

# Who Benefits?

Symposium on Equity, Diversity,  
and Inclusion in Social Finance  
in New York City





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# Introduction

The purpose of this white paper is to present the current state of equity, diversity, and inclusion (EDI) in the social finance sector in New York City, as well as to offer possible paths forward by highlighting the pioneering work of select organizations in the sector. To do this, the Social Innovation and Investment Initiative (the Initiative), housed within New York University's Wagner School of Public Service, compiled current research as well as insights from a diverse group of industry professionals brought together on April 21, 2017 for a symposium hosted by the Initiative—*Who Benefits? Symposium on Equity, Diversity, and Inclusion in Social Finance in New York City*.

Why this topic and why now? In April of 2017, the Ford Foundation announced it was devoting up to \$1 billion from its \$12 billion endowment over the next ten years to mission-related investing. The foundation has made clear in its announcement that as it launches its mission-related investing, one key objective is to promote EDI within the social investment movement, paying attention to the makeup of investment teams, as well as where they invest, and with what values.



# Background on the Symposium

There are several reasons why we considered NYU Wagner to be an appropriate institution to lead this symposium. First, as a school of public policy since 1938, Wagner has been educating policymakers and public servants in addition to tackling social issues facing New York City for almost eight decades. This year, it launched a new specialization in Social Impact, Innovation, and Investment—the first of its kind among policy schools, and the first new specialization added to Wagner’s Public and Nonprofit Management and Policy program in over a decade. Wagner trains MPA students to be agents of social change through careers as nonprofit innovators, social entrepreneurs, and social impact investors. The new specialization offers experiential, interdisciplinary learning through close coordination with NYU’s business and law schools in addition to NYU’s school-wide entrepreneurship laboratories. Wagner anticipates that its graduates will soon be joining the social finance community in New York City and contributing to the potential of both its diversity and impact on the city at large.

In that regard, NYU is committed to building a culture that respects and embraces EDI, believing that these values—in all their facets—are, as NYU’s President Andrew Hamilton has said, “...not only important to cherish for their own sake, but because they are also vital for advancing knowledge,

sparkling innovation, and creating sustainable communities.” Wagner itself has a longstanding commitment to EDI that has only strengthened under the leadership of Dean Sherry Glied, who has chartered the school to have its own Diversity Plan. NYU Wagner is committed to EDI in public service and to bringing an EDI lens to the various domains that shape its institutional culture and that help advance its mission. This commitment is already embodied in the existence of a Faculty Diversity Committee and a Wagner Diversity Working Group that is comprised of students, faculty, and staff. Wagner’s faculty roster includes leading experts in race and diversity and the school offers over fifteen courses in EDI issues ranging from “Community Equity” to “Race and Class in American Cities.”

Furthermore, the newly formed Initiative, with core funding support from the Ford Foundation, the Michael & Susan Dell Foundation, and the W.K. Kellogg Foundation, has an explicit goal to serve as the central hub and incubator in the field of social finance, bringing together policymakers, philanthropists, finance professionals, nonprofits, and foundations to collaboratively strengthen the growing field. As the Initiative’s inaugural event, the symposium was a testament to this mission.

# Definitions



## Defining Diversity

In order to frame this white paper’s discussion, the Initiative has adopted the following definitions modeled from NYU Wagner’s own Diversity Plan:

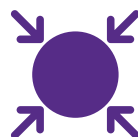
**Diversity** Refers to aspects of human differences. It is a quality of groups and communities, not individuals, and refers to the representation of different social identity groups within a collective. Valuing diversity is about acknowledging these differences as a valued resource and subsequently prioritizing actions as a community that work towards diverse representation as a first step towards equity.

For the purposes of the symposium (as well as this white paper), the Initiative focused on Diversity as it relates to both **gender and race**. This focus by no means minimizes the consideration that organizations and the finance community as a whole need to place on issues of ethnicity, sexual orientation, gender identity, social class, national origin, religion, physical ability or attributes, age, veteran status, and political beliefs. However, the Initiative believed that even a full-day discourse needed to be narrowed for an effective discussion.



## Defining Equity

**Equity** refers to fairness and justice in the distribution of resources to attain well-being when striving to achieve the most appropriate outcomes for members of a given group, taking into consideration their challenges, needs, and histories. Systemic equity refers to the aspiration of systems and processes designed to support fair and just outcomes.



## Defining Inclusion

**Inclusion** refers to the experiences of individuals and groups—and their compounded effect on institutional climate—around being included within a collective, enabling one to bring the whole self into it. It involves both a sense of belonging, feeling safe, valued, and engaged in the collective, as well as seeing opportunities for empowered participation, voice, personal growth, and access to resources to contribute effectively.



# Why is Examining EDI in Social Finance Important?

The financial sector, as a whole, has had its own challenges adopting EDI practices. In fact, post-financial crisis Dodd-Frank legislation—primarily adopted to ensure critical controls related to “too big to fail” institutions and risky financing instruments—was expanded to add provisions to ensure that the federal agencies that govern these financial institutions would begin to adopt diversity and inclusion policies and practices through the creation of the Offices of Minority and Women Inclusion. This provision, Section 342, is not broadly known in the finance community except by those organizations, such as the Federal Reserve that are directly impacted by its reach.

However, the industry has been subject to diversity regulations in its financing since the Community Reinvestment Act (CRA) was adopted 40 years ago. Yet little has been done to ensure that those who are practicing fair and diverse financing are a diverse and inclusive group of practitioners themselves. Additionally, diversifying practitioners may create a better investment opportunity. Research commissioned by the Knight Foundation found evidence that diverse-owned funds across four asset classes (mutual funds, private equity, hedge funds, and real estate) typically perform as well as non-diverse counterparts.<sup>1</sup>

In the shadows of a mature financial industry already struggling with EDI, there is a new community of investors that seek both financial and social returns. It has been almost 10 years since the term “Impact Investing” was coined. While socially-minded investing is not new, the momentum around impact investing has enhanced interest in this

activity. The Global Impact Investing Network (GIIN) defines impact investments as those made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.

For the purposes of this white paper, in its broadest terms, the sector (referred to as “Social Finance” herein) could be seen as including practitioners of microfinance, community development financing, municipal financing, mission-related investments, program-related investment, venture philanthropy, social venture capital, private equity seeking financial and social returns, as well governments—enabling both policies and programs to facilitate community investment and experimenting with social impact bonds to harness private capital to solve social problems.



# Our Hypotheses and the New York City Context

- 1 **The Initiative believes that it is better for the nascent social finance sector, particularly given its focus on achieving social returns, to examine early in its life cycle if it has the policies, self-regulation, and commitment to EDI that could increase its effectiveness.**

This is as opposed to the traditional finance community, which only began examining this issue after more than a century of institutionalizing its practices.

- 2 **A diverse and inclusive social finance community will better understand the needs of the social enterprises and social problems that it seeks to support, which helps overcome perceptions of risk. Social entrepreneurs will have better access to the social finance community if its practitioners are of diverse backgrounds, races, and genders.**

With these hypotheses in mind, we recognize that for such a new field—where those involved on both the supply and demand side are just beginning to figure out what the industry is all about, let alone analyze its practices—providing definitive conclusions may be difficult if not impossible for the moment.

To that end, **we have decided to focus solely on the New York City microcosm in assessing diversity and inclusion in the social finance industry.**

The logic of doing so goes beyond our Initiative's location in this city:

- 1 NYC is the traditional finance capital of the world, with an estimated 310,000 finance professionals. The financial services industry generates 20% of the \$709 billion in NYC's economic output—the largest city economy in the world. As such, it is representative of the financial practitioner sector.<sup>2</sup>
- 2 NYC is one of the most diverse populations among American cities as demonstrated by the hundreds of languages spoken,<sup>3</sup> the 40% of its population born abroad,<sup>4</sup> and its high degree of income variation
- 3 NYC has an impressive number of entities in the social finance space including 28 microfinance investment vehicles, 46 Community Development Financial Institutions (CDFIs), and hundreds of community development credit unions, social venture capital firms, impact advisory firms, family foundations, and other social finance organizations.
- 4 NYC has a growing cadre of social enterprises including 55 registered B-certified corporations and two B Corporation Banks.<sup>5</sup>
- 5 NYC participated in the first Social Impact Bond in the United States.
- 6 NYC is the headquarters for the leading facilitators in the impact investing community including the Global Impact Investing Network (GIIN), the recently formed US Impact Investing Alliance, and leading foundations facilitating impact investing including the Ford Foundation and the Rockefeller Foundation.



# Who Benefits?

This white paper hopes to distill the essence of our New York symposium into six key learnings that highlight notable assertions made by panelists and bolster their claims with nationally relevant data and research. This research is further supplemented by data collected from a survey of social finance practitioners invited to the symposium. Taken together, we hope that our panelists' insights and our Initiative's research will provide a springboard from which other researchers and communities can launch their own explorations of the intersection between EDI and social finance.



The financial services industry generates

# 20%

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- 1 Minority and Women Entrepreneurs Face Numerous Challenges *Obtaining* Social Finance Capital.
- 2 Minority and Women Social Finance Investors Face Numerous Challenges *Raising* Capital
- 3 Implicit Bias has a Role in Preventing Equitable Social Finance Investment
- 4 Community Investment has a Mixed Legacy which Impacts Social Finance EDI
- 5 There are EDI Lessons Social Finance Can Learn from Traditional Investors
- 6 A successful EDI strategy benefits from a diverse and committed leadership team.

# The Symposium Survey

Survey data presented in this white paper was gathered from social finance practitioners invited to the Initiative's *Who Benefits?* symposium. While we value the insights gleaned from this data, we recognize that our conclusions may not be statistically significant given the limitations of the sample size.



# Key Learnings



# Minority and Women Entrepreneurs Face Numerous Challenges Obtaining Social Finance Capital

## Context

Entrepreneurs of all backgrounds often find it difficult to raise capital and get a business off the ground. Research from the Hamilton Project explains that, “new and small business owners often face particular challenges, including lack of access to capital, insufficient business networks for peer support, investment, and business opportunities...Women and minority entrepreneurs often face even greater obstacles.”<sup>6</sup> The Hamilton Project also notes that “women- and minority-owned businesses often cannot effectively access business networks even though they might benefit the most from them.”<sup>7</sup>

Several factors contribute to this disparity in access and wealth, including a generational wealth gap between minority and white households, which in turn restricts access to elite schools and their alumni networks, as well as the absence of women and minorities in leadership positions in

investment firms. Those individuals who are able to attend colleges and universities (especially those with the most prestigious networks) are burdened with debt that then impairs their ability to allocate money towards startup costs, professional networks, and incubation. Due to the lack of intergenerational wealth and limited inheritances, minority parents are more likely to expect their children to care for them financially than white counterparts. Therefore, it is unsurprising that many minority entrepreneurs are unable to take on the financial risk of starting a new venture or take advantage of access to these networks, even when they are presented with the opportunity.<sup>8</sup>

Additionally, there also appears to be a disconnect between minority- and women-owned business enterprises (MWBES) and the companies that are most eager to invest in them.

### NYC Symposium Voices

“What capitalism has defined is that the system is fine to those who have. So, those who are looking to gain or to reallocate, I think that we have to start investing in one another. So, people of color need to start investing in people of color. It’s tough because where does the early money come from? Statistically, your money comes from someone that looks like you, so if they have no friends and family money, you have no business.”

“I think there is a lack of awareness in general of the services that are available for small business owners. We do have community outreach teams that are engaging with business owners every day in the field, visiting established businesses, operating businesses, but we also invest in marketing and/or building relationships with community-based organizations. But, I certainly think there is a lack of awareness around the services that are available at no cost to business owners.”

Board members may not be as sympathetic to the fundraising struggles of female and/or minority entrepreneurs.<sup>9</sup>



Often, these firms have not cultivated sufficiently diverse networks that could assist in sourcing investment opportunities in MWBEs. However, several firms have learned to leverage the knowledge and experience of their minority and women employees to gain better access to these networks. In fact, some investment leaders noted that gaining access to these broader networks was one of the unforeseen benefits of intentionally diversifying their investment teams. This insight was shared by both Antony Bugg-Levine, CEO of Nonprofit Finance Fund, as well as Amir Kirkwood, First VP for Business Development at Amalgamated Bank, whose organizations are profiled in this white paper.

For those minority entrepreneurs who are able to successfully navigate the launch of their businesses, many feel compelled to populate their boards with less diverse directors, whose networks and personal

wealth can be leveraged to further grow the organization. However, these less diverse boards can often be more critical of minority CEOs and intolerant of mistakes. Likewise, these board members may not be as sympathetic to the fundraising struggles of female and/or minority entrepreneurs.<sup>9</sup>

Taken together, this research and anecdotal evidence speaks to the gaps in impact investing networks targeting MWBEs and the lack of support needed for these businesses to bridge this gap on their own. However, it also speaks to the potential of intentionally hiring diverse investors to bridge this divide and expand social finance networks.

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“We’ve worked with and probably spoken with 300 to 500 players in the space and, although there are definite things that can happen on the capital side, the thing that we always heard was the capacity building—both the pipeline, connecting capital to businesses, but also supporting businesses to get them deal-ready.”

“Brilliance is in abundance. Opportunity unfortunately isn’t and access isn’t.”

**40% of the social finance professionals surveyed by the Initiative reported that their firms struggle to find diverse investees.**



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## Amalgamated Bank

Founded nearly a century ago by the Amalgamated Clothing Workers of America, a union of immigrants, Amalgamated Bank began as the bank for working people. Amalgamated has since grown to serve the under-banked, unions, nonprofits, foundations, socially responsible businesses and organizations, among many other groups in need of comprehensive and supportive banking, lending, and investing services. Certified as a B Corporation in 2017, one of only two B Corporation banks in New York City and the largest in the country, Amalgamated is committed to creating a more socially equitable world, including an accessible economy with opportunity for all.

Amalgamated's EDI efforts developed organically from its community-based mission and over the years has coalesced into several tangible organizational practices. These practices are codified in an EDI statement in its employee handbook that Amalgamated's CEO must review and approve each year that speaks to both organization-wide policies and employees' responsibility to enforce and follow them.

However, recognizing that the bank can continue to do more, Amalgamated recently sought membership into the Global Alliance for Banking Values (GABV) in 2016 as well as B Corporation status in 2017 not only to signal to clients its commitment to EDI, but also to bolster its preexisting efforts by holding itself accountable to external EDI performance metrics.

The bank created five opt-in employee communities relating to minority status, sexual orientation, gender, ageism, and work-life balance. In addition to building communities of support for employees (employees are encouraged to propose new groups when appropriate), these groups also serve as a valuable channel through which employees can communicate concerns to senior leadership

collectively, increasing the likelihood that their voices will be heard and their suggestions will be implemented.

Amalgamated also works to integrate EDI strategies into its community investment strategy, which includes real estate and enterprise lending in addition to the management of trusts. For example, its real estate lending team partners with the NYC Housing Partnership to create home ownership and rental opportunities for low-income borrowers. In an effort to provide comprehensive support for such borrowers, Amalgamated also offers grant support for housing advocacy organizations as well as direct lending to CDFIs financing affordable housing and provides technical assistance to developers. Likewise, its trust investments, which are managed on behalf of historical union customers, are often leveraged to support both financial and social returns.

However, Amalgamated continues to face challenges in realizing its EDI goals. One such challenge is navigating the networks that connect MWBEs with investors. Amir Kirkwood, First VP for Business Development at Amalgamated Bank, believes there is a significant amount of untapped social finance capital that could be put to use if there was some sort of broker or clearinghouse that could reliably connect social enterprises of MWBEs with banks and investors. Moreover, despite dedicating an entire team to collecting and analyzing its EDI impact data in compliance with B Corporation and GABV standards, Amalgamated's use of Community Reinvestment Act (CRA) funding limits its ability to collect racial and other demographic data from investees. Though originally intended to prevent racial discrimination, this restriction has inadvertently made it more difficult for organizations such as Amalgamated to understand its progress towards more equitable investments.<sup>10</sup>



# Minority and Women Social Finance Investors Face Numerous Challenges Raising Capital

## Context

Firms led by diverse investors are more likely to invest in and are better able to serve diverse entrepreneurs. This correlation is generally true for venture capital (VC) funds as well.<sup>11, 12</sup>

However, to understand why there are so few minority-led venture capital firms (or even minority general partners), you first need to understand the challenges they face in making a general partner commitment to a new fund. Typically, general partners (GPs) commit between 1-2% of the fund's total value from their own capital in order to convince limited partners (LPs) that they have "skin in the game."<sup>13</sup> Therefore, young venture capitalists of color would need to commit at least \$100,000 of their own resources (generally upfront) to start a \$10 million fund. Even as a shared commitment between multiple GPs, this can be a challenging sum to raise.

Furthermore, young fund managers of color have on average significantly less wealthy family networks from which to draw this initial funding. The increasingly stark racial wealth gap between the total net worth of white and black families in the U.S., which nearly tripled between 1984 and 2009, only underscores the financial hurdles for minority professionals to enter the fund management space.<sup>14</sup>

These macroeconomic dynamics create a vicious cycle in which aspiring venture capitalists of color do not have the personal or family capital to launch a sizable VC fund, resulting in less VC funding allocated to minority entrepreneurs (per a Library of Congress report which will be discussed in greater detail in this paper).<sup>15</sup> This cycle also means that fewer minority entrepreneurs leverage their liquidity earnings into VC funds of their own, a common segue into a VC career.<sup>16</sup>



### NYC Symposium Voices

"I think the difference in diversity right now is that black and brown people administrate, we don't allocate. I urge us to move towards allocation, to start pushing towards a percentage. I know a venture partner at a firm who has about a \$50 million firm. He has the ability to make \$7 to \$10 million in investments where his partners don't have to agree. So, I think push for allocating ability."

"My problem is racism, it is implicit bias, but really ultimately, it's that I need to come up with a general partner stake for the fund before I can go out and get the limited partner money and I'm not sitting on that kind of money. So, if you want to do something that is really meaningful for first-time fund managers of color, help us with the staking fund, something that can help fund that GP piece."

Firms led by diverse investors are more likely to invest in and are better able to serve diverse entrepreneurs<sup>11</sup>

With that in mind, some organizations, such as Transform Finance and the Surdna Foundation, are working to develop strategies to break this cycle, possibly through pools of GP funds. While it remains unclear whether or not these strategies will make a measurable impact on the allocation of VC resources to minority entrepreneurs and on the diversity of VC GPs, there is a clear need to challenge these immense financial barriers to entry if the field hopes to diversify.

Notably, these barriers to access are not universal across the entire social finance sector. While small business investment companies (SBICs) have similarly struggled to diversify—with only 11.9% of teams reporting having a women on their investment teams (VC and private equity having 7.9%) and only 10.2% having an individual who identifies as a minority—some social finance organizations, such as CDFIs belonging to the Opportunity

Finance Network, are staffed by mostly women (65% of staff on average) and report significant minority representation (33% of staff on average).<sup>17, 18</sup> Therefore, while certain subsectors, such as venture capital, private equity, and SBICs remain mostly homogenous, it is important to look to organizations such as CDFIs to provide a blueprint that may help to bridge this gap in access to capital deployment moving forward.

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**Only 31% of surveyed firms are led by individuals who identify as a minority.**

**At SBICs:**

**11.9%** of staff are women



**10.2%** identify as a minority



**At CDFIs:**

**65%** of staff are women



**33%** represent a minority





## Implicit Bias has a Role in Preventing Equitable Impact Investment

### Context

According to McKinsey's 2015 report on the link between diversity and financial performance at large organizations, the three types of unconscious (a.k.a. implicit) biases most relevant to diversity in the workplace are as follows: implicit stereotypes, ingroup favoritism, and outgroup homogeneity. Examples of implicit or unconscious stereotypes include the notions that men are better at quantitative tasks while women are better at caretaking roles. Similarly, ingroup favoritism and outgroup homogeneity refer to the fact that individuals prefer to work with other individuals who are similar to themselves, while perceiving that outgroups are composed of individuals that are very similar to one another. This perception, in turn, encourages stereotyping and perpetuates this cycle of bias.<sup>19</sup>

Implicit or unconscious biases and perceptions are notoriously difficult to recognize and address. Thankfully, there is a well-known and accessible tool that can help facilitate these conversations in the workplace. Since 1998, the Implicit Association Test (IAT) has been used to quickly identify the extent to which implicit biases affect individuals' perceptions of others. Through a series of tests, it becomes apparent through the speed with which certain words can be associated (i.e., black or white with the word pleasant) the extent to which a participant has an unconscious bias towards certain groups. Moreover, subsequent research provides evidence that these biases do in fact lead to more biased behavior outside of clinical conditions.<sup>20</sup> Therefore, the test, versions of which are freely

NYC  
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Voices

**22% of respondents reported that their firm's biggest challenge to diversifying their workforce is a "boy's club" culture featuring nepotism and stagnant management.**

"We were working with this organization ... and the board and its executive director had an explicit commitment. They wanted to bring in more women; they wanted to serve more women, and yet all of their recruiting efforts were going for naught. And so, when we went in and did the different focus groups and interviews, what we started to uncover is [sic] those unconscious biases; we started to uncover mental models that were getting in the way of that commitment."

Individuals prefer to work with other individuals who are similar to themselves, while perceiving that outgroups are composed of individuals that are very similar to one another.<sup>19</sup>



available online, can serve as a useful springboard for discussions on bias and EDI in the workplace.

For investment organizations, failure to address these biases can lead to less equitable and effective investment decisions. Social finance investors who target communities of color and women entrepreneurs that may or may not share the ethnic background or gender of individuals on the investment team must also be mindful of such biases.<sup>21</sup> These examples further the argument for diverse investment teams and illustrate why these biases, implicit and explicit, have plagued the predominately white and male mainstream investment industry. The consequences of these homogenous investment teams, in venture capital specifically, were

made clear in a recent article in Fast Company that explores the dearth of VC funding for black women entrepreneurs despite being “the most educated and entrepreneurial group in the U.S.” The article goes on to explain that when a black woman founder is funded, this funding often comes from black-owned VC firms.<sup>22</sup> Therefore, it is incumbent upon both mainstream and social finance investors to not only diversify their investment teams, but to also address the implicit biases that are preventing them from making the most impactful and sound investments.

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“My colleagues...are committed to this on the level of conscious action. When they have space to think about it and invest in it, we will do the right things. The challenge about bias in general is that it's not about what about you do when you're conscious about it, but what you do when you're under pressure and you default into those bad habits.”

“I think a lot about unconscious bias in investment...people tend, as you say, to invest in strategies that are the same, that your peers are investing in. You tend to hire people that look like you or went to your schools.”

## Nonprofit Finance Fund

Nonprofit Finance Fund (NFF), founded in 1980 as the Energy Conservation Fund, is a leader in nonprofit lending, investing, and financial management consulting. NFF's core values—generosity of spirit, rigor without attitude, responsiveness, and leading by doing—serve as a foundation for its ongoing EDI efforts. Like many organizational leaders profiled herein, CEO Antony Bugg-Levine made clear that there is still much work to be done to achieve NFF's commitment to a more equitable, diverse, and inclusive workplace and investment strategy.

Beginning in earnest in the summer of 2016, NFF's EDI initiative was and is informed not only by its leadership team (including its Board of Directors), but also by senior and junior staff members who requested additional EDI training to better support their clients. NFF has committed to a multi-pronged action plan to improve the EDI of its workplace and business operations, overseen by a 25-member Equity Committee that includes Mr. Bugg-Levine and colleagues from all levels and departments. To support this work, in April of 2017, NFF distributed an anonymous staff survey to better understand staff self-reported demographic characteristics, and received a 98% response rate. Using these data, NFF was able to establish a baseline around internal equity indicators such as staff ethnic diversity, gender diversity, inclusion of immigrants, and first-generation college graduates. In turn, this guides the organization's EDI goal-setting, including its hiring strategy. As a result, over the past year, NFF has increased the percentage of hires who identify as people of color by about 15%.

Externally, NFF's financing team is currently examining how to more deeply incorporate EDI into its lending and investment practices. For example, it plans to ensure that the race of an organization's leadership has no predictive value on whether the organization receives a NFF loan. This plan cuts to the heart of many of the institutional barriers to equitable investment, including minimum loan or investment size, inadequately diverse deal-sourcing networks, and policies and practices that may fail to take into account the diverse perspectives of borrowers and investees. One way it is engaging in this work is by contracting with an external consultant to help its financial services team set and prioritize EDI goals around staffing and lending practices for the next 12-18 months. However, Mr. Bugg-Levine noted that changing organizational practices and culture requires a significant investment of staff time and energy on top of an already heavy workload, but said his team has shown itself ready and willing to put in the extra effort.

NFF continues to work towards its external EDI goals by ensuring that services are focused on communities that need them most. On average, client organizations report that 74% of the individuals they support are low-income and 82% are people of color. An additional 20% reported exclusively serving low-income communities. Likewise, internally, 81% of these organizations reported having a diverse leadership team and 88% of their full-time equivalent staff earn a living wage.<sup>23</sup>





# 4

## Community Investment has a Mixed Legacy that Impacts Social Finance EDI

### Context

Put into law in 1977, the Community Reinvestment Act was designed to combat pervasive discriminatory practices. Known as “redlining” at the time, one of these practices took its name from the red lines banks and other investors would draw on maps to demarcate low-income and/or minority neighborhoods that they believed were unfit for investment<sup>24</sup> Thanks in part to this act, as well as its many revisions throughout the last 40 years, CDFIs and other lenders have been able to deploy

significant capital within distressed communities. Moreover, the CDFI industry grew rapidly in the 1990s following the establishment of the CDFI Fund within the U.S. Department of the Treasury, as well as a 1995 CRA regulation that acknowledged community development by CDFIs as CRA activities.<sup>25</sup>

However, this legislation is not without its limitations. Given the discriminatory context that spurred the development of the CRA, it was important to prevent

1984

NYC  
Symposium  
Voices

“We in the community development world, we depend highly on Community Reinvestment Act money from financial institutions that have obligations to CRA and a lot of the funding we receive has specific requirements that we all have to follow. And oftentimes, you ask yourself, ‘Is this really helpful for a community?’”

“The regulation doesn’t explicitly prioritize gender or race...It really just talks about low-income communities and moderate-income communities and creating jobs and housing and providing economic development—not necessarily racial justice.”

The CDFI industry grew rapidly in the 1990s following the establishment of the CDFI Fund within the U.S. Department of the Treasury.<sup>25</sup>

lenders from deploying capital based on race. However, in doing so, it created a barrier to targeted allocation of CRA resources in which income level is seen as a proxy for race.

Ultimately, while policies and legislation such as CRA have done much to empower communities throughout the country through targeted investments, they have so far done little to stem the tide of wealth disparity between households of different ethnicities.

As aforementioned, from 1984 to 2009, the wealth gap between black and white households (as represented by net worth) has almost tripled from \$85,000 to \$236,000.<sup>26</sup> Therefore, while firms should continue to leverage funding from federal programs such as CRA, they must remain cognizant of the limitations of such programs and develop their own policies to complement them.

**2000**

From 1984 to 2009, the wealth gap between African-American and White households has almost tripled from **\$85,000** to **\$236,000**.<sup>26</sup>

“They’re not comfortable investing in the types of things that...are really needed. There’s a resistance to mixed income; there’s a resistance to mixed use...There’s a shocking lack of diverse development firms...The lack of incentive (and occasionally disincentive) to invest deliberately in communities of color and into the types of developments that they truly need can undermine the efforts of even the most well-intentioned community investors.”

**71% of survey respondents allocated less than 50% of their investment dollars to enterprises serving low- and moderate-income.**



# 5

## There are EDI Lessons Social Finance Can Learn from Traditional Investors

### Context

Though mainstream investors (including those in private equity, business, and real estate investing) have made some strides in creating more diverse investments and investment teams, the pace of this progress has been slow in an industry which is examining this issue after more than a century of institutionalizing its practices. Therefore, as part of a relatively nascent sector, social finance practitioners, which include impact investors, would do well to take heed of the lessons that can be gleaned from the EDI success and failures of mainstream investors, especially given the lack of policy guiding these efforts. It is important to note that mainstream investors have the policy framework of CRA to guide them, as opposed to social finance firms that operate within a more limited policy environment.

Despite some progress on the EDI front, mainstream investment firms remain predominantly white

and male. Nowhere is this more apparent than in the VC industry, in which women comprise 45% of the workforce but only 11% of investment partners. Likewise, minority employees represent only 7% of the workforce and 2% of partners (black employees represent <1% of partners).<sup>27</sup> Consequently, in both VC and private equity, minority-owned businesses were more than 20% less likely to receive investment. Likewise, women-owned businesses were nearly 3% and 20% less likely to receive private equity and venture capital respectively.<sup>28</sup> However, according to a report compiled by KPMG on behalf of the National Association of Investment Companies (NAIC)—a consortium of minority and women-owned private equity firms and hedge funds—minority and women-owned funds outperform the rest of the private equity sector, including the buyout subset, across three industry benchmarks (Net IRR, Net MOIC, and DPI).<sup>29</sup>

### NYC Symposium Voices

“We also know that when a VC firm has female investing professionals that they are 3 times more likely to invest in women-owned businesses, so I happen to think that there is a market failure around women and minority businesses and that, if we put on our profit hat, represents a tremendous opportunity to invest.”

“We can’t continue to think of this as something we do on the side...when you think about how small social impact investing is in terms of all of the investing that is happening, it’s not enough unless we use it as a laboratory, unless we have a learning circle, so that we are quickly doing something and shooting it out.”

There is no evidence that gender or racially-diverse SBICs perform better or worse than white-male-only-managed SBICs.<sup>30</sup>

Additionally, a report from the Library of Congress shows that there is no evidence that gender or racially-diverse SBICs perform better or worse than white-male-only-managed SBICs.<sup>30</sup>

The recommendations outlined in the NAIC report target institutional investors, but contain insights that can be easily adapted to the social finance sector. They include investment mandates to direct capital to diverse private equity managers and those focused on EDI in their investments and to organize fund of funds vehicles to give these smaller diverse-owned funds access to more institutional investment. Similarly, those in social finance can create an overarching investment strategy that incorporates EDI metrics. In order to create accountability and rigor to achieve these metrics, organizations may choose to develop internal mandates or pursue external ones through association membership

or professional certifications (i.e., B Corporation) to ensure compliance with these goals and to signal to outside investors exactly how their money will be spent. However, NAIC firms represent just 0.24% of the private equity market, and these recommendations have yet to be widely implemented.<sup>31</sup>

Given the nascent state of the social finance sector, implementing these and other EDI-focused changes at larger funds has the potential to establish policies early as best practices for the field. In this way, the social finance sector has the potential to mitigate many of the challenges faced by mainstream investors hoping to diversify their investments and teams retroactively.

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**62% of surveyed firms believe that social finance should hold itself to a higher EDI standard than the overall finance community.**

**Only 13% of surveyed firms used internal EDI metrics to hold themselves accountable to their EDI goals.**

## Office of the New York City Comptroller

In 2014, the Office of the New York City Comptroller (the Office) became the first city agency to hire a Chief Diversity Officer, Wendy Garcia. This decision reflected Comptroller Scott M. Stringer's commitment to bringing an EDI focus to the office's work as the City's fiscal and legal watchdog. To this end, the Office has implemented several internal and external EDI policies such that this focus has become an integral part of its work. Ms. Garcia was featured on one of the panels at the Initiative's spring symposium and her insights inform this profile.

To begin, its new initiatives have enabled the Office to diversify the five pension funds it manages on behalf of the City. One such tool in doing so has been Economically Targeted Investment (ETI) funds, which represent 10% of all pension funds and have enabled more than \$2 billion dollars in investment into low-income communities of color.<sup>32</sup> Furthermore, in 2015, three of the five pension funds committed to formally considering diversity as an important factor when selecting investment managers based on research that showed that such diversity correlates to stronger

financial performance. Likewise, the Office has committed to investing in minority and women-owned investment funds through its Emerging Managers Program.<sup>33</sup>

In its role as the auditor of City agencies, the Office also examined the extent to which City contracts were awarded to MWBEs. Through this program, it has helped to grow the percentage of contracts awarded from 3% to nearly 5% over the past three years. The Office applies a rigorous grading system to these agencies and unfortunately, their overall grade has only increased from a "D" to a "D+".<sup>34, 35</sup>

The Office applies these same rigorous standards to itself. To this end, the Office endeavors to partner only with organizations that have a diverse leadership team and to increase its own diversity through intentional hiring processes. Comptroller Stringer's personal commitment to these EDI goals is well known to both vendors and employees and helps to set the tone for how his office and City agencies approach investments and contracts.<sup>36</sup>



Economically Targeted Investment (ETI) funds...have enabled more than **\$2 billion dollars** in investment into low-income communities of color.<sup>31</sup>





# 6

## A successful EDI Strategy Benefits from a Diverse and Committed Leadership Team

### Context

From VC firms to CDFIs to large financial institutions, investment teams in both the social and traditional finance communities are often answerable to predominantly white and male senior leaders. Despite the strides certain organizations have made in diversifying their investment teams, homogenous leadership often undercuts the ability of these diverse teams to advocate for and make equally diverse investments. This issue is particularly pronounced in venture capital. In a joint research effort, Social Capital and *The Information* estimate that only 25% of leaders identify as a minority and only 11% as female.<sup>37</sup>

PolicyLink and FSG highlight research showing “more diverse teams are better able to solve problems and that companies with more diverse workforces have higher revenues, more customers, and greater market shares.”<sup>38</sup> For social

finance organizations committed to making investments in MWBEs, this struggle to diversify can have a measurable impact on their ability to deliver on the promises of their missions. The Library of Congress’ most recent report on the state of minority and female representation in SBICs concludes that while gender-diverse SBICs are more likely to invest in women-led and women-owned companies, they were no more likely than white-male-only managed SBICs to invest in minority-owned or led enterprises. In contrast, ethnically diverse SBICs were more likely to invest in both women and minority-led or owned businesses in addition to businesses within low and moderate-income communities.<sup>39</sup> Therefore, social finance organizations hoping to ensure the success of their diverse community investing strategy would do well to hire a diverse leadership team.

### NYC Symposium Voices

“I think the issue for me has always been that often those diverse teams are answerable to higher levels within institutions or within government that are not diverse and that often creates a dilemma that I don’t think is talked enough about in terms of this work”

“We find that diversity is messy because we try to change in the middle or at the bottom. We don’t change at the top. If we change at the top and you bring in people who value it, who are comfortable in it, who’ve lived it, you’ll find that it won’t be so messy.”

SBICs were more likely to invest in both women and minority-led or owned businesses in addition to businesses within low- and moderate-income communities.<sup>39</sup>



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Only  
**22%**  
of senior VC  
leaders identify  
as a minority.



Only  
**8%**  
of senior VC  
leaders identify  
as female.<sup>37</sup>



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**54% of surveyed firms  
have senior leadership  
consisting of 50% or  
more women.**

**44% of surveyed firms  
had similar or worse  
minority representation  
in their leadership  
teams than mainstream  
VC firms (25%).**

# EDI Toolbox for Social Finance Organizations

First ensure that your social finance organization has properly addressed explicit bias and has clear policies, follow-up procedures, and an organizational culture that does not tolerate discrimination. EDI and implicit biases should not be tackled before this is done.



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Implement implicit bias trainings carefully. Both the IAT and accompanying trainings can often be emotionally difficult for participants. Participants may not consider themselves biased, but can uncover through these exercises that they do in fact harbor certain biased beliefs. This exercise can lead to angry or defensive behavior unless participants understand that the trainings are a safe and accepting space.



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Develop organizational documents/policies to begin to establish EDI as a priority for the organization along with other social finance objectives (Statements, strategy documents, hiring practices, etc).



Tie EDI goals to the mission of the social finance entity where “doing well by doing good” includes embracing best practices in EDI in tandem with pursuing double or triple bottom line objectives.



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Devote dedicated staff or allocate staff time to help ensure efficient EDI strategy implementation.



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Develop metrics to track achievements in EDI. Incorporating these metrics into staff performance reviews and organizational processes alongside other social impact metrics can help to create accountability.



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Work from the top down and the bottom up. Developing a strategy is the first step, but senior leadership and the board must also be supportive. In addition, all staff need safe spaces like working groups, affinity groups, and committees, not only to discuss diversity issues, but also to provide ideas and feedback to leadership (a.k.a. connecting the “front lines” to those focused on the big picture).



## Key



Investors



Intermediaries



Social Enterprises/  
Entrepreneurs



Community  
Organizations



Government/  
Policy makers



All

In strategic planning for portfolio management, investment strategy, theory of change, etc. – incorporate an EDI lens into the development process.



Social finance practitioners should consider specific investment goals for communities of color and women and minority led social enterprises.



Follow-up on the EDI strategies and accomplishments of your investees including data collection, particularly when your social finance firm is an intermediary.



Partner with community-based organizations to help identify MWBEs for potential investment.



Recognize that this is an ongoing process. Review and revise existing approaches and implementation on a regular basis and routinely revisit them as you also revisit your social impact approaches.



Build community and entrepreneurial networks through employee connections with communities.



Develop MWBE supplier policies and consider reporting EDI accomplishments in both hiring and supplier sourcing, as well as the diversity of your investees alongside other social impact reporting.





# Appendix

## Event Program

### Session 1

Do diverse teams lead to diverse investments?

This session explored the relationship between the diversity of investment teams and their corresponding portfolios, including the relationship between financial and social returns when diversity is a priority.

#### Moderator

Monique Aiken, Director, Tideline

#### Panelists

- Steven Godeke, Trustee, Jesse Smith Noyes Foundation
- Brenda Loya, Director of Business Development, Nonprofit Finance Fund
- Richard Roberts, Managing Director, Acquisitions, Red Stone Equity Partners, LLC
- Donray Von, Founder, Castleberry & Co.

### Session 2

Organizational Strategies to Increase Racial and Gender Diversity among Social Finance Practitioners

This session explored strategies, techniques, and processes that social finance practitioners can employ to increase diversity within their organizations.

#### Moderator

Amit Bouri, CEO, The GIIN

#### Panelists

- Antony Bugg-Levine, CEO, Nonprofit Finance Fund
- Amir Kirkwood, First VP, Business Development, Amalgamated Bank
- Lisa Mensah, President and CEO, Opportunity Finance Network
- Rachel Field, Director of Leadership & Diversity, Women's World Banking

### Session 3

Implicit Bias Workshop

The goal of this workshop was to have individual participants look inward, not just at their organizations, but at themselves, in order to challenge their own biases and assumptions.

#### Facilitator

Kameka Dempsey, Founder, KD Leadership Strategies



#### **Session 4**

Promoting A Diverse, Equitable, and Inclusive Agenda in an Uncertain Policy Environment

This session focused on the need for local and national policy to ensure diversity, equity, and inclusion. Panelists assessed opportunities for best practice adoption by the social finance sector relative to the traditional finance sector as both sectors navigate through an uncertain policy and regulatory environment.

##### **Moderator**

Diane Ashley, VP & Chief Diversity Officer, Federal Reserve Bank of New York

##### **Panelists**

- Angela Glover-Blackwell, CEO, Policylink
- Fran Seegull, Executive Director, Us Impact Investing Alliance
- Wendy Garcia, Chief Diversity Officer, Office of The NYC Comptroller
- Andrea Armeni, Executive Director, Transform Finance

#### **Session 5**

The NYC Community Voice

NYC-based social and community entrepreneurs spoke to their experience around diversity and inclusion. They offered their perspective as to how the diversity of their organizations is reflected in the financial sector from which they seek capital. Community organizations and NYC agencies spoke to diverse and inclusive social finance practices in NYC at large and related strategies for community investment going forward.

##### **Speakers**

- Abbey Wemimo, Founder and CEO, Clean Water For Everyone, Co-Founder and CEO, Esusu
- Miriam Altman, Co-Founder and CEO, Kinolved
- Thomas Campbell, Founder & Principal, Thorobird Real Estate

##### **Moderator**

Majora Carter, Founder, Majora Carter Group

##### **Panelists**

- Eleni Janis, Vice President, New York City Economic Development Corporation
- Gustavo Perez Eugui, Executive Director of Operations, New York City Department Of Small Business Services
- Yarojin Robinson, Vice President, Goldman Sachs Urban Investment Group

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