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DIVERSITY OF CAPITAL

Driving the global financial movement towards common good requires both visibility and impact, with clear goals and understandable results.

Transparent, accountable management and participation of diverse funders is foundational.

These will become the benchmark of new economic cooperation and prove the efficiency of the diversity concept.

**WORDS BY
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For almost 7 years I have had the privilege to work in the newly emerging field of Impact Investing. Leading a regional portfolio of different types of projects and organisations in Central and Eastern Europe, I couldn't help noticing that diversification of funding sources for entrepreneurial teams striving to achieve positive impact plays an important role in the success of the organisation's development. Funding not only brings the resources needed, but also contributes to capacity building of the teams and unlocks new funds and networks. Variety of funding sources enriches organisations with new ideas and increases resilience, as behind every different source of capital stand people, willing their investees to succeed.

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What are the types of capital available for entrepreneurs aiming to develop the global good? One can use different classifications for capital, with the most common one based on types of investments ranged on returns.

Diversity of Capital

A company or organisation that is developing socially important projects with the potential financial profit can always take the common way of attracting traditional investments. Private equity or venture capital are still the most powerful sources of funding for many ideas that transform the world for good. Many funds or private investors are looking for new ideas to invest in, for example, the green tech industry or health care systems, but the financial results still will be the core goal of their due diligence processes.

However, there is a possibility to work with investors that already have in their strategy the rule to invest in companies that are aimed to generate positive social and environmental impact. Such investors form the market of Impact Investing that is, according to the Global Impact Investing Network (GIIN), stands at USD 1.164 trillion in assets under management¹.

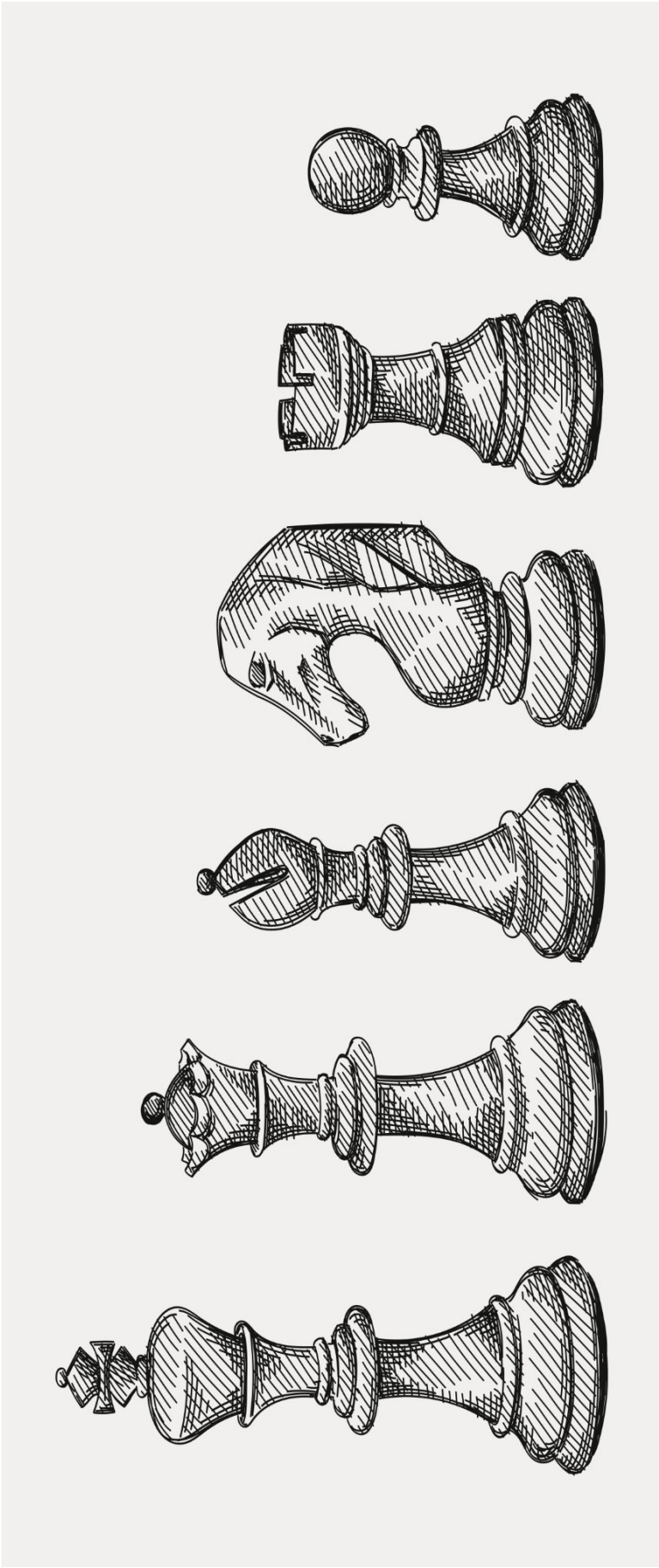
While Impact Investing intentionally seeks positive impact from investments, it also cares for both impact measurement and a financial return. The latest available GIIN Annual Impact Investors survey for 2020 shows that 67% of the Impact Investors targeted risk-adjusted market rate returns, 18% planned profit for closer to market rate and 15% went for rates closer to the capital preservation, when only the funds invested return.

And 88% of the Impact Investors reported that the actual financial returns were in line or outperformed their expectations. Impact measurement is the core for Impact Investing, but there are no unified standards or frameworks that would be suitable for all kinds of investors. It still depends on many factors, such as goals and objectives, size of the investments, market etc.

While the resources can be invested into both developed and developing countries, the majority of impact assets under management (92%) are allocated by investors headquartered in developed markets of US, Canada and Europe (excluding post-communist

countries)². Such geographical disproportion may significantly slow the development of the Impact Investing market in the territories where it is deeply needed, as, for example, in my native country Ukraine. The question is even not so much in the decision making process, but in ecosystem development. If there is no market, local qualified talent is not developing for both investing and receiving sides, because there is no possibility for practical work and professional development. In this case only foreign human resources would be qualified for complex projects and the local market will be dependent on external support not only in strategic planning, but also in execution.

As an example of the Impact Investing field-building firm one can name Omidyar Network, which I was privileged to join in 2016, transforming my professional path from traditional economy investment towards the new field of Impact Investing. Established by the eBay founder Pierre Omidyar, the venture has had a long journey since 2004, constantly



working on its investment approaches, methods and hypotheses to catalyse the positive change. As of today, Omidyar Network has committed more than USD 1.86 billion to for-profit and grant investments globally³.

‘ESG-investing’ may feel to be a synonym to impact investing, but in reality it is not. ESG stands for environmental, social and governance criteria that a traditional investor will take into consideration during the due diligence. ESG criterias influence the investment decision, but financial returns remain the ultimate goal and no specific positive impact is planned or measured. ESG investing is more a framework for conducting the due diligence, while Impact Investing is the new way to work with funding, accelerating good. ESG investment ensures that an investee is responsible and transparent in the way that the business is done. Impact Investing supports entrepreneurial teams that go one step further from the business goals and feel responsible for changes for good.

While investments imply the financial return, grants are provided to for-profit and nonprofit teams without the intention to return the capital. Different frameworks define the differences between grants and investments. For example, European Venture Philanthropy Association places grantmaking and social enterprise investments in the Investing for Impact framework, while allocating all other types of investment into the Investing with Impact category⁴. The term Venture philanthropy itself shows the importance of venture capital experience for grantmaking, as it refers to grantmaking accompanied by an engaged long-term cooperation between a donor and a grantee.

All types of capital mentioned can come from both public and private sources, and there are no limits on investment size. While state units of different levels can use money for big national transformative projects and small local problem solving, private capital as well can come from both high-net-worth individuals and ordinary citizens. To support local charity, one doesn't need to allocate billions. Some individuals might start their own charity, and here I can speak from personal experience.

More than a decade ago I founded the Chess for Children charity, as the game of chess brightened my childhood and was always dear to my heart. Once choosing the career of economist over the one of professional chess player, I felt that developing a charity in Ukraine would help me to give back to the development of future generations. Our Chess for Children aims at uncovering the potential of children through the game of chess within a number of projects, such as, for example, Sozonov Award. This annual private award, named after my grandfather, who was also my first teacher in chess, celebrates talented young Ukrainians, who show good results in their chess and school studies. While for children it became an important recognition of their efforts in addition to the money prize, for me this project turned to be a priceless opportunity to thank my deceased grandfather and simultaneously to keep current contacts with the chess community. Local charities play an important role in the diversity of capital concept, because here diversity stands out as the cooperation between citizens to support community development.

Diversification of funding and public-private partnerships not only makes the investees and communities stronger, but also develops markets. For new markets such as nuclear fusion clean energy, transformative progress is possible, if governments 'consider how they shape markets, as well as fix them,' emphasises internationally renowned economist Mariana Mazzucato when discussing the role of state funding in innovation processes.⁵

Financial resources continue to be a necessary condition for any project to succeed, but for different stakeholders I would empathise with several important aspects of how the diversity of capital can thrive in the modern changing world.

For entrepreneurs and nonprofit organisations in most cases the amount of secured funding is not the only criteria for success nowadays. More and more entrepreneurs are diligent in finding the right investor or donor, understanding the core principles of how the financial market for good operates. Ideally, you need to cooperate with your funders, and the investment process should enhance your internal capacity as well.

For state units it would be great to cooperate more willingly and flexibly with the private sector, keeping in mind that the state can still have a monopoly or leading position on development of new markets. Flexibility in resource allocation combined with the accountability processes is the formula for the most efficient cooperation.

For private investors of any level it would be advisable to look at the growing field of impact investing and venture philanthropy. It is possible to have both financial and impact returns on your investments. It is possible to consider your charity support as the investments for the future of your community or the world itself.

For impact investors already working on the market, it would be most advisable to explore new geographies where their involvement can be the most transformative, such as

post-communist and developing countries. In these processes, professional local human resources would play the biggest role.

Diversity of capital- a cooperation between different investors and donors - should be an important tool for developing transformational projects and new innovative markets, and one of the main ways to ensure that the world goes in the right direction.

For the global financial movement towards common good it is of the highest importance to create and to support a visible and impactful initiative or project, with clear goals and understandable results. It should have transparent, accountable management and the participation of diverse funders. And then it would become the benchmark of new economic cooperation and prove the efficiency of the diversity concept. TGG

1 Hand, D., Ringel, B., Danel, A. (2022) Sizing the Impact Investing Market: 2022. The Global Impact Investing Network (GIIN). New York.
2 Ibid
3 Omidyar Network Financials <https://omidyar.com/financials/>
4 Investing for Impact – EVPA Impact Strategy Paper, 2019 <https://www.evpa.ngo/insights/investing-impact-evpa-impact-strategy-paper>
5 Mariana Mazzucato, Foreign Affairs, January 2023 <https://www.foreignaffairs.com/world/long-way-nuclear-fusion>

About: Olena is Head of the Advisory Board for the 2030: Tech for Public Good. In 2030 she Founded the Tech&Society Communication Group,.

In 2012, in Kyiv, Ukraine Olena became Founding President of the All-Ukrainian Charity Foundation "Chess for Children", dedicated to helping children uncover their potential through chess.

Olena is a graduate of The Good Global Writers Program, 2023. It was a privilege to have her participation and we are delighted to share her wisdom in print.

In 2023, Olena relinquished a Speaking Spot at PIRATE Summit in Cologne, Germany to The Good Global.

Thank you for your collaboration in global good.



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