BOSTON IMPACT INITIATIVE

By Zack Young (Senior Impact Investing Associate)

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Need and Background

The United States does not suffer from a lack of wealth, but it does suffer from a lack of equitable distribution of wealth – especially along racial lines. In Boston, where the Boston Impact Initiative Fund (BII) operates and makes all of its investments, the landmark 2015 Color of Wealth report1 found that the median net worth of black families was $8, compared to $247,500 for white families. Other racial groups in the Boston area, including Latinx, Indigenous, and Asian American and Pacific Islander (AAPI) groups face a similar, uphill battle in wealth creation.

The tolls of economic inequality, climate change and other negative externalities of modern capitalism have forced some changes to investor behavior. In public markets, there has been rapid growth in Environmental Social and Governance (ESG) investment, whereby non-financial factors are considered alongside risk and return. ESG investing can be a helpful mitigant against some of the largest polluters and some of the worst performing corporations on social issues. However, there are limits to ESG investing’s impact, especially at a local level. Very few public companies can reliably create jobs that are both accessible to BIPOC individuals and pay sufficient wages to build wealth. In addition, most ESG investment products do not fully divest from all problematic corporations. Organizations like Amazon, Facebook, and Nestle frequently appear in the top 10 holdings of leading ESG exchange-traded funds (ETFs).
Asset managers with strong impact investment lenses can and do advocate for positive change within the corporations they have invested in, but there are real limits on shareholder advocacy in this context.

To address racial wealth inequality, we see a profound need for impact investment that centers a mission of wealth creation for Black, Indigenous, and other People of Color (BIPOC). While ESG offers top-down mitigation of bad outcomes, we believe that regenerative wealth creation occurs from the bottom-up. The Boston Impact Initiative (BII) Fund, formed in 2013, was created with this goal in mind. Our investments scale BIPOC led, environmentally-friendly organizations that create good jobs and beneficial products for their community. Our investments seek to be additive, filling financing gaps left behind by local banks and private capital. Each element of our fund’s strategy that distinguishes us from ESG and other impact investment strategies – our local approach, relationship based due diligence, and use of integrated capital – is an intentional fund-design choice that advances our mission.

Local Approach

BII intentionally restricts its investment activity to Eastern Massachusetts. Geographic consolidation gives us incentive to develop strong partnerships with important local stakeholders – business support services, consultants, incubators, and institutional partners- who can work with the enterprises we invest in. These partnerships add value to the enterprises, delivering on our mission and de-risking our portfolio.

Grouping investments together geographically also increases the likelihood that these enterprises can support each other, contributing to a cohesive, local economy. If a small, BIPOC-owned business we invest in works with other small, BIPOC-owned businesses in the area, the capital we've injected into the local economy circulates there, rather than being extracted from the community. While some might view geographic concentration as a conflict of interest and an added risk factor, we take the perspective that overlapping investments can create a confluence of interest, whereby portfolio organizations lift each other up. If, for example, we invest in a company and their referral partner, it will be much easier for that first company to scale.

We recognize that a local approach inhibits our ability to invest in BIPOC wealth creation outside of Eastern Massachusetts, and that racial wealth disparity affect all corners of the US. Instead of entering communities where we are not connected to local stakeholders, we have instead chosen to advise and support the creation of new local funds like ours across the country. Our Integrated Capital Fund-Building Cohort brings together more than 25 fund managers from 11 different cities in the U.S. to teach our investment approach. We trust that these fund managers know their home cities better than we do and can build on our learnings in a way that best serves their communities.

Relationship-Based Due Diligence

A key aspect of delivering on our mission is to center the entrepreneur throughout the investment lifecycle. BII uses a relationship-based due diligence process to evaluate investments in place of the credit checks and application forms that traditional banks use. Our diligence involves a series of conversations with the entrepreneur, where we discuss business fundamentals, growth plans, and organizational alignment with our impact criteria. This process alleviates structural biases held in traditional due diligence. It also humanizes what is traditionally a bureaucratic and opaque process for entrepreneurs.

Beyond mitigating bias, building relationship during investment allows BII to advocate for impact goals and provide targeted assistance to entrepreneurs after investing. We don’t just want to see wealth creation for the entrepreneur, we also advocate for diverse hiring practices, higher wages, ESOP pools, and other impact goals that distribute BIPOC wealth building opportunities throughout an organization. In contrast to ESG, working with smaller, younger organizations gives us advocacy opportunities while the organization is malleable. We can also go a step further than advocacy by writing impact targets into our investment documents as Impact Covenants, allowing us to offer financial reward or penalty based on performance against stated impact targets.
Integrated Capital

Integrated capital is the spectrum of investment types – financial and otherwise – that we can invest into an organization to advance our mission. On the financial side, we look to span the capital spectrum, selecting the best type of capital for an organization’s needs. These capital types include a variety of debt and equity structures, as well as grants. Debt instruments are helpful in extending lower risk capital to organizations, as we can use business collateral or future cash flows to secure our investment. BII does not take personal guarantees, as it does not want to diminish personal wealth in order to recoup investment.

Equity investment does not come with foreseeable repayment expectations, giving it more potential to transform a business as well as more risk to investors. We must be judicious with when and how we employ this capital type. Some organizations are not set up to scale and pursue a future investment, acquisition opportunity, or stock buyback that would allow us to exit the equity investment. Similarly, since grants are never repaid, BII has limited capacity to offer this capital type, and must reserve it for the most catalytic opportunities in our ecosystem.

Apart from financial capital, integrated capital includes social capital – making the personal introductions and connections necessary for entrepreneurs to thrive. That can mean introductions to anchor institutions, potential customers, suppliers, additional investors, expert mentors, or other support. Social capital benefits greatly from BII’s explicitly local focus; relationships that we build in and around Boston can help all investments that we’ve made.

White wealth benefits greatly from the privileged access to lucrative networks. Investment of social capital can redistribute some of that opportunity.

Scaling the Approach

A key limitation to local, integrated capital investment as it stands today is scale. BII is a $10 million dollar fund, and given our typical investment sizes, the fund will end up investing in fewer than 100 organizations. We believe the BII Fund will serve as a meaningful demonstration of how impactful and viable this investment approach can be. However, in terms of creating BIPOC wealth, we will need to raise more and/or larger funds, all while retaining the same high-touch, flexible, and local approach. BIPOC communities in Boston and across the US need exponentially more dedicated investment than a $10 million dollar fund can provide.

The next frontier for our sector is expanding the scale of investment while maintaining the integrity of our approach. A shift toward ESG principles from conventional investing offers some benefit to society, but addressing racial economic inequality will take place outside of public markets. We need to build capacity in local, high impact investing to address two fronts of unmet demand: BIPOC entrepreneurs have capital needs that traditional sources cannot or will not provide, and investors have impact goals that public markets cannot or will not provide. If, someday, the largest asset managers in the world could invest in local, integrated capital investment pools, we can really begin the process of de-corporatizing the US economy and building equitable, resilient, local economies.