Pathways to Impact

The rise and rationale for a new breed of social impact organizations

Foreword by James "Jim" Shelton
Former U.S. Deputy Secretary of Education

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FOREWORD

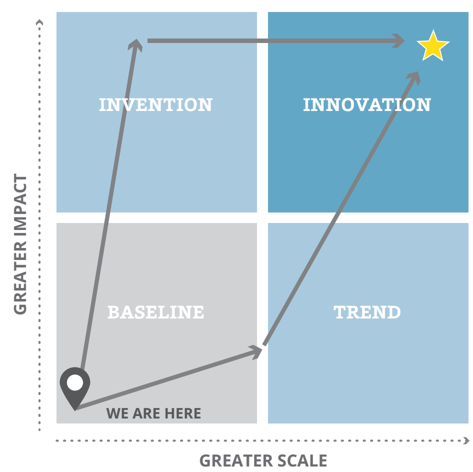
Jim Shelton
Chief Investment and Impact Officer, Blue Meridian Partners
Former U.S. Deputy Secretary of Education

Over the last year, the pandemic laid bare longstanding inequities in our education and workforce infrastructure. The shift to remote learning exposed a vast digital divide that gave rise to widening gaps in instructional time that hit low-income students and students of color hardest. The new majority of college students who are working, parents, or first generation are struggling to make good on the promise of higher education in institutions built in a different era, for a very different student population.

As our economy and society change faster than ever before, the impacts of an inequitable, under-resourced and, in many cases, outdated education and training infrastructure have been magnified in an economy already typified by widening wage and economic inequality.

In the wake of what some economists have dubbed an "automation forcing event," we need to do more and move faster. We cannot afford to settle for funding interventions and projects that show great impact but have limited scale or have significant scale but limited impact. We need to do both. Only by dramatically accelerating the impact of individual interventions–and creating a context in which they can thrive and scale–will we achieve the innovation we need.

Doing that requires using a suite of tools and not being hamstrung by convention and old categories. Changing any system is hard. Changing a system that spans education to employment, with its governmental, nonprofit and for-profit actors, is even more complicated. Having worked at changing this system for the greater part of my career, I believe we can't leave any tool off the table if it could tilt the scales and produce a system that boosts equal opportunity. That's why philanthropic funders being willing to use their resources, in whichever way will produce and maximize impact, is so critical. Time is ticking.



This paper offers a valuable look at the rise of a new breed of social impact organizations and situates them within the greater context of philanthropy in the United States over time, as the nation's needs have shifted.

One of the enduring values of the American experiment is our willingness and ability to create new approaches and types of entities to solve the new problems of our times while remaining rooted in but not limited by our past. As we support our nation's educators to fashion a system that serves all learners well, this dynamism will remain critical in meeting the challenge of our times–both in the philanthropic sector and in the broader systems and organizations we support.

ABOUT THE AUTHORS

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Erica Price Burns is senior vice president at Whiteboard Advisors where she leads a team that advises entrepreneurs, investors and foundations on the intersection of policy, practice and innovation.

For more than a decade, Erica has advised foundations, nonprofits and Fortune 500 companies on the structure of major grant programs, competitions and corporate responsibility initiatives in areas ranging from early literacy to health and wellness.

Her research and writing on connections between learning and economic mobility, which includes *Skills-based Hiring: A Primer* has been featured in outlets including *Wired, TechCrunch, Talent Economy and Forbes*.

Prior to joining Whiteboard Advisors, Erica worked for U.S. Senator and former Denver Public Schools Superintendent Michael Bennet and served in a variety of roles in Democratic politics and on Capitol Hill. Erica graduated from Washington University in St. Louis *magna cum laude* with a degree in political science and economics.

MICHAEL B. HORN

Michael Horn speaks and writes about the future of education and works with a portfolio of education organizations to create a world in which all individuals can build their passions and fulfill their potential. He is the author of many books, including *"Disrupting Class: How Disruptive Innovation Will Change the Way the World Learns," "Blended: Using Disruptive Innovation to Improve Schools," "Choosing College"* and *"Goodnight Box,"* a children's story.

Michael is a senior strategist at Guild Education, which partners with leading employers and organizations to help offer education and upskilling opportunities to America's workforce. He is also the co-founder of and a distinguished fellow at the Clayton Christensen Institute for Disruptive Innovation, a nonprofit think tank.

Michael holds a Bachelor of Arts in history from Yale University and a Master of Business Administration from the Harvard Business School.

LETTER FROM TOM DAWSON, INTERIM CEO OF STRADA EDUCATION NETWORK

Over the past several years, Strada Education Network has been searching for and designing solutions to help individuals find a meaningful career, by supporting navigation to and through the educational path that best meets their needs and interests. We are on a mission to help all those who lack a college degree find the path that is best suited for them, and to identify which supports best propel their journey. Too often systemic barriers impede progress for individuals, which allows inequity to continue. Only when we identify the solutions that equip all learners to effectively navigate the transition between education and employment will social and economic mobility meaningfully improve, enabling our country to thrive now and in the future.

We have learned that our fragmented and disconnected education and workforce systems make identifying successful solutions that operate at scale extremely difficult, with the adverse consequence that learners are more likely to fall through the cracks. That's why Strada works to take stock of the vast education and workforce landscape and pinpoint organizations or companies that are doing great work but are limited in scope by a lack of resources, capacity or connections. Our aim is to find ways to bring promising ideas to scale and to connect powerful solutions together to improve pathways between education and employment for all.

This work was always necessary and pressing, but it's never been more so than over the last year. The COVID-19 pandemic continues to rewrite the future of education and work. Millions of Americans remain unemployed and are looking for ways to quickly retrain and reskill to find a new foothold in the economy. At the same time, learners across the country–burdened by structural, financial, academic, and personal difficulties–are struggling to stay on track and complete the programs they started.

We are pleased that in the face of COVID-19, our affiliates and partners quickly mobilized to address some of the most pressing challenges facing learners during the pandemic. Edquity, a startup backed by our strategic investments group, provided critical funds to students through emergency aid grants. InsideTrack, which began as a venture-backed business and is now a nonprofit affiliate under Strada, provided coaching and counseling to keep students enrolled, even as they struggled with job loss, housing insecurity and mental health crises. Roadtrip Nation temporarily parked its iconic green RV and offered virtual career-oriented content to workforce boards across the country. All the while, Strada worked to better understand the challenges our affiliates–and the nation–were up against. In March 2020, we launched a rapid-response research initiative called Public Viewpoint that provides a real-time look into Americans' educational experiences, concerns and career aspirations through regular surveys -- now including the responses of more than 50,000 adults.

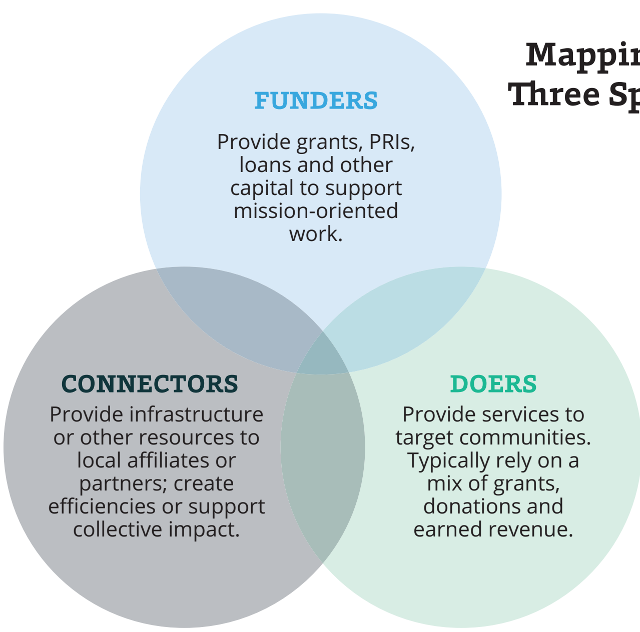
The impact of the COVID-19 pandemic will linger for many years to come. The crisis has transformed the job market, and the need for identifying how workers can gain the skills they need has never been more urgent. Earlier this year, Strada affiliate CAEL was awarded funding by the U.S. Department of Education for its Connected Pathways program, a national career-exploration system designed to boost the social mobility of Black, Latinx, and other underserved learners across the country. The $5 million investment is one of the clearest signals yet of just how big a role our partners and affiliates are set to play in getting the country moving forward.

Strada's work began long before the pandemic, and it will continue long after. The challenge of connecting people into the education and workforce system, and supporting them through it, is complex and won't be solved by a single nonprofit, foundation, institution, company or investor. But by using a range of tools–grants, investments, research, our affiliates and more–Strada will continue to identify and help to scale the most effective solutions that allow all learners to navigate the transition between education and employment. We look forward to working with all of you along the way.

EXECUTIVE SUMMARY

- Educators, policymakers, philanthropists and business leaders have worked long and tirelessly to improve educational outcomes. There have been some notable successes in recent years, reflected by rising graduation rates and increased postsecondary enrollment prior to the pandemic. But these achievements haven't been big enough or occurred fast enough.
- Even before the pandemic, a confluence of forces – from the rise of Artificial Intelligence (AI) and automation to persistent equity gaps in high-tech fields – have fueled a heightened sense of urgency to transform our education and training infrastructure to sustain its promise of social and economic mobility.
- Against this backdrop, pathways from education to employment remain rooted in the past. It is clear that merely improving the outputs of our existing system is not good enough. Dissatisfaction with the status quo is mounting. Individuals and employers are seeking better evidence of the ways in which education and experiences translate into relevant skills–and value. Doing that in a world as dynamic as ours requires an approach that departs from business as usual.
- Historically, organizations promoting social welfare or the common good fell into three broad categories: funders (private foundations, corporate foundations, public charities and

Mapping Nonprofits: Three Spheres of Focus



Example of Funders:
Ford Foundation, Rockefeller Foundation, Kellogg Foundation, most corporate foundations

Example of Doers:
Food banks, animal welfare leagues, volunteer mentor organizations, education and training providers

Example of Connectors:
United Way Worldwide, Boys and Girls Clubs USA, Salvation Army, Red Cross

more), doers (both those that provide direct service as well as operating nonprofits like museums) and connectors (those offering best practices, sector-building or collective impact).

- Organizations that see social challenges through a systems lens are increasingly merging all three of these approaches, bringing multifaceted solutions to bear on complex problems. Omidyar Omidyar Group (then called Omidyar Network) made this realization a decade ago; Emerson Collective, the Chan Zuckerberg Initiative and others have more recently adopted this approach. All of this indicates that we are at an inflection point: one that may mean our existing terminology, norms and structures will soon be outdated.

- The new breed of social impact organizations taps a wide range of organizations and tactics to drive outcomes. Although the contours of their work continue to evolve, some common themes and activities are coming into focus:

  – *Sector Agnostic Investment*: reflected in a willingness to support a mix of non- and for-profit entities.

  – *Multiple Levers*: willingness to provide support including investment, operational support - and even acquisition - that go beyond the traditional reliance of funders on grants.

  – *Risk Tolerant*: demonstrating a willingness to fund both early stage ventures and those ready to scale, and recognizing that some investments will fail.

  – *Investing Across the Value Chain*: because systemic shifts require engagement at multiple levels.

  – *Vertical and/or Horizontal Integration*: an emphasis on building connections across individual organizations to create new partnerships and platforms.

  – *Engaging the Individual*: rooted in a belief that understanding and aligning around public sentiment is a critical precondition for authentic, sustainable change.

  – *Hybrid Human Capital*: recognizing the importance of connecting expertise across once-siloed functions (e.g., grantmaking, investment, advocacy).

Finally, a disclaimer. This paper is not intended to provide an exhaustive or comprehensive literature review. We stop short of offering an in-depth history of philanthropy and we appreciate that philanthropy, from eradicating polio to supporting the response to the COVID-19 pandemic, continues to have a profound and beneficial societal impact. The intent of this paper is not to make a value judgement about the relative merits of traditional forms of philanthropy and new models of social impact.

Rather, our goal is to provide a primer to frame the implications, risks and potential as impact investment, venture philanthropy and advocacy converge. We make the case for why–particularly within the education to workforce sectors–these efforts are so vital, and we take the first step in describing the ways in which mission-oriented funders are approaching increasingly complex challenges.

INTRODUCTION

America has a long history of private investment in social impact, led by individuals, foundations, nonprofits and corporations. Alexis de Tocqueville, in Democracy in America, observed the unique and remarkable habit of American associations "to raise churches, to distribute books, to send missionaries to the antipodes; in this manner they create hospitals, prisons, schools.… Everywhere that, at the head of a new undertaking, you see the government in France and a great lord in England, count on it that you will perceive an association in the United States."

John Harvard's 1638 gift to his namesake institution marked one of the early examples of American philanthropy. As early as 1695, Cotton Mather promoted community action for social welfare in the Massachusetts Bay Colony by encouraging individuals and the business community to "do good," not just to do well. A century later, Andrew Carnegie penned "The Gospel of Wealth," outlining the responsibility of those enriched by the second industrial revolution to support civic development, particularly through the creation of libraries, churches, parks, museums and universities.

Although the goals of mission-oriented individuals and nongovernmental organizations (NGOs) largely remain the same – supporting underserved communities, improving education, and expanding access to health care and other social services – their approach to addressing increasingly complex social issues has shifted over time.

The advent of charitable foundations in the 1890s marked a step forward in creating structure and incentives for private investment in the public interest. In the years since, donors have developed a variety of approaches, including the development of impact- or venture philanthropy, that reflect both the nature of the challenges they seek to solve, as well as the background and mindsets of the funders themselves.

Today, a new breed of organizations, which includes Emerson Collective, Imaginable Futures, Strada Education Network, Breakthrough Energy/Gates Ventures and the Chan Zuckerberg Initiative, are forging new structures rooted in a flexible, sector-agnostic approach that reflects the growing role of not just NGOs but also investors, entrepreneurs and technology in crafting solutions to complex, multidimensional problems.

These new mission-first funders are not immune to the equity challenges that have long faced the philanthropic sector —as well as the education and

the workforce ecosystem more broadly. Like social impact organizations of the past, this century's well-intentioned grantmakers have faced thoughtful critiques that the solutions they fund or create that are built on the assumption that our education and workforce systems (as well as the economic and social systems that undergird them) work for everyone else in the same way they work for middle- or upper middle class straight White males.

But even as they grapple with these challenges, mission-first funders are beginning to have a transformative impact on both educational outcomes, and the way that donors think about philanthropy.

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Do I think I could support greater impact with our existing philanthropic portfolio (which is rooted in grants), or do I believe there would be greater opportunity for impact with a smaller, more flexible portfolio that allows for alternative investments and creative governance structures? Interestingly, I might choose the latter.

Patrick Methvin |

Director of Postsecondary Success at the Bill & Melinda Gates Foundation

"Changing systems of learning and education is complex and will take all of us: public sector, private sector and social sector," says Amy Klement, managing partner for Imaginable Futures, a venture of The Omidyar Group "That's why Imaginable Futures uses a unique hybrid structure that combines foundation and LLC, which enables us to deploy both for-profit and nonprofit capital We exist to unleash human potential through learning, and we leverage a variety of tools to help catalyze healthier, more equitable systems."

"Funders are looking for ways to have the most impact, using the resources available as effectively as possible," says J.B. Schramm, now founder of Grove Social Impact Partners and former managing partner at venture philanthropy fund New Profit. "If the funder organization has a clear mission and can measure adherence to the mission, applying capital in different forms can be very powerful."

In the education context, Emerson Collective has made grants to nonprofits, along with investments in for-profit companies that share and implement its social mission. More traditional philanthropies like the Kellogg Foundation have done the same by funding nonprofits like The New Teacher Project as well as making direct investments in businesses with the potential to improve student nutrition, such as Revolution Foods. Investment firms often hope to generate financial returns while driving social and environmental impact – TPG is one example, through its $5 billion Rise Fund.

"Reflecting on the growth of these models, I did a simple thought experiment," explains Patrick Methvin, Director of Postsecondary Success at the Bill & Melinda Gates Foundation. "Do I think I could support greater impact with our existing philanthropic portfolio (which is rooted in grants), or do I believe there would be greater opportunity for impact with a smaller, more flexible portfolio that allows for alternative investments and creative governance structures? Interestingly, I might choose the latter. Experience tells me there is certainly a value to investment vehicle flexibility and complementarity; I'm not sure I would have said the same thing three years ago."

Against that backdrop, Strada, the public charity that commissioned this paper, has made both philanthropic grants to nonprofits like Michelle Obama's Reach Higher Initiative and the National Governors Association. But it is also making direct

investments in for-profit companies such as Edquity (a tech platform for distributing emergency aid to college students) and Admithub (a developer of AI chatbots to help students navigate the admissions and application process). It acts as a limited partner in venture and private equity funds (like Avathon Capital) focused on sectors where it hopes to affect change.

Most distinctive, Strada actually acquired and now operates a family of nonprofit organizations that advance its mission to help learners navigate between education and employment. In 2017, Strada acquired InsideTrack, a venture-backed startup that pioneered the field of success coaching for college students and now reaches more than 100,000 learners. Other mission-aligned affiliates now include Roadtrip Nation, Education at Work and the Council for Adult and Experiential Learning (CAEL).

In addition, Strada is working to define and collect impact results from these affiliates, disseminating their findings and ensuring these organizations can operate sustainably over the longer term.

In line with its efforts to support and enable mission-aligned organizations, Strada joined with the Morgridge Family Foundation to back the buyout of Whiteboard Advisors (W/A) in 2016. Strada acquired W/A in early 2020. As an independent agency owned by Strada, W/A provides support to both Strada and a broader portfolio of mission-aligned organizations.

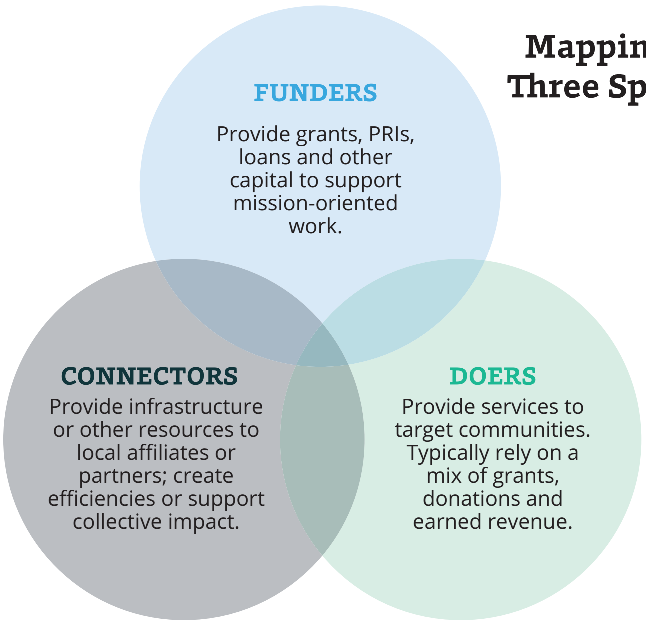
Like its peers, Strada's diverse set of activities reflect the multifaceted needs of our time. This paper takes a broad look at social impact efforts in the United States with the goal of explaining the context in which the work of "mission-first" funders – organizations like Strada – have emerged.

MAPPING THE NONPROFIT LANDSCAPE

The landscape of organizations focused on social welfare or "doing good" is broad. "Good" is, of course, a subjective term; there are any number of frameworks that could be used to differentiate and map the landscape, from tax treatment to mission or tactics. Any map would invariably include traditional foundations, self-sustaining or fee-dependent nonprofits, associations and even policy and political umbrella groups. For the purposes of this paper, we divided the world of social impact into three broad categories: funders (providing grants, PRIs or other forms of capital), doers (those engaged in on-the-ground programmatic work, often reliant on both philanthropy and earned income) and connectors (providing the infrastructure to help doers maximize their impact, including things like advocacy or sector-building efforts).

Of course, each of these categories can overlap, and the idea of mission-oriented nonprofits working across categories to affect social change is not new. Groups like the United Way Worldwide are both connectors (supporting their local affiliates) and doers (through the work of these affiliates). So is Education Design Lab. The Kauffman Foundation is a funder that connects, working to build an ecosystem of entrepreneurs, in partnership with both policymakers and doers, as well as being a grantmaker. And when the Pew Charitable Trusts became a public charity in 2002, (spinning out the Pew Research Center as a subsidiary in 2004), it bolstered the funder's ability to both do and connect. As Philanthropy News Digest noted at the time, the shift "will enable the organization to take a more direct role in projects it supports and devote a greater percentage of its annual budget to advocacy efforts."

Mapping Nonprofits: Three Spheres of Focus



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The work of social impact organizations described in this paper reflects an evolution of that model. Blue Meridian Partners, which was incubated at the then-sunsetting Edna McConnell Clark Foundation (EMCF), transformed the remaining assets of EMCF into a venture model that blurs the lines between funding and connecting. Others, like Strada, are investing in and, in some cases, acquiring both non- and for-profit doers. Many, such as Emerson Collective or Chan Zuckerberg Initiative (CZI), are providing not just financial support but operational support and technical know-how.

In some cases, these funders either incubate or own organizations that are doers. Emerson Collective's work with the XQ SuperSchool project is one example. Omidyar Group's First Look Media includes both the for-profit Topic Studios and the nonprofit outlet The Intercept. CZI supports Gradient Learning (parent organization of Summit Learning Program and the Learning Platform) with grants, technical/engineering support, and access to learning science. This symbiotic relationship between doer and funder gives doers greater financial sustainability and allows funders to drive and measure impact more directly.

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These organizations approach philanthropy differently, recognizing that the definition of philanthropy is something outside of the tax code—a philosophical definition, not limited to tax benefits and not bounded by tax treatment.

John Tyler | *General counsel and chief ethics officer, Ewing Marion Kauffman Foundation*

SETTING THE STAGE: ANDREW CARNEGIE TO MARK ZUCKERBERG

Over a century ago, Gilded Age tycoons embraced Andrew Carnegie's mantra: "The man who dies thus rich, dies disgraced." Their foundations and philanthropic endeavors marked the beginning of the modern era of American philanthropy.

Foundations were at times met with skepticism in the United States. Early on, the now-venerable Rockefeller Foundation was denied a federal charter for incorporation as a tax-exempt entity. High-profile detractors included then-candidate Theodore Roosevelt and *The Washington Post*. Concerned that Rockefeller's funds would be used by "harebrained reformers," they argued that "the American people as a nation are not in need of charity from Mr. Rockefeller."

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>
> ***The Washington Post* | March 11, 1910**

Philanthropists at the turn of the century often focused on what today we might think of as foundational civic institutions, including universities, libraries and hospitals. Commodore Cornelius Vanderbilt founded his namesake university with a $1 million gift in 1873 (at the time the largest charitable gift in American history). Andrew Carnegie began building libraries in 1886, and over the next four decades, he spent $60 million building 1,689 public libraries across the United States. John D. Rockefeller, not to be outdone, helped found the University of Chicago.

Often, the missions of early donors were broad – and the rigor with which grants were vetted varied dramatically. According to one account, when Harvard approached J.P. Morgan to fund the expansion of its medical school, "He told them he was pressed for time and asked to see the plans. They unrolled a blueprint and Morgan looked at it for a second then stabbed it with his finger, saying, 'I'll build this and this and this. Good day, gentlemen.'"

Morgan's flippancy stands in sharp contrast to the approach of John D. Rockefeller, whose $100 million foundation employed full-time staff to vet and consider the alignment of grant applications with its mission "to promote the well-being of mankind." The Carnegie Corporation of New York shared a similarly broad focus, as did the Russell Sage Foundation (one of the earliest foundations, established in 1907), which set aside funds for "the improvement of social and living conditions in the United States of America."

A NEW APPROACH TAKES HOLD

In 1969, John D. Rockefeller III coined the term venture philanthropy, which he defined as "the imaginative pursuit of less conventional charitable purposes than those normally undertaken by established public charitable organizations." It wasn't until the 1990s, however, that venture philanthropy truly took root, alongside other new approaches like strategic or catalytic philanthropy. A new generation of West Coast grantmakers who created wealth through technology–including Bill Gates, Jeff Skoll and Pierre Omidyar–brought the same approach to philanthropy that had led to their professional success, as they emphasized evidence, research-based strategies and measuring impact toward a clearly defined goal. These donors embraced the view that philanthropy could enable broader social change. As Michael Porter noted in a 1999 Harvard Business Review article, "if foundations serve only as passive middlemen, as mere conduits for giving, then they fall far short of their potential and of society's high expectations."

David Callahan, the founder and editor of *Inside Philanthropy*, explained in his book "The Givers" that for the new cadre of tech donors, "their main interest is in leveraging their money to create change on a grand level." Callahan contrasts these donors with more traditional philanthropists who, while they may be interested in systems change, "tend toward a more cautious, stewardship approach to giving. They direct money to universities, hospitals, art museums."

The shift from philanthropy as charity to philanthropy as a lever for broad-based change continues today, as funders utilize and blend a variety of approaches beyond traditional philanthropy to promote social good. According to John Tyler, general counsel and chief ethics officer at the Ewing Marion Kauffman Foundation, "These organizations approach philanthropy differently, recognizing that the definition of philanthropy is something outside of the tax code—a philosophical definition, not limited to tax benefits and not bounded by tax treatment."

Jennifer Carolan of Reach Capital (and formerly NewSchools Venture Fund) explains that, "Social entrepreneurship and impact investing movements grew in part because grant-making alone was not enough to drive social change, especially in the age of technology." A report from the Lumina and Kresge Foundations agrees, noting that "we see opportunities for foundations to be catalytic by employing tools beyond grantmaking to drive capital, innovation, and talent into the higher education sector."

Today, business and social impact are intertwined in ways they haven't been historically. Socially oriented business models like TOMS shoes' buy one/give one model are on the rise, as are new standards for mission-oriented companies. Following in the footsteps of early public benefit corporations (B corps) like Patagonia, Seventh Generation, and Ben and Jerry's, a new generation of B corps has emerged, including Bombas, Beautycounter, Allbirds and Leesa.

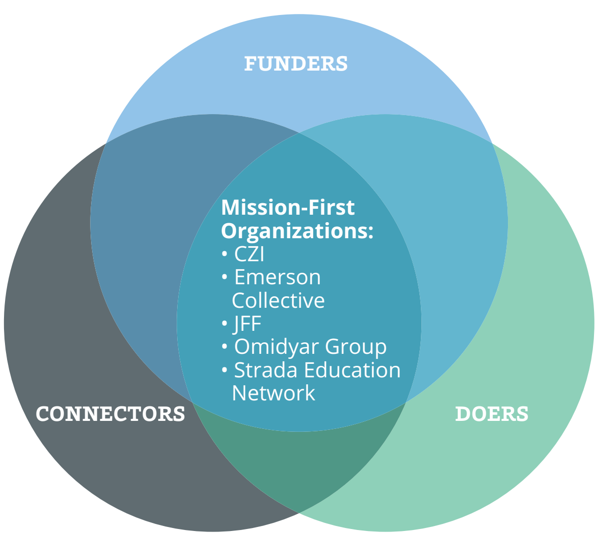
This blurring is occurring on both sides: Just as companies are becoming more socially oriented, funders and social impact organizations are beginning to operate more like businesses. Nonprofits looking for sustainability and scale are identifying ways to generate revenue, and governments and charitable organizations are harnessing the power of market-based solutions to solve entrenched social challenges. "We realized over time that we could have more impact with smaller checks as an investor, rather than grantmaker," says Phil Kim, CEO of the Michelson 20MM Foundation and managing director of Michelson Impact Ventures. Other foundations are also looking for ways to drive impact with investments – either in addition to grantmaking or as part of their investment strategy for managing

their corpus. As the Ford Foundation noted, "we believe MRIs [mission related investments] have the potential to become the next great innovation for advancing social good."

But it's not just the private and public sectors that are blending together. In the nonprofit space, the work of funders, connectors and doers is increasingly overlapping, with mission-first organizations often sitting squarely in the middle.

In some cases, mission-first organizations were initially rooted in a single category, evolving to better meet the complex challenges they are trying to solve. For example, for nearly 40 years, JFF (Jobs for the Future) has been at the forefront of driving transformation in America's workforce and education systems to ensure economic advancement for all.

A national nonprofit, JFF began as a connector, collaborating with key cross-sector stakeholders to design evidenced-based models and results, leveraging its networks to implement scalable solutions and working to influence policy that strengthens the labor market at all levels of government. It expanded into more program delivery over time, becoming more of a doer. And more recently, with its impact fund ETF@JFFLabs, the organization became a funder, investing capital and resources to incubate new solutions, accelerate innovation and drive impact.



Glossary of Funding Terms

Increasingly concessionary returns/no return

Philanthropic grants:
Funding provided with no assumption of repayment.

Program-Related Investments (PRI):
Investments made primarily to further the mission of the funder.

Philanthropic loan:
Provides no-cost or ultra low-cost access to capital to help nonprofits; return of capital is expected.

Mission-Related Investments (MRI):
Commercial (i.e., not philanthropic) investments from foundations that must meet standards for prudent investing and where the business activity of the investment directly supports the social outcomes desired by the funder.

Impact Investments:
Investments made by funders to generate both social and financial returns; range from below-market rate to market rate returns.

Socially Responsible Investments (SRI):
Commercial, market-rate investments that either intentionally exclude sectors (e.g., oil, tobacco) or that screen-in investments with certain business practices (e.g., living wage).

Other Investments:
Build and grow the foundation or charitable corpus; optimize for returns/protection of capital only.

Increasingly market-rate returns

The new category of mission-first funders is not only operating at the nexus of the funder/connector/doer framework, these funders are also merging relatively recent philanthropic innovations into an integrated strategy.

In the past decade (or two), funders have expanded their toolbox to include PRIs, MRIs and impact investing. Venture philanthropy is in many ways an outgrowth of the connector segment. And operating foundations, which do programmatic work rather than just funding it, represent an evolution of the "doer" category. Today, mission-first funders are in many cases utilizing all of these approaches.

"Ten years ago, funders were experimenting with innovations in each of these three areas individually," noted Josh Jarrett, formerly of the Bill and Melinda Gates Foundation. "Now, innovators are combining all three to drive change."

All of this indicates that we are at an inflection point: one that may mean our existing terminology, norms and structures will soon be outdated.

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Josh Jarrett | *Former deputy director, postsecondary success, Bill & Melinda Gates Foundation*

WHY
NOW?

In a Fortune column, published in October 2020, Michael Collins of JFF highlighted that "of the 7.1 million net jobs lost during the Great Recession, nearly all were occupied by workers holding less than a bachelor's degree." But he also explains that only 3 million of the jobs added during the recovery went to that population – a net loss of 4 million, even with record economic growth. Workers who earned a degree in the years that followed the financial crisis came out ahead. Sadly, far too few Americans earned college degrees during the recession. As a result, the top 1% captured 85% of wage gains in the decade that followed.

The unequal economic recovery further exacerbated existing racial and socioeconomic gaps. Nationwide, the Black student high-school graduation rate remains at a dismally low 51.5%. "There are still only thirty kids graduating college for each one hundred who start high school," explains Mark Grovic, founder of New Markets Venture Partners. "And many of those who complete and see value from their degree already come from the top income quartile."

This work has become even more urgent as a result of the pandemic. "Fault lines exposed by COVID-19 were in existence long before the pandemic took hold. The lowest quartile of American workers entered the coronavirus crisis weakened by decades of stagnant real wages, automation of low-skill jobs, and the erosion of benefits, including health insurance, as the ranks of gig workers grew," says JFF CEO, Maria Flynn. "At the outset of the pandemic, workers without degrees were often the first fired and, if history repeats itself, they are likely to be the last hired. In the decade following the Great Recession, workers without degrees were often willing to accept any job, only to find that the low wages and limited benefits extended as the economy recovered."

Addressing barriers to access, completion, and value (i.e., the return on investment of higher ed) should and will continue to be a significant focus of philanthropy, but they are increasingly recognized as necessary, but insufficient, components of a broader education and workforce agenda. "Philanthropy historically took the view that American higher

education was the best in the world and all we needed to do was expand students' ability to access it—funding scholarships, for example, to help people access a system that was already working well," says Kevin James, CEO of Better Future Forward, an organization working to ensure all students have access to high-quality postsecondary options. "More recently, however, people have questioned whether the system is doing enough to help students graduate and succeed in their career, and if we need to do more to ensure public and private dollars are being used effectively toward those goals."

Investor Ryan Craig, author of *A New U: Faster + Cheaper Alternatives to College*, explains that "75 percent of employers believe recent graduates are not well prepared in critical thinking and analytic reasoning, written and oral communication, complex problem solving, innovation and creativity, and applying knowledge and skills to real-world settings."

Even college graduates are, as a result, struggling to find employment that utilizes their postsecondary training, with only 27% working in a job that is directly related to their college major, and roughly half reporting that their position after graduating did not require a degree.

The gap between educational attainment and economic mobility in many ways reflects the changing demands of the workforce. Never before has the economy been impacted by such seismic shifts in globalization, automation, and the restructuring of businesses and industries. Rapid shifts in demand reduce the shelf life of skills – and put pressure on a system organized around 2- and 4-year programs.

"Technology is rapidly changing the nature of work in our society, with machine learning, data analytics, VR and AR, and automation having enormous impacts good and bad," said Paul LeBlanc, President of Southern New Hampshire University. "As lifespans approach one hundred years, the notion that a 2% or 4% slice (a two or four-year degree) of that life journey, dedicated to higher education at age 17, will suffice is an artifact of a past age. In this new world in which we find ourselves, we will all be students off and on again throughout our lives, as we retool and stay up-to-date and our jobs evolve on a faster cycle."

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We look for companies that are solving important problems. We take a flexible approach to our investing structure and assist organizations that have found product/market fit achieve scale for purposes of advancing mission and achieving enduring success.

Shoshana Vernick | *Avathon Capital*

The evolving labor market will require that learner-workers master knowledge and skills on a scale never before seen as part of a continuous cycle of upskilling and lifelong learning. American workers already understand this: More than half of adults in the workforce believe it is essential to learn new skills or get additional training to keep up with changes in the workplace.

Policymakers are also beginning to focus more of their attention on nontraditional types of postsecondary training. With good reason: A recent National Bureau of Economic Research working paper discusses the wage inequality non-college workers experienced in the last decade, as demand for college-educated workers in the U.S. increased. The BLS reports that 74% of new jobs were in occupations where employers typically require a four-year college degree, leaving only 26% of new jobs available to 62% of the population. This demand for college-educated workers in the U.S. may have exacerbated skill and equity gaps in the labor market in recent years.

"We won't have the society or economy we want if we don't provide access to educational opportunities to everyone," explains former Colorado Lieutenant

Governor Joe Garcia, chancellor of the Colorado Community College System. "Investments and resources for higher education are important, but so are new approaches like bootcamps or other approaches that provide workplace-specific, marketable skills that demonstrably increase wages and opportunities."

Richard Barth, head of KIPP charter schools, struck a similar note in a blog post, noting, "The goal is for our students to enter adulthood with a purpose, passion, and plan, and be in a position to make choices. While college is the most proven path to high-wage, high-demand, high-impact careers, it's not the only one."

COMPLEX CHALLENGES, SYSTEMIC SOLUTIONS

Transforming the education-to-employment continuum will not be easy. It represents a value chain made up of millions of educators, learners and employers and layers of federal, state and local policies. It is affected by a multitude of interest groups, with competing missions, theories of action and relationships to policy. It includes public, nonprofit and proprietary schools across the student and worker lifecycle. It is enabled by a multiplicity of financing solutions, content, software, hardware and infrastructure. And it faces both fundamental "last mile" challenges, rooted in the practices and priorities of employers who must ultimately hire graduates (and who must rethink approaches for identifying, cultivating, and retaining talent) – and "first mile" challenges, resulting from a multitude of training and career options and limited resources to help individuals navigate to a meaningful career.

"We serve a wide range of individuals, from opportunity youth, to seniors, to those over 50 trying to get back into the workforce," explains Karin Norington-Reaves, CEO of the Chicago Cook Workforce Partnership. "While their needs and personal goals are all very different, most of them struggle with this 'first mile' problem of finding the right way to plug into the workforce system—what jobs am I qualified for, what training do I need to get those jobs, what are the high-growth, high-demand occupations in Chicago that are hiring right now. We meet people where they are, and guide them with the information they need to find stable, meaningful employment."

Despite its complexity, the intersection of education and economic mobility shares similarities with other pressing social challenges like health and wellness or sustainability that require change among an array of stakeholders and interdependencies.

Stimulating the shift to green technology, for example, is not as simple as investing in electric-powered automobiles. The viability of electric vehicles is constrained by the realities of existing manufacturers, ensconced in a value network that includes gasoline filling stations and an electric grid powered by old technologies. Global policies protect the position of incumbent technologies through an accompanying set of lobbyists, customer habits and so on. Moving to clean technology requires transforming the system. And that requires an entirely new value chain with its own interdependent and mutually reinforcing economics, interests and rhythms. In the meantime, as this new electric vehicle paradigm emerges, many are simultaneously working to improve the existing system, advocating for fuel efficiency standards. It's a multisector, multistage initiative to combat emissions.

Similarly, contrast the Robert Wood Johnson Foundation's investment in creating the 911 system with its broader goal of creating a culture of health. The 911 system, while complicated, involves a relatively finite set of players (first responders, telephone operators). It is dwarfed by the complexity of creating a culture of health – providing access to

healthy food, modifying social norms about diet and exercise, changing the built environment to facilitate physical activity and providing access to both preventative and curative care.

The Stanford Social Innovation Review framed it this way: "the conventional tools of strategic philanthropy just don't fit the realities of social change in a complex world…The forced simplicity of [strategic philanthropy's] logic models often misleads funders to overlook the complex dynamics and interpersonal relationships among numerous nonprofit, for-profit, and government actors that determine real world events."

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Entrepreneurs who do not fit the image of a Silicon Valley entrepreneur are one category where the market is not allocating capital appropriately.

Matt Greenfield | *Managing partner, Rethink Capital Partners*

To effect change across a complex system, funders must support a variety of players with diverse business models and connections to the broader policy environment, from nonprofits to impact-oriented businesses working in complex sectors that need patient capital.

"We need a bridge between philanthropy and venture capital," notes Jamai Blivin, executive director of Innovate+Educate. "Nonprofits that rely on philanthropy are always worried about their survival, but nonprofits that are revenue generating risk losing foundation support."

The challenge of funding transformative innovations in education, in part, reflects the misalignment between the realities of the sector and the parameters of prevailing asset classes. "As an asset class, venture requires exponential gains to offset big swings that don't pan out," said Ben Wallerstein, co-founder of W/A. "Education companies haven't historically gotten big enough fast enough. Private equity requires leverage, so there has to be a certain amount of cash flow to finance investments. That has always narrowed the possibility space for investment in education and means that investment and impact aren't always aligned."

The challenge is particularly acute for entrepreneurs from underrepresented backgrounds. Just 21% of startups with a first funding since 2015 have a woman as one of their founders. These startups only receive about 12% of total venture capital (VC) funding. For startups with only female founders, the numbers are even worse. In 2020, only 2.3% of total VC funding went to female-only startups. Similarly, since 2015, just 2.4% of all VC funding has gone to Black or Latinx founders.

The roots of this problem are both deeper and more surface level than many might realize. "Entrepreneurs who do not fit the image of a Silicon Valley entrepreneur are one category where the market is not allocating capital appropriately. This may be due to sexuality, race, gender, class – which masquerades as merit-- age, geography, or company size," according to Rethink Founder Matt Greenfield. Recognizing the gaps in the traditional investment sphere, investors like Rethink Education, with the support of limited partners like Strada, are providing capital to startups led by diverse entrepreneurs pursuing an equally diverse set of challenges and opportunities.

THE EMERGENCE OF A NEW CATEGORY

Many of the terms, structures and norms around philanthropy that we think of as well-established are in fact more recent. In his influential history of philanthropy, Peter Dobkin Hall explains that terms like "nonprofit sector" and "nonprofit organization" were coined relatively recently: "Every aspect of nonprofits that we consider distinctive—the existence of a domain of private organizational activity, the capacity to donate or bequeath property for charitable purposes, the distinction between joint stock and non-stock corporations, tax exemption—was the outcome of unrelated historical processes that converged and assumed significance to one another only at later points in time."

The legal underpinnings of foundations, philanthropy and the nonprofit sector in America took shape slowly and on an ad hoc basis throughout the late 1800s and early 1900s. Early legal structures enabling charitable endeavors either did not exist or were not clear on what would be included: Some states utilized a "broad construction" approach, where tax exemptions were allowed for nearly any association or activity that was not profit-seeking; others used a "narrow construction" approach, which placed restrictions and requirements on charitable activities seeking tax-exempt status. Even issues that today seem noncontroversial were mired in years of conflict: It took Congress over a decade to decide if and how to use the funds bequeathed for the creation of the Smithsonian Institution, for example.

Much as the legal and organizational parameters of traditional philanthropy became clear only in retrospect, the contours of our modern-day sector are just beginning to come into focus. New players and behaviors suggest that a shift is underway, with a cross section of organizations engaging on social outcomes, embracing the use of a variety of tools (e.g., impact investment, venture philanthropy research, and advocacy) rarely used previously within a common platform.

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There should be no difference between what a grant is and what an investment is: that line is demonstrably artificial. Thoughtful funders should look at all money the same, and should consider all opportunities for how best to engage.

Eileen Heisman | *CEO, National Philanthropic Trust*

Of course, investment – philanthropic or otherwise – doesn't happen in a vacuum. Priorities, approaches and focus areas reflect a complex interplay between government, philanthropy and the private sector, with each playing complementary roles, from stemming gaps to applying pressure on the public sector to effect change.

The convergence approach comes with both opportunities and risks. Below we begin to describe the activities that typify the shift, informed by conversations with those involved in it.

SECTOR AGNOSTIC

The characteristic that overwhelmingly connects the participants in this emerging sector is their practice of making investments in for-profit actors in addition to their more customary funding of nonprofit and governmental ones.

"The unique thing at this moment is that mission-oriented organizations are prizing agility, speed, and impact in addition to other considerations," notes John Bailey, an advisor to several philanthropies and social impact funds, including the Walton Family Foundation, and who previously served as both a senior White House official and a Bill & Melinda Gates Foundation program officer. "In the past, there have only been two buckets of funding for social issues—philanthropy and government. The new mission-first funders are looking at ways to add a third bucket, leveraging private capital to tackle social challenges."

Eileen Heisman, CEO of the National Philanthropic Trust argues that "there should be no difference between what a grant is and what an investment is: that line is demonstrably artificial. Thoughtful funders should look at all money the same, and should consider all opportunities for how best to engage." Emerson Collective's purchase of Amplify (a provider of literacy, science and math curriculum and assessment) from News Corp in 2015 provides one example of how mission-first funders are using direct investments in high-impact companies to support a broader social mission.

"There are exciting new models, new technologies, and new businesses that are establishing faster and cheaper pathways to good jobs in growing sectors of the economy," says investor Ryan Craig of Achieve Partners. "While some of these are proven and already attracting ample private capital, many are not. This is where philanthropy or other mission-oriented capital can play a critical role in helping to close the skills gap and provide access to remunerative and fulfilling work for all Americans – not simply those with the 'right' pedigrees or degrees. In doing so, we'll return our system of postsecondary education and workforce development into an engine of social mobility."

For traditional foundations, this includes expanding their work beyond grants and considering the extent to which their endowment is invested in organizations that further the foundation's goals. This marks a shift beyond simply avoiding investments in entities that run counter to their mission (tobacco, for example, or firearms). The Ford Foundation recently acknowledged, as part of its broader announcement on MRIs, that it "can't neglect the tremendous power of markets, including the capital markets, to contribute."

For mission-first funders, this means that, as part of their core operations, they will fund –and even take majority control of – entities that advance their mission, regardless of tax status. Strada identifies high-impact organizations that support purposeful pathways between education and employment and invests in their work through strategic philanthropy, minority and majority investments, affiliations and other types of partnerships.

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RISK TOLERANT: FUNDING SCALE AND OPERATIONS

As funders emerged in the 1990s focused on outcomes with rigorous measurement backed by research, many often would fund organizations' specific programs with defined, measurable results, as opposed to organizations' more general operations. Indeed, an entire category of rating agencies sprung up to measure the quality of nonprofits in part based on how low they kept administrative and overhead expenses.

In contrast, mission-first funders seem more willing to make bets on investing in the overall operations and programs of mission-aligned organizations (both for-profit and nonprofit). This doesn't mean that mission-first funders don't make programmatic grants. They do. But they also acknowledge more readily that several of their investments will not work out. Having a portfolio of bets with the ability to help scale organizations that are succeeding is important to them, as is building the capacity of organizations with operating grants and investments. There appears to be more comfort with supporting organizations that approach the work differently from the funder's precise theory of change, so long as there is alignment on desired ultimate goals. Mission-first funders are accordingly willing to invest in the overall operations of an organization in the hopes that it will allow them to scale and pivot as necessary to achieve success.

“We are woefully underinvesting in what works,” Nancy Roob, CEO of Blue Meridian Partners, noted when the venture philanthropy launched, “Without large, long-term investments of growth capital for organizations with proven results, we'll continue to salve but not solve our big social challenges.”

To this end, many philanthropic funders have leveraged for-profit innovators to affect public-sector challenges in the past. But they would typically fund a single program the for-profit was running or, if they invested in the overall for-profit organization, put significant boundaries and requirements around how the dollars could be used, which would restrict the for-profit's ability to pivot if a strategy was not working. The Bill and Melinda Gates Foundation's Next Generation Learning Challenge, for example, provided grants to high-impact companies K-12 and higher education. This funding, however, often supported the development of a particular service, collaboration or new product, rather than general operating funds.

When mission-first funders invest in a for-profit, they typically approach it with more of a venture capital mindset. They invest in the company as part of a round of fundraising. They are open to some of their investments failing. And they do not put restrictions on their investments up-front so that the organization can preserve the flexibility to pivot.

Mission-first funders also bring additional, non-financial resources to bear in support of their investments. To allow its affiliates to focus on delivering their mission, Strada supports the nonprofits it has acquired with shared services, including impact evaluation, human resources,

financial planning, accounting and legal services, among others.

Similarly, Emerson Collective provides a suite of services for the grantees and companies it supports, including help with communications and storytelling; efficacy research; fundraising; and enhancing diversity, equity, and inclusion.

INVESTING ACROSS THE VALUE CHAIN

Rather than focusing solely on one approach (for example, direct seed investments in mission-oriented companies), mission-first funders engage across the funding spectrum by utilizing a variety of partners and tactics.

Funders looking for social impact have begun engaging with VCs that specialize in different parts of the company lifecycle, from higher-risk, early stage investments to investments in proven models to help them scale.

In 2015, the Gates Foundation invested $6 million in Reach Capital to support the fund's early stage (seed and series A/B) investments in education technology companies. The same year, it put $15 million into Owl Ventures for Series A and B investments. Omidyar was an LP in New Markets Venture Partners, and ACT announced a $10.5 million strategic investment in New Markets in August 2017 to help scale businesses that improve student outcomes.

Strada is backing venture capital funds like Rethink Education, Achieve Partners, New Markets Ventures Partners and GSV that support high-growth, impact-focused businesses. To address persistent barriers to growth capital in the education market, Strada is also backing private equity vehicles, like Avathon Capital, to provide a continuum of resources and expertise as these organizations seek to scale. In this way, Strada can help companies that need longer ramps by injecting patient private capital into funds so startups can find funding from funders with the time horizon they need.

Mission-first funders do not solely rely on venture capital firms, however. Mission and social outcomes are critical factors in their investments, which means for some investments, mission-first funders provide a longer time horizon than a typical venture capital firm would. Most venture capital firms operate with funds that last 10 years. They are therefore looking to return capital to their limited partners around the end of that time horizon – and will put pressure on companies to have attractive exits or clear conclusions by then. Knowing that creating systematic social change can take much longer than a decade and not having limited partners they need to return capital to, mission-first funders can take a much longer time horizon – and, in some cases, help venture firms do the same – while keeping their eye squarely on having impact.

CZI has participated in investment rounds across the startup lifecycle, from supporting seed rounds in products like Panorama Education to D rounds in products like Indian K-12 app Byju. Over time, mission funders can play a role in de-risking financial returns associated with impact investments to make impact businesses more attractive for later-stage investors and growing the availability of funding. Studies have suggested that impact investment funds can boast returns comparable to conventional funds.

"There are organizations taking a disciplined, hard look at prioritizing—not just intending—social outcomes," notes John Tyler of the Kauffman Foundation. "This may mean taking additional risk with capital or resources, engaging in areas where traditional investors are not willing to go because the risk vs. return isn't what they want—and hopefully, using capital to move social needles."

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In addition to providing capital to emerging solutions, mission-oriented funders may also be a good cultural fit for double-bottom-line businesses or nonprofits. Investor Deborah Quazzo of GSV notes that "Strada Education Network's investment in Roadtrip Nation created a powerful combination of mission-aligned organizations. While a for-profit investor could have invested in Roadtrip Nation, the mission and cultural alignment between the two groups around student success in high school, college, and career was unique and important: Strada embraced Roadtrip Nation's holistic mission to impact as many students as they can – especially low income and first-generation students. With Strada's support, Roadtrip Nation has grown 300% post acquisition."

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Through its affiliates, Strada supports an entire ecosystem of solutions to help students identify the right school, persist, graduate, and find meaningful employment.

VERTICAL AND/OR HORIZONTAL INTEGRATION

In line with their portfolio approach that accepts risk and acknowledges the need for system change, mission-first funders are investing across the value chain both vertically and horizontally. Funders are investing in solutions that maximize impact by connecting historically siloed organizations and issue areas, using either vertical or horizontal integration (or a mix of the two).

Venture philanthropy organization New Profit's work in "aligned action" – an informal approach to connecting partners when relevant – is one example of this integration. An integrated approach is also reflected in the Bill & Melinda Gates Foundation and Strada's shared investment in the University Innovation Alliance, a groundbreaking collaboration across 11 of the nation's largest public research universities focused on testing, sharing and scaling innovations that support student completion. The Gates Foundation supported the development of higher education technologies through its work with the InSpark Science Network, as well as working to stimulate the formal and informal collaboration networks that would be required to take these solutions to scale. Supporting both technical innovation and the human capital changes needed to embrace them is one example of horizontal integration to improve outcomes.

Strada's mission to better connect education and employment naturally lends itself to vertical integration. Investments like Roadtrip Nation support college-going aspirations of K-12 students. Recognizing that students will also need support once enrolled, Strada invested in InsideTrack to provide college success coaching, and Strada's investment in Education at Work helps college students connect with employers while still in college, providing an opportunity for them to work off college debt while also connecting them to a full-time job after graduation. Together, Strada supports an entire ecosystem of solutions to help students identify the right program at the right school or other provider, and to persist, graduate and find meaningful employment.

ENGAGING THE INDIVIDUAL

One challenge in education is the separation between purchasers of education tools or services and their end users. Teachers and students are all too often removed from the decision process, and feedback from the end user rarely makes it back to those making the development and purchasing decisions (e.g., vendors and administrators).

A new, but growing, component of work by mission-first funders revolves around influencing and engaging the consumer. A complementary approach to the market-based tactics outlined above, funders connect directly with those impacted to shape the environment into which their investments will be launched.

In 2015, Emerson Collective announced the XQ Super School Project, aiming to bring fresh ideas, approaches and examples of what high school could look like to better serve the needs of today's students. The New York Times described the $50 million consumer-facing initiative as "an advertising campaign that looks as if it came from Apple's marketing department." The project aimed to dramatically reimagine education by crowdsourcing ideas from students, educators and others on the future of schools and engaging students and teachers who historically had been left out of innovation conversations. The competition also provided a vehicle to drive public awareness of the limitations of the current education system and the need for new approaches.

Although utilization of consumer engagement is on the rise, this component is still very much in its infancy and undoubtedly will continue to develop over time.

HYBRID HUMAN CAPITAL

Within their own organizations, mission-first funders recognize the importance of including both investment and grantmaking expertise in their human capital strategy. Spotting and capitalizing on opportunities for impact across the for-profit and not-for-profit sectors requires a different sort of capacity and a new blend of experience among social impact organizations.

The approach varies. Some hire experts in both areas and place them on the same teams, whereas others hire professionals who either have the skills to support both grants and investments – or who can be trained to excel in both. Regardless of approach, these organizations recognize the importance of bringing both technical investing expertise, as well as grants management expertise to bear given the investments and grants they are making.

Prior to its evolution to Omidyar Group, Omidyar Network, for example, altered its human capital strategy to maximize the connections between its investments. Its investment team supported both for-profit and nonprofit investment – a shift that was tied to its structural pivot from a traditional foundation into a hybrid LLC/501c3. Instead of program officers focused on grant making, Omidyar Network hired a team with heavier private sector experience that could invest across for- and nonprofit sectors and identify the activities that most effectively move the work forward.

"To be limited to just grantmaking and nonprofits means unnaturally limiting the scope of impact you can have," said Jennifer Carolan of Reach Capital. "VC is a mindset, a perspective on growth and rigor – it can be powerfully applied to education startups. It's not a coincidence that venture capital has been behind some of the fastest growing, most innovative companies in the world. Reach and others believed that the same could be true in education – that a venture frame of mind was needed for new ideas to get liftoff and really have an impact in our schools."

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>
> **Jennifer Carolan** | *Co-founder and partner, Reach Capital*

CONSIDERATIONS AND IMPLICATIONS

Of course, the arc of change is long. Most foundations or social impact funders are still utilizing more traditional modes of giving or vehicles for investment – and likely will continue to do so. The intent of this paper is not to argue that a paradigm shift in philanthropy is occurring or that most funders will shift to this hybrid model over time. Rather, the goal is to highlight the entities carving out a new way of operating and describe the efforts of these organizations to innovate by taking advantage of a variety of approaches, tactics and investment vehicles to promote social change.

To the extent that new models are adopted more broadly, however, and given that this approach to social change is relatively new, there will undoubtedly be growing pains for these funders as the sector develops. Below are some of the areas that merit further exploration.

Equity by Design, not Equity as an Afterthought	• Grantmakers have historically underinvested in nonprofits run by those most proximate to the communities they aim to support. "We need to be even more deliberate about designing the structures and incentives in a manner that privileges the expertise and perspectives of the communities we aim to serve," notes Patrick Methvin of the Bill & Melinda Gates Foundation. This work has in some cases already begun – Cognizant Foundation, for example, has focused many of their education-to-employment grants on organizations that fit this model, including Management Leadership for Tomorrow, Reboot Representation Tech Coalition, and CodePath.org. • We know that many of the equity challenges faced by traditional nonprofits will persist in a new model of social impact (e.g. understanding that philanthropic capital derives disproportionately from groups that have had more historic privilege). But there is reason to be optimistic that this new model mitigates some of these challenges. • The emphasis on engaging the individual may help focus and center the work of mission-first funders, taking a lesson from human-centered design principles. And the feedback loop created through the success (or lack thereof) of various investments may provide useful insights for future activities. • That said, as this new model of social impact continues to develop, mission-first funders will need to intentionally monitor and assess whether their reliance on certain social or economic structures (like the free market) are truly creating opportunities for the intended population, or if they are, in some way, compounding existing inequities or entrenching existing barriers.

Blurred Lines = Blurred Mission?	• Organizations investing in both commercial and nonprofit ventures may struggle with mission creep. They may find that it is easier to measure and optimize – and therefore to unintentionally prioritize – commercial returns vs. social ones. • Internal structures, including employee compensation, may also impact mission focus. If investment professionals within a social impact funder are compensated based on the financial performance of their commercial investments (a structure not uncommon in traditional investing), this may also create pressures to focus on financial returns rather than social ones, which could dilute the mission of the organization.
No Conflict, No Interest	• By combining for-profit and nonprofit investments in a single portfolio, mission-first funders may – intentionally or unintentionally – create conditions that lead the nonprofits to drive income to the for-profits within the portfolio. It creates risk of market distortion by in effect picking winners and losers and could, perhaps counterintuitively, discourage traditional investors from investing in companies – or categories – that have attracted impact-oriented investment. Blending for-profit and nonprofit investment to achieve social impact, with good reason, raises both legal and ethical concerns and may make others in the space skeptical of the intentions and work of the funder.
Diminished Cohesion = Diminished Impact?	• The flip side of the conflict of interest concern above is that without a connected theory of change, or by siloing investments to avoid potential conflicts of interest, funders may find they are investing in organizations or companies that share a similar goal, but use diametrically opposed approaches, and therefore work against one another in implementation. For example: Funding credentialing or skills-based hiring organizations that are built on different data standards or that aren't interoperable risks are missing out on the positive externalities that could otherwise arise from ecosystem-building efforts.

Tax Classification Challenges	• Mission-first funders invest into a variety of for-profit and nonprofit vehicles and utilize a variety of legal structures to do so. Over time, mission-first funders may begin to question whether the benefits of existing for-profit and nonprofit legal structures outweigh the constraints or costs. • The inherent constraints on nonprofit organizations–investment limits, limits on compensation types/amounts, distribution mandates–may drive funders and policymakers to begin to question whether existing laws defining the nonprofit space are still meaningful. And to the extent any desired changes in the laws lag behind funders' desires for change, mission-first funders may avoid operating within nonprofit structures altogether–opting instead to operate within LLCs and other structures that can allow for greater flexibility in both operations and financial/tax planning. • The complexities in obtaining for-profit B corporation status–corporations that are legally required to consider more than profit in its decision-making, including the impact of its decisions on workers, customers, suppliers, and the community and environment–may cause mission-first funders to forfeit any PR benefit derived from utilizing this for-profit structure in favor of less onerous legal structures and the deployment of their own broad impact messaging and advocacy campaigns. • Over time, this new cohort of funders may help redefine current legal structures and financial regulations applicable to this new thinking on social investment.

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