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Growing the Impact Economy in Greater Philadelphia



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Contents

4 Introduction

7 Defining the Impact Economy

10 The Impact Economy Ecosystem

12 Impact Companies: Business on Behalf of the Community

13 Impact Investors: Financing Impact

14 Foundations: Investor and Partner

14 Intermediaries: Accelerating Impact Company Growth

25 Government: Customers, Regulators, Payers and Partners

16 Growing the Impact Economy

18 Greater Philadelphia's Potential as a Center of the Impact Economy

20 A Plan for Growing the Impact Economy in Philadelphia

24 Strategy 1: Advocacy and Promotion

25 Strategy 2: Product Development

26 Strategy 3: Connecting and Engaging

27 Strategy 4: Capacity Building

28 Strategy 5: Research and Education

30 Appendices

31 Listening to Philadelphia's Impact Ecosystem

34 Impact Economy Advisory Committee Members



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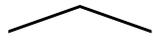
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The Economy League is a civic catalyst that brings together leaders and organizations to address the most challenging issues facing Greater Philadelphia. Built on our foundation of independent, high-quality analysis and practical insight, we spark new ideas, develop strategies, and galvanize action to enhance the region's global competitiveness.

Learn more at economyleague.org

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Overview

Greater Philadelphia is home to a burgeoning group of new and innovative companies and organizations that are forming and growing around the concept of creating both economic and social value. Many believe that we are at the developmental stage of a new approach to business development fueled by a focus on solving social problems, and we are only beginning to understand what the impact economy is, what it could be, and how it does and could operate.

As state and local governments, as well as private and not-for-profit companies and philanthropic foundations, are seeking new and innovative solutions to important societal problems and to challenges that confront their own enterprises, interest in solutions that address both the economic and social dimensions of these challenges is growing. The Greater Philadelphia region is a strong contender as a center for the development of this new “impact economy” and for its ability to shape this capacity as yet another “export” that can create value across a wide array of public and private constituents.

The Impact Economy Working Group, under the project leadership and management of the Ben Franklin Technology Partners of Southeastern Pennsylvania (Ben Franklin) and the Economy League of Greater Philadelphia (Economy League), began the Greater Philadelphia Impact Economy Initiative in 2015 to better define both the opportunities presented by this new approach to economic development and social problem solving, and the strategies and tactics by which Greater Philadelphia can position itself to capitalize and grow its base of impact investors

and enterprises. Through research, roundtables and interviews, this analysis has helped to identify the current state of impact investing and impact companies in the region and the potential market opportunities for these companies, organizations and investors. The ultimate goal of the Initiative is to catalyze efforts to grow impact economy activity in Greater Philadelphia.

The Greater Philadelphia Impact Economy Initiative is built upon a foundation of research and roundtable discussions, culminating in this final summary and strategy document that will help guide future impact economy development efforts. The research and roundtables were led by the Economy League of Greater Philadelphia and Ben Franklin Technology Partners of Southeastern PA.

This Initiative was modeled on prior successful efforts led by the Economy League and Ben Franklin, and has as its goal providing Greater Philadelphia’s business, civic, philanthropic and economic development leaders with the information and analysis needed to take the steps necessary to help Philadelphia become a leader in this emerging economic area.

Introduction

There is a growing sense among entrepreneurs, investors, philanthropic and corporate leaders that the traditional ways of doing business aren't the only ways of doing business. As we struggle to address intractable social and environmental challenges and people increasingly consider how well their spending and investments align with their values and with the values of a new generation, new business and investment models have arisen. What is emerging is what can be called the impact economy—a new ecosystem built on the notion that there is both economic and social impact to be found in the ways in which we address the challenges facing our communities and organizations. Proponents describe it as seeking to “unlock greater amounts of private capital to do public good...” and “creating shared value” (Rockefeller Foundation).

So How Does This Emerging Ecosystem Work?

Social-minded **entrepreneurs** are increasingly seeking ways to earn a profit while having positive social or environmental impacts. Traditionally, these entrepreneurs would have likely established nonprofit organizations or donated a portion of their time or revenue or advocated for expanding government programs to solve social or community problems. Instead, they are establishing for-profit companies with a social impact focus, which allows for access to private capital that they would not have if they operated as nonprofits. It reflects the emerging belief that a profit can be earned in the service of improving social and environmental ills—and even reduce the need for public or tax-driven expenditures in the process.

At the same time, a new breed of **impact investors** is looking for ways to bridge the twin goals of investing to generate a return and supporting a broad range of social or environmental causes. Individuals with a background in the venture capital or private equity world, and more and more financial institutions, consider investments in impact companies as both a valid return-based investment category and a means for supporting their communities and or other socially beneficial objectives.

Recognizing that the scale of challenges facing our communities will require capital resources beyond the current capacity of both philanthropy and government, many in the **philanthropic community** are looking for ways to increase impact and support scalable, sustainable approaches to addressing problems. They are exploring ways to attract additional private capital to the table to leverage their investments and accelerate impact, as well as innovative ways to manage and invest their assets to generate returns while achieving mission-related goals.

Corporate leaders are discovering that incorporating strategies that reflect the values of their evolving customer base is not just good marketing, but can also result in significant cost savings, talent attraction and retention, and fundamental innovations that have deeper impact on the company.

Finally, leaders at all levels of **government** are recognizing that they must adopt new ways of working to solve community problems and improve outcomes and efficacies of government programs—linking government programs with nonprofit and for-profit organizations in an

A MARKET AS BIG AS VENTURE CAPITAL AND PRIVATE EQUITY?



Source: JP Morgan and GIIIN 2015 Survey

outcomes-driven approach to addressing social issues. By being open to new solutions and new partners to tackle old problems, government leaders can begin to address seemingly unsolvable or hopelessly expensive problems with innovative solutions that can be scaled in public-private partnerships.

So What Does This Mean for Greater Philadelphia?

We are seeing increased interest in this burgeoning impact economy—globally, nationally, and here in Greater Philadelphia. Impact investors and entrepreneurs in Philadelphia are driven by the belief—and increasingly the evidence—that it's possible to put private capital to work to achieve positive social and environmental outcomes and generate financial returns in the process. But they recognize that if Philadelphia is to be a leader in this new approach, we must understand the current state of the impact economy in our region, the drivers of future growth and success, and the infrastructure and policies needed to ensure that growth and success.

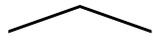
That is the genesis of the Impact Economy Initiative. A group of leaders, crossing the boundaries of the investment, philanthropic, entrepreneurial, nonprofit and government

communities, set out to gain a better understanding of what it will take for Philadelphia to be a national, and even a global, leader in the development of the impact economy—both to improve social outcomes in our community and to create a new source of economic activity in our region. We hope to better understand the nature of the impact economy ecosystem and to use that knowledge to both educate regional leaders on its potential and what it will take for success. We believe that Philadelphia can be a leader in the impact economy, but to get there will require new ways of thinking about how the for profit, not-for-profit and public sectors work today and will work together in the future to both solve problems and create economic activity and opportunity as we forge a new **Fourth Sector economy**.

The work begins with this paper. Here, we try to better define what we mean by the “impact economy” and the ecosystem that is developing around it. We also look at the markets for impact company products and services, and what it will take for Greater Philadelphia to see the impact economy ecosystem thrive and develop. Finally, we present a plan for a new impact economy alliance, ImpactPHL, with the goal of increasing investment in Greater Philadelphia impact companies and organizations by accelerating development and awareness of the region’s impact economy ecosystem and potential.



ImpactPHL is working to better define what an impact economy is and how Greater Philadelphia can take advantage of the growing interest in the impact economy. Photo by M. Fischetti for VISIT PHILADELPHIA®



Defining the Impact Economy

It is clear that we are in the early stages of understanding the impact economy as a separate and distinct subset of the overall economy. On a regular basis, new research and reports are released, each with a slight variation on the definition and each with their own approach to measuring what “impact” really means. Investment managers and wealth advisors, along with foundation program officers and investment officers, are regularly attending seminars or conferences on the topic, each trying to better understand what the “impact economy” might mean for them, their clients, and their partners. Entrepreneurs who want to combine a social mission with profit are looking at this opportunity to unlock new sources of capital, focused on the social outcomes of their company. Corporate leaders are exploring how they can “do well by doing good.” And government leaders are looking at this new approach with keen interest—could this be a new way of solving problems without raising taxes?

The impact economy is often defined as both one thing and many things—a collection of investment and entrepreneurial activities operating in the “largely uncharted area between philanthropy and a singular focus on profit-maximization.” Sometimes it is referred to as a sector, although in reality it encompasses many different sectors of our economy (technology, education, health care, food—to name only a few of the more obvious).

Impact investing and companies are not expected to replace public spending, traditional philanthropy, and nonprofit organizations in the funding and delivery of social services, nor will impact strategies within larger corporations dominate decision making. While philanthropic and public dollars are not sufficient to address the massive social and environmental challenges faced by the world, they are and will remain crucial to providing early stage funding to

attract private investments. And while a focus on shareholder value is the dominant criterion for assessing large corporations, the ability to execute business strategies while being aware of the larger impacts of decisions, both internal and external, is gaining ground.

The approach developing among those engaged in the impact economy offers the potential to achieve targeted outcomes through complementary strategies that can serve as a potent force for scaling solutions to intractable problems and open up new opportunities for growth. The infusion of private capital and market-based solutions can allow public and nonprofit entities to leverage their investments for increased and wider-spread successful outcomes. The adoption of new thinking and business models for how corporations and manufacturers develop and produce their products and services can spur innovations and measurable benefits that are both internal and external.

So How Are We Defining the “Impact Economy”?

The Impact Economy Working Group has defined the impact economy as the ecosystem that supports the work of entrepreneurial enterprises addressing social needs in the community, either through the products they make or the process or strategies by which they do business, while they build profitable, and often scalable, enterprises. Each component is important and distinct, and the overall impact economy relies on each for success. The components include:

> **Impact Companies and Organizations:**

Enterprises (traditional for-profits, nonprofits, or benefit corporations) that directly address a social need or opportunity such as, but not limited to, environmental issues, job creation for disadvantaged individuals, health, sustainability or education, either by the product they produce or service they provide or through their business processes or strategy.

> **Impact Investors:** *Individual or institutional investors who are seeking investment opportunities that produce both financial returns and measurable social benefits. These investments can be made by venture funds, private investors, foundations, government and pension funds in entrepreneurial impact companies and organizations.*

> **Intermediaries:** *A growing set of organizations and advisors who are working with all elements of the impact economy. Wealth management firms are increasingly including advice on impact investing in the menu of services. There are organizations that serve as financial intermediaries between investors, impact enterprises and client governments or nonprofits, helping to structure the deals and contracts that result in results-oriented financing. And there are entrepreneurial support organizations that provide incubation, mentoring, and start-up business advice to social entrepreneurs, preparing them to refine their business models and enter the marketplace.*

> **Customers:** *The market for the products and services provided by impact companies and organizations. This includes the public marketplace of governments and nonprofits, private markets and consumers, and the regulatory and policy frameworks in which investors and companies operate.*

Just as important as defining what the impact economy encompasses is being clear about what it does not encompass. On the investment side, it is not any investment in a low-income community, but rather an investment designed to

B Corps: A New Business Form?

One of the emerging types of companies in the impact economy are those that have chosen to be certified as B Corporations. B Corps are certified by the nonprofit B Lab, a Wayne, PA organization dedicated to working with companies to increase their social impact. B Lab certification is akin to other certifications, like the USDA brand or Better Business brand, which signify that the company has met “rigorous standards of social and environmental performance, accountability, and transparency.” (from the B Lab website).

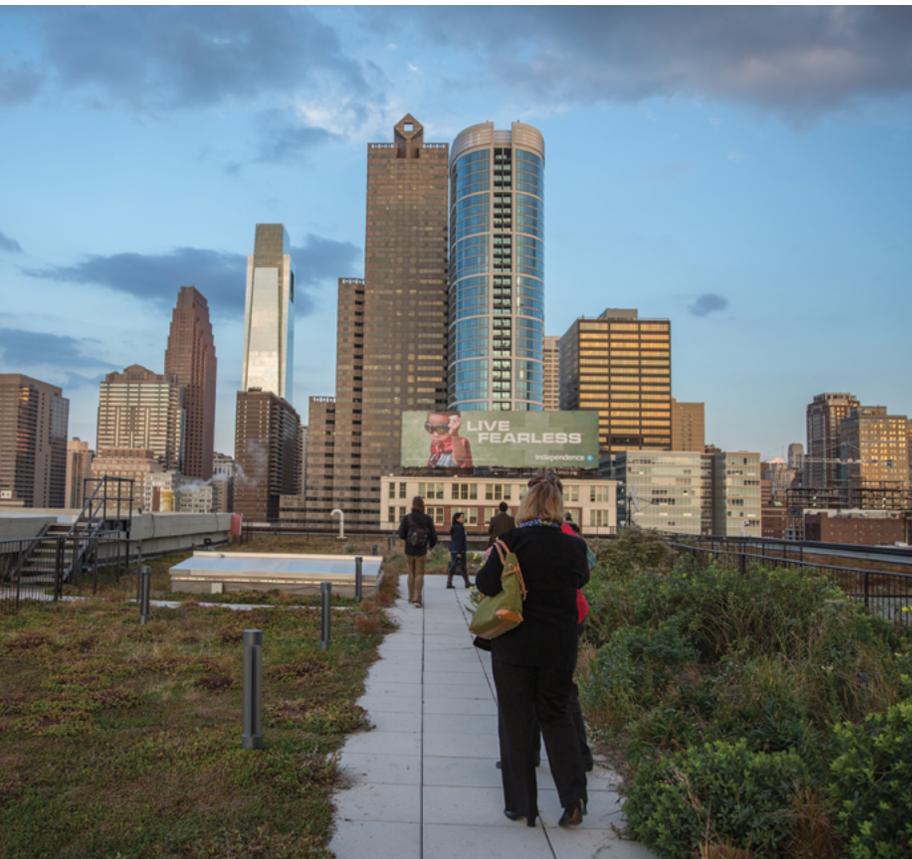
Governments have taken notice as well. Pennsylvania, New Jersey and Delaware allow for the creation of new business forms called Benefit Companies, similar to the traditional C, S or nonprofit corporation, based on commitments to multiple forms of return (economic, social and environmental) to investors.

have a clear and measurable positive impact on the community. On the company or organizations side, it is not selling or creating any product that targets a social need or specific population, but it may be, depending on what the product/service is and how the company provides it.

There is also a clear distinction between impact companies and companies with a corporate responsibility agenda. Corporate responsibility is secondary to core business operations and may include traditional philanthropic donations or community activities. For social impact companies, the social mission is integrated within business operations and capital is actively used with the dual intent of having a positive social or environmental impact while creating value for the corporation...“shared value.” Examples of shared value could include production of energy efficient building materials which generate a product to be

sold and also contribute to reductions in energy usage, or the use of grey water in a manufacturing process that returns cleaner water through an innovative treatment process, resulting in lower costs and improving the environment.

Finally, for this initiative, we are not focused on the development and growth of another type of social enterprise—nonprofits. While a crucial player and potential partner or customer for impact companies, this effort is focused on the potential of for-profit companies to grow with a social mission and focus. That being said, in many ways the differences between for-profit and nonprofit are blurring, and the choices that an enterprise makes in terms of its tax classification are often strategic decisions in terms of access to contracts, capital or even talent pools.



Above: Many intermediaries take part in the impact economy by providing incubation, mentoring, and advice to social entrepreneurs.

Left: PECO's rooftop garden in Philadelphia is an example of a company creating social impact—utilizing a green roof has a positive environmental impact while also creating value for PECO. Photo by N. Santos for VISIT PHILADELPHIA®

The Impact Economy Ecosystem

The key players in the ecosystem are impact companies and entrepreneurs, impact investors, the intermediaries that assist in making matches between businesses and investors and the larger enterprises that purchase products and services and maintain substantial employment. Philanthropy, higher education and other research institutions and government also play a crucial role in the ecosystem.



Impact Companies and Organizations

are supported by:

	Impact Investors Investors who are seeking investment opportunities that produce both financial returns and measurable social benefits.
	Foundations Increasingly, foundations are seeking to maximize the impact of their investments and identifying opportunities to add social returns to the financial returns of their investments.
	Intermediaries Organizations and advisors who are working with all elements of the impact economy.
	Customers The market for the products and services provided by impact companies and organizations.



Impact Companies: Business on Behalf of the Community

While the working definition of impact companies is often somewhat loose, in this case they are defined as for-profit businesses that have social or environmental impact and are operated to generate a profit. While some form with this dual intention, others gravitate towards it or find their practices, in fact, qualify them as such. This impact may be realized through the specific services or goods they provide or the means by which they provide services or produce goods and operate their enterprise.

An example of a company that qualifies as an impact company due to the means or process they use is a company that intentionally hires and develops jobs skills of disadvantaged people such as disabled veterans. Clean tech, which generally refers to companies delivering products, processes or services that reduce waste and limit the use of non-renewable resources, are also impact companies. In some

cases, companies are designed to have impact in both how they provide their service and the end product as well. An example of a company that qualifies due to the product they provide and how they operate is a company that designs and manufactures LED engines and that actively manages environmental practices in their supply chains, manufacturing and product distribution. Another has built a platform for open political data, so that anyone, anywhere can easily become politically informed and engaged.

For entrepreneurs, establishing a social impact venture can open opportunities by offering products or services, or creating a business model, that are disruptive and unique. It may increase access to existing markets and customers, or create entirely new markets, provide access to similarly-motivated investors, and allow businesses to attract and retain a talented, passionate workforce.

Investor's Circle Philadelphia

Investors' Circle Philadelphia provides capital and strategic counsel to early-stage companies in the Philadelphia region that are focused on solving meaningful social or environmental challenges.

IC Philadelphia members meet monthly to engage with local investors and see local entrepreneur pitches. The IC Philadelphia local network has invested over \$1MM together and committed an additional \$500K to support graduates of GoodCompany, a Philadelphia-based social enterprise incubator.

IC Philadelphia members also participate in the broader IC network, accessing national deal flow, learning from and sharing resources with a global investor community, and leveraging additional resources to support Philadelphia enterprises.



Impact Investors: Financing Impact

Impact investors seek a return on investment, but their investments also seek to support models that advance innovative solutions to social and environmental needs. Impact investments are those investments made in companies, organizations, and funds with the explicit intention to generate measurable social and/or environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market-rate, depending upon the circumstances.

Investors may provide capital in a variety of forms: equity, debt, credit lines, loan guarantees, success based payments, etc. Participation can take the form of investing directly in an impact enterprise or in Pay for Success or Social Impact Bonds (SIBs), or investment pools created for a designated purpose.

Investors have always had the option of socially responsible investing, but in recent decades it has taken the form more of a negative screening for “harmful” companies (tobacco, gambling, etc.) or a focus on encouraging responsible corporate practices that are not core to the work of the

business. Today’s impact investors are more proactive and seek investments in companies with business models that address the social or environmental missions they support and generate a return for their investment.

Investors come to impact investing from different perspectives and fall along a spectrum of motivation. On one end are investors who see impact investing as an innovation in philanthropy and a way of having a bigger impact. On the other end are those who see a great investment opportunity in effective and innovative solutions to social and environmental challenges that create new market demand.

Within the investor category are public/private partnerships that have a public purpose, and provide capital, counsel and connections to impact enterprises. In our region, the 30+ year-old Ben Franklin Technology Partners is an example of this with a substantial proportion of its seeded enterprises meeting the impact definition. A more recent investor group is Investors’ Circle that is part of a national network of impact investors.

TRF: A Model for Impact Investing

Philadelphia is home to one of the nation’s leading examples of impact investing in the 30 year old Reinvestment Fund (TRF). TRF is one of the nation’s leading Community Development Financial Institutions (CDFI), with \$841 million in capital and has made over \$1.5 billion in over 3,000 community investments.

TRF’s investments cover a wide variety of community capital needs, including:

- Housing
- Health
- New Market
- Education
- Community Assets
- Tax Credits
- Food
- Energy

TRF has over 850 investors, including individuals, religious and civic groups, financial institutions, the public sector and foundations.



Foundations: Investor and Partner

One of the key potential investors in the impact economy are private foundations. Historically, foundations have focused their activities on their philanthropic investments, and separately invested their endowments through traditional investment vehicles. But increasingly, foundations are seeking to maximize the impact of their investments and identifying opportunities to add social returns to the financial returns of their investments. As foundations interact with the for-profit impact economy, they can play a number of important roles:

- > **Direct investor:** *Through their endowment investments, foundations can invest directly in impact companies as a part of their portfolio approach or be an investor in mission targeted investment pools. Given their understanding of the social impact marketplace, foundation portfolio managers could prove to be very savvy and insightful investors and provide a base of support for social impact funds developed by the private marketplace.*
- > **Program- and Mission-Related Investments:** *An additional means for foundations to directly invest in impact companies is through program-related investments (PRIs) or mission-related investments (MRIs). Traditionally used for real estate or other capital projects or in working capital loans in areas of the foundation's main focus, the foundation community is now exploring how PRIs and MRIs can be employed in for-profit impact companies that support the foundation's goals and objectives.*
- > **Research and Proof of Concept Funding:** *Foundations can also play an important role in supporting the research or analysis that validates the social or financial impact that an impact company is making. By validating the model, such impartial research can unlock new sources of Pay for Success financing through public-private investment partnerships.*

Pay for Success

Pay for Success is a creative approach to funding social services, with potential to bring new, significant, and reliable resources to proven preventative programs. In a Pay for Success deal, private investors pay for preventative or interventional social services up front. Should these services deliver their intended results, governments then reimburse the investors with a return on their investment, while saving money on what they otherwise would have spent.

—*Nonprofit Finance Fund*



Intermediaries: Accelerating Impact Company Growth

Intermediaries, including accelerators and incubators, are another crucial actor in the impact economy. These entities are often modeled on the intermediaries that provide supports for more traditional investment activities and business development efforts. Because this is a new field, the number of intermediaries is on the rise, and most have been established in the last five years.¹

Experts in the field note that intermediaries are often bifurcated in their focus and the services they provide. They tend to focus either on finance/funding (examples include impact investment firms, funds, and crowd-funding networks) or focus on refining companies' business models and helping them find partners (schools and social venture networks.)



Government: Customers, Regulators, Payers and Partners

In the social impact economy, it is impossible to overestimate the role of government. For many impact companies, the government is the primary customer for the product or service it is providing. While in some cases impact companies may support a larger company's social or environmental goals, in most cases in working with government the impact company is applying a new technology or business model to a problem

that has bedeviled government and lacks an easy public solution. The government customer must have the ability to work in partnership with the private sector on what have been historically public issues—meaning that there are a host of regulatory, contractual and procurement issues, among others, that must be addressed through public-private partnerships.

Accelerators

Accelerators provide both business and financial assistance. One of the best-known impact accelerators is GoodCompany Ventures, based in Philadelphia. GoodCompany was founded in 2010 to bring to social impact enterprises the type of business training and acceleration that has been available to other startups. GoodCompany's goal is to help seed stage startups to scale their business models—linking them with and exposing them to potential investors, refining business models and connecting them with potential customers and clients.

¹ "Accelerating Impact: Exploring Best Practices, Challenges, and Innovations in Impact Enterprise Acceleration" February 2015. Monitor Deloitte.

Growing the Impact Economy

We've just finished describing the impact economy, including what the economy encompasses, key players, and their roles. This is clearly an ecosystem with many moving parts that requires continued attention and investment to bring it to its full potential.

Beyond opening up new sources of capital, impact companies and impact investing have the potential to bring innovative ideas and approaches to addressing social and environmental challenges. They bring some of the best thinking and practices from the entrepreneurial world, which can be a catalyzing force.

Leaders in the field are seeing real growth in the sector and interviews with these leaders as well as surveys of impact investors have found significant optimism about the potential of the impact economy. Many of the early challenges are being overcome and the economy is growing. Impact investing is increasingly mainstream. Institutional investors—fund managers, banks, and pension funds—are increasing their activity in impact investing.

In their 2015 survey of 146 large investors, JP Morgan and the Global Impact Investing Network found respondents were managing \$60 billion in impact investments. In 2014 alone, they committed \$10.6 billion and reported plans to invest 16 percent more in 2015. The market survey also found that most investors' portfolios are meeting or exceeding their performance expectations related to impact and financial

returns, presumably setting the stage for more growth and interest. In fact, just two percent of investors reported that their investments did not meet their impact expectations. On the financial side, 91 percent indicated that their investments met or exceeded their expected financial returns.

Early on, most investment was limited to companies in the U.S. due to difficulty vetting overseas companies, especially in emerging markets. Investment fees were also higher because of the additional research needed to confirm social impact. Better availability of data and increased transparency of firms have expanded the pool of potential firms and lowered the costs of vetting.

Still, investors cite a lack of good investment opportunities as their biggest challenge, and the main obstacle to growth in the sector. This points to the continued crucial role of intermediaries and accelerators in supporting the development of companies, helping to confirm the social impact side of the equation, and in matchmaking between investors and companies.

Also, there is a communications and knowledge gap between this emerging base of entrepreneurs and larger, established corporations. More likely

than not, they hold different perspectives. However, a dialogue is beginning as the demand for innovative solutions—often from outside sources—to fuel new growth, and the requirements of a new generation of talent, as both leaders and employees, are felt.

A goal of this work is to lower the barriers between these parties to uncover opportunities that can become a new platform for regional growth. By shining a light on what's already here, starting the discussion, and providing some ideas as to how companies and investors can 'find a way in' we hope to upsize the economic pie.

A remaining challenge for growing the impact economy is figuring out how to bring impact investment and impact companies to scale.

- *Impact companies still struggle to reach new customers, attract the right workforce, secure needed funding, and access the technical assistance needed to grow.*
- *Impact investors still struggle to find the right enterprises to invest in (are they at the right stage of development, does their business model work, does their intervention truly make a social impact?), with a lot of questions still to be determined.*

- *The ability to measure impact so that all parties are focused on clear outcomes can accelerate the investment that helps companies scale.*
- *While growing as an asset class, there is still a large knowledge gap about the opportunity that impact investing presents, as both an asset class for investors and as a source of capital for impact companies.*
- *Corporations that are moving to 'shared value' strategies are not familiar with who, what and how they can move forward, particularly in any one community.*
- *Governmental leaders are eager to unlock the new resources and approaches that impact investors and companies promise, but they are often burdened with systems, bureaucracies, regulations and rules that require significant changes to allow the new partnerships and payment structures often needed to make a deal work with an impact company.*

The region that can effectively address these issues and deal with these concerns has an opportunity to become a hub of the emerging impact economy.

A group of community green thumbs have brought urban agriculture to the Fishtown section of Philadelphia through the establishment of Greensgrow Farms, which includes a nursery, a farm market and a Community-Supported Agriculture (CSA) program. Photo by M. Kennedy for GPTMC





Greater Philadelphia's Potential as a Center of the Impact Economy

No single region can claim to be the epicenter of the impact economy—as of yet, there is no “Silicon Valley” of the impact economy. In the regions where the impact economy is largest, it is dwarfed by other segments of the technology and innovation community—potentially frustrating those emerging leaders who want to be seen as economic leaders in their communities.

Is this Greater Philadelphia's opportunity? In Philadelphia, impact companies can be leaders in the innovation community, and have an opportunity to make a significant difference here while exploring opportunities in other markets.

This project was undertaken with the hypothesis that the Greater Philadelphia region has many of the elements needed to be a strong location for the development of a successful, growing impact economy that can address issues in our region and elsewhere.

Here is what Philadelphia has going for it:



Greater Philadelphia's Potential as a Center of the Impact Economy

History

Philadelphia was the home to one of the original American impact investors and company founders—Ben Franklin. Franklin's role as the original boundary crosser, working between the private, civic and governmental sectors, established a model for "doing well by doing good" that has been the inspiration for generations of American social entrepreneurs, including today's newest cohort.

Location

Philadelphia sits between the global financial capital of New York and the political capital of Washington—seemingly ideal for the development of this new segment of our economy. In addition, the Philadelphia region is more affordable and accessible for a start-up, yet big enough to matter.

Human & Financial Capital

As a large, diverse region sitting in the midst of the dense Mid-Atlantic Corridor, Greater Philadelphia has access to the human capital, financial capital, and business development resources that are necessary to nurture a set of growing impact companies.

Wealth Center

The Greater Philadelphia region is a major center for wealth and investment management, and a leader in developing new vehicles for individual and institutional investors. It is home to investment industry leaders like Vanguard, major banks and insurance companies with extensive wealth management operations, and local wealth investment companies with centuries of experience and history.

Higher Education Center

Philadelphia is one of the richest intellectual regions in the world—101 colleges and universities with over 360,000 students and world-renowned research centers and researchers. This provides an environment teeming with ideas, with the ability to test and evaluate new concepts, and with a potential workforce eager to get to work solving the problems of the region and the world. Millennials (born 1980–1999), as noted in a recent Council of Economic Advisors report, also want to make a positive social impact on their own children and communities, as well as on society as a whole.²

Potential Customers

In addition, Philadelphia's proximity to a diverse and large set of local and state government bodies could be a major advantage. The region possesses a variety of sizes and forms of government, many in need of new solutions to significant social challenges. Our region also is home to diverse, large corporations, several of which have articulated social impact objectives. This makes the region a potential test bed for innovations, technologies and ideas—with a variety of potential customers and scenarios to use in prototyping new concepts and taking ideas to scale.

Government that Gets It

Under Mayor Nutter, Philadelphia was a leader in exploring how government can help catalyze the impact economy. In 2013, Philadelphia won a Mayors Challenge innovation prize from Bloomberg Philanthropies—“a competition to inspire American cities to generate innovative ideas that solve major challenges and improve city life—and that ultimately can be shared with other cities to improve the well-being of the nation.” By winning a competition that included 300 other cities, Philadelphia’s proposal to overhaul its procurement policies to open the doors for doing city business with the private sector signaled a new approach.

More recently, the City released a Request for Proposals to conduct a feasibility study to examine Pay for Success-ready content areas. The feasibility study will focus on reducing recidivism among returning citizens and reducing placement of system-involved Philadelphia youth in out-of-county residential facilities.

Pennsylvania is also exploring new approaches. Governor Wolf’s administration issued a request for proposals for Pay for Success proposals to support the state’s efforts in early learning, environmental protection, public safety, workforce development and health care. Pennsylvania, New Jersey and Delaware have recognized the need for a new corporate form—the Benefit Corporation—to address the different incentives and priorities of impact companies.

Emerging Impact Ecosystem

Philadelphia is already home to an emerging set of entrepreneurial impact companies, advisors and intermediaries (private, nonprofit and academic), and an enthusiastic and growing group of impact investors. While the region has a strong venture capital and startup community, it’s not so large that social enterprise can’t find a seat at the “main tables” as is the case in places like San Francisco and New York.

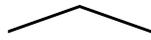
These leaders believe that the region has an opportunity to grow the impact economy in Philadelphia, but to date has lacked the strategy that can take this movement to scale, creating new businesses and the jobs and investment that come with growth, but also the solutions and tools that can help address some of the region’s most intractable challenges.

But having all the pieces for success doesn’t guarantee success. We are at a unique moment of opportunity in the development of the impact economy, with major implications for Philadelphia to explore and test.

Philadelphia Social Enterprise Partnership

Through a \$1 million grant from the Bloomberg Philanthropies, the City of Philadelphia and GoodCompany Ventures launched the Philadelphia Social Enterprise Partnership, a new procurement process that enables entrepreneurs and social innovators to respond to RFPs and help generate solutions to the most pressing city problems. Government procurement processes are often cited as chief barriers to innovation. Selected for its novel approach to reforming city procurement, a key obstacle to local government innovation.

² “15 ECONOMIC FACTS ABOUT MILLENNIALS” October 2014. The Council of Economic Advisers. (Note: see https://www.whitehouse.gov/sites/default/files/docs/millennials_report.pdf)



A Plan for Growing the Impact Economy in Philadelphia

Over the past year, the members of the Impact Economy Initiative have looked carefully at what it would take to accelerate the growth and maturation of Greater Philadelphia's impact economy ecosystem. What was learned is that the pieces are there, but they don't always connect easily. They learned that a lot of talented, smart people are exploring what impact investing could mean to them as investors or entrepreneurs or government officials, but that the swirl of information and the rapidly changing environment make it difficult for them to fully grasp the potential. And they learned that many (including the members of the working group), did not fully grasp the depth of the interest and activity, and that they often didn't know each other or what others were doing.

The Working Group believes that to take the impact economy to the next level in the region, there is a need to create an organizational structure that helps to support, connect and amplify the work underway in Philadelphia's impact economy ecosystem. The plan that follows builds on these lessons, as well as the lessons learned from other initiatives, lessons from other regions, and what we learned from our own community.

ImpactPHL: An Alliance for Growing Philadelphia's Impact Economy

To jumpstart the strategy for growing Philadelphia's impact economy, we are proposing a new alliance of organizations and institutions coming together with dollars, time and leadership to advance Greater Philadelphia's impact economy ecosystem. Beginning as an initiative of Ben Franklin, **ImpactPHL** would have a small dedicated staff working to catalyze

and support existing efforts, identify gaps and opportunities, and develop new initiatives and products in order to make Greater Philadelphia a leader in the emerging impact economy. At its core, ImpactPHL could serve as a gateway to the impact economy ecosystem—ensuring that there is no wrong door for those seeking to participate in the regional impact economy.

IMPACTPHL GOAL

Increase investment in impact companies and organizations in Greater Philadelphia by accelerating development and awareness of Greater Philadelphia's impact economy ecosystem and potential.

OBJECTIVES

Based on the lessons learned from the scan of Philadelphia's impact economy and the roundtables held this past summer and early fall, four primary objectives were identified to support the goal of increasing investment in Philadelphia area impact companies and organizations:

1. **Increase connections and collaboration** within Greater Philadelphia's impact economy ecosystem.
2. **Increase the number of start-ups who become successful, growing impact enterprises** located in the Greater Philadelphia region.
3. **Increase the number of regional individual and institutional investors who make significant impact investments** in the Greater Philadelphia region.
4. **Position Greater Philadelphia as a leading international center of impact economy activity** and knowledge.

PRIORITY STRATEGIES

This plan proposes the creation of ImpactPHL to serve as a catalyst, coordinator and enabler of five core strategies designed to drive attainment of the strategic objectives.

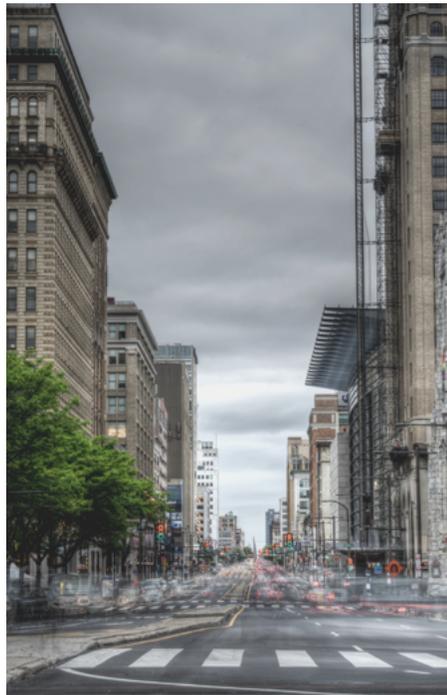
1. **Advocacy and Promotion:** ImpactPHL staff and volunteer leadership should serve as evangelists for expanding the impact economy in Greater Philadelphia by providing expert analysis, policy leadership, and meetings with potential investors, companies and partners to move deals and opportunities forward.
2. **Product Development:** ImpactPHL should take a leadership role in supporting and developing new collaborative investment products, programs and initiatives.
3. **Connecting and Engaging:** ImpactPHL should serve as a gathering place for the region's impact economy ecosystem, connecting and amplifying existing activities and identifying opportunities to bring new participants into the community.
4. **Capacity Building:** ImpactPHL should identify and coordinate new resources to support impact ecosystem development and sustainability.
5. **Research and Education:** ImpactPHL should help to build and support the case for investment and engagement in Greater Philadelphia's impact economy by working with local researchers and experts to identify, assemble and disseminate high quality research and analysis on impact investment and impact companies.

Advocacy and Promotion

ImpactPHL staff and board leadership should serve as evangelists for expanding the impact economy in Greater Philadelphia by providing expert analysis and policy leadership, and participating in meetings with potential investors, companies and partners to move deals and opportunities forward. ImpactPHL can serve as an important new intermediary that can connect the work happening in the impact economy ecosystem to the broader regional economy, and ensure that the work happening in Philadelphia is brought to the attention of the broader national and international ecosystems.

In addition to supporting its own events and activities and those of the alliance partners and supporters, ImpactPHL should ensure that the ecosystem is well-represented at regional and national events and gatherings, including investor conferences, economic development conferences and meetings, business networks, policy conferences and media-sponsored events. In addition, ImpactPHL can monitor local and national policy efforts and help coordinate local reactions and outreach on key policy issues affecting the impact economy in Greater Philadelphia. Some of the regular products that will be made available:

- > *Marketing materials*
- > *Educational materials*
- > *Policy reports*
- > *Model legislation*



ImpactPHL would work to ensure that the impact economy in Greater Philadelphia is well-represented both regionally and nationally.

Product Development

ImpactPHL could take a leadership role in supporting and developing new collaborative investment products, programs and initiatives. By virtue of its role at the center of the ecosystem, ImpactPHL should be in an advantageous position to assist in the identification and supporting the creation of new investment vehicles, impact company challenges, new advisory capacity, or new shared physical or virtual spaces. ImpactPHL would be well-positioned to support efforts where bringing the community together makes sense in order to share information, costs, risk, or where independent coordination may be needed.

In most cases, ImpactPHL would work to identify a home for a new product or initiative, but would be prepared to incubate and manage new efforts as feasibility and sustainability are determined.

Examples of new products could include:

- > *New pooled investment funds*
- > *Information hub for investors or companies seeking advisors*
- > *Pooled metric development*
- > *Advisory service center*



ImpactPHL would be able to support and develop new businesses and initiatives in a variety of ways, including shared physical or virtual spaces.

Connecting and Engaging

ImpactPHL should serve as a gathering place for the region's impact economy ecosystem, connecting and amplifying existing activities and identifying opportunities to bring new participants into the community. In many cases, ImpactPHL will help raise awareness of activities and events of the various members of the ecosystem through social media and other online promotions.

For its own activities, ImpactPHL should work to bring together the various parts of the ecosystem through formal and informal gatherings, events and conferences, roundtable discussions, expert briefing sessions, in-person and social networking, and strategic partnerships. These activities could include participants and support from:

- > *Entrepreneurs and impact companies*
- > *Economic development and entrepreneurial support organizations*
- > *Individual and institutional investors*
- > *Investment and wealth managers*
- > *Government officials and manager*
- > *Foundation program and investment staff*
- > *Corporate social responsibility leaders*
- > *Media*



ImpactPHL should serve as a gathering place to foster connections, identify new opportunities and bring new participants into the community.

Capacity Building

ImpactPHL should be available to identify and coordinate new resources to support impact ecosystem development and sustainability. Through its convening and project management capacity, ImpactPHL can serve an important intermediary role in the development of joint proposals and strategic initiatives to address gaps or seize opportunities.

In this role, ImpactPHL can provide additional shared capacity for:

- > *Fundraising*
- > *Proposal development*
- > *Planning and strategic efforts*
- > *Project management*
- > *Research and analysis*
- > *Government relations*
- > *Communications*



ImpactPHL will play an important role in project management and convening when it comes to coordinating resources and support.

Research and Education

ImpactPHL can help to build and support the case for investment and engagement in Greater Philadelphia's impact economy by working with local researchers and experts to identify, assemble and disseminate high quality research and analysis on impact investment and impact companies. Working closely with Alliance members and supporters, ImpactPHL can serve as a center for applied and secondary research about the impact economy in Greater Philadelphia, helping to connect new national and international research to local trends, and working with local researchers to identify and provide solutions for local issues and opportunities.

Potential topics for research briefs and initiatives include:

- > *Tracking trends in impact investing in Philadelphia*
- > *Examining the future market potential in Philadelphia*
- > *Investor's guides*
- > *Best practice summaries*
- > *Investor feedback reports*
- > *Shared metrics and assessments*
- > *Entrepreneurial education guides*

This effort will be aided immensely by the deep and talented base of knowledge already working in the Philadelphia community. Potential partners and collaborators include nationally recognized leaders such as:

- > *The Wharton Social Impact Initiative*
- > *Penn Center for High Impact Philanthropy*

- > *Philadelphia Federal Reserve Bank*
- > *Reinvestment Fund*
- > *Opportunity Finance Network*
- > *Philadelphia Social Impact Journal*
- > *Generocity/Technically Philly*

All of these organizations are already working to better document and showcase the potential of impact investing and impact enterprises. ImpactPHL should work to ensure that research is connected to regional opportunities, and that local interests are identified and made known to the research community for potential exploration and development. In addition, ImpactPHL can work with companies and organizations like Algorhythm, Nonprofit Finance Fund, Equal Measure, CFAR and others that are developing the metrics and analytics needed by investors and companies alike to provide confidence and rigor to the impact investing world.



The Impact Economy Initiative learned that a lot of talented, smart people are exploring what impact investing could mean to them as investors or entrepreneurs or government officials, but that the swirl of information and the rapidly changing environment make it difficult for them to fully grasp the potential. The plan for growing the impact economy in Philadelphia builds on these lessons.

Photo by M. Fischetti for VISIT PHILADELPHIA™

Appendices

Listening to Philadelphia's Impact Ecosystem

The Impact Economy Working Group convened 4 roundtable sessions, plus separate meetings with the boards of Ben Franklin, the Economy League and Investors Circle to discuss Philadelphia's role in the emerging impact economy.

The discussions were facilitated by the Economy League, and covered a range of issues concerning the development of Philadelphia's impact economy. Participants came from a variety of backgrounds, including advisors, entrepreneurs, government officials, foundations, academic researchers, business leaders and association leaders. In this section we provide a bulleted summary of four major themes, as well as general observations:

1. Current environment and potential for growth
2. Measurement and impact criteria
3. Educating investors and advisors
4. Communications and broader engagement

1. Greater Philadelphia: Current Environment and Potential for Growth

Greater Philadelphia's Strengths as a Potential Impact Economy Hub

- > *Size—big enough to matter, small enough that impact entrepreneurs can get a seat at the table and have access to "problem holders" (public sector)*
- > *Location (between New York City and Washington, DC)*
- > *Variety of communities (large city—Philadelphia, smaller cities—Trenton, Camden, Wilmington, suburbs, small towns)*
- > *Lower cost of living than other regions with similar assets*

Greater Philadelphia's Challenges to Becoming an Impact Economy Hub

- > *Small number of deals, small size of deals*
- > *Limited access to capital*
- > *Region is still "maturing" in this space—behind CA and the Northwest*
- > *Work on closing the gap between interest and execution—lots of people talking about it, not that many doing it*

1. Greater Philadelphia: Current Environment and Potential for Growth (cont.)

Ideas for Scaling Up in this Region

- > *More active leadership from big players in business, investment, foundation worlds (top-down leadership)*
- > *Identify way to aggregate money that is out there to increase impact, size of economy. Consider foundation/philanthropic role in doing this. Establish a fund that people can invest in. Create a “Philadelphia brand” and investment vehicle.*
- > *Increase funding and assistance to commercialize impact ideas and start-up companies*
- > *Focus on making more connections among interested parties, developing ecosystem*
- > *Need to identify what parts of ecosystem infrastructure are missing*
- > *Considering the approach—focus on “general” impact economy vs specific sector(s)*
- > *Concerns that “economy” may be too general, difficult to engage people*
- > *Consider focusing on sectors or even a specific social/environmental issue or problem instead.*
 - *Sectors mentioned include education, health care, infrastructure.*
 - *Recognize potential downsides to this—could be too limiting, result in missed opportunities.*

Build on Local Projects and Initiatives and Look at Models from Other Regions

- > *Fast Forward (Bloomberg) on urban safety and security issues*
- > *Pittsburgh—BNY Mellon and Foundations UpPrize*
- > *Health Care Innovation Collaborative (Philadelphia)*
- > *MassChallenge*

2. Measurement & Impact Criteria

Challenges Related to Criteria and Measurements

- > *Establish clearer criteria/definition for what is an impact company and how to measure impact*

Keep Working to Refine How We Better Measure Impact

- > *Need to consider role of raters/researchers measuring impact and if there is a way of standardizing/streamlining ratings and impact measurement*
- > *Need to develop a way to aggregate data*
- > *Existing examples of measurement and criteria include B-Corp, GIIIRS, Good Company approach, CDFI rating*
- > *Figure out best ways to help investors understand/evaluate impact*
- > *Engage professional services in measurement and criteria development*
- > *Often rely on population measures, which are too big, miss impact*
- > *Keep in mind (and communicate clearly about) differences between companies/issues—some will be messier, more difficult than others—clean tech vs human services, for example*

3. Educating Investors & Advisors

Need for Good Communications with Investors, Others

- › *Figure out strategies to overcome investors' fear/assumption that the traditional stock market is a "safe" place to put money while a social impact company is not*
- › *One way of better-education investors could be to provide examples of large, successful impact companies—Toms, Ben & Jerry's, etc. Provide stories, examples, be specific.*
- › *Consider not using the word "impact" so much and instead talking about this as a smart way to invest*
- › *Think incremental when dealing with foundations and the 95% of their money that can be used in impact investing*
- › *Encourage investors to think about a continuum/spectrum of goals—where on the impact/return grid do they fall?*
- › *Figure out how to effectively tell success stories and talk about impact. In the absence of significant data, think about case studies, examples where we do have performance data*

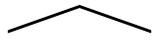
4. Communications and Broader Engagement

Challenges Related to Criteria and Measurements

- › *Need to facilitate communications, understanding across sectors/professions*
 - *Need intermediaries to help with definitions and language—two different worlds trying to talk (nonprofit/philanthropy/public and business worlds)*
- › *Work to get buy-in of stakeholders who benefit in the long run from successful impact efforts (government)*
- › *Describe impact investing as being in middle (Venn diagram) of capital/philanthropy and government*
- › *Need to sell and market the impact economy—need proselytizers and marketers*
- › *Create challenges and competitions for entrepreneurs like MassChallenge, etc.*
- › *Need more education, people still see impact as coming first and profits coming second*
- › *Talk about big problems we face as big opportunities*
- › *Important to engage professional services providers in developing the impact economy*
 - *Investment management community, professionals (lawyers, accountants), groups that measure impact (researchers, universities)*

General Comments & Observations

- › *Currently, entrepreneurs feel they have to choose a "table" on the investment side—focused on impact or maximizing profits*
- › *Large institutions are reaching a tipping point—they have customers asking about impact investing, but they don't yet have a way of meeting those needs*
- › *Need to consider tax code changes to incentivize/support impact companies (credit for being a certified B-corp, for example) and impact investing*
- › *Impact economy is not a sector but part of the economy. Do not view it as a separate sector but something that is within the current economy across existing sectors.*



Impact Economy Advisory Committee Members

Tom Balderston**

Balderston Capital, SustainVC

Noelle Baldini

Federal Reserve Bank of Philadelphia

Richard Binswanger**

Jim Cawley

United Way

Sylvie Gallier Howard

City of Philadelphia

Jacob Gray

Wharton Social Impact Initiative

Claire Marrazzo Greenwood

*Greater Philadelphia Chamber of
Commerce and CEO Council for Growth*

Garret Melby

GoodCompany Ventures

John Moore**

Investors' Circle

Dermot Murphy**

Halloran Philanthropies

Maari Porter

Philanthropy Network of Greater Philadelphia

Ajay Raju

Dilworth Paxson, The Germination Project

Pedro Ramos

The Philadelphia Foundation

Chris Rasmussen**

Threshold

RoseAnn Rosenthal**

Ben Franklin Technology Partners of Southeastern PA

Hardik Savalia

B Lab

Joel Steiker

GoodCompany Ventures

Diane Sterthous

*PA Department of Community
and Economic Development*

Steve Wray**

Economy League of Greater Philadelphia

***Working Group Member*

In Philadelphia, impact companies can be leaders in the innovation community, and have an opportunity to make a significant difference here while exploring opportunities in other markets.

Prepared for the Greater Philadelphia Impact Economy Initiative by the Economy League of Greater Philadelphia in collaboration with Ben Franklin Technology Partners of Southeastern PA



Balderston Capital



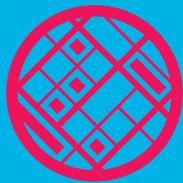
Photo by R. Kennedy for GPTMC



**World
Class**

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The Economy League's World Class Greater Philadelphia agenda focuses on improving education and talent development outcomes in our region, boosting business growth and making our infrastructure more effective and reliable. The World Class agenda was developed with input from more than 1,700 regional business, nonprofit, government, labor, and community leaders from across Greater Philadelphia.



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