

Future Returns: Investing to Further Social Justice

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The impact investing firm Candide Group launched the Olamina Fund last October, before the coronavirus pandemic gripped the globe and forced businesses to shutter, causing millions to lose their jobs.

The US\$40 million fund—which invests in nonprofit financial

institutions, private funds, and social enterprises—is well positioned to address the racial and economic disparities that the pandemic has laid bare in communities across the country.

That's by design. The core mission of all the organizations that Olamina finances is to tackle inequality and promote social justice in specific communities. Their borrowers include groups such as First Nation Oweesta, a Native American, women-led community development financial institution (CDFI) that serves Native American communities; and HOPE, a credit union and CDFI that serves economically distressed communities in the Southern U.S.

Although the fund was generating interest before the pandemic, the crisis “has created a sense of urgency—especially because we decided we'd go to the communities who were most marginalized and most impacted, and have been for centuries,” says Lynne Hoey managing director of the fund.

Among the 2.5 million individuals in Native American communities across the country, for instance, there are only 37 beds in intensive care units, Hoey pointed out in a recent article she wrote on Medium.

“Covid for a lot of people helped to really put into sharp focus the racialized disparities that existed in the U.S. long

before—whether that’s in the health system, whether that’s in the economic system,” says Morgan Simon co-founder of Candide. “Now that these cracks are becoming apparent, it’s raising more investor interest to say: How do we get to the structural level?”

Filling a Need

Candide, based in Oakland, Calif., with US\$122 million in assets under management, was started by Simon, the founding CEO of Toniic, a global network of impact investors, and Aner Ben-Ami, a former project leader with the Boston Consulting Group. Clients include family offices, foundations, and athletes who are focused on social justice and structural change, Simon says.

Working with their clients, Candide recognized a number of CDFIs—institutions with roots in the civil rights movement—presented good investing opportunities as well-managed organizations addressing racial and economic inequities in the U.S. financial system through their support of job-creating businesses in targeted communities.

The fund engaged with 25 community leaders in Candide’s network before choosing to focus its investments in rural areas, the deep South, and with Native Americans. These are communities that had experienced an “intentional extraction of resources,” Hoey says, and where there were

“many barriers to access to capital.”

The first close of the Olamina Fund was made with investments through two donor-advised funds. While Olamina is currently closed, Hoey says the fund can work with investors to support the same institutions until the fund reopens for further investments.

How the Fund Works

Olamina’s investors earn a fixed, modest return of 1% a year on five-year notes, and 1.5% a year on seven-year notes.

The fund has made US\$14.5 million in investments of varying sizes to five organizations so far, and has US\$20 million more investments in its pipeline. Last month Olamina granted its borrowers the option of deferring interest payments on their loans for six months, providing them with the additional flexibility they need at a time the small businesses and families they support are suffering.

Aside from making loans, Olamina is also focusing on building long-term relationships—a strategy that can mitigate risk, she adds. First Nation Oweesta, for instance, is assisting Olamina with recommendations for the fund’s community advisory board, and through another project, Candide is providing Oweesta with grant funding.

“We’re using financial and non-financial resources so

organizations can thrive," Hoey says.

The community advisory board for the fund will include representatives from the communities it serves, and these members will have a vote on the fund's investment committee. The fund is also looking at what it would mean to share excess profits of the fund with the communities it serves, Hoey says.

Pivoting During Covid-19

The barriers many marginalized communities face became apparent in the first round of the Paycheck Protection Program (PPP) funding provided through U.S. stimulus legislation passed in March. The PPP allows lenders approved by the Small Business Administration (SBA) to provide loans to companies that will be paid back by the government if employees of the borrower are paid for eight weeks and the funds are used for payroll, rent, mortgage interest, or utilities, according to SBA.

Many CDFIs aren't SBA-approved lenders, and those that are often didn't have the capital to make the initial loan outlays. RCAC, a women-led nonprofit providing financial and technical resources to rural populations in Western states, was one of these lenders that Olamina was able to support. They did so, Hoey says, by shortening the time of their due diligence effort to 10 days from 28 to ensure RCAC

would have the funds to make loans when the PPP went into effect.

Olamina's quick turnaround time in lending to RCAC is an example of how all impact investors have had to reevaluate what they do to ensure the nonprofits and social enterprises that they support get through the economic disruption caused by Covid-19.

"We are operating in a completely different risk environment," Hoey says.