



MINNESOTA COUNCIL
ON FOUNDATIONS

Integrated Capital Recovery Program

Program Related Investments
and collaborative funding to support
Minnesota's communities

January 2022

“If you can have foundations moving in the direction of impact investing then when there is a crisis, you can move really quickly. One of the reasons this was so successful is that there was an urgency and crisis that brought people together. But it wouldn’t have happened without a centralized concept. Ideally, if you’re looking at a shared action – having a council of foundations or a centralized point can really activate impact investing.”

- FUNDER

PREPARED FOR:

Susie Brown and Paul Masiarchin,
Minnesota Council on Foundations

PREPARED BY:

Amber Collett Terway and Lee Vue,
Seiche

Introduction

“One thing the pandemic taught us is that we’re all so very connected. When we don’t act like we’re connected, people die and communities suffer.”

Moments of crisis call communities to action. In 2020, the COVID-19 pandemic and resulting shutdowns led to vast economic and social devastation across the state of Minnesota.

The pandemic and economic crisis required a swift, bold and impactful response from philanthropy. In March 2020, the Minnesota Council on Foundations and the Saint Paul & Minnesota Foundation created the Minnesota Disaster Recovery Fund (MDRF) as a first-response to the crisis. MDRF mobilized more than \$11 million from 85 donors that was distributed to 98 organizations across Minnesota (for more on MDRF, see Appendix E).

This immediate response was a critical first step. But how is philanthropy to stay in relationship with communities when crises are not passing flashpoints or singular events? The crises of 2020 arose as ongoing and traumatic experiences of inequity, isolation and a fracturing society. Hence, philanthropy must harness all the tools at their disposal to make investments that not only support communities now, but help make it possible for social fabric to be rewoven and dignity to blossom. With this in mind, MCF launched the Integrated Capital Recovery Program (ICRP) in April 2020 as a continuation of MDRF and to encourage foundations to provide loans, Program Related Investments (PRIs) and other types of patient capital (i.e., grants) to Community Development Financial Institutions (CDFIs). Minnesota’s 27 CDFIs have established relationships to community businesses and nonprofits, and a strong understanding of local needs across the state. Additionally, CDFIs are skilled at rapidly and efficiently distributing funds to the people, organizations and businesses most in need.

Timeline of ICRP

- **APR 2020:** ICRP launched with news release and a webinar for MCF members (60 attendees)
- **MAY 20, 2020:** Q&A webinar for CDFIs (31 attendees)
- **MAY 31, 2020:** Letter of interest submission (original deadline)
- **JUN 14, 2020:** Letter of interest submission (extended deadline)
- **JUN 2020:** MCF hosted an info session about the program exclusively for members (70 funders)
- **JUL - AUG 2020:** MCF hosted 5 foundation-CDFI sharing sessions by impact theme
Themes: Affordable Housing, BIPOC Centered, Twin Cities Small Businesses and Entrepreneurship, Greater Minnesota Small Businesses and Entrepreneurship, and Innovative Solutions
- **AUG 2020 - DEC 2021:** Commitments from funders
- **SEPT 2020:** PRI educational workshop for funders
- **SEPT - OCT 2020:** Due diligence process initiated with 5 CDFIs
- **OCT - NOV 2020:** Webinars to share due diligence about CDFIs
- **NOV 2020:** MCF made PRI templates available to funders
- **DEC 2020:** MCF made grant intermediary support available to members
- **JAN - MAY 2021:** MCF issued payments to CDFIs, as grant intermediary for two funders
- **MAY 2021:** Webinar about how to conduct due diligence on your own
- **SUMMER - DEC 2021:** Deployment of funds

While the ongoing COVID-19 pandemic has disrupted our collective lives, it has disproportionately impacted Black, Indigenous and People of Color (BIPOC) individuals and families who were already facing systemic barriers to their health, wellbeing and financial security.

In May 2020, the murder of George Floyd brought renewed focus on the racial inequities entrenched in Minnesota's communities. During the past two decades, the inequality gap in Minnesota between BIPOC and white families' income has ranked among the worst in the nation.¹ Moreover, the legacy of discriminatory housing and lending practices has made it exceptionally difficult for BIPOC Minnesotans to pass generational wealth and assets to their families. As a result, Minnesota has a higher percentage of BIPOC individuals living in poverty than the rest of the nation.

In acknowledgment of this entrenched injustice, MCF expanded ICRP's focus to respond to the economic crisis created by racial inequality as well as the COVID-19 pandemic. ICRP explicitly prioritized support for small businesses and nonprofits led by women, people from BIPOC communities, community members who identify as LGBTQ or people with disabilities and people from rural communities. The program's five priority areas are MCF's five priorities for organizational [diversity, equity and inclusion](#) work.

“Even the ones who had been doing impact investing went way deeper than they ever had. There were some foundations who were brand new to impact investing and many found the concept of integrated capital powerful. This was one of the beautiful things about the program: for some foundations, it works to do a grant and for others, it works to do a PRI. This way the CDFI got both.”

- SUSAN HAMMEL, CFA

The ICRP Workgroup, composed of ten foundations, guided the design, launch and implementation of program strategies (for a full list of ICRP Workgroup members, see Appendix B). Susan Hammel, CFA, MCF's Executive in Residence for Impact Investing and Principal of Cogent Consulting PBC, was instrumental in the development of ICRP, leading the due diligence process and acted as the central coordinator between MCF, foundations and CDFIs. MCF staff member Director of Member Services Paul Masiarchin worked closely with Susan to craft a collaborative COVID-19 PRI approach.

Overall, thirteen foundations worked together to provide \$44.7 million in funding that was distributed as grants and loans to 19 CDFIs focused on affordable housing, BIPOC-centered funding, innovative solutions, and Twin Cities and greater Minnesota small businesses and entrepreneurs.

The CDFI participants of ICRP identified \$91 million in capital needs; the need for ongoing engagement and funding

is clear. To learn and improve future programs, MCF partnered with Seiche, a strategy and creative consulting agency, to interview ICRP CDFI participants, Workgroup members and participating funders. Seiche also reached out to the CDFIs in Minnesota that did not participate in ICRP to better understand how the program could support their critical work with impacted communities in the future.

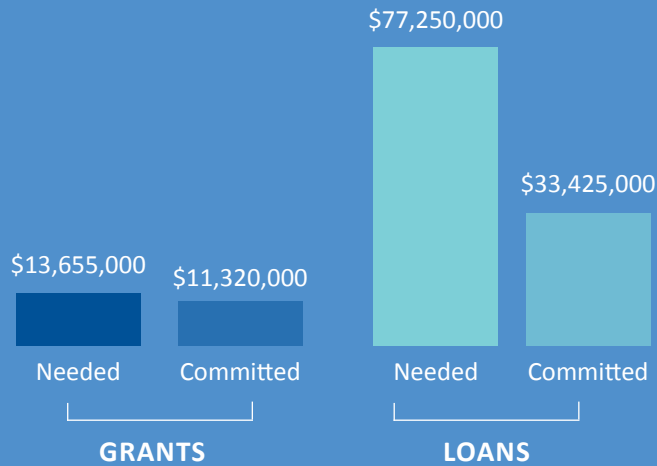
“\$44 million is huge. And, the fact that it's going to the communities where CDFIs work, to me, that's the biggest win out of everything. I think the fact that we had 13 funders interested in this work is amazing to me.” - PAUL MASIARCHIN

¹Jackson, K. 2021, Jan. 22. How Does Minnesota Compare to the Nation in Racial Equity?. <https://www.tptoriginals.org/how-does-minnesota-compare-to-the-nation-in-racial-equity/>

Integrated Capital Recovery Program Results

\$44.7 MILLION TOTAL

MCF focused on activating grants and loans as two key funding vehicles.



PROGRAM HIGHLIGHTS



90% of participating CDFIs received financial support



3 PRI legal templates produced and made available to foundations

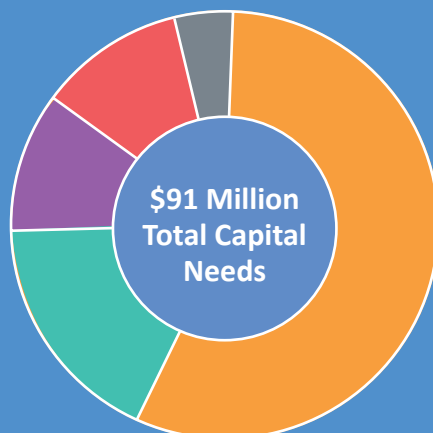


Stronger relationships and improved education among Impact Investing workgroup partners and CDFIs



5 due diligence memos shared and produced

CAPITAL NEEDS IDENTIFIED BY PARTICIPATING CDFIs



- 57% BIPOC Centered
- 17% Affordable Housing
- 11% Innovative Solutions
- 11% Greater MN Small Business
- 4% Twin Cities Small Business

CDFI participants, PRI funders and Workgroup members overwhelmingly expressed their satisfaction, gratitude and deep appreciation for the Integrated Capital Recovery Program and MCF's leadership. Experiences among them varied depending on their roles which lends different insights and perspectives into the program's process and outcomes.

SYMBOL REFERENCE



Learnings



Recommendations

Key Learnings: 5 Themes

THEME 1

The magnitude and longevity of crises faced by Minnesota's communities requires a collaborative response, and MCF's role as educator and instigator was critical.

A single funder alone cannot adequately or equitably address the ongoing needs of Minnesota's communities. Collaboration, coordination and – perhaps most importantly – an instigator, is needed.

- MCF's Minnesota Disaster Recovery Fund (MDRF) provided a collaborative foundation for grantmakers in Minnesota. As a trusted institution, MCF built on the momentum of MDRF's success to encourage grantmakers to expand their traditional approaches to supporting communities and to use all the tools available to them (i.e., grants, PRIs, loans, etc.).
- By serving as a coordinator and resource, MCF was able to encourage greater collaboration and ongoing partnership, helping philanthropic partners work together to amplify the impact of their investments in communities.
- MCF's role as educator and instigator of the collaboration was appreciated by philanthropic and CDFI participants. One interviewee noted, "As a result of MCF's work, foundations that hadn't been active in the region became more active, or at least came to the table to listen."
- The success of ICRP and MDRF expanded and reinforced MCF's experience as an intermediary, particularly convening philanthropic partners and establishing collaborations, to pool funds that would directly impact communities. Subsequently, in 2021, MCF served as an intermediary for two urgent public programs, including expanding vaccine outreach to hard to reach communities, and supporting efforts to resettle Afghan people in Minnesota.

"I thought that MCF stepping forward into a role where they could do centralized vetting of different opportunities was really helpful for an organization like ours. We just want to do good and trust that we're doing good, especially as part of an organized effort like this, that has so many professionals involved."

- FUNDER

"In general, the sector was encouraged that MCF took leadership during the pandemic to bring funders and other capital folks together to look at the current needs of communities and the capital needed to address them. ICRP was an example of a sector trying to act differently – and that is a good thing." - CDFI

"If we were going to seriously tackle these problems, we needed to go beyond the usual bounds of philanthropic giving and engage the capitals that foundations had. That's a big goal." - CDFI

THEME 2

Transparency is critical to the success of collaborative efforts and to ensure power imbalances are identified and addressed.

While everyone involved knew the impact of the ICRP would be significant, predicting the actual outcomes was uncertain to begin with. MCF recognized that the program was needed to support Minnesota's small businesses and entrepreneurs, but it was unclear how many funders would participate, how much money would be raised and the timeline in which funds would be distributed and deployed.

- 📌 The program effectively engaged philanthropies new to impact investing and those who wanted to deepen their engagement with PRIs in a collaborative funding environment.
- 📌 The ICRP program centered the experience of funders and philanthropies, prioritizing their learning about collaborative funding and impact investing, over the experience of CDFI participants.
 - 🔊 Clearly share with participants who else is participating in the program and allow them to engage with each other in and outside of the program.
 - 🔊 Allocate time for reflection and debriefing for funders to deepen collaboration and learning from each other.

"It was really not transparent. I didn't really know what was happening at any given time or what was going to be next. So it was fairly one way, lots of information requests from us, but then not much coming back the other way. I don't really know that we ever were notified who else was in there. It didn't seem to be structured in a way to also have some sharing among the CDFIs. I just don't think it was designed to do that." - CDFI

- 📌 CDFI participants desired greater efficiency and rapid deployment of funds, clear communication about expectations, funding options and participating funders, and a guaranteed level of funding for participants to justify the intensive due diligence process.

"It seemed like maybe things could've been a little bit faster. I mean, we started talking in April, applications due in June, and then we were funded 12 months later." - CDFI

- 📌 The ICRP program was staffed by MCF's full time staff, Paul Masiarchin and Susie Brown, as well as MCF's Executive in Residence for Impact Investing, Susan Hammel, CFA. Susan wears two hats as both MCF's Executive in Residence and as Cogent Consulting's Founder. Her role was critical to this work and facilitating relationships between funders and CDFIs. The lack of clarity between MCF and Cogent Consulting at times created ambiguity and confusion. Funders and CDFIs sometimes didn't know if they were building relationships and creating knowledge for/with MCF or Cogent Consulting. Some role ambiguity occurred around the program liaison between funders and CDFIs, decision making around recommendations, clarity of which entity to engage for due diligence and which entity to contact and/or contract with for expertise in impact investing.

"Early on in the process, the right thing to have done was for all of the funders to unite their feedback first, get on the same page and then say as a group, here is what we expect to see. Instead we had a decentralized feedback process, and it was confusing. No transparency about what other funders were asking for between the funders." - WORKING GROUP

Trust-building & flexibility is needed to ensure CDFI participation.

19 of Minnesota's 27 CDFIs participated in ICRP. When the program was launched, CDFIs were grappling with the severity of community needs, leaving many without the time or staffing resources needed to participate in ICRP without a clear understanding of how their participation would impact their target communities.

One CDFI that did not participate in ICRP shared that the factors that most impacted their decision:

- Lack of clarity about the ICRP and its impact
- Timing
- Other priorities to focus on
- No capacity to dedicate an individual or team to participate

Flexible deadlines are needed to be responsive to the needs of organizations and communities.

The deadline for letters of interest to participate in ICRP was May 31, 2020. But after the murder of George Floyd, communities were thrown into civic unrest and dealing with the heightened trauma of racial injustices and systemic racism in America. MCF extended the deadline by two weeks to give CDFIs more time.

"In our community, we often experience people in positions of power having a summit or bringing us together to talk about issues impacting the community. It's lovely to have conversations, but at the end of the day, that's it. You go, have a conversation, and nothing comes of it. The results are usually a thank you email and a one page report that goes to a committee somewhere. Going into ICRP, the word on the street was that this would probably be the same type of thing. You have to do homework to show up. You have to dress to impress and do an online pitch to people when you don't know who is going to be there. You have to do a lot of work for who knows what at the end of the day."

- CDFI

- Communicate back to members/funders about how to hold good relationships with CDFIs / community organizations.
- Expand the program's messengers (i.e., funding a participating CDFI to reach out to others).
- Build in time throughout the process for clear communication and trust building, providing CDFIs with clear updates regarding program timing, expectations and available funding.

"CDFIs are financial first responders. A CDFI is typically providing lending and financial services, but they're also a place where people go for connection in community. [During the pandemic] there were some CDFIs that stepped up and provided personal protective equipment, hygienic supplies like wipes and toilet paper and food drives — everything that we were all trying to find and need. They really became like community organizers."

- WORKING GROUP

THEME 4

Providing PRIs paired with general operating funds made it possible for CDFIs to participate.

It was important to have both grants and loans available through ICRP. Grants provide CDFIs the ability to provide ongoing technical assistance and capacity building support to loan recipients and small business owners. This work is critical to addressing entrenched inequities, and made it more likely for CDFIs to participate in ICRP.

- For CDFI participants, having both options allowed for greater flexibility in how they could use the funds.
- For funders new to the concept of integrated capital, pairing grants with PRIs helped them understand how to activate their capital in a variety of ways to maximize impact.

“I’m excited that more capital is being deployed through PRIs, but I don’t want it to become the main tool just because it’s easier to sell to a foundation board...PRIs really need to be paired with general operating grants. We can get money into bank accounts to start businesses, but we need the funds to provide technical assistance to support those businesses in being successful. The capital we got is wonderful. But, really, the general operating funding made it possible for us to make a difference in the community.” - CDFI







“The relationship between grant making and investment is really critical. Grants can be the things that build toward making a much larger investment. And sometimes it’s grants that free up the opportunity to invest because grants are inherently loss leaders. So if you’re... putting grants [as] first loss dollars into a pool of funds, then you’re actually mitigating the risk for the investment, because the first loss goes to the grant. So with that relationship, I think there was a lot of opportunities that came about because we were really talking about grants and investment in ways that are not always possible.” - WORKING GROUP

Racial equity needs to be central to program design and implementation.

“There was a clear emphasis in even the criteria and the thinking around racial equity. So it was always present. There were some that I think always talked about it, always wanted it. And there were others that had a slightly more nuanced perspective about making an investment like that, and trying to advance investments that were taking into account risk factors and return that ultimately are required when you’re doing impact investing.”

- WORKING GROUP

MCF is committed to advancing diversity, equity and inclusion in their work, and within the field of philanthropy. This work is guided by belief in a just, anti-racist society, free from the systemic and pervasive harm caused by racism. There were varying perceptions among CDFI participants, PRI funders, Workgroup members and MCF staff about how racial equity was integrated into the entire process of ICRP. Continuous learning and then implementing those learnings immediately to adjust and inform the program strategies and structure is essential to ensure the process is equitable for all stakeholders involved.

-  The development of funder initiatives and programs is an opportunity to lean into MCF’s commitment to be an anti-racist organization.
-  Ensure transparency about funders and funds available.
 - Ensure all who participate receive funding.
-  Ensure diversity of funders and partners; and if not possible, recognize that racial diversity is lacking and name that disparity.
-  Design a clear and structured vetting process.
-  Ensure there is values alignment of CDFIs and funders as it pertains to being an anti-racist organization.
-  Don’t posit communities of color as risky investments in the due diligence process.

“It felt like we were being asked to go to Shark Tank. You were picked, you were allowed a specific amount of time to make your pitch, and you didn’t know who was going to be there or how much funding might be available – or if you’d be funded at all...During a time when we’re gripped by an economic crisis and we know that BIPOC and low wealth communities bear the brunt of the hardship, it was a moment when more attention should have been paid to power imbalances. It was a missed opportunity.” - CDFI

“There was a degree of intentionality around the outreach and making sure there was outreach to some CDFIs that may not tap into some of the communication chains that others do that white-led organizations do. We want to make sure that we’re really using all of our resources in a way that meets our racial, economic and social justice goals and really takes diversity, equity and inclusion work into our PRIs too.” - WORKING GROUP

APPENDIX A

Methodology

MCF partnered with Seiche, a strategy and creative consulting agency committed to social impact, to engage participants in ICRP to explore the impact and lessons learned from the experience. During December 2021, Seiche conducted 12 interviews with individuals affiliated with ICRP including: CDFI participants (6), PRI funders (2), Workgroup members (3) and MCF staff (2). Seiche also invited individuals from CDFIs that did not participate in ICRP to provide feedback via an online survey. Eight individuals were invited to provide feedback via survey, with one individual providing responses. Seiche also reviewed program information, metrics and outcomes, synthesizing the overall findings into salient themes.

APPENDIX B

ICRP Principles, Eligibility, Structure & Participants

ICRP encouraged foundations to provide loans, program related investments and other types of patient capital to community development financial institutions (CDFIs) to flow resources quickly and efficiently to small businesses and nonprofits during a time of great need.

ICRP WORKGROUP

The ICRP Workgroup was responsible for the design, launch and implementation of strategies while adhering, communicating and deepening the implementation of Diversity, Equity and Inclusion principles and values among peer foundations. ICRP Workgroup members included:

- Blandin Foundation
- Bush Foundation
- Initiative Foundation
- John Larsen Foundation
- McKnight Foundation
- Mortenson Family Foundation
- Northwest Area Foundation
- Saint Paul & Minnesota Foundation
- Target Foundation
- Venn Foundation

ICRP GUIDING PRINCIPLES

- We will keep Diversity, Equity and Inclusion at the forefront of our program.
- By working with CDFIs, our additional capital is intended to fill the gaps or pressing needs left by government and other programs.
- We will encourage foundations to support this recovery effort by funding the CDFIs with both loans and other forms of patient capital.
- While there are many other community loan funds, Community Development Corporations, and other types of intermediaries lending to women, BIPOC and rural small businesses and nonprofits, the ICRP strategy focused on the 27 certified CDFIs in Minnesota, as of April 2020.

ICRP ELIGIBILITY REQUIREMENTS

- Certified CDFI based in Minnesota
- Provide support for small businesses owned by and nonprofits led by and serving women, Black, Indigenous, people of color, differently-abled, LGBTQ, and/or rural communities.

As of November 2021, ICRP's 13 participating funders generated \$44.7 million in loan and grant commitments for Minnesota communities.

PARTICIPATING FUNDERS

- Anonymous
- Bush Foundation
- Driscoll Foundation
- GHR Foundation
- John Larsen Foundation
- JPMorgan Chase
- Marbrook Foundation
- Margaret A. Cargill Foundation Fund of the Minneapolis Foundation
- McKnight Foundation
- Minneapolis Foundation
- Mortenson Family Foundation
- Northwest Area Foundation
- Venn Foundation

PARTICIPATING CDFIs

Affordable Housing

- Greater Minnesota Housing Fund
- Habitat for Humanity of MN, Inc.
- LISC Duluth
- NeighborWorks Home Partners
- One Roof Community Housing
- Twin Cities Habitat for Humanity

BIPOC-Centered

- Catalyst Consortium (Minnesota Inclusive Growth Fund) through MEDA
- Leech Lake Financial Services
- Mni Sota Fund
- Neighborhood Development Alliance (NeDA)

Twin Cities Small Businesses and Entrepreneurship

- Metropolitan Consortium of Community Developers
- Neighborhood Development Center

Greater Minnesota Small Businesses and Entrepreneurship

- Entrepreneur Fund
- Initiative Foundation
- Northwest Minnesota Foundation

Innovative Solutions

- First Children's Finance
- LISC Twin Cities and Land Bank Twin Cities
- Propel Nonprofits
- Shared Capital Cooperative

APPENDIX C

Interviewees

Seiche conducted 12 interviews with individuals affiliated with ICRP including: CDFI participants, PRI funders, Workgroup members and MCF staff.

NAME	ORGANIZATION
Alfredo Martel	MEDA
Andrew O’Leary	MEDA
Elena Gaardner	Metropolitan Consortium of Community Developers
Eric Muschler	The Greater Minnesota Housing Fund (Formerly: McKnight Foundation)
Greg Keane	Bush Foundation
Jeff Ochs	Venn Foundation
John Larsen	John Larsen Foundation
Kate Barr	Propel Nonprofits
Kit Fordham	Mni Sota Fund
Nikki Foster	Northwest Area Foundation
Paul Masiarchin	Minnesota Council on Foundations
Susan Hammel	Minnesota Council on Foundations / Cogent Consulting

Note: The following individuals were invited to interview, but were unable to: Funlola Otukoya (McKnight Foundation) and Karen Reid (NeDA).

APPENDIX D

Key Terms

Community Development Financial Institutions (CDFIs)

Mission-driven financial institutions that create economic opportunity for individuals and small businesses, quality affordable housing, and essential community services in the United States.

Integrated Capital

The coordinated use of different forms of financial capital and non-financial resources to support an enterprise that is working to solve complex social and environmental problems. The term was coined by RSF Social Finance.

Program Related Investments (PRIs)

Investments whose primary purpose is to accomplish one or more of the foundation's exempt purposes, and through which the production of income or appreciation of property is not a significant purpose.

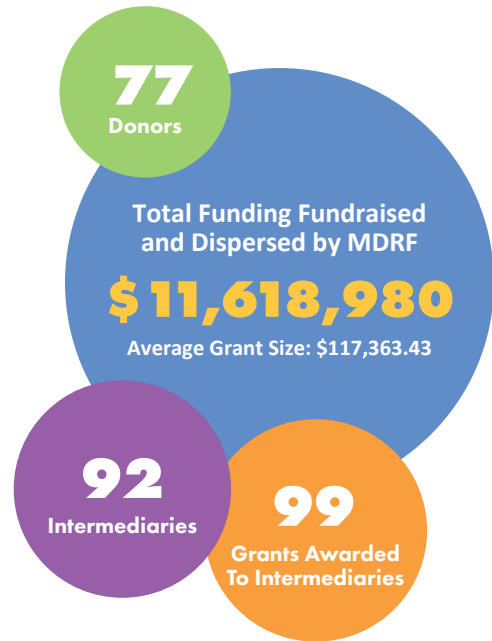
APPENDIX E

Minnesota Disaster Recovery Fund

In March 2020, the Minnesota Council on Foundations and the Saint Paul & Minnesota Foundation created the Minnesota Disaster Recovery Fund (MDRF) to respond to urgent community needs as a result of the coronavirus pandemic. Over \$11 million was raised, primarily through philanthropic entities, to support recovery and resilience of Minnesota's nonprofit sector.

MDRF provided grants to community intermediaries who regrant the funds as general operating support and/or provided technical assistance to nonprofit organizations in the state. Community intermediaries included community foundations, Minnesota Initiative Foundations, tribal nations, collaboratives, coalitions, networks, associations, or technical assistance providers.

For more information about MDRF, visit [here](#).



Intermediaries Reganted To:

1,700+
Nonprofit Organizations

3,000+
Small Businesses

Note: Donors include institutional foundations and donor-advised funds. There were an additional 123 individuals who donated to MDRF.