanthropy universe is divided into two groups: those who do the work (the doers), and those who fund the work (the donors). There are nonprofits and for-profits within each of these groups.

| | DOERS<br>(enterprises that produce social good) | DONORS<br>(funders of those enterprises) |
|---|---|---|
| **Nonprofit** | Nonprofit Organizations | Philanthropy |
| **For-profit** | Social Businesses | Social Investor |

*Source: Lucy Bernholz, Philanthropy and Social Investing Blueprint 2011*

Giving, gifting, donating, charity and grantmaking are all terms associated with nonprofit organizations and philanthropy. While most philanthropic organizations fund nonprofit, 501(c)(3) organizations, donors are increasingly looking toward new ways of funding and investing in for-profit businesses. Social entrepreneurs are pushing the boundaries of the old model of philanthropy and are testing new business structures (like B Corporations) to deliver services and products with social or environmental impact while also achieving a financial bottom line.

In Philanthropy and Social Investing Blueprint 2011, Lucy Bernholz notes that, “While most social investing funds go to social businesses, investments can be made in nonprofit organizations. Funds can flow across the nonprofit/for-profit divide.” This is an important point and a trend we are witnessing in the space. As the downturn in the financial markets put pressure on foundations, the lines blurred between investments and grants and between supporting nonprofits and for-profits. This is about leveraging resources as fully as possible and it is about supporting organizations best positioned to deliver so that the donor’s aims can be shaped, accelerated and scaled for results.

### Impact investing

## Impact investing

Grantmakers in Health (GIH), a nonprofit, educational organization dedicated to helping foundations and corporate giving programs improve the health of all people, provides a good definition for impact investing that I will borrow. In their Guide to Impact Investing, they state, “Broadly defined as foundation financial investments that advance mission while recovering principal or earning a financial return, impact investments are often privately held investments that foundations make to achieve a type or scale of social impact that they could not achieve through grantmaking alone”

(Grantmakers in Health 2011).

The investments can be structured for different program areas or sectors, for most asset classes including equity, debt, deposits, guarantees and real assets. There are several terms used in the field and common among them is program-related investments or PRIs. I classify PRIs as a category of impact investments because the term specifically relates to the tax code for private foundations. More formally, PRIs are investments where the primary purpose is to accomplish the foundation's exempt purpose, where there is no significant purpose to produce income, and where there is no purpose to influence legislation.

At the end of last year, JP Morgan, in conjunction with the Rockefeller Foundation and the Global Impact Investing Network (GIIN), produced a report called, Impact Investments, An Emerging Asset Class. The report got a fair bit of attention from the investment management community as it estimates substantial growth for the asset class. Their research indicates that for a segment of the market, "the potential over the next 10 years is invested capital of $400 billion to $1 trillion and profit of $183 to $667 billion" (JP Morgan 2010). Of significance is their rationale around why impact investing is such an innovative concept. They write, "it defies the traditionally binary nature of capital allocation. By convention, capital has traditionally been allocated either to investments designed to optimize risk-adjusted financial return (with no deliberate consideration of social outcomes), or to donations designed to optimize social impact (with no expectation of financial return)."

The sector is developing rapidly, but it is still very young. Impact investing requires planning, investing skills and the right metrics. A great deal of collaboration and a variety of initiatives are underway to address shortcomings. For example, GIIN has been an active proponent of metrics and has put a great effort into creating Impact Reporting & Investment Standards, or IRIS (Global Impact Investing Network 2011). IRIS creates a common language to describe the social and environmental performance of an organization, and provides an independent and realistic set of metrics for organizations to use when reporting their impact. Others are putting resources into building databases of providers and sponsors of funds which are triple bottom line oriented. All of this is adding up to the maturation of the sector.

### Health


## Health


According to the U.S. Department of Health and Human Services (HHS) and the Centers for Disease Control and Prevention (CDC), "Health equity…as understood in public health literature and practice, is when everyone has the opportunity to 'attain their full health potential' and no one is 'disadvantaged from achieving this potential because of their social position or other socially determined circumstance'" (U.S. Department of Health and Human Services 2008).

In 2008 HHS set out to create a plan to achieve health equity. They call it their Healthy People 2020 Plan. The Plan has 4 goals:

1. Attain high-quality, longer lives free of preventable disease, disability, injury and premature death.
2. Achieve health equity, eliminate disparities and improve the health of all groups.
3. Create social and physical environments that promote good health for all.
4. Promote quality of life, healthy development and healthy behaviors through all life stages.

The growing practice of integrative medicine reinforces the Healthy People 2020 goals. Integrative medicine is about engaging patients and caregivers in the full spectrum of services including physical, psychological, preventive and therapeutic in order to achieve optimal health. However, the health industry is far from integrative. And in vulnerable populations the deficiencies are even more profound.

While policy is moving in the right direction, donors are looking at their grantmaking, other philanthropic initiatives and ever more increasingly at impact investing to address the shortcomings.

# The confluence

The GIH report referenced earlier organizes impact investments in health into 3 broad themes: healthcare, health coverage and healthy community (Grantmakers in Health 2011). Investments in healthcare include things like health centers, products, research and workforce development. Investments in health coverage include supporting the benefits families receive so that they can pay for care. And investments in healthy community identify determinants of health and then seek to leverage them in order to minimize preventable illnesses and unnecessary healthcare costs.

There are numerous examples of impact investments and initiatives related to health in the GIH report and other publications. One such Pennsylvania-focused initiative is under the auspices of The Reinvestment Fund, or TRF. TRF is a Philadelphia-based public charity that, as of 2010, manages a lending portfolio of nearly $700 million. This particular project, the Pennsylvania Fresh Food Financing Initiative, is a great example of a public/private partnership investment in healthy community. Along with its partners, The Food Trust, the Pennsylvania Department of Community and Economic Development, and the Greater Philadelphia Urban Affairs Coalition, TRF spearheaded the Pennsylvania Fresh Food Financing Initiative, which provides one-time grant and loan financing to help fresh food retailers overcome barriers when opening in underserved, low-income urban, suburban and rural communities, and also supports renovation and expansion of existing stores to sell healthy foods (The Reinvestment Fund 2011).

As of June 2010, TRF had committed $85.3 million in grants and loans to 85 supermarket projects in about 30 Pennsylvania counties. These projects, ranging from 900 to 69,000 square feet in size, were expected to yield more than 1.7 million square feet of space for retail food services, and to create or retain 5,000 jobs. TRF has replicated the program in New Jersey and is sharing its experience with other Community Development Financial Institutions (CDFIs) and partners to support replications in California, Colorado, Illinois, Louisiana and New York.

The clear shift from disease treatment to health promotion opens the stage for investments across a spectrum of innovations. And there are a lot of factors driving the interests of donors in the private sector to invest in these innovations. First and foremost, traditional grants are just simply not enough to advance the cause. There are new doers entering the space and some of them are mission-driven for-profit businesses that need capital to grow. Also, the Internet is accelerating access to opportunities to make loans and investments in social entrepreneurs. And finally, for those concerned with fiduciary responsibility, I would say that there is much research showing that impact investments are holding up well versus traditional investments.

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