What Happens to Giving as Impact Investing Grows?

By Nicole Wallace

Not long ago, wealthy people who wanted to put big money to work for good had two choices: make a charitable contribution or set up a foundation through which to make grants. There were some exceptions, but for the most part, it was straightforward.

Today, the options have expanded, thanks in part to the growing popularity of investments that aim to combine financial returns with social or environmental change. The question now is: Will those investments mean fewer dollars go to gifts and grants?

A 2016 survey of wealthy donors suggests impact investing is displacing some giving, although the numbers don’t make it clear how much charities should worry. One-third of the 1,435 affluent households surveyed by Indiana University’s Lilly Family School of Philanthropy and U.S. Trust reported that they hold impact investments. Of those, more than 60 percent said their impact investing was in addition to their charitable giving. But 34 percent said the investing replaced some of their giving, and 5 percent said they had swapped out giving completely.

Many donors and foundations doubt that mission investments will take the place of traditional philanthropy. They say some important causes, such as feeding the hungry, aren’t good candidates for investment and will always require philanthropy. But donors say that impact investing is changing how they give, sometimes in powerful ways.

For-Profits and the Arts

Because the arts have largely been absent in discussions about impact investing, Laura Callanan last year started the nonprofit Upstart Co-Lab to help connect business-minded artists with investors who want to put their money to work for both good and profit. She thinks artists are natural entrepreneurs who can improve the communities where they live and work.

She points to sculptor Samuel Farrazaino, who started Equinox Studios, a vibrant arts complex in a World War II-era factory building in Seattle’s Georgetown neighborhood. With nearly 100,000 square feet of workspace, it houses more than 125 musicians, filmmakers, glass blowers, and other creative entrepreneurs. Community members watch the artists at work, take classes, and attend performances.

Equinox got its start in 2006 when Mr. Farrazaino signed a lease — with an option to buy — on more studio space than he needed. He’s trying to build a for-profit model of affordable workspace where artists won’t be priced out as the neighborhood’s popularity grows. One key: Tenants earn an ownership stake in the company as they pay their rent.

"They’re participating in building the value of the neighborhood," says Ms. Callanan. "It won’t be an example where they help to improve the neighborhood and then unfortunately get squeezed out."

The arts needs to nurture more enterprises like Equinox Studios, and not just because they’re good for communities, she says. The philanthropic landscape is changing. As donors and foundations get used to toggling between gifts and investments, fields
that offer few investment opportunities could lose donations and supporters.

If all you can do is make a gift, you’re not going to be as committed, she says. "You’re not able to get under the hood and understand the organization in the same way you might during due diligence as an investor. As a donor, it’s just not the same."

Liesel Pritzker Simmons, an heir to the Hyatt hotel fortune and proponent of impact investing, disagrees.

She and her husband, Ian Simmons, are working hard to invest their entire investment portfolio for good. While they have shifted their investments, they haven’t reduced the dollars they give away, says Ms. Pritzker Simmons: "It’s just made those grant dollars more focused and more targeted."

She and her husband ask what they’re trying to accomplish and then determine whether an investment or a grant from their donor-advised fund makes more sense. To promote clean energy, the answer is almost always an investment, she says. Not so for civic engagement among young people.

"The markets are terrible at solving that problem," she says. "That’s a great place to apply grant capital and nonprofit leadership."

Blurring Lines

Wealthy people still think very differently about the money they earmark for investments versus charity, says Ben Hecht, chief executive of Living Cities, a collaborative of foundations and corporate grant makers that runs two impact-investing funds. But he’s not sure that will always be true.

"I thought that the lines would blur much faster than they have," he says. "Right now, they don’t compete with each other. That may change."

At foundations, program officers and endowment managers traditionally work separately, seldom talking to each other. Investing for mission usually changes that, and the collaboration can lead to changes in grant making.

The Kresge Foundation digs deeper into the finances of its grant applicants as a result of its experience researching investments, says Kimberlee Cornett, managing director of Kresge’s social-investment practice. More important, she says, investment work offers the foundation a wider range of perspectives as it talks to companies and other investors.

"When you’re providing grants, you typically are engaging with a narrower set of actors," she says. "When you become a lender or a guarantor or a market-rate investor, you stretch that."

The McKnight Foundation makes grants to restore the health of the Mississippi River by reducing agricultural pollution in four states along the northern half of the river. That grant making led to a $5 million investment in Midwestern BioAg, a company that helps farmers improve the health of their soil to get a better yield and reduce the use of fertilizers, a key source of the phosphorous and nitrogen in the river.

What the foundation learns from the investment, in turn, helps it sharpen its grant making, says Elizabeth McGeveran, the fund’s director of impact investing.

"We want this program to make us better grant makers."

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