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Invest for Impact: An Exploration of the Incongruities in Social Finance

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Invest for Impact: An Exploration of the Incongruities in Social Finance

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ABSTRACT

Within the impact investing industry, a definition for societal return and how to measure this concept is lacking. Although its potential has been proven, there is still very limited exposure to impact investing within the United States. The present study aims to survey the current status of the impact investment industry in the United States, assess the presence of gaps between investments and their outcomes, and formulate a framework for addressing such shortcomings. The current status of the impact investing industry was examined and evaluated in order to understand how the industry is defined, what is the outcomes social finance, and how these outcomes are measured. This survey led to the identification of 56 impact investment organizations. Each of these organizations was analyzed to determine key characteristics that can be used to establish a typology of social investment options. These characteristics include the primary funding source, level of returns, time frame for returns, legal structure, and investment foci. Following an in-depth analysis of the organizations in this sample, the benefits and costs of each impact investment model were evaluated. An overall framework that combines aspects of several of the studied models is referred to as the 'Central Fund.' The 'Central Fund' was created to address some of the gaps in the market and to provide a conceptual framework for a theoretical impact-investing fund. A provisional business model was developed based on the Central Fund, which includes several innovative revenue-providing facets, such as a potential hummus truck venture and benefit concerts. This model highlights the need for additional exposure to social finance options for the every-day investor and an exploration of potential co-existing revenue streams within an impact-investing model. Overall, findings from the present study suggest that innovation is necessary to promote further growth of the impact investment industry.

TABLE OF CONTENTS

List of Exhibits:

List of Appendices:

EXECUTIVE SUMMARY

Currently, in both the academic world and the financial services industry, impact investing is a not widely recognized term. Its mysterious and abstract nature derives from its lack of exposure, and less so its complexity. Simply stated, impact investing is a monetary investment instrument seeking both financial and social returns. While the concept itself seems simple, the definition of what constitutes a social return tends to be the point of contention. Within the financial markets, investors understand, and are able to measure, financial return, which can be calculated, and while investors take differing approaches, the results are analogous. Social return, however, is not as straightforward. When measuring and evaluating social return, the purpose of the investment in a target community is paramount, and the outcomes as they relate to this purpose are assessed to determine the impact of the financial investment. This measurement is problematic for two reasons. First, there are rarely accurate numbers with which to assess the magnitude of impact. Second, there are numerous inconsistencies in measurement techniques. For example, if the purpose of the impact investment is to prepare a child adequately for college, exactly how is college preparedness measured? Where test scores are convenient quantitative indicators, there are also a number of soft skills and maturity factors that would affect the child's level of preparedness for college. The absence of consistent, tried-and-true methods hamper efforts to satisfactorily assess outcomes and impede efforts to directly compare impact investments directly.

A survey of impact investing indicates that it is a nascent industry gaining traction despite having obtained minimal exposure, especially in the United States. Although there are hundreds of impact investors in the United States, none of them have become household names, which is the main problem examined in the study. Impact investments have been proven to make a difference specifically in their target communities and more generally in the world economy. However, social finance is still not widely recognized as an investment option. Commissioned reports by JP Morgan and the Global Impact Investing Network (GIIN) suggest that the industry is legitimate. Nonetheless, there is still a significant gap between the potential of social finance and the actual number of current impact investments. If impact investments can make such a significant difference, why are they unpopular? In an effort to address this fundamental question, a study based on a sample consisting of 56 of the top impact investment organizations in the United States (all members of the GIIN) was created. Each organization was analyzed based on a number of characteristics: primary source(s) of funding, level of expected risk and return, association with either non-profit or for-profit ventures, length of time company can invest money without expecting a return, main purpose of investment (financial or social), and extent of contact with investment beneficiaries. Through a process of contrasting and comparing the organizations in the sample, the “profile” for each category—Including modus operandi, type of investor investing in each model type, and pros and cons of each fund— became apparent. These characteristics were used to develop a typology of impact investment which consists of seven types: 1)

Philanthropic, 2) Government-based, 3) Crowd Funded, 4) Microfinance, 5) Institution-based, 6) Fund-based and 7) Hybrids and/or Alternatives. After classifying the 56 impact-investing agents into these seven categories, consistencies among group members emerged. An analysis of the benefits and costs associated with each type of investment indicated the presence of significant shortcomings. While many of the organizations do incredible work with outcomes that render both financial and societal returns, there remain areas within the impact-investing spectrum requiring improvement. One key gap is due to impact investment's lack of mass utilization, which still limited to elite investors, inhibiting the scalability of the social finance movement. The second gap, which correlates with the first, is that crowd funding is grossly underutilized. Lastly, many organizations that impact-invest depend upon one or two sources of revenue, but this in itself is unsustainable.

Based on these findings, a hypothetical model was developed to overcome some of the shortcomings identified in the present study. This hypothetical model, henceforth called the 'Central Fund,' utilizes several different revenue sources including; 1) a food truck serving hummus; 2) donations derived from a perpetual benefit concert program; 3) Program Related Investments (PRIs) from foundations; 4) investments from conscious capitalists (that is, initiatives from firms interested in social causes); 5) traditional investments, including institutions, other funds and basic philanthropic sources of capital; and 6) deposits from those utilizing the funds, such as deposits from an entrepreneur who is the final beneficiary of the capital and who would be utilizing the Central Fund to deposit her earnings.

Based on the theoretical creation of the Central Fund, a hypothetical business model was proposed and described using the business model canvas. The hypothetical business model would function primarily as follows: The hypothetical business model (also called the hypothetical fund) would make small loans, as well as larger loans for local entrepreneurs, available to those who deposit their funds in the “bank” itself. The hypothetical business model would either offer debt, as previously mentioned, or invest in a venture in exchange for equity. The model would additionally source deals within the community, but would also allow interested entrepreneurs to start a social enterprise (a firm offering a product or service that helps alleviate a social problem) to come to the hypothetical fund and work with the consultants to create and build a business that utilizes and capitalizes on local resources. The locals know what is needed most and which resources are underutilized; so the objective of the program would be to help them create their own solutions through. This goal can also reduce the due diligence time for the hypothetical fund because it would have already vetted ventures with the locals.

There are a potential infinite number of causes and geographic locations in which impact investing would make a difference. Consequently, the hypothetical fund does not specify how or where the money may be invested. Lastly, conclusions are drawn mainly depicting the steps that need to be taken to propel the impact investing industry forward. The purpose of the study is reiterated to prove that there truly is ways to innovate impact-investing models to both increase their exposure to the everyday investor and to utilize sustainable revenue streams.

Impact investing has the potential to change the way the world invests, but it has yet to grasp the market's attention. With more exposure, better methods for evaluating social impact and appropriate risk and return levels for each investment, the industry could truly change the world. The present study shows the need for innovation within the impact investing industry in order to creatively solve social problems. Methods, such as crowd funding, can potentially motivate the "everyday" investor and change the face of impact investing as it becomes more popular.

1. INTRODUCTION

1.1 Purpose of the Study

The primary focus and motivation to conduct the research for this study is to analyze the impact investment industry to understand what is hampering its growth, primarily in the United States. It is interesting that markets have not adopted impact investing as an alternative method of investing, especially after the 2008-2009 financial crisis when numerous "market driven" financial products were underperforming. It is also a wonder that the United States has highly evolved financial systems that have not yet properly integrated social investments into their core financial product offerings. While impact investing is without a doubt gaining impressive traction, it has yet to reach its full potential as a growing trend of social consciousness in business and consumerism. Practically, this research was conducted in order to understand the impact investment industry to examine exactly what investors and recipients of the funds require in order to be confident investors. This analysis provides an in depth analysis of the current models available to investors in order to understand what needs are not met by the existing offerings in the industry, the outcome of which is an illustrative model (the Central Fund) that remediates some of the investors' concerns of investors and provides a more sustainable model. As "social investing" becomes a more familiar concept, it will be further integrated into the capitalist U.S. economy. Although the goal of the model is to spotlight the industry, primarily within the

United States, it can also be used within other economies with the capacity and capabilities to improve global social, environmental and political outlooks.

In order to understand the aspects and facets of impact investing, a full literature review was conducted on current impacting investing documentation, which provides an intensive investigation that defines impact investing, identifies impact investors, traces funds after they are invested, examines the evolution of impact investing, explains why impact investing is necessary, and explicates how impact, particularly societal impact, is measured. In order to gain perspective on these elements, numerous scholarly articles were studied and information from organizations built to improve the measurement and understanding of social investing was leveraged. More specifically, several commissioned reports, two notable contributors included JP Morgan and Dr. Maximilian Martin, provide information that helps pinpoint a definition for impact investing. The ability to understanding the importance of impact investing resulted from comparing the past year's market returns and impact investment returns, which helped showcase impact investing's financial potential, in addition to its more obvious societal potential. Several measurement approaches were examined by utilizing the most standardized methods of social measurement, including the Impact Reporting and Investment Standards (IRIS), Global Impact Investing Rating System (GIIRS), Global Impact Investing Network (GIIN) resources and Social Return on Investment (SROI). An understanding of where the funds are primarily directed was established using the same resources that helped define impact investing. In order to gain further knowledge on the classification of different investors and their preferences, documentation, produced by Acumen, was studied. The documentation describes the current characteristics of investors and provides direct quotes from industry leaders. The history and evolution of this extremely young industry was researched by looking at a historical summary from 2006 that captures the evolution of the market up until the impact industry "discovery" in 2007.

1.2 Impact Investing Defined

The technical definition of impact investing, sourced by the Global Impact Investing Network (GIIN), is described as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return" (52). While the definition is slightly vague, the GIIN also provides four characteristics of an impact investment in order to pinpoint exactly which type of investments qualify in terms of societal and financial impact. The four characteristics include the intentionality of an investment to make a societal or environmental impact directly in relation to the provided funds from the investment; the financial return expectation of an investment; the range of returns, which can be anywhere from concessionary to the risk adjusted market rate; and the method of measurement, which must be transparent and accountable (5). Clarification is needed when speaking specifically about return expectations. When impact investors invest in order to simultaneously achieve societal and financial returns, a wide range of returns is anticipated and expected. These expectations differ depending on the type of investor, and can range from a zero percent return on investment (that is, the principal is returned with no interest) to near market rate returns. Terms, such as concessionary (below market rates) and risk adjusted market rates, classify the expected rates. In a general sense, philanthropically sourced funds, such as foundation-based investments, generally anticipate a lower return on investment, while most for-profit organizations request a higher return on investment. In order to qualify as an impact investment, there must be some form of return, versus a minus 100% return, which is equivalent to a grant (78). Another distinction between philanthropy and impact investing is that impact-investing returns are given back to investors, whereas, philanthropic returns are considered donations to the organization and not returned to the investors (63).

The dual mandate of financial and societal impact means that investment practices deviate from a standard risk and return model (78). There is potentially greater risk involved when investing in impact because the funds are funneled to developing world economies or communities with limited resources (51). Luckily, this risk can be hedged and diversified by investing in portfolios of larger scope, rather than single investments. Three of the most common ways to invest in impact, in ascending risk order, are functioning as a guarantor; investing in a fund such as the Leapfrog Investment Fund (which will be discussed in Section 3.6.1), or investing directly in a social enterprise (78). Guarantors are the least risky option because they act as investors that hold specific collateral, or assets, of the borrower until the principal funds are returned (32). A fund is a more risky investment because the investor has the possibility of losing 100 percent of the investment with no collateral; however, there is the benefit of diversification. A fund generally is diversified because the portfolio manager is responsible for limiting the risk of the investors while obtaining optimal levels of return. A direct investment in a social enterprise would be the most risky because there is no diversification in solely investing in one venture. A social enterprise is an organizational form that uses all or some of its revenues to address societal issues, and does not rely on one source of funding to accomplish its mission. A social enterprise is also much more than just having a “corporate social responsibility” strategy that only addresses business ethicality. The legal structures of social enterprises will be investigated within the hypothetical business model later in this study, but several models can be considered hybrids of non-profit and for-profit businesses, which allow companies to focus on causes other than profit, without shareholder ramification, and to legally raise funds from several sources (34). Each investment can be classified as either a source of revenue funding, which is utilized for upkeep and day-to-day operations of a business, or as a capital investment used to advance the business to meet upcoming goals (79).

The assets used in impact can include types of debt, equity (Exchange Traded Funds, otherwise known as ETF’s), guarantees, preferred stock, revenue participation and royalty structures (75). Debt can be in secured and unsecured forms, overdrafts or standbys, with the required principal return, interest and an arrangement fee. Equity requires either dividend or capital gain returns, but is far less common because the legal structure allowing for the issuing of shares is limited for hybrid or social enterprises. Quasi-equity options are also available in which royalties are the returns on fixed-income products (79). Several lesser-publicized options include the Social Impact Bond (SIB), retail charity bonds, Development Finance Institutional funding and crowd funding projects. Grants also qualify as impact investments and include those from numerous foundations and the government, as well as investments, such as program related investments (PRI) and mission related investments (MRI).

Impact investing is often confused with the concepts of socially responsible investing (SRI) and economic, society, and political investments (commonly known as ESG investments), but it differs on many fronts. ESG investing is considered a negative screen where 'bad' investments are excluded (tobacco companies, fire arms), instead of the opposite approach taken by impact investors. These bad investments are colloquially known as "sinvestments." Rather than solely eliminate "sinvestments," impact investing provides positive screening of investments, which means investments are considered only if they make a contribution to an impactful cause and add social value (53). SRI is in the middle ground between the two previous approaches by exhibiting both positive and negative screening (63). SRI investments reject "sinvestments," but differ from impact investments because SRI investing is passive. SRI investing requires screening mutual funds and known securities and choosing from those available options. Impact investing, however, takes a more active approach and does not solely involve investing in available securities (91).

1.3 Evolution of Impact Investing

Whereas the GIIN defined impact investing for the first time in 2007, the theory and mission behind impact investing is not new (44). This way of thinking about and investing in the poor or underprivileged dates back to the 1700s with the installation of the Irish Loan fund, which offered small-unsecured loans to the rural poor. People's banks, credit unions and savings and credit cooperatives, as they were then known, were initiated in the 1800s. By the 1870s, early impact investing was spreading into the Rhineland region and eventually expanded into all of Europe, North America, developed countries and, at the time, progressively developing countries. Started in 1895 in Indonesia, the first microfinance institution gained serious traction and recognition nearly a half-century later. The early 1900s led to increased Latin American microfinance initiatives, mostly focused on agricultural advancement. Controversies and deception became an issue, as governments and private banks started owning these investment structures, and the poor progressively had less and less influence on the decision making that directly affected them. From roughly 1950 to 1970, the focus was still primarily on agriculture, but the respective governments by which the funds were allocated financed investments through Development Finance Institutions. The focus on agriculture shifted in the 1970s to micro-business investments for women in the form of guaranteed loans with members themselves supplying the capital (71). Additionally, the emergence of program related investments (PRIs) began in the 1970s for foundations. PRIs were created to function as a way for foundations to invest in the community and receive a return to remain sustainable and continue giving money with finite resources. This group of foundation investors was small, but the theory and structure of PRIs and impact investing was beginning to gain recognition as investment options (34). In the 1990s, microfinance institutions (MFIs) became sustainable because of the high percentage of repayments but mostly because of the high interest rates. The catch was that the high interest rates were lower than any other options, but still exorbitant for the beneficiaries' needs. MFIs grew and were able to reach far more people, but were primarily located in urban rather than poor rural townships where there was greatest need. The 1990s was also the timeframe in which the term "microcredit" was supplemented by the term "microfinance," due to increased financial services, rather than exclusively credit options, for the poor (71). Modern impact investing practices have been traced to about 1995, even though it was not a clearly defined way of investing at the time (66). By 2007, impact investing was defined and has since grown, but does not remain sheltered from opposition. Critics of this movement support their position saying that below market returns are expected and can, therefore, be a safety net for underperforming managers. The theory is that investors feel better about themselves when there are poor managers (23). This critique clarifies the industry's weaknesses: lack of a definition and absence of a check and balance system to avoid agency issues. That is not to say, however, that all impact investing can and will have these flaws. It is entirely possible and plausible that the future of impact investing depends upon the metrics and checks put in place to ensure that the appropriate procedures are underway, the risk and return scale is appropriately balanced, all government regulations are met and a better definition for “impact investing is created. The suggestion from critics is to invest in attractive investments and then give profits to social enterprises or non-profits. The whole idea behind impact investing is to provide simultaneous societal and financial support and not to innately equate below market returns. In any form of investing that is new or nascent, the returns will not initially be up to par with the market. With time, patience and capital, future impact investing can grow. Two major stumbling blocks in the process is the confidence of the market and the ability to convince hesitant investors to allow the industry to develop.

1.4 The Necessity and Importance of Impact Investing

Impact investing is crucial not only for the business world, but also for the global community. The practice of investing for impact fills the void of financing for social enterprises and enables these ventures to scale and impact the world in a positive way by serving underserved communities to be minimized (79). The social enterprises fill the needs of the market that the government, non-profits and large corporations cannot (due to limited resources) or choose not (due to ideologies or political pressure) to address. Impact investing has shifted the mentality of investing solely for financial returns to include societal factors in the investment decision process and to enable the integration of social business in gaining acceptance and exposure (81). Prior to the official creation of impact investing, many wealthy investors with an interest in philanthropy were unable to see the connection between the societal impact and financial return. Investors now understand that philanthropy may not be the most productive option and that impact investing offers a more desirable solution (64). Additionally, resources have become scarcer since the recent financial crisis in 2007/2008. It is no secret that governments around the globe have cut back aid provisions, thereby, reducing the amount of capital available to lift the entire world out of poverty. Political agendas can sometimes interfere with allocating resources to where they are needed, as well as restricted resources from governmental indebtedness. In 2014, there have been propositions to cut several developmental subsidies, including a $500 million economic development subsidy, under the department of Commerce, and a $14.6 billion subsidy for community development (25). It is easy to see that governments have limited means, and philanthropic donations cannot reach the scale of aid necessary. According to the National Philanthropy Trust, in 2013 Americans donated approximately $335 billion (19), while Americans invested collectively over $17 billion dollars in mutual funds, closed funds, ETF and UITs (38). It should be noted that there is huge discrepancy between how much money Americans donate early compared to how much they invest. For comparison purposes, the investment estimate of $17 billion dollars does not include other financial services, vehicles, and instruments used within the United States. This information shows that there is a large pool of capital that could be utilized for impact investing from philanthropic donations ($335 billion) and investments ($17 billion). However, it is understood that a large majority of the donations in the United States are made to religious and faith organizations. The donors would not likely take the money they were donating to their religious organization and invest it in impact investing, but the pool of philanthropic donations still indicates that there is quite a bit of disposable American income that goes towards helping the community. It is realistic to speculate that a portion of those donations could be transformed into impact investments if investors become more knowledgeable about impact investing.

Additionally, private equity in America is an immense resource. Total investment in private equity in quarter one and two of 2014 were roughly $136 billion and $108 billion, respectively (62). While philanthropy undoubtedly is a phenomenal source of financial support for the poor and undeveloped nations of the world, it is likely unable to reach the scale of capitalistic investment. The need for philanthropy is ever-present, but the capacity of grant-making foundations simply cannot keep up with the financing demands of social enterprises and social ventures (34). Hence, we can conclude that sourcing from both philanthropy and formal investment structures, within the United States and other developed nations, can lead to larger sums of money to invest rather than using it solely for philanthropic purposes.

However, this argument is not meant to say that charitable giving or funding through foundations and the government are not helpful. On the contrary, these sources are absolutely essential to further scale a venture, or are best used when ventures are, in specific stages of growth. For example, small grants are more efficient than a venture capitalistic approach for a small business. It all depends on what the company or entrepreneur needs; therefore, it is essential to have several different funding structures in the impact investing industry beyond just philanthropy and government (64), which is where impact investing and private businesses come into play. JP Morgan's Social Finance team estimates that impact investing will represent only 0.1 percent (18) of all financial assets by the end of the decade. While this growth is positive, it shows that impact investing is a miniscule slice of total investments in the U.S. and has the ability to grow exponentially, which does not prove that impact investing will not grow during the remainder of the decade. This fact simply states that 99.9% of capital is allocated outside the impact investing realm, but could be utilized within impact investing. The sheer capacity for growth and expansion is incredible to say the least, and the tone of the report from JP Morgan is that this is an efficient use of capital.

Although the skeptics believe the returns of impact investing are unable to reach market levels, empirical evidence suggests otherwise. Results from impact investing portfolios generally keep up with the market, but this depends upon the type of investment. Cash equivalents from 2008 (returns were just over 1%) performed better than the three-month T-bill returns (with yields at .36%). Fixed income (Barclay securitized) performed about two percentage points better than the equivalent impact fund components. Barclays had a high Sortino ratio (about 14); whereas, impact investments had a lower Sortino ratio (about 1), which indicates that impact investments are more likely to lose money (the higher the number, the "safer" the investment). The fixed income comparisons were relatively on par and varied by about 1% in performance, but fluctuated within the timeframe of 2008 to 2012. Impact public equity almost followed the same returns as the S&P but was slightly higher, which is likely due to the fact that many of the ESG companies are trusted companies in which to invest and had the same risk profile as the S&P 500. Further, impact private equity (3.5%) significantly outperformed global private equity (-2%). Impact based hedge funds primarily out-performed a portfolio of hedge funds by about one percent. Finally, impact first investments (that is, the social/environmental impact was the organization's main goal and financial returns were secondary) outperformed the consumer-pricing index (CPI), which means they were returning capital. In other words, impact first investment not only kept pace with inflation, they outpaced inflation. Since inception in 2006, the impact-weighted portfolio (2.56%) outperformed the portfolio benchmark (2.38%). This comparison is looked at from a one-, three- and five-year standpoint. The performance of impact investments exceeded that of regular portfolios in the three- and five-year range, but not in the short term (one year) (84). This information suggests that private equity and hedge funds are the most lucrative excess points for impact investing, and a longer time line allows for the true financial (and societal) impact to take effect and show positive returns. It is notable that returns on debt and equity in developing economies are 8-11.9% and 20-24.9%, respectively, whereas the debt and equity returns in developed countries are roughly 5-7.9% and 15-19.9%, respectively (15), which does not imply that every investor should switch their investments into developing economies, because there are additional risks, however, this is evidence that there is an appropriate additional return for the added risk.

1.5 Characteristics of Impact Investors

According to Acumen, any firm that succeeds in early stage investing is considered an "impact investor" because it is solving a problem for an underserved community (75). For example, Acumen suggested that when Google created their search engine, it was technically serving an "underserved" community of information seekers on the Internet. While Google may qualify as an impact investment in the definitional sense, many practitioners would argue the opposite. One of the large problems with impact investing is just this, there really is no tried and true definition that draws the line between who qualifies as an impact investor or not. Most commonly, impact investors are defined by their concern with the double or triple bottom line rather than solely the financial bottom line (75). The triple bottom line is environmental, societal and financial impact, while the double bottom line is financial and society impact. Impact investors generally accept lower financial returns as long as the social impact compensates for the financial loss. One may wonder, what would motivate an investor to "lose money" in order to create social impact. However, several investors are mission driven and just want to do the "right" thing; for example, by providing government sponsorship, such as the International Finance Corporation (IFC), or becoming an integral part of a regulatory or political framework (75). Additionally, the top priority of most investors is impact first, investment first or catalyst first (the evolution and growth of impact investing in general), (34) because this means their investment will have a sustainable impact and/or societal impact will lead to higher financial returns (51).

There are 200 estimated impact investing organizations that range from foundations utilizing program related investments (PRI), angel investors for early stage and innovative investments, professional or family investors, institutional investors, private sector corporate impact venturing and financial services companies. Organizations, such as Intel ventures, may be impact investors that assist a new social venture, with corporate resources, that could potentially be an acquisition candidate. Financial service companies and banks are able to offer products to their clients while generally utilizing the outside resources of independent investment companies to assist with impact investing (52). Investors can range from profit to non-profit ventures, global to domestic and fund to foundation, but investments rarely come from the corporate world, in terms of commercial capital, because the risk return trade-off has yet to align for that group (75).

With impact investing, there will always be some kind of return required or anticipated. The types of investors can be grouped. Investors looking for low volatility stay away from investments correlated with market variability, such as pension funds, theme-related investing or investments aimed at achieving impact more effectively than with just grants (52). The parties that generally contribute and provide capital to impact investing by use of the previously mentioned methods include professional investors, such as pension funds, specialized funds and national governments. Each type of investor requires different product offerings and expects different results from their funding. For example, pension funds choose to invest in impact investment vehicles in order to increase their exposure to alternative markets, while avoiding as much market volatility as possible. On the other hand, specialized funds seek sector specific exposure, and governments or charities are interested in eradicating societal issues (81). By recognizing that each contributor to impact investments has slightly different motives, funds can customize product offerings to appease diverse needs. For example, angel investors generally invest with smaller amounts than venture capitalists. In impact investing, smaller denominations are appropriate for aid agencies providing $1000 to $100,000 in aid, while an investment from a venture capitalist could be several million dollars (51).

Once the impact investments are made and returns begin to flow, they can either be returned to the investors (e.g. the case of a non-profit venture), or the funds can be reinvested to advance the cause in which the funds are correlated. Overall, 54 percent of investors are targeting competitive market rates, while the remainder anticipate either par with the market or slightly below market rates (66). The general policy is to have a two- and 20-percent return plan, which means that a management fee would be a flat two-percent fee, and the investment team would receive 20 percent of all investment earnings. This structure generally does not hold with impact investors, while it remains popular within the world of venture capitalism. A more common percentage deviation is a one- and ten- approach for impact investors (23). Impact funds may charge three-four percent for sourcing the funds but generally about 80 percent is returned to the investors

(75). In terms of the rate of return, the return expected can range from about zero percent to 30 percent, but it varies based on the investor's risk appetite and desired payback (13).

Evaluation of the attractiveness of an investment is similar to that of a non-impact investment private equity firm. Depending on the priorities of the investor and their comfort with risk, they make investments at differing life-cycle stages, maturities and levels of funding (75). Almost the entirety of impact investment deals are funded at the post-venture capital stage of investment, where the company is still funded by the venture capitalist firm, has gone public through an IPO or has experienced a merger or acquisition. Post venture investments represent 89 percent of all investments, in which 35 percent are growth stage, 44 percent mature private companies and 10 percent are mature publically traded companies. Of the remaining 11 percent, three percent goes towards seed funding and eight percent contributes to venture stage capital (66). Capital is concentrated in post venture stages (otherwise considered vetted businesses) that contribute to societal and environmental impact. Unfortunately, a very small portion of capital is given to the ventures jumping into the industry for several reasons that centralize around volatility of brand new ventures. For practical reasons, grants and philanthropic monies are best used for seed funding (due to the levels of volatility and lower likelihood of high returns) and debt and equity monies are better used for growth ventures (51).

Specifically, debt is utilized in the later-stage companies for sustainability reasons; whereas, equity is offered for high-growth potential companies in earlier stages (66). The time frame necessary to close these deals is generally three to nine months, which is in line with most traditional venture capital funds (66). In some cases, investors participate on the boards of companies in which they have invested to offer management assistance, but this again depends on the type of investor and their desired level of involvement. Overall, social investments tend towards more involvement than non-social impact investments (75).

To benefit maximally from tax shelters and maximize the possible returns to investors, many social investment funds involve offshore structuring. This strategy can include avoiding restrictions on foreign direct investment. One example is India's restrictions on cash flows in and out of the country (75). With funds that range from $50-100 million (with more than $1 billion for Development Finance Institutions, at the high end, and individual investment sizes ranging from $1-2 million, at the low end), the tax burden can be substantial (75). While this action of tax avoidance is not condoned, future solutions are possible with the newly invested hybrid legal structures that will allow tax relief to social impact ventures and funds. In that way, firms and funds that do the same amount of good, or possibly more good than non-scaled non-profits, while benefiting from the tax shield.

1.6 The Final Destination of all Impact Investments

Overall, the funds collected from impact investing go to entrepreneurial initiatives aiding underserved communities (75). While this is a rather unclear term, it best encompasses the ambiguity of the numerous options within impact investing. An impact investment can go to something as specific as funding an ambulance corps in Mumbai, India (e.g. the Acumen Fund) or can be as broad as investing in Third World education through larger institutions, such as the World Bank. The impact investment can go to private or listed equity holdings of social enterprises, fixed income products used to fund social missions such as Social Impact Bonds (SIBs), debt, and real estate just to name a few of the potential options. The investments can also be directed towards any part of the world, developed or developing, as long as the specific community it is targeting is underserved (53). In terms of this allocation, of the total impact investing market, about 70 percent goes towards developing countries (primarily Sub-Saharan Africa and the Asian region) through the use of 62 percent debt and 24 percent equity (66).

Overall, in terms of social finance and innovation, the U.K. has the leading position of all developed world economies. The U.K. has numerous university programs that are dedicated to social business, policies and legal structure that corroborate social enterprise and social financial systems in place, such as the social stock exchange (17). This exchange enables impact investors of all sorts to invest in a familiar and market-based manner. While U.K. constituents may only utilize the exchange, it vets companies, to be included on the exchange, based on criteria similar to the SROI measurement approach (see Section 1.7.1 below) (36). As firms move from non-profit status into fully functioning hybrid entities (which is a recent revolution that is still being approved in many states within the United States), there will be more ability to directly invest in these companies through traditional stock exchange format. In addition, this shift may lead to the creation of more social stock exchanges. The U.K. Prime Minister created the exchange during the G8 Social Impact Investment forum in 2013 (50). The summit functioned as a forum to talk more about impact and the goals of improving measurement and evaluation, in order to grasp the attention of more investors and, in particular, to gain their financial trust (50).

The most common areas for impact investment are affordable housing, community services; disabilities; education; employment and training; financial inclusion and services; health and social care; transportation and communications; utilities, such as water and energy; agriculture and the environment (53). The "hottest" industries are in cleantech, microfinance and financial services in emerging markets and social engagement, all of which are funded by Social Investment Finance Intermediaries (SIFIs) that facilitate and utilize SIBs (2). The recent JP Morgan Impact Investor survey predicts that allocations in equity holdings for microfinance will decrease and funding for food and agriculture, financial services, health care and education will increase, particularly for early stage investors (66). Four focal areas of future growth are within the base of the pyramid populations (BOP), including over four billion people living below two dollars a day; resource efficiency; public services, such as welfare and health and sustainability conscious consumers (52). The base of the pyramid (BoP) population will be targeted for products that are affordable to them rather than the hiked up slumlord prices. Governmental assistance to improve resource efficiency, in terms of green tech, will be essential. Public services are unsustainable and require innovative, social business solutions, due to aging populations, in which SIBs can be immensely helpful. Funds should also be allocated to social enterprises targeting the health and sustainability consumer base, as this trend is progressively increasing; in fact, 83 percent of the population in developing world economies would pay a premium for a socially conscious product, as opposed to only 50 percent in developed world economies. Although the people of developed world economies have more discretionary income, the actual target market for these products is in developing countries (52).

1.7 Methods for Societal Impact Measurement

Within the world of impact investing, measuring the societal impact is absolutely vital. However, there are significant discrepancies between methods that aim to quantify impact. For instance, how do you measure the impact of an investment in education on a child just entering school? While the following suggestions are not entirely fool proof, they are widely utilized. Impact must be quantifiable, but simply counting the number of people an investment reaches is inaccurate. The depth of impact is the most difficult aspect to measure, but it is also the most crucial and can be done by looking at the “chain of impact” that analyzes the context, practices, outputs, outcomes and impacts (80). The “chain of impact” will be discussed in more detail in Section 1.7.2 below. The focal areas for measurement include the uses of capital, impact reporting (including any assumptions made, if the method is robust, consistent and specific), impact delivery and future outlook, which identifies what needs to happen for future impact to occur (27). The following discussion describes the SROI, GIIN, GIIRS, BACO and the Social Evaluator methods for evaluation, all of which are currently utilized methodologies.

1.7.1 SROI

The first approach is what is called Social Return on Investment, better known as SROI. It is a method used to measure the social, environmental, and economic business outcomes of social business. As a disclosure item, the SROI ratio is based off of numerical assumptions and not hard financial evidence; therefore, the number can be used to compare social investment options but should not be the only factor utilized (74). SROI consists of seven principals to follow and utilizes the IRIS standardized indicators (74), which includes societal and environmental metrics, all of which are listed within Appendix 3. The seven principles focus on the involvement of pertinent stakeholders when determining what to measure, understanding the stakeholders' objectives, valuing what matters to the stakeholders by using financial proxies, including only material things, avoiding over claiming, identifying transparency, and verifying results. Keeping those principles in mind, SROI utilizes a three-step process. The first step is to define the scope of the analysis, including the organization's issues, objectives and stakeholders and their relationship with the impact. Next, there must be the identification of the impact, indicators and attribution levels. Essentially, the IRIS indicators are determined and quantified with expected outcome quantities. Next, possible negative outcomes are subtracted from this number (the total), and the attribution to the impact that would have occurred regardless of the firm is subtracted from the total. The attribution is also in reference to the dead weight and displacement amounts. In the third step, the impact is divided over the inputs to determine the value of the inputs and calculate the SROI. In the final step, values are reported and the creation or destruction of value is managed (74). The SAA is also utilized to verify the validity of the social impact claims, which is essentially a social audit (36). This strategy is only used for the reported outcomes that have been observed and demonstrated and is not used for forecasting (74).

1.7.2 GIIN

The second approach is the GIIN method, which simply analyses the relevant objectives to stakeholders, a set of standardized metrics (IRIS metrics in Appendix 3), the monitoring and managing of the objectives through the use of the metrics and finally the reporting of results to the stakeholders (5).

1.7.3 GIIRS

The third strategy is the GIIRS approach, which essentially is a third party rating agency for social impact. This method surpasses the SROI in its ability to directly compare two investments based on their effective "impact rating." The focus is on private companies (both individual companies and funds) in numerous industries and geographies (85). The system itself utilizes sophisticated software that allows for the visual comparison of benchmarks through the use of graphs (36). The rating is an overall assessment based on past performance and current performance with 15 sub-category ratings. Key performance indicators (KPIs) for the applicable industry, size of the geography and the social mission are all compared to the company's peers (86). The rating itself can be done for a firm alone, or for a fund for which the rating is 10 percent fund management and 90 percent a weighted average of the companies within the fund's portfolio (86). Within the fund, 80 percent of the companies must be rated in order to produce a valid rating. The assessment is based on the types of securities, the stage of investment obtained and the geographies reached. The overall rating of the fund will alter only if a company within the fund significantly changes. Companies are rated on the basis of stars (one through five stars). The amount of stars depends on the points the company receives, which is a total of 200 points. The points are derived from a 50-120 question-test that focuses on government, workers, community and environment. It is impossible to get a perfect score, so a five-star rating represents anything above 120 points. To ensure a fair and level playing field, these questions are additionally weighted towards a firm's focus. The level of specification moves from the overall impact area of the four mentioned, to a subcategory and lastly to a specific topic question pertaining to direct practice or results. Even if built with the integration of thirteen different social business models, the system can easily recognize any one of them. The company size and geography are also taken into consideration. The company is determined by the number of workers to define the total full time equivalent of employees, and the geographical feature places emphasis on whether the geography is emerging, frontier or developed, based on the human development index, gross national income, World Bank ease of business rating, gender empowerment and private capital availability rankings in the country. As a final note, 25 percent of the capital must be allocated to social/environmental causes to be considered a viable company for this rating (87).

1.7.4 BACO

The fourth approach is known as the BACO or the Best Available Charitable Option, which analyses the current investment option utilizing a social unit calculation similar to the methodology in the SROI model, to compare that to the social unit calculation of the next best charity option (36). To clarify, the next best charity option is essentially the opportunity cost of the impact investment. It is the next best investment option the investor has that would produce the most social impact out of all possible investments.

1.7.5 Social Evaluator

The fifth approach is called the Social Evaluator, which is essentially an SROI of outcomes, valuations, and benchmarks with a preset standard for reporting framework (36).

Overall, impact can be measured directly by what the firm does and the impact it makes or by a setting/community standard that assesses how the community changes due to the investment benefit. Two examples of these types of evaluations would be the measurement of soil nutrients in an area assisted by an agricultural company or the assessment of poverty levels in a community helped by a microfinance organization (80).

Currently missing from measurement is longitudinal data that could provide more specified and appropriate benchmarking, third party verifications of the above analysis, transparency, public reporting and standardization (52). Although there is still a long way to go, there are positive and proven steps being taken to measure societal impact.

1.8 Current Status of the Industry

The amount of capital allocated towards this industry in 2013 was approximately $36 billion (52), with anticipated growth rates up to of 69 percent annually (44). The annual Impact Investor survey (conducted in collaboration with JP Morgan and the GIIN) estimates that the industry will grow anywhere from $400 billion to $1 trillion by 2020 (44). In 2014, the number of deals to come to fruition will likely increase by 31 percent, to reach a total of 6,149 deals (66). The U.S. government is also reportedly increasing the worth of a number of SIBs in circulation from $150 million to $200 million (66). The United States and United Kingdom are both creating new organizations to enhance the emphasis on impact investing, such as the National Impact Institute (NII). The NII is expected to expand impact investing in the U.S. to improve the U.S. economy and the European Social Entrepreneurship Fund, which will be used to source investments for investors wishing to invest in social enterprises (66).

1.9 Observations Based on the Literature Review

While the theory of social investing is not in its infancy, the formality of the industry is still in its nascent stages. As a young industry, social investing is still not clearly defined, which often leads to misunderstanding and misinterpretation. It is predicted that by providing more access to capital, which can also be seen as more awareness of the industry and willingness for investors to invest, could lead to the growth of impact investments similar to the flow of capital to SRI investments (81).

In such a young industry, there will naturally be differences in how investors learn about the investments and how the information should be presented to them. The presentation to such parties must cater to their goals. For example, funds, foundations and DFIs will want to understand the societal impact first when evaluating an investment, while an institution or private investor might be more concerned about first understanding the financial implications and stability. While all organizations agree that financial and societal returns are essential, their emphases differ (51). The product offering should cater to these differences by providing alternative investments or exposure-driven investments to pension funds to diversify their risk (due to their desire to stray from market volatility) and specialized funds that obtain specific sector exposure in the portfolio (81).

Institutional investors specifically are a unique case. Their confidence in impact investing has not gained much traction because institutional investors are used to managing investments solely based on their financial impact, and they do not have a long-term track record for these types of investments (52). While these issues tend to deter institutional investors, according to Dr. Maximillian Martin in a study by *Impact Economy*, their presence is estimated to rise in the impact investing industry, as seen specifically in 2013 (66). In addition, institutional investors have concerns about fiduciary responsibility to their clients, and without a solid deal flow thus far, they have not become fully integrated (52). While this may seem a bit dismal, it is important to remember that financial engineering has yet to be employed in this field, which could lead to the reduction of risk in impact investing and the rise of investing. Specific offerings can be devised where assets lose value but the returns financially are still positive. For example, tranching can be a way to utilize both institutional investors and philanthropists. By using this strategy, the lowest tranches lose money (technically functioning the same as a donation where all principal is lost) and the institutional investors hold the higher rated tranches and receive normal financial return (52). Potentially more talent and more risk-adjusted products will be offered due to investment awareness. Furthermore, there is an estimated growth of 17.4 percent in financial services in the markets where impact investments are located (primarily developing economies), which shows a space in the market for institutional investors (58).

Another potential hindrance for the impact investing industry is the fact that there is a lack of high quality deals in most regions, which leads to an abundance of capital but a lack of employed capital across the risk and return spectrum. Specifically, North and Latin America experience a deal flow that is rather abundant, while all other regions experience considerably less quality deal flow (66).

A rather fundamental part of the impact investing method is the treatment of taxation as it is a hybrid of non-profit and for-profit investment goals.

Currently, the U.K. has installed a 30 percent tax reduction for companies that meet nine criteria to qualify as an impact investor. The U.S. has yet to create such a policy. The U.K. also has an accepted legal structure for social enterprise, making the investment process easier and better suited to the types of investors they would be seeking. The U.S. offers several legal structures that cater to this type of clientele, but they are brand new and generally unknown by business and legal professionals (18). There is not an abundance of legal regulations and frameworks for such investments, which may lead to misunderstanding and potential misinterpretation or misuse. The U.K. has severely outpaced the U.S. in the creation of organizations (Big Society Capital as an example). The U.K.'s education system satisfies business students with a social mindset, while offering Master's programs in specific social business topics as well. The U.K. has also led in innovative approaches, including the social stock exchange. The U.S. could and should follow suit (50).

What potentially can change the movement in the United States specifically to improve and increase impact investing efforts is the perceptual change of investing in entrepreneurs and businesses that have immense potential, rather than seeing all those in poverty and less than perfect business environments as charity cases. The focus needs to be on private based institution solutions (51). Additionally, there is a large lack of seed capital in the impact- investing industry as its volatility is the highest of all impact investments. The goal is to increase the demand within the industry but improve the awareness of the investment options, instead of solely increasing the supply of the capital (52).

1.10 Research Question

The main topic of focus and inquiry in this study is to explore exactly why there is limited exposure to impact investing in the United States, which accounts for a lack of knowledge of these atypical investment practices. The concern is that without proper knowledge and confidence in the market, capital allocation towards impact investing will not be aligned with what a free or efficient market would indicate. The sources and roots of hesitation among potential investors of different types are investigated to find out why impact investing has not yet gained significant exposure and funding from within the United States

2. RESEARCH METHODS

This section will speak to the information discovery process, analysis of the data itself, and creation of the hypothetical model (Central Fund) and hypothetical business model or hypothetical fund. First, by investigating the social finance industry, it became apparent that the term “impact investing” was quite a mysterious area of finance that is rarely discussed, and when it is examined, definitions are ambiguous and unclear. Due to the practical nature of this study, it was natural to start by identifying the big players in this nascent industry and how they function. Acumen Fund, the most widely known example of modern impact investing, was the first organization investigated, followed by the World Bank. On the surface, these were the two organizations that kept appearing in most articles written or discussions about impact investing and the social finance field in general. Additionally, the Acumen Fund and the World Bank have gained the most recognition within the United States. Therefore, it was essential to look at the two completely differing yet successful models to start the research process. In order to learn more about these examples, information about the two organizations was obtained directly from their designated websites, commissioned reports, as well as academic publications. In order to better frame the discussion, research had to be completed on the following: how impact investing is currently defined, when impact investing became a known term and its theoretical history, why impact investing is necessary, who are impact investors, which organizations are supported by capital from impact investing and how success is measured. After understanding the scope and details of the market through the literature review, and seeing the determinants that are driving investors to hesitate when approached with impact driven investments, it was a natural progression to do further model research to get a complete picture of the industry. Several differing models were investigated and a list of each organization's sources of funding was considered to get a wide-reaching sample of the options available. According to the GIIN website, there is an Investors' Council in which the top and most prominent impact investors are members. The list of approximately 56 firms was the basis for this study. The analysis was derived with these firms as the focal point, and while there are other impact investors in the world, it would be impossible to analyze them all. The GIIN network is well known in social finance for providing social measurement methodologies and functioning as a large network for impact investors (54). The focal points of the analysis are what investors need, what is offered by all current operating models and what is left unaddressed in the market. The main criteria used in this analysis were the primary source of funding for each organization, which allowed for different classifications of the organizations. Once the organizations were classified, similarities and differences were analyzed by looking at the level of return expected, the time frame for investment and the primary driver of the investment; in addition, the analysis also included whether the organization directly or indirectly invests and whether the organizations are typically non-profit or for-profit. Since this research is geared towards a more practical methodology, rather than a significant contribution to further research, a theoretical model was built to bridge the gap between current available models and fill the holes in the market. Initially, this theoretical model began with several different business ideas that could contribute to societal-issue alleviation by providing numerous revenue streams. In order to better scale each of the ideas and have all of the separate revenue streams collaborate, a 'Central Fund' was developed so each "mini-business" could be utilized in tandem. A business model was built based off of the theorized Central Fund model. The business model itself quickly expanded and grew from a more consulting-based business model that would investigate developing regions, enter those regions and implement business strategies with locals who knew the resources, to a more centralized fund. The consultation arm was enhanced and added to the overall fund, which would manage all of the investments internally. The Central Fund itself would source capital from the socially conscious businesses both partnered with the fund and created in accordance with the fund. It would then take this capital and invest it in developing world economies by utilizing centers in those countries. Each center would have due diligence and investment professionals prepared to vest out and investigate the most promising business models for both societal and financial success. The money would be used to scale the local businesses, and excess returns would be returned to investors. The consulting arm would come back into play by offering a form of deal flow to the hypothetical fund, meaning that locals would work with the professionals at the local fund office to access the growth areas of the region and what resources (financial, human capital, natural resources, etc.) could be more efficiently utilized. This strategy would then turn into the creation of businesses in those regions, where the due diligence process would be immensely shortened (the hypothetical fund would already know the entrepreneur and the feasibility of the business they are proposing). This development can easily be seen as a seed-capital funded model, which if integrated into an early stage-funding model could potentially balance the risks generally seen with seed funding. Finally, conclusive statements were devised based on the overall analysis, including the limitations of the model and literature research process. Contributions to the impact investing community were determined and vetted out based on the strengths of the practicality of this study, versus the strictly research-based approach, and implications for users were addressed with future research suggested.

3. DATA ANALYSIS

Not only are there many different models of impact investing and social finance, but also there are countless examples of each model. According to the GIIN member list, there are 56 registered organizations that consider themselves "impact investors" (54). This section analyzes the 56 models by first characterizing them along several dimensions, and then considering their costs and benefits.

Member organizations are compiled into a list of the current and most prominent impact investors in the world using the criteria provided by the GIIN for the institution size, type, investment focus, stage of investor development, field building orientation and type of leadership (which essentially is the catalytic drive behind impact investing) (55). While this is not nearly an exhaustive list, the organizations included allow for an examination of the successful, yet different, impact investing models. Additionally, this information helps identify the areas needing extra development or the gaps in funding sources.

To start the analysis, the 56 organizations were placed into categories according to the primary (or most prominent) source of funding. This analysis resulted in seven groups: 1) Philanthropy, 2) Government Based, 3) Crowd-funded, 4) Microfinance, 5) Institution Based, 6) Fund Based and 7) Hybrids. The organizations included in the analysis and the results of the cross comparison are presented in Exhibit 3.1. This initial grouping of models into seven different categories was followed by an analysis of similarities and differences within and across the categories related to the following criteria: levels of expected return, non-profit or for-profit driven, long- or short-term investments, investment focus and direct or indirect giving of support to entrepreneurs. A description of where the funds generally go within each category was undeterminable because each category invests in many different sectors (e.g., agriculture, education, healthcare, etc.). These characteristics help to further distinguish the models within each category. A detailed description of each category, together with representative examples of organizations that fit into each category, is provided below. This information is followed in the *Findings* section by observations regarding the seven categories, as well as suggestions on how the funding sources could be combined to create a more efficient model.

3.1 Philanthropic

Philanthropic focused funding sources derive primarily from donation models. Acumen Fund, for example, obtains donations from different types of investors, foundations, private investors, as well as companies. Since these are donations, these models do not involve a return on investment. Philanthropy is a method of funding that may be finite or fluctuate depending on the disposable income of potential donors or the state of the economy. Sustainability is achieved by reinvesting the monies that the foundation or fund receives into other investments.

Exhibit 3.1: Typology of Current Impact Investment

Philanthropy	Government based	Crowd-funded	Microfinance	Institution based	Fund based	Hybrids
• Acumen • The Kresge Foundation • LGT capital • Annie E. Casey Foundation • Bill and Melinda Gates Foundation • Calvert Foundation • David and Lucille Packard Foundation • Enclude • Doen Foundation • Esmee Fairbairn Foundation • FB Heron Foundation • Ford Foundation • Gatsby Charitable foundation • Fundin Foundation • MacArthur Foundation • Omidyar Network • The Rockefeller Foundation • Threshold Group • Tony Elumelu Foundation • W.K. Kellogg Foundation	• World Bank • The Abraaj Group • CDC • FMO • Inter-America Development Bank Group • International Finance Corporation (IFC) • Jonathan Rose Companies • Overseas Private Investment Corporation	• Kiva	• Grameen • Accion	• JP Morgan • Goldman Sachs • Deutsche Bank • UBS • Morgan Stanley • BlackRock • Athena Capital • Citigroup Foundation • Credit Suisse • Prudential • Triodos Investment Management	• Leapfrog Investments (fund) • Sarona Asset Management (funds of funds and direct investment) • Bridges Ventures • Capricorn Investment group • Christian Super (pension fund) • Community Capital Management • Gray Ghost Ventures • Lok Capital • Root capital • SNS Impact investing	• Big Society Capital • Enterprise • Generation investment management (owner managed partnership) • Impact community capital • National Community Investment Fund • responsAbility investments • TIAA Cref–guarantors

Exhibit 3.2: Grouping of Available Models- Characteristics

	Philanthropy	Government based	Crowd-funded	Microfinance	Institution based	Fund based	Hybrids
Type of funding	Donation based	Governmental program funds	Individuals	Government/Individuals	Client associated funding	Other funds	Alternatives
Non-profit or For-profit	Non-profit	Non-profit/Gov agencies	Non-profit	Non-profit	For-profit	For-profit	Both
Expected levels of return	Little to none	Little to none	Moderate	Moderate	High	High	High
Long or short term goals: Short (less than 5 years), Medium (5-7 years), Long (over 7 years)	Long	Long	Short	Short	Medium	Short	Long
Primary focus	Social	Developmental	Both	Both	Financial	Financial	Both
Direct contact or indirect	Both	Indirect	Direct	Direct	Indirect	Indirect	Indirect

Philanthropic funding investments are generally long-term because no return is required in the short term to sustain operations. This reason explains why most philanthropic initiatives are focused more on social benefit than financial return, which often results in investments being made in ventures that will not be sustainable or are not 100 percent efficient. The money flows from the investor to the beneficiary in a fairly linear fashion, but this differs depending on the source. For example, some foundations invest in funds, while the Acumen Fund directly invests in ventures abroad.

3.1.1 Acumen Fund (Philanthropy)

The Acumen Fund is most well known for their use of "patient capital," which means that they deploy debt and equity, but allow a longer time frame to see results and financial returns. Acumen's strategy is to alleviate poverty by directly investing in long-term, far-reaching, scalable and impactful businesses (12). Acumen has international centers in which they are able to distribute capital directly to the entrepreneurs and provide additional support, most notably through their fellows program. These fellows are highly educated and experienced business professionals who understand emerging markets. They are sent into entrepreneurial ventures to address any issues so that the capital can be effectively utilized (11). What is most fascinating about Acumen is the incredible attention they have received, from numerous investors and foundations within the market, for being the first big impact investor. Sources of funds come from several types of investors, including wealthy individual investors, foundations, IFC, Google, Tiffany's, Ferragamo, Unilever, Dow Chemical, Goldman Sachs, Barclays, Abraaj Capital and GE (10). It is important to mention that most, if not all, of these investments are actually considered philanthropic donations. The donors do not receive anything in return for their donations. Instead, the returns on Acumen's investments are reinvested into its portfolio. Hence, the concern is that this model is not 100 percent sustainable. Acumen receives a return on their investments by charging a three-percent fee on all investments (which is approximately one percent higher than most venture capital funds) (16). All donations go directly towards investments in the entrepreneurs, and the board members front the operational costs (16). The Acumen fund is transitioning into a banking-themed model by including deposits into their service offerings. They offer six-percent interest on deposits (21), where the deposits and interest are used as an additional source of capital. Finally, when Acumen loans money to entrepreneurs, they charge approximately 28-percent interest (21). While this is lower than the alternative financing sources (e.g., loan shark or slumlord loans) in many of the countries in which Acumen works, 28 percent still seems exorbitant. Acumen's argument is that these are lower rates than what the beneficiaries could obtain from all other options. This high interest rate, however, resembles that of microfinance and indicates possible early signs for concern.

3.1.2 The Kresge Foundation (Philanthropy)

The Kresge Foundation is a $3 billion (73) private foundation that makes both direct and Development Finance Institution investments (DFI) (72). Investments come in the form of PRIs, challenge loans (loans provided to non-profits to sustain and maintain operations), private equity, deposits and guarantees. The fund is financed through the use of private investors, other foundations, financial institutions and government agencies (72).

3.2 Government Based

Government-based models vary immensely. They can be created by the government or development finance institutions (DFI), which invest their own funds either directly to entrepreneurs or into other funds. Generally, government-funded organizations have much more political support and have the ability to influence current policy reform, versus an organization independent of any governmental holding.

Most government-based models expect little financial return but anticipate large changes in the development of the economy, community or whatever their target. Their capital is mostly focused on long-term change and is invested in agencies that can enact change. An example of investing in agencies that enact change is the World Bank, which invests in the economies of several nations.

3.2.1 World Bank (Government Based)

The World Bank is essentially an international investment bank driven to alleviate extreme poverty within one generation and incite shared prosperity (3). Its mission and goals align with, and are supported by, the United Nations. The two organizations are working in tandem to achieve eight monumental goals (The Millennial Goals), some of which include eradicating HIV and AIDS, improving maternal health, reducing child mortality and providing universal education (82). The bank provides low-interest loans and interest-free credit and grants to developing and emerging economies, but not to companies per se (76). While most impact investing models focus on entrepreneurs, businesses, and industries within these economies, the World Bank concentrates on development of the entire group of member nations on the basis of the eight goals previously stated. The bank is comprises188 nation states whose politicians represent the decision makers as Board of Governors (8). To fund and finance its efforts, the World Bank (IBRD specifically) sells AAA rated bonds to the international capital markets. The money is backed by the developing countries, which is why the rating is higher than if the bonds had rates based upon private institutions, which is where the money is finally deposited (24). If the returns do not sufficiently cover the bond payments, the developing countries serve as guarantors. Any surplus funds are sent to the IDA (International Development Association) for debt relief (of the cases just previously mentioned), crisis assistance and grants (6). The World Bank primarily makes their money or returns by lending out capital reserves and donations from the 188 nations. The income that comes from the IBRD bonds fund operating expenses and debt relief (6). There additionally is approximately $178 million dollars in callable capital from shareholders, which means that if there was an impending possible loss, the bank could call upon their shareholders to cover it (6). Finally, about 40 percent of the bank’s lending is interest free loans and grants from the IDA (6).

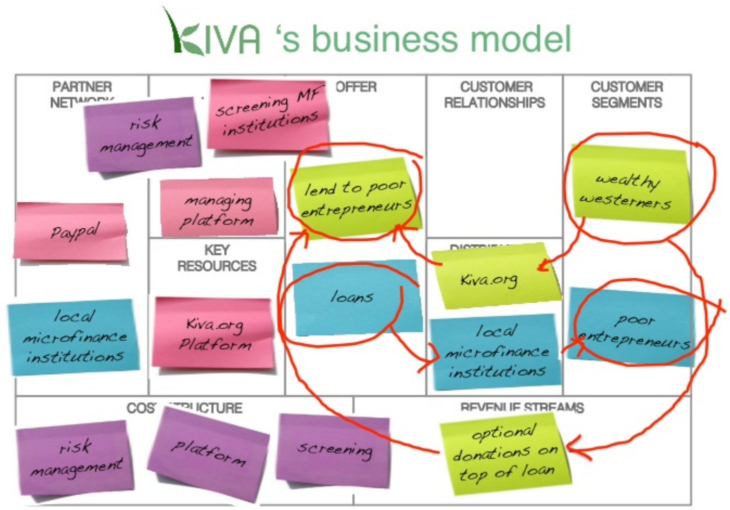
3.3 Crowd Funded

Crowd funding is the least utilized option, but can be one of the most creative and socially inclusive models. KIVA is the primary example, with Acumen as a partial contributor. This method is generally used to grasp the attention of citizens with a small amount of disposable capital they want to contribute to international entrepreneurial efforts. Funding can come from, but is not limited to, middle-class individuals, small companies and wealthy individuals. The sum invested is generally lower than that of a large investment from a corporation, but this accumulation of funds pooled together has the scalability and potential for growth. The level of expected financial return is moderate and the investor expects to have the primary principal returned with some interest in a relatively short period of time. The focus of crowd-funded investments is on receiving financial return, but it is driven by the desire to contribute to society; otherwise, the investor would not be providing funds to the beneficiary, which does differ from institutional investors and funds that primarily focus on financial returns. While they desire a societal impact, they would not likely invest if the returns were below market levels. Finally, the capital moves almost directly from the investor's pockets to the beneficiary's bank account. KIVA (an example of the crowd-funded model) has intermediaries in each country in which they operate, but the exact amount loaned to the entrepreneur from the investor is what is actually given to them.

3.3.1 KIVA (Crowd Funded)

KIVA is a crowd-funded platform from which lenders provide funds to specific international entrepreneurs. KIVA's business model, summarized in Exhibit 3.3, involves the following process: An individual entrepreneur approaches a micro lender (generally a lending institution in that country). If the micro lender approves the entrepreneur, the entrepreneur obtains a loan for the amount she need when she needs it. Next, the micro lender uploads a photo and story onto the KIVA website, which allows international lenders to contribute to the funding of the loan. The provided funding essentially functions as compensation for the micro lender, who has already distributed the loan to the entrepreneur. This strategy allows the micro lender to continue lending. There is also a chance of default by the entrepreneur, which generally is covered by the micro lender (65). Repayment is then provided to the original lender who can either reinvest or take the cash (22). While there are quite obviously some issues with total transparency, as most lenders think that their funds are going directly to the entrepreneur, there is still a sense of "doing good" by being able to see who is effected by the contribution of the lender's capital (65). KIVA provides 100 percent of the money from lenders to the micro lenders and charges 0-percent interest, but it utilizes foundations, grants, corporate sponsors and donations in order to fund operations (45). While companies and institutions are involved in covering KIVA's operational costs, the funds provided to the entrepreneurs and the impact are driven by the micro lenders. The micro lenders are compensated by the crowd-sourced funds to help make other invests in regional (60).

Exhibit 3.3: KIVA's Business Model Framework (59)



3.4 Microfinance

While microfinance funding is not equivalent to impact investments, the sources of funding can easily be useful and comparable. To understand the difference between a microfinance organization and an impact investment, it is best to think of it as the difference between a small loan for a mortgage and a venture capital investment in a growing company. These methods of "social finance" differ in terms of their financial input and scale, but both are utilized to foster social impact. Microfinance institutions (MFIs) are included in this analysis because of their influence on impact investing and their overlapping funding sources. The actual nature of the funding can differ depending on the MFI, as there are many different kinds of models. The Grameen Bank originally started with funding from Muhammad Yunus, but grew to involve other individuals and the government. Accion is an example of an organization sourcing funds from governmental initiatives (31).

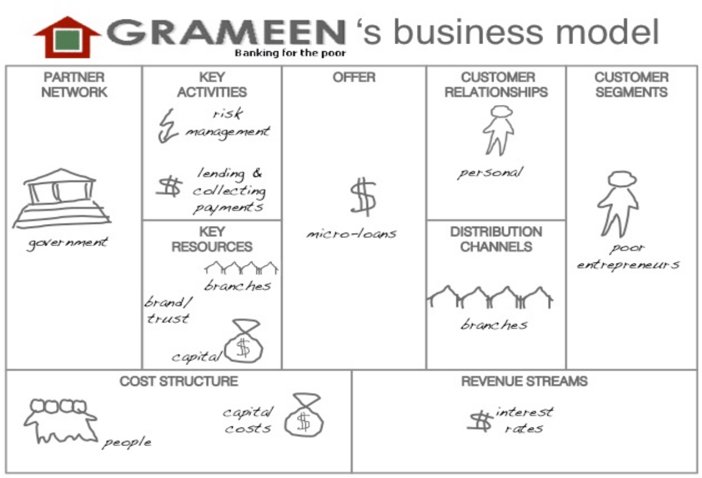
MFIs anticipate a fairly short period of time to pay back the loans (88). Most MFIs deal directly with the beneficiaries of the funds as well as the investors, and financial and social returns are given equal priority. Without one or the other, microfinance institutions would either have no financial foundation or would have no clients to utilize their services.

3.4.1 Grameen Bank (Microfinance/MFI)

When Nobel Peace Prize winner Muhammad Yunus discovered that there was a gap between what women entrepreneurs were paying in interest and their ability to make money off of the products they sold, the Grameen Bank was created in Bangladesh. Unfortunately, Yunus found that almost all the profit these women made was eaten up by the interest they were required to pay for the "slumlord" loans they initially needed to obtain materials and other necessary resources (47). Grameen Bank is considered a for-profit microfinance institution (MFI) that grants loans to primarily poor women (33). These individuals form groups of five people, two of whom receive loans while all five are responsible for repayment to the bank (33). If the group is successful, they are able to obtain another loan in the future, and can utilize the savings products that Grameen offers to sustain their newfound wealth (47). No initial collateral is required, which makes this model very accessible to the poor, but a portion of the loan granted is meant as a form of collateral (30). Yunus initially funded the loans himself, but lenders have expanded to include deposits and the retention of retained earnings, where the money is reinvested to completely saturate the market with loan opportunities. Dividends were only offered in 2006 when 95 percent of Bangladesh had access to Grameen Bank loans (47).

Deposits from the people previously obtaining loans fund the operations (89), and profits are earned by charging an interest of 7 percent monthly, which is higher than the equivalent low cost charged by bank providers (30). There is quite a bit of discrepancy between what the actual percentage is because it has changed substantially over time, but this fee is apparently lower than the interest slumlords charge. People obtaining Grameen loans cannot obtain loans from low cost bank providers without collateral. The business model for Grameen Bank is summarized in Figure 3.4.

Figure 3.4: Grameen Bank Business Model Framework (59)



3.5 Institution Based

One of the most recent additions to impact investing includes institutional investors, which are seen as increased influence and contribution from large banks. Many of these banks are either utilizing their own capital or facilitating investments from their clientele to contribute to impact investing. They remain for-profit organizations and invest primarily to receive financial returns. Societal return contributes primarily to the institution's corporate responsibility efforts. The investments are more heavily driven by results and returns. The investment period is not as long as that for philanthropist investments but it is not a short-term investment either. Generally, these institutions will invest in "projects" or in other funds that directly work with the entrepreneurs. The bigger institutions do not directly deal with individual beneficiaries.

3.5.1 JP Morgan (Institution Based)

JP Morgan is one of the most prevalent "big banks" in the impact investing area by providing information and partnering with some of the most influential institutions, such as GIIN, while also contributing to the Leapfrog Investment Fund and Kiva. JP Morgan differs slightly because it invests its capital, as well as the capital of their clients, by offering impactful products (42). The company additionally provides research and client advice in the impact investing business (46). For these reasons, those investing with JP Morgan (particularly wealthy private investors, philanthropists and institutions [68]) require a normal rate of return and positive social repercussions (46). JP Morgan specifically offers financial advice and banking products to impact institutions, structures impact funds and securities and connects specific funds to the appropriate clients based on their clients' needs and investment criteria (68). JP Morgan's social finance effort is a part of its corporate responsibility effort, therefore, utilizes the firm's resources. While this is not stated in any documentation, it is assumed that interest and management fees associated with the bank in general compensate the social finance effort. In other words, social finance at JP Morgan does not stand alone, but is rather an integral part of the bank's processes. The returns contribute to the revenues of the bank, but are not the only source of income to cover the bank's costs.

3.6 Fund Based

Fund-based models rival institutional investors in terms of their structured approach and more typical financial investment models. Capital sources for fund-based models can range immensely, and a return is anticipated. Some funds invest directly (which is rather rare, as it is far harder to have sophisticated investing knowledge in many diversified communities), but most invest through other funds or funding sources (i.e. pension funds, foundations, banks and DFIs).

Much like institutional investors, fund-based models are more profit driven and are generally for-profit ventures. They expect a close to market return or even a market return (depending on the investors and the fund itself). The funds can be more easily diversified and invested in many opportunities versus other forms of investments; therefore, the investors can diminish their levels of risk. Additionally, the investment may be short term because portfolios can change on a regular basis. Two fund-based models are offered as examples: Leapfrog Investments, which has multiple revenue sources, and Sarona Asset Management, which invests their capital in private equity funds that one of the frontrunners in emerging and frontier markets (37).

3.6.1 Leapfrog Investments (Fund Based)

Leapfrog Investment Fund is a profit-for-purpose fund that aims for top quartile private equity returns (70) and typically exits their investments in four to seven years (39). This strategy is contrary to the long-term investment model that Acumen Fund uses, which can make investments for upwards of ten years (9). Leapfrog functions as an operational investor, meaning it gets involved with the management teams to help them run and sustain businesses (39), and generally invests anywhere from $10-50 million in a deal (57). Leapfrog sources its funds from various banks, foundations, pension funds, reinsurers and DFIs (54). Leapfrog utilizes numerous streams of funding. Some of their notable contributors include JP Morgan, Accion, Omidyar Network and AIG (41). Leapfrog lap teams also assist entrepreneurs in business and legal training, and they also help utilize external consultants (48).

3.6.2 Sarona Asset Management (Fund-Based: A Fund of Funds)

Sarona Asset Management is an example of a fund of funds, which is the ultimate mechanism for diversifying impact-investment risk. This organization makes direct investments in entrepreneurs and funds investments for small to mid-size companies that are targeting low- to middle-class citizens. They anticipate and expect top quartile returns from the social enterprises or social funds in which they invest. Sarona invests in numerous international private equity funds that have the ability to work on the ground with Sarona's capital. This is an excellent and efficient method of diversification because Sarona does not require a presence in local markets but has the ability to invest intelligently. Sarona Asset Management has achieved regular market rates (37). Sarona sources its funds from the Mennonite Economic Development Associates (MEDA), which devised a Sarona risk capital fund. The risk capital fund obtains funding from donations and the capital markets (90).

3.7 Hybrids

It is more difficult to classify each of the alternative or hybrid models, but most generally the alternative models involve assets. The alternative models mentioned in the chart, such as TIAA CREF, which guarantees the assets of investees, and Big Society Capital, which utilizes abandoned assets in U.K. bank accounts. Hybrids utilize numerous different sources of funding; for example, pension funds, reinsurers, insurance firms and other random sources of funds that combine with traditional sources, such as philanthropic, governmental or fund models. The alternative and hybrid models can be both non-profit and for-profit, but these models generally expect higher returns (on par with the market) because they are able to diversify much like the fund-based models. Their investment time frame is generally long term because of investments in financial products; for instance, social impact bonds, community development, and real estate (61). The hybrid category primarily seeks both financial and societal returns. Lastly, the funds are generally not given directly to the beneficiaries, but are invested in organizations. Big Society Capital is a good example of a hybrid.

3.7.1 Big Society Capital (Hybrid)

Big Society Capital (BSC) is a U.K based organization that is rather unique compared to the rest of the models presented. Labeled as an alternative model, BSC derived from a governmental plea for alternative funding sources for impact investing and an increased amount of awareness within the U.K. about impact investing (1). BSC's goal and purpose was to unify political bodies (the public sector) and the private sector within the U.K., while promoting impact investing's supply and demand in the U.K. BSC essentially became a social investment bank that is funded from the abandoned funds (dormant for longer than fifteen years) in U.K. banks, which are deposited into a reclaim fund (40). BSC is considered the "wholesaler" of assets with no stated government affiliation (1). While the government is not directly affiliated, however, there is significant governmental influence over the organization, as it is highly correlated with the U.K. cabinet office because that is where the idea originated. Therefore, the government has the ability to influence policy in favor of impact investing to help BSC's efforts. For example, new legal structures for social enterprise within the U.K. could be created to improve the impact investing area. While BSC is not implicitly involved in the governmental process, it will benefit from this move. The assets from the dormant bank accounts make up a large majority of BSC's funding, as do contributions from four top U.K. banks, including HSBC, Barclays, RBS and Lloyds banking group (1).

Further observations, discussions and takeaways from the literature review, in collaboration with the above data analysis, will be discussed in the section below.

4. FINDINGS

Overall, the models shown in the data analysis portion of the study represent a rather eclectic, yet widespread, representation of the market. It is easy to see which areas of the funding spectrum are underutilized. On one hand, there is an abundance of philanthropic models, specifically foundation based models that either make donations from endowments or make investments in funds. An example of the latter is the Bill and Melinda Gates Foundation investing in the Acumen Fund.

On the other hand, there is an additional apparent lack of crowd-funding sources. While this approach presents a challenge as an effective method of reaching large numbers of investors, there is potential to use publicity and mass communication to overcome some of these problems. Consumers, specifically those in developing economies, are becoming more and more interested in purchasing products “with-a-purpose,” and this trend may help stimulate interest in crowd funding over time.

It is worth mentioning that the categories in Exhibit 3.1 are not necessarily mutually exclusive. Several models overlap, particularly when it comes primary funding sources. For example, the Acumen Fund sources capital from individuals via crowd funding, while utilizing foundation-funding sources and company investments. There is quite obviously some overlap, and these parameters are built to generally identify the many ways to invest in impact.

Analyzing and understanding the different model types available to impact investors produced key findings that suggest a multi-funded impact investment fund would be successful. Hybrid models are not only acceptable, but the norm, and direct investment can be unrealistic. An ideal model would have one, two, maybe three sources of funding. It is normal for one model to draw from several different organizations and investor types that have differing goals. Overall, it is not uncommon for a model to pull from several different pools of capital to achieve impact and maintain sustainability, which supports the idea of a model utilizing both different sources of revenue and different funding sources that would increase not only its feasibility, but also its potential success.

Additionally, while it makes sense that most funds do not rely on crowd sourcing, as it could result in spotty and uncertain flows of capital, if addressed properly, this option could work efficiently. A concern would be that impact investment funds would not be able to obtain the mass amounts of capital they require to make solid investments. Although this issue may be true if one simply asks people for donations, BSC proves that small (almost incremental) funding sources can result in large pools of capital. BSC obtains funds from uncollected assets in banks all over the U.K., which currently provides approximately 600 million British pounds of investable funds (1). This example proves that with a sustainable method of obtaining crowd-sourced funds, even incremental funding can make a difference. This concept is the basis behind creating a crowd-funded platform in the model for a hypothetical fund.

4.1 Model suggestions

Several observations from the above analysis can also be applied to a theoretical model. Important aspects that should be included in an ideal model would involve several of the following aspects. First, PRIs are an exceptional way to utilize an equity-like investment from foundations, while allowing foundations to comply with their philanthropic goals. These objectives include investing without having investment as a primary goal and the Section 4942 regulation stating that non-operating foundations must expend five percent of their previous year's investment assets (34). Foundations are able to fulfill the five-percent requirement through PRIs and may also receive a five-percent return on their investment. Therefore, the foundations are able to remain sustainable and do not enter into an endless cycle of money loss (51).

A model must also include, or at the very least, allow for changes in government. It is impossible for a model to function short of governmental cooperation, and governmental capital very often is an effective co-investor and creator of policy. Governments can very uniquely affect the markets, however, by adjusting prices to normalize standards. Governments must provide a legal structure to distribute shares for social enterprises (52). The responsibility of innovative businesses is placed primarily on the shoulders of private institutions, but depends immensely on the effectiveness and receptiveness of government. If a model contradicts or avoids the involvement of the government, regardless of the political structure, there will be frustration and inefficiencies. When both worlds effectively work together, a model can be competitive and proficient (52).

Another successful aspect of an impact-investing model is its ability to achieve and provide investment returns to investors. Providing returns is not uncommon, because impact investment funds are meant to provide returns. The only case in which investors do not and should not anticipate returns is a non-profit structure that does not allow return of capital (28).

Furthermore, most of these investments are not direct investments in entrepreneurs, but rather into funds or other institutions. Many investors utilize funds, or funds of funds, to invest their money while diversifying. It is rather rare for an investor to directly provide capital to an entrepreneur as the time and resources necessary to perform due diligence and find a truly worthy investment is best accomplished by investors with funds who deeply understand and know the investment process. It is also important to mention that the different ways of investing (using direct investment, utilizing a fund or making a guarantee as a form of collateral) can be used differently. For example, Acumen directly invests, but other foundations and philanthropic-focused donors use funds.

These fund-based investments also center on growth or established companies. As previously mentioned, seed funding is in desperate need of impact investments, which would be largely flourish with grants and or angel investments; although, the growth and expansion state companies would work well with equity or debt (51). It has been proven that seed funding is more risky, but is also an unattended space in the impact investing industry, which opens up a window of opportunity for a new model that can appropriately handle the added riskiness of the seed-stage funding. The hypothetical business model that will be presented can account and address the added potential risk due to the fund's consulting branch.

Deviation is key from typical microfinance structures to a sustainable and ethical model because there has been quite a bit of controversy in the microfinance world about how high interest rates are compared to what the poor can feasibly pay or should pay. The interest rates for impoverished citizens are high and based on their risk profile being even higher, but the interest occasionally becomes disproportionate to the amount lent. Ethical problems and differences in opinions derive from this notion (56).

When creating a model, geographies are additionally necessary to consider. There are often country specific challenges such as political instability, corruption, poor communication ability and messy or lackadaisical regulations (15). For instance, India's politicians focus on the poor because of their mass influence on the political structure of the country (mainly due to their sheer numbers). Therefore, as a protective measure, any organization working with the poor is more highly scrutinized to be sure they are achieving anticipated or promised results and do not do something wrong (51). Specific considerations that play into the investment process may be the reasoning for 32 percent of impact investors having no or minimal interest in multi-region funds (66).

Finally, while measurement of societal impact is absolutely critical in a model, focus on financial results is as equally important. A survey by Endeavor (a company that facilitates and assists budding entrepreneurs is developing economies) showed how entrepreneurs focusing primarily on financial results, ended up making more societal impact than those concentrating mainly on social impact (80). While there is a tie between higher financial returns leading to more societal impact potential due to increased funds, it is not accurate to assume that focusing only on financial returns will innately lead to high societal change. Instead of simultaneously focusing on social change and maximum returns, this concept strays away from impact investing and begins to enter the territory of investing financially to maximize returns.

4.2 Trend Observations

In the impact investing market, investors and model creators should be aware of several important trends that can either be utilized or avoided.

First, there has been a growth of PRI and MRI investments due to the improving quality of sustainable business models (66). Specifically, mission-related investments are more financially focused than program-related investments, so the increase in high quality businesses that need capital has led to the confidence of foundations in MRIs (34).

Second, 58 percent of invested capital is proprietary, meaning that 58 percent of investors invest their own money rather than someone else’s, leaving 42 percent managed by clients. Additionally, 78 percent of these investments are direct investments (66). It is a bit confusing and bizarre to see so many funds available, while most investors are still investing their own money directly into social enterprises. While that is still impact investing, there is room for improvement, risk avoidance and higher efficiency if investments move into funding platforms. Investors may simply have an aversion because they are not knowledgeable about funds or the funds are not yet prevalent.

Third, the growth of LOHAS (Lifestyle of health and sustainability) consumers can certainly attribute to an increase in impact-investing demand, recognition and appreciation. This market is approximately worth $300 billion and consists of consumers who would rather purchase a product that has societal impact while providing them with a product they can utilize as well. The millennial generation is primarily the consumers driving this force and about 80 percent of adults are currently involved in "sustainable consumerism" (52). This trend fully supports impact investing because consumers familiar with this concept will likely appreciate the same values when.

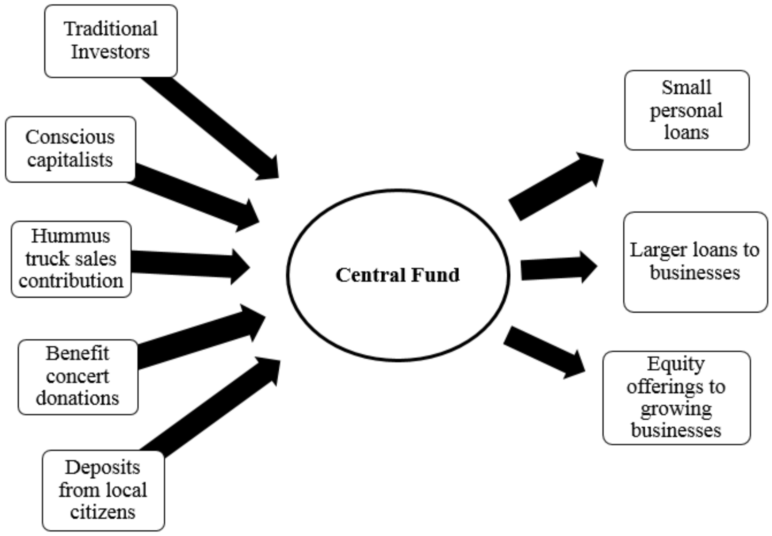
Fourth, and finally, the two largest concerns for impact investing are in line with private equity. There are concerns about management risk, including whether or not a manager will properly utilize the capital in the most efficient way possible. Model execution (66), is another concern because, as in any business, the business idea might be wonderful but the execution poorly timed, the resources may become too quickly depleted or a competitor may grasp the market whilst executing. There are numerous additional concerns with international model execution because there are always considerations for the relevant market.

After looking at the current literature, the models available to investors and the benefits and costs of each model, gaps in the market can be identified but are not yet remediated.

4.3 Framework for the Central Fund

With the aforementioned knowledge about the impact investing industry, the current options available among the differing models and their characteristics and the model shortcomings regarding investor needs and wants, there is quite possibly a model that remediates and resolves the presumably insolvent issues presented. In the following section, a model referred to as the 'Central Fund' will be discussed that specifically utilizes creative and new funding sources to further the awareness and exposure of the impact investing industry. The nine business model framework components will be used to build a theoretical business model around the 'Central Fund.' To understand exactly the Central Fund would look like, an image depicting the flow of capital in and out of the model is located below. The focal points of the model are the sources of capital and fund destinations. Exhibit 4.1 shows the flow of capital from the left (investors) to the right (beneficiaries),

Exhibit 4.1: Flows of Capital for the Central Fund



5. PROPOSED MODEL FOR A HYPOTHETICAL FUND

In order to understand the feasibility of the Central Fund in a practical sense, it is essential to look at the nine components of the business model itself. This is shown in Exhibit 5.1 below and in the following discussion of each component.

Exhibit 5.1: Hypothetical Business Model Representation

<table>
<tr>
<td rowspan="2">Partnerships

-Conscious capitalists
-Local governments
-Traditional investors
-Local people</td>
<td>Key Activities
-Effective advertising of the fund's creation and services
-Use local resources
-Provide affordable financing</td>
<td rowspan="2">Value Proposition

-Financial Returns
-Societal Returns
-Product from the Hummus Truck
-Loans and Equity for the beneficiaries
-Advising services for local entrepreneurs</td>
<td>Customer Relationships

Begin with the reputation of the Hummus truck and grow upon that</td>
<td rowspan="2">Customer Segments

-Traditional investors
-Conscious capitalists
-LOYAS customers (Hummus and Benefit concert)
-Local entrepreneurs
-BOP citizens</td>
</tr>
<tr>
<td>Key Resources

-Human capital and expertise at the fund
-Financial capital</td>
<td>Distribution Channels

-U.S. Headquarters
-Locational strategy with global offices</td>
</tr>
<tr>
<td colspan="3">Cost Structure
-Operational costs including salaries, utilities, rent, and employee benefits
-Interest expense on deposits
-Promised returns to the traditional and conscious capitalist investors</td>
<td colspan="2">Revenue Streams
Traditional investors, conscious capitalists, interest and returns from the investments themselves, the hummus truck sales, and benefit concert sales</td>
</tr>
</table>

5.1 Value Proposition

On a large scale, the hypothetical fund aims to allocate capital to developing regions in which there is an abundance of entrepreneurial spirit and talent. The purpose of the model is to allow capital and investments to flow to ventures in greatest need that will also be the most efficient use of social financial capital. As will be explored, the hypothetical fund technically has two customer groups, those who invest in the fund and those who receive capital from the fund. Those investing find value in that they will receive either a physical, societal or financial return, or a combination of the options. This model differs per customer base. Those investing solely capital (conscious capitalists) will receive financial returns, while benefitting the society in which the fund is located. For example, the hummus truck customers will appeal to the LOHAS consumer base and offer a more effective way of crowd investing. The customer will be able to purchase a meal of sustenance, but will additionally contribute capital through a percentage of the sale to the fund and, thereby, obtain societal benefit. The benefit concert stream will be donation based, and customers will enjoy an entertaining experience (this idea will be elaborated upon further in the revenue stream description), while providing donation-based capital to the fund and, again, a societal benefit. Finally, those depositing money into the fund by utilizing it as a reputable and large bank will receive stability and comfort in the placement of their money. Financial returns, societal returns and/or the product itself are the value creation and value added for each of the customer segments.

The customers, or rather beneficiaries, receiving the funds include the small loans to locals, larger loans and equity stakes in businesses. The customers obtaining small personal loans will value this service because it is a form of microfinance in which they can sustain themselves without dealing with loan sharks or the colloquial equivalent in the region. Those obtaining either loans or equity will be growing ventures and will be given debt or equity based on the structure determined for the deal (this will be expanded upon in the cost structure section). The businesses will value this service because like the previously mentioned less wealthy individuals, obtaining financing from traditional sources can be expensive or entirely unavailable. There is also unique value in that the fund itself will function as somewhat of an incubator for the local people. The reasoning for this is that the local people understand the local culture the best, they know what resources are not tapped into, and they know what issues business needs to address. They understand what is lacking in the society in which they live and what an innovative business model can address. The role of the fund is to provide advice for entrepreneurial locals to help them vet out an entire business plan and really start from scratch by addressing the problem the locals feel must be addressed. This business plan, if entirely it is vetted and proves to be promising, will be given either debt or equity to start the business in the form of seed capital. The major benefits of this model are that the audience is directly engaged and the solution is not just presented to the local people as a "you-should-do-this" strategy. Additionally, the idea will already have been vetted out, and due diligence is essentially not necessary. The fund will have been working with what would become the management team all along, and it will be able to confidently and more accurately invest money. This is a whole different approach to due diligence than has been observed in the models analyzed in the data analysis section, and it would prove to be a more inclusive and less volatile decision-making process. The deal flow is switched from observing and evaluating the deal flow to creating the deal flow.

Overall, both the benefactor and beneficiary parties are able to find value and potential in this theoretical model. From a holistic view, the hypothetical fund has the ability to add value to the impact investing space by introducing and leveraging different revenue streams, which will likely lead to higher accessibility and awareness of the social finance movement in general. This hypothetical fund specifically targets impact investment adoption within the United States and aims to spread the knowledge and accessibility of impact investing to all classes and types of investors. This concept can be seen by the four different revenue streams, which will be explored later in this paper. The hypothetical fund allows investors of any magnitude to contribute to a worthy cause that can and will prompt change, while providing benefits to the customer. The theoretical model also functions as a catalyst for the industry, a contributor to better and more funding and an iconic symbol for future innovation in this nascent field.

5.2 Customer Segments

Naturally, as the hypothetical fund has numerous working parts, there is a longer list of customers than a traditional business or fund. There are two classes of customers for the fund: those investing or contributing capital and those receiving the capital. The classes of customers that fill these groups will be divided between sections and will be explained in that manner.

Conscious capitalists are any business that follows four specific principles, including higher purpose, stakeholder orientation, conscious leadership and conscious culture (14). A company with higher purpose means it is in business not just to make money. Building value for the stakeholders (which includes all customers, investors and employees) is essential. The role of leadership is to create a conscious culture and match stakeholder values to the company's goals. The culture itself reflects the need to achieve stakeholder value (14). Examples of these kinds of firms include Whole Foods and TOMS. To note, conscious capitalistic models generally outperformed the S&P by a factor of 10.5 from 1996 to 2011 (67). Not only are these companies doing exceptionally well, but also they potentially have excess funds to invest. In the natural progression of a firm, when it is no longer able to find new and innovative projects that will provide a positive net present value (NPV), they will start dispersing their wealth to shareholders. If these firms had another option to invest in impact investing to further societal impact without needing to build the infrastructure of new projects, it is very possible they would invest. This trend can be supported by the fact that impact investing is becoming a mainstream topic and many institutions that are not primarily social enterprises are becoming involved. Many firms are moving in the "corporate responsibility" direction because it simply makes them look better as an organization. Impact investing may very well be that tool, and the hypothetical fund would amply be able to utilize these investor's funds. These firms would specifically be interested in this platform because the opportunity may offer the company the ability to make more impact without spending excessive money on infrastructure.

Other traditional sources that were seen in the numerous models analyzed include foundations, funds, government capital and institutional investors. These investors already are comfortable with impact investing, so utilizing them, as an additional source of capital, could only be beneficial. These investors would potentially be inclined to invest more than with other organizations because the hypothetical fund is able to source money from numerous investors, meaning that the foundation, government or institution would not be the only and dependent source of capital, thereby, alleviating pressure and allowing for larger scale and scope. It is very possible that the models analyzed above would also be very interested beneficiaries of the hypothetical fund, especially the fund-based models. These organizations are looking to make more and more impact, and do not consider each other competition, which is why we see much overlap in their collaborations and efforts (i.e. JP Morgan investing in Leapfrog investments, as well as investing on their own). The hypothetical fund could invest capital with traditional investors, as well if there were insufficient projects of quality to fund.

The Hummus truck's customer base will be described in Appendix 2, as there is an additional business model canvas for the hummus truck business model. It is essential to also mention that these customers will not receive financial returns.

The benefit concert contributors could be classified as anyone in either developing or developed economies interested in purchasing a ticket to see a concert with local artists. This group of people would likely be privy to the art and music scene in the local region and would be interested in seeing amateur artists perform with all proceeds going to the fund itself. These customers would need to be similar to the hummus truck customers in that they would be interested societal value and the donation of their money, while still enjoying an entertaining and potentially culturally enlightening event. They would be willing to pay for the ticket, rather than get it for free, because the funds would go directly to a cause with which they connect. The marketing for such events would depict where the financing in developing economies was currently employed and show the entrepreneurs' stories.

Locals in each region are key customers because they would provide deposits and obtaining small loans. The beauty of this hypothetical fund is that the customer in this case can be anyone in those designated regions, and the deployment of the model would just require choosing which region in which to locate. To characterize the locals of these economies would be relatively premature, as each region differs, but overall the citizens utilizing this "bank" portion of the fund would be individuals who needed somewhere to deposit and grow their savings or attain a loan for personal growth, such as building a home or supporting their children's educations. Most of these depositors and recipients will be BOP (bottom of the pyramid) citizens that require low-interest rates to pay and moderate- to high-interest rates to earn. There could additionally be investments from wealthier citizens or poorer citizens, who had higher levels of income and desired investing monies to further their financial growth. This very cyclical process has the ability to sustain itself without other sources of funding, but is strengthened by those external sources.

The enterprises, and more specifically, the entrepreneurs in the selected region(s), are the final customer segments to consider. This segment includes the entrepreneurs that come to the fund with a business plan, as well as those who work with the fund to formulate a plan and obtain seed funding. These individuals will be highly motivated business-minded people who have experience failing in business and learning how to avoid those mistakes in the future. Demographically, these entrepreneurs can range from a young girl of fifteen to an elderly man. They need not have a formal education, but must understand how to manage people and run a social enterprise with financial and societal factors. These businesspeople would be interested in utilizing the hypothetical fund, as opposed to other funds or financing resources because it offers rare seed-funding opportunities. Most funds (no seed-funded models were found in the data analysis above) avoid seed funding due to its volatility and unpredictability. The fund, however, is devised in a way that seed funding can be an option because it is entirely built into the model.

The combination of each of these various and eclectic funding sources has the incredible ability and potential to scale. Not only is the approach unique to the impact investing industry, but it also allows for an innovative approach to financing in general.

5.3 Channels

The channels in which the fund would access and distribute capital include several different approaches. To source capital from the conscious capitalist group and the traditional funding sources, there would need to be a headquartered office in the United States. This way, investors or representatives for the companies, organization or institution would be able to meet and discuss their specific investment strategy.

The benefit concert channel used would be primarily bars, restaurants and music-appropriate settings where there is event space. The actual location of these facilities would depend on where geographically the concert would be held (which, as previously mentioned, they could be occurring globally in both developed and developing economies). To note, the reason for involving all regions in this concert series rather than just the "wealthy" countries is because of the fact, stated earlier, that higher percentages of customers in developing economies are willing to pay for LOHAS products than developed economies, indicating that these regions would be as receptive, or potentially more receptive, to benefit-based concerts that focus on local music and entertainment culture.

The fund centers in the specific region or regions (while one focal region is suggested based on the data analysis above, which states investors prefer investing in funds focused on one region or industry) would distribute and collect capital locally. There would be centers for the fund that would function as a bank branch in which the beneficiaries would be able to physically come in and work with the experienced staff, which is where entrepreneurs would obtain loans, deposit their savings and/or receive consulting services when creating new potential businesses.

5.4 Customer Relationships

In order to get, keep, and grow the amount of conscious capitalists as customers for the hypothetical fund, it would be important to build up the reputation of the fund in general. Since the Hummus truck would have a very similar function and feel for the conscious capitalists that would be interested in investing, Hummus trucks all over the nation would be able to build a rapport and reputation for excellence and social cause. Once the first goal was fulfilled, the fund would begin investing in regional businesses. Next, the fund in general would solicit the conscious capitalist's partnership and investment. The same approach would be taken for the traditional financing sources, as experience running a business successfully would improve the reputation of the fund, in terms of understanding start-up businesses, and traditional sources may then be more inclined to trust placing their money in a new fund. The fund would be able to keep investors because of the returns the fund receives when the invested businesses scale and the fund itself scales. The growth of these types of investments would additionally be due to the positive financial returns, which theoretically get better as time progresses, and would entice more conscious capitalists and commercial capitalists to make a societal impact through their capital. It would be harder to grab the attention of commercial capitalists, but there is a real possibility, as the industry grows, that the innovative nature of the fund and its scaled eventual acclaim would attract them.

Benefit concert customers would be relatively easy to obtain because there is a known structure for benefit concerts. It would not be exceptionally out of the realm of most benefit concerts, with the exception that it would not be one solitary concert. It would be organized so that there are regularly scheduled concerts in the community with differing artists each time. Advertising in the community would be targeted to highly musical or artistically populated locations and booking agencies for sourcing musicians. Once the musicians are found and vetted (this ideas will be expanded upon in the key activities section), incenting them to come back again to perform would come in the form of allowing them to choose the location/region/industry in which the funds will. Keeping customers coming and making donations will be done by progressively growing the musician base and potentially getting more known artists to perform alongside the amateur artists. Increasing the number of musicians performing and customers attending to come would stem from the increase in concert awareness, which would include more and more advertising efforts.

Gaining the attention of the citizens desiring loans or providing deposits would be similar to any other microfinance institution. The goal would be to announce the presence of the bank, which would encourage citizens requiring finance to visit the institution, or to use advertising that focuses on the local community. Careful screening of recipients can help maintain clientele and prompt low default rates. Keeping deposits in the “bank” will come from offering higher or equivalent interest rates than impoverished entrepreneurs could alternatively receive (depending upon the country). Deposits and loans will increase by expanding the reputation and knowledge of the fund in each country.

There would be a similar relationship between the fund and start-up businesses or entrepreneurs. The fund would announce its presence, and solicit applications from start-up businesses or entrepreneurs who are interested in starting their own business, but do not know how or do not have the resources. One key-differentiating factor is that the fund will be looking for seed-funding opportunities, which most other funds avoid. The reputation of the fund, in correlation with its "banking" function of deposits and loans, will encourage deal flow. Growing deal flow could come from expanding into other surrounding villages or cities and potentially another region.

5.5 Revenue Streams

The hypothetical fund will source capital from five revenue streams, which include the conscious capitalists, traditional funding sources (for impact investing), deposits from local citizens, the Hummus truck, and the benefit concerts. The hummus truck will be specifically explored within Appendix 2, as it has an entire business model of its own. The cost of the benefit concert tickets, which will be minimal (roughly $5 or so), would be a 100-percent donation to the fund and would fulfill that revenue stream. Otherwise, all revenue will derive from the sales from the hummus truck (covering operational costs as well, as a portion invested in the fund) and investments made by the traditional investors and conscious capitalists.

Profit for the fund will derive from low levels of interest charged on the loans to individuals and as a return percentage for the business equity and debt investments. While these percentages of carry and interest will be low, they do help treat the investments as investments rather than simply charity. This concept instills a confidence in the investors and investees that there is real value here and that the fund is not solely philanthropic, but rather functions as a sustainable social enterprise. As mentioned previously, a one and ten structure is generally accepted (one-percent management fee and 10 percent on returns) within social finance and would likely be utilized by the hypothetical fund.

5.6 Key Resources

Resources that are absolutely essential range from human capital to financial capital and involve numerous other resources in between. Very plainly, a fund needs money to be able to finance loans and equity for those it plans to serve. The sources of capital, mentioned early numerous times, are core and key to the success of the model.

Intellectual capital is also important. There must be knowledgeable investors with due diligence experience and expertise, as well as shrewd consultants to function with the local entrepreneurs when creating businesses and business plans from local resources. Financial intelligence is key in creating products that have the ability to hedge risks. Several financial engineers would be ideal for this need (primarily at the headquarters office).

On a similar note, human capital is crucial. There must be a source of willing and able locals to become fully functioning entrepreneurs. There must be a deal flow of currently growing enterprises. Those working at the fund must be entirely qualified and invested in the ideals and interests of the hypothetical fund. There must also be willing participation with regionally local musicians to perform at the benefit concerts. In order for there to be regularly scheduled concerts, there would need to be a constant source of artists.

5.7 Key Partners

Partners could include conscious capitalistic companies, such as Whole Foods, TOMS, Patagonia and Newman's Own. Each of these companies is an example of a conscious organization. Traditional funding sources and local governments would be necessary partners as well. Governments would be interested in investing and partnering to diversify and sustain more impactful practices. The local people and smaller municipalities, such as villages and towns, would need to be partners, so that collaboration with daily practices would be efficient. The local people would need to be utilized to ensure that the fund is actually helping solve issues they face, rather than providing solutions for problems that do not exist or are not prevalent. Finally, organizations in which musicians congregate would be interesting partners to better source talent for the benefit concerts.

5.8 Key Activities

In order for the hypothetical fund to function properly, it must source capital effectively through all the above-mentioned sources by targeting and grasping the attention of each of the different parties. The fund must also advertise the offering for the concerts, as well as the investing opportunities so that this avenue is known and available to investors. The hypothetical fund must provide affordable financial structuring to local individuals and businesses. It must also utilize local resources to develop innovative business plans to create societal impact. Those working for the fund must be good problem solvers and communicators.

On an additional note, the overall progression that would make the most sense in terms of business acumen would be to start the hummus truck and begin building the first round of the fund. At that point, all revenue and expenses would derive from the hummus truck. Simultaneously, the fund would be fundraising, or said otherwise, raising a fund. Once the fund had sufficient capital from the Hummus truck, as well as the fundraising, operations would be set up regionally in which businesses and deal flow would commence. The fund would vet out the businesses in which it would want to invest. At this point, the hummus truck would be financing all of the operations for the trucks and fund in total. (The hummus truck is actually a business with numerous actual trucks, not just one solitary truck). The reasoning for this is that the investments made by the investors should go directly to the beneficiaries of their capital, not operations. A small percentage of the sales from the Hummus truck will initially go to the fund and most will be eaten up by operational costs. As returns start coming back from the investments, portions of the returns could be utilized to sustain the model overall and pay for the operational costs. Then the hummus truck will be able to increase its percentage contribution to the fund itself.

5.9 Cost Structure

The costs associated with the hypothetical fund include operational costs for the fund itself and local advisory services, which would include salaries and benefits for the site staff and headquarters investors. There would also be building and utility costs in both locations. Advertising for the concert series would be an additional cost, but the musicians playing would not be paid.

Interest expense would be incurred to pay on deposits, while the provision of capital would not come at any additional cost to the fund, as it will be an investment made from external sources.

It is extremely important to mention that the conscious capitalists and traditional investors will be the only parties that will physically receive financial returns. The hummus truck customers and benefit concert beneficiaries will receive either food or entertainment for their contribution and will also receive the knowledge of societal impact; however, they will not be given capital gains or dividends. The investors that receive financial returns will only obtain returns from the success of the loans and equity provided to the businesses in the local regions where the fund is located. There will not be any returns sourced from the same pool in which donations are made, as would be ethically wrong. The funds will be stored separately, so returns to the proper parties can be appropriated, but all will go towards the financing of local businesses. Returns to the investors will be a percentage of the returns the individual businesses or entrepreneurs make, depending on their cost structure. Returns would come in the form of capital gains on equity or through a dividend. A feasible percentage would need to be determined later, as it would be premature to currently determine that without knowing the possible returns of each venture.

Additionally, debt would be provided to firms that are interested in sustaining growth and are at later stages than the early-stage equity investments (66). Debt and equity are specifically useful for growth companies rather than seed funding (51).

5.10 Legal Structure

The legal structure of the hypothetical fund would be either a L3C of a flexible purpose corporation. With the growth of social enterprise, there have been innovations in hybrid legal structures that allow for businesses to register as both a non-profit and for-profit organization. Generally, these structures allow for the organization to benefit from the perks of being both for-profit and non-profit, but kinks associated with tax alleviation are still be addressed. A flexible purpose corporation differs from an ordinary corporation because it must have a stated social purpose and can pull from for-profit and non-profit funding sources. It maintains the structure and strictness of a corporation in terms of the owners. These elements are appealing to future venture capital or private equity investments. These hybrid structures help protect the directors or owners from harsh investors that are uninterested in social benefit. This specific structure allows them to focus financially and socially without only having to maximize shareholder financial value. Their goal overall, however, is to maximize stakeholder value, which means that customers, employees and all affected by the business are considered as much as the investors. Flexible purpose corporations are able to offer equity to investors as a public corporation. Firms could distribute profits when they have no future projects that will provide a positive net present value. The structure can source funds from offering equity, government grants, PRIs, and bank and small business loans. The main difference in procedure for the flexible purpose corporation is that its reporting standards are much higher and more reporting in general is required (49). An L3C may be another structure to consider that differs from the flexible purpose corporation in its tax and investment rules. While flexible purpose corporation taxes on the corporation level like any other corporation, the L3C taxes investor based on their tax bracket (34). Additionally, an L3C is able to distinguish between its “members” to classify differing levels of risk and return for different types of investors (52). An L3C must also further charity or educational purposes; have no significant amount of resources, or attention directed towards the appreciation of property or accumulation of profit, and have no legislative purposes (34). There are benefits and detractions for each structure, and the decision would ultimately be based on who is primarily targeted in the traditional investor and conscious capitalist investor groups. As a final note, any organization is able to register as a B-corporation, which requires the organization to have higher accountability for social impact and measurement, but this helps the organization prove to investors and customers that their mission is society driven rather than profit driven (34).

The above nine business model components for the hypothetical model assemble all the benefits of the impact investment options, while limiting the costs. The section that follows concludes the study; presents its limitations, contributions and implications and offers suggestions for future research.

6. CONCLUSIONS

Several themes have emerged from investigating the question of why the impact investing industry has low accessibility and is not well known. While there are numerous types of impact investments available for different types of potential beneficiaries, there are very few innovative models. A particularly creative option is BSC. The remaining models follow similar patterns and pool capital from the same sources, which can lead to stagnation of capital and a potential stalemate between investors and investees. Larger organizations tend to treat impact investing as a “side project” or as a corporate responsibility function. While there is nothing wrong with these alternatives, nor am I attempting to diminish their impact, it is difficult to truly scale and improve the impact investing industry if it is not given priority among major investors and institutions. The issue of risk versus return is still present, but it can be remediated with financial engineering, just as many investment methods have historically been modified.

A key point to take away from this study is the fact that innovation is essential for the evolution of impact investing. Change is never easy, especially when dealing with institutions and organizations with a history of not investing. This is why innovative business models that access capital from different sources such as the creation of a small business or organizations that help further the cause would be most critical.

With the growth of social enterprise and social finance, the United States needs to support this changing landscape. The U.K. has adopted legal structures and tax laws that amply support social enterprise and social investing, but the U.S. infrastructure has not yet demonstrated the same trends. Tax reform, development of a social exchange and appropriate legal structures need to be established throughout the United States, rather than in only a few states. In addition, there are several organizations in the UK that function as catalysts for social investing awareness, which is also lacking in the U.S.

Moreover, there must be more focus on attracting talent to the impact investing pool. While there is some interest from highly educated business professionals (primarily at the MBA level), there is a general lack of knowledge within the finance industry. Pulling from the pool of financial engineers and highly technical roles could prove to be extremely useful to help impact-investing transform from basic investments to a hedged and less risky endeavor.

Finally, this study shows that the potential of impact investing is limitless. The industry is in its infancy, and this is highly fertile ground for new models and new ways of thinking about investing for impact.

6.1 Limitations

One of the limitations of this study involves the fact that not all possible impact-investing options were considered in the analysis and development of a typology. The 56 organizations included in the convenience sample were obtained from a list of GIIN members that identify themselves as impact investors, which means that only part of the larger group of investors that accurately depicts the growing industry was studied. Additionally, most of the organizations analyzed are based in the U.S., with only a small number located in the U.K. and none in other countries.

A further limitation stems from the fact that country-specific cultural, social, legal, institutional and governmental factors were not considered. Although these factors could potentially affect impact investing adversely, they fall outside the scope of this study given time and resource constraints. Thus, the reader shall be cautioned to view the findings as provisional, given the likelihood that deploying and implementing innovative models in specific geographic regions will be subject to these factors.

6.2 Contributions

This study contributes to the literature on impact investing in four ways. First, a typology is derived from an analysis of current impact investors. Whereas most of the reports only loosely define impact investing, the present study groups different impact investors based on similar characteristics. Second, a model is created for a hypothetical fund to remediate some of the shortcomings of current impact investment options. The template highlights the presence of many other sources of capital that practitioners may not be utilizing, and this could further stimulate impact-investing growth. Innovative models such as these could potentially increase the flow of funding to social enterprises, which would facilitate their growth and in turn positively influence the growth of impact investing. The ultimate goal is to help social enterprise obtain more financing so they are able to make an even greater impact.

6.3 Implications

This study has potential implications for impact investors, as it has the ability to change current perspectives on impact investing. The 'Central Fund' shifts impact investing from a limited number of big organizational investors to a broader, more inclusive group of everyday investors through a crowd sourced approach; in addition, it still utilizes the big influencers as a source of capital. Social enterprises can be influenced by this study because it may teach them how to better source impact investments and how to do so effectively. Finally, this study has the power and ability to influence university students. Many students (myself included) are not explicitly introduced to impact investing during our undergraduate studies. It is very difficult for students, without experience in the field, to learn about this industry. Many students only see cookie-cutter career options after graduation, while impact investing covers a myriad of fields. This research can be very helpful for students interested in doing more with their career, skills in finance and social consciousness. Impact investing can provide a possible career path with immense potential and growth in the future. The study also demonstrates how diverse disciplines intersect (for example, entrepreneurship and finance) to create something incredible. This study might encourage students to look outside of their major and explore how their passions can most effectively align with their careers.

6.4 Suggestions for Future Research

In the future, it would be both interesting, and indeed important, to analyze the extent to which the 'Central Fund' offers a workable alternative in different geographic regions. The socio-economic, cultural, institutional, regulatory, legal and other governmental factors of a specific region may be fruitfully explored in future research to shape the most appropriate model, social enterprise and entrepreneurial endeavors in a certain locations. Doing a more in-depth study of factors in one specific region would be beneficial, as would research into how cultural and governmental forces specifically influence impact investing all around the world. Currently, there is space for misinterpretation and potential misuse of funds. Further research into appropriate procedures for administration and measurement of outcomes that do not allow agency risk (risk associated with the investors or shareholders, versus those running the social enterprise) is necessary. Protection in the financial services industry has undoubtedly increased since the financial crisis, and there may be hesitation in utilizing impact investments because of the absence of appropriate and specific practices for legal structuring and protection. I believe these procedures will be developed in time, but emphasis on definitions will be critical to the future of this industry.

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8. APPENDICES

APPENDIX A: GLOSSARY

BOP: Bottom of the Pyramid. The poorest communities which are generally seeking the essentials of life (water, food, shelter). This includes over four billion people living on less than $2 a day.

Capital mobilized: Money movement based on direct investment (75)

Closed ended fund: An investment fund obtaining capital through an IPO (20)

DFI: Development Finance Institution

ESG: Environment, society, and government factors (77)

ETF: Exchange Traded Fund

GIIN: Global Impact Investing Network

GIIRS: Global impact investing rating system (17)

IBRD: International Bank of Reconstruction and Development

IDA: International Development Association

IFC: International Finance Corporation

IRIS: Impact Reporting and Investment Standards. A “library of performance indicators with standardized definitions.” (74)

LP: Limited partnership

MRI: Mission Related Investment (52)

NII: National Impact Institute

Overdraft Fees: The fee for borrowing from the bank with limits drafted up. Overdrawing the limit (79)

PRI: Program Related Investment

Retail charity bond

SAA: Social Accounting and Audit. Measurement of social impact while being unable to actually count or account for it through accounting standards and procedures

SIB: Social Impact Bond

SROI: Social Return on Investment

Standby: The provision of money for projects before full funding is obtained (79)

APPENDIX B: THE HUMMUS TRUCK'S BUSINESS MODEL CANVAS

Partnerships	Key Activities	Value Proposition	Customer Relationships	Customer Segments
-Model X itself -Local farmers -Model X's investors	-Skilled marketing and advertising in selected regions -Producing high quality hummus meals	-Nutritious fast food -Sale based donations to the fund -International food experience -Allows everyday citizens to participate in impact investing	Target socially conscious customers with healthy and fast lifestyles	-Conscious consumers -LOYAS customers
	Key Resources		**Distribution Channels**	
	-Skilled and intelligent employees -High quality suppliers -Trucks		-Fleet of food trucks	

Cost Structure	Revenue Streams
Gas, energy, legal registry, ingredients, pay for employees, research and development	Sales from hummus meals, side dishes, and beverages

Value Proposition

The Hummus truck will be utilized as a way to provide the everyday person the ability to contribute to impact investing. While many U.S. citizens do not have the means to invest in societal impact half way around the world, they do like to eat, hummus in particular. With the trends towards healthier eating, faster lifestyles, LOHAS products and international palates, it only makes sense to offer the public a product that satisfies all of those aspects.

The values created for the customer include an ability to obtain a healthy, delicious, fast, filling and trendy meal. They also include the ability to contribute to impact investing.

Customer Segments

The customers that will primarily be interested in purchasing meals from the Hummus truck will be the LOHAS customers that were previously mentioned and defined. These customers are inclined to purchase products that will sustain their lifestyles and better others. Customers will be provided with a healthy meal that will help international businesses improve their communities and individuals to finance their lives. There are numerous examples that are using this methodology of donation with purchase, such as TOMS and a few lesser known models, such as 2 Degree bars and Soulscarf. 2 Degree bars donate a meal to a child with the purchase of each nutrition bar (4), and Soulscarf donates a portion of its proceeds of knitted scarves to four selected non-profits (7).

The Hummus cart will target all U.S. citizens, but particularly the LOHAS customers, those who are very health conscious and those in a hurry needing an alternative to fast food options. Hummus has the ability to be a fast meal that provides high levels of protein with little saturated fat.

Hummus in particular has gained almost unprecedented appeal. The hummus market within the U.S. has grown from $5 million in 1995 to $325 million (83) with an expansion to a $700-800 million-dollar market anticipated (69). With household penetration of 18 percent in American homes (69), hummus has become a well-loved and satisfying snack or meal. Currently, hummus is primarily a dip, but there is a good chance that the dip will develop into a dish, as it is typically eaten in the Mediterranean region (69). This trend has been picked up by Hummus Brothers, which is a Levantine kitchen in central London that serves hummus as a meal. They utilize hummus as the center part of the meal, while providing toppings and pita bread to dip and eat. The Hummus truck would be the same premise, meaning that the hummus would be the meal itself with various toppings offered, but it would be offered in the truck to offer a faster experience for the customers. This premise has yet to exist in the United States in the form of a food truck; therefore, there would be little to no direct competition, unless Hummus Brothers expands outside of London to the United States (35).

The Hummus truck LOHAS and health conscious customers will be interested in buying a meal from the truck because of their familiarity and affinity with hummus and food trucks within the U.S; their ability to get a healthy meal and provide a donation to a worthy cause, without having to invest significant amounts of money, and getting a fast meal that satisfies.

Channels

The Hummus truck will be a food truck that has the ability to move to different locations depending on market surveying and research to determine where the most optimal locations would be in each city within the U.S. The food cart business in itself is growing into a $2.7 billion market; therefore, it is safe to assume that a food truck would be accepted in the U.S. market. Many of these trucks also involve gourmet and specific cuisine, aligning with the international hummus idea of atypical "fast food." Most of these trucks saw increased lunch customers, supporting the need for a quick yet fulfilling lunch to sustain patrons throughout the day. The company's pricing system is equivalent to a high-end fast-food chain and ranges from $9 to $15 per meal (29).

Customer Relationships

In order to obtain customers, the hummus truck would need advertising in metropolitan areas that generally see the highest volumes of food trucks. Additionally, targeting neighborhoods of higher wealth and higher consciousness of societal good or health would be preferable. The dual purpose of the hummus truck would need to be advertised so that customers would know that they are not simply purchasing food but contributing to a higher cause.

Customers would be retained by consistently offering high quality product, while investing the profits from those food sales to the fund. Growing the customer base would come with the growth of the menu and the incorporation of the customer or employee's ideas (specifically in terms of what hummus toppings they are looking for). The hummus truck's contributions to the fund would also grow, because a percentage of each sale would go to the fund. Measurement techniques would be vetted in order to prove the truck's impact on the fund and the beneficiaries, which would also be used as advertising to attract continually more customers.

Revenue Streams

The hummus truck will earn money by selling the hummus meals with a choice of toppings and side dishes. Chefs brought on board for their culinary knowledge and finesse would continue to explore additional menu options. The sales would be made directly from the truck itself, and the price of the meal would be lower than those of higher-end U.S. fast- food establishments. For example, Chipotle charges about $8 for a meal, while the cart would charge about $5 or $6 for a hummus meal, depending on what the customer desires. This number would have to change and be tweaked depending on operating costs and what is feasible. The value for the customer would be equivalent to that of high-end fast food sources, as the customer is still getting a healthy, fast and fun meal.

Key Resources

The hummus truck would need to have innovative and skilled employees that would need to be skilled culinary persons with a particular knowledge of Mediterranean cuisine. They would also have to be aware of allergy concerns, as these can be huge legal concerns, and must believe in the mission of the fund. Honest and intelligent individuals would be necessary because of the intricate nature of the associated fund goals. They must, therefore, be able to communicate the mission and message, while being able to understand the larger picture and how the fund itself works.

Great suppliers with high-quality products would be essential to ensure that the product mimics its highly ethical nature by utilizing suppliers that are using ethical practices within the ecosystem.

In terms of tangible needs, the Hummus truck would need a fleet of clean, energy efficient trucks capable of moving to different locations.

Key Partners

The key partners of the hummus truck would be the fund itself and all the organizations contributing to the capital available to the fund. These partners would include the traditional investors, conscious capitalists, benefit concert organizations and international businesses receiving the funds. Key partners of the food production would be the suppliers of the necessary ingredients, which would likely be local farmers in order to lower shipping costs. Farming partners could be international, if they function as social enterprises and their work helps contribute to alleviating hunger internationally or to societal repair.

Key Activities

The hummus truck would need to be exceptional at the creation of meals that include hummus, topping ingredients (which would be partially determined by the employees and the customers), beverage choices and a choice of pretzels, pita or fresh vegetables to dip in the hummus.

The hummus truck would need to be skilled at marketing and would need to showcase, through a set measurement system, what monetary contribution the truck is making for the fund, which could be displayed in the form of stories about the businesses and their progress and presenting the total donation amount.

Lastly, the trucks would need to be able to quickly and easily move to different areas, depending on market research in each location and city, to capture the best markets.

Cost structure

The Hummus truck would incur expenses, which would include a fleet of trucks, gas, maintenance and legal certifications, in order to legally sell food at the locations. The ingredients (as previously mentioned) would need to be outsourced, which will require the truck to pay for supplies from farmers. Salary for the employees would be another annual expense. Research and development would be an additional cost, because there will need to be funds for the employees to explore and create new dishes for customers, in order to keep up with their growing and changing needs. An example would be an employee needing some more ingredients to experiment with new flavors or a new trendy food, such as chia seeds, that customers are demanding.

APPENDIX C: IRIS METRICS

IRIS metrics include social and environmental factors. Some examples include:

Environmental

- Biodiversity conservation
- Energy and fuel efficiency
- Natural resources conservation
- Pollution prevention & waste management
- Sustainable energy
- Sustainable land use
- Water resources management (26)

Social

- Access to clean water
- Access to education
- Access to energy
- Access to financial services
- Access to information
- Affordable housing
- Agricultural productivity
- Capacity-building
- Community development
- Conflict resolution
- Disease-specific prevention and mitigation
- Employment generation
- Equality and empowerment
- Food security
- Generate funds for charitable giving
- Health improvement
- Human rights protection or expansion
- Income/productivity growth (26)