CRITERION INSTITUTE

Process Metrics that Analyze Power Dynamics in Investing

Process metrics are indicators that allow an examination of progress on gender or social equity overall. They allow thinking beyond "counting" that moves toward valuing. For example, process metrics could allow us to move beyond counting the number of marginalized people in leadership at an investment firm and instead ask about the firm's gender practices throughout the investment process. Process metrics are particularly important in designing a transformative investment model that seeks to promote equity, as social equity stems not only from improved access to resources and decision making but *control* over these aspects.

This approach is not simply about gender equity, but about shifting unequal dynamics of power across gender, racial, and socioeconomic divides. Power dynamics show up in investment processes in many ways that can be measured and accounted for. For example, in most cases, knowledge of traditional investments is privileged throughout the scoping, investment readiness, and deal-making processes, while knowledge of the social need and/or cultural or community systems is not. Successful investment models will have taken explicit measures to value the knowledge and experience of social businesses, NGOs, and communities. Therefore, socially equitable process metrics seek to uncover and account for whether knowledge of traditional investment practice is being privileged above knowledge of social need and/or cultural or community knowledge, and to reweight knowledge values accordingly.

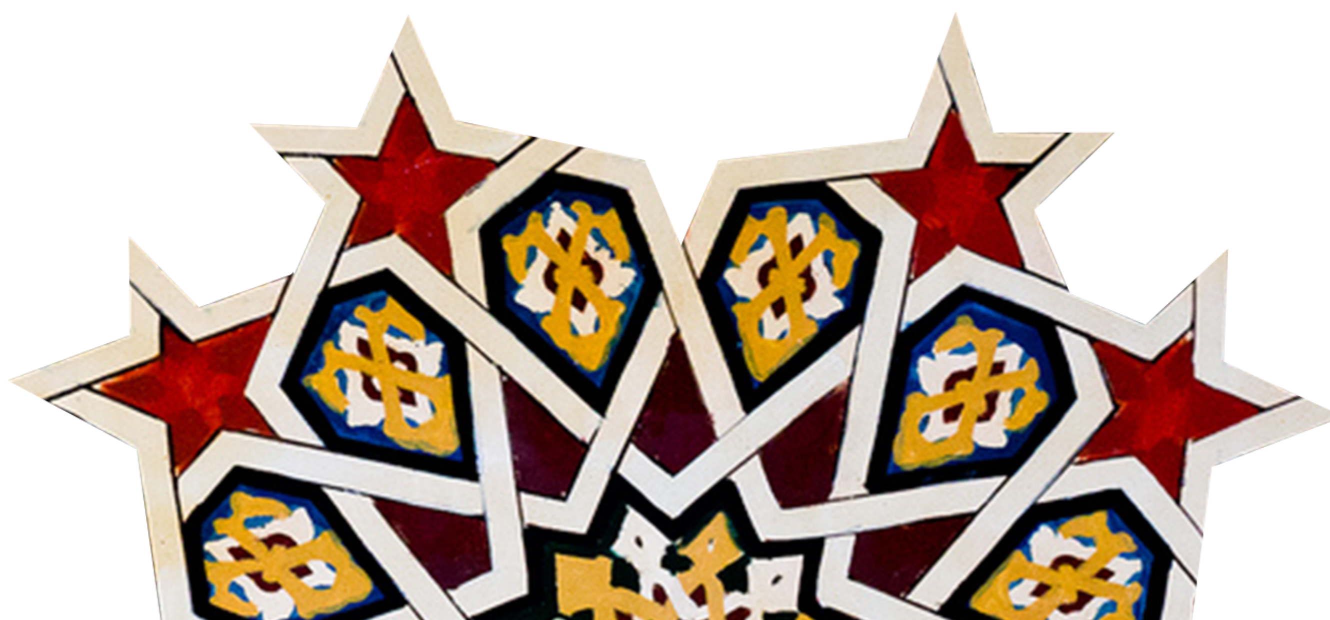
These process metrics, developed in collaboration with key branches of the Australian and Canadian governments, are designed to analyse power structures across a variety of investment processes and can be leveraged to varying degrees in assessing the power dynamics of capital flow across asset classes and the expected return spectrum.

INTEGRATING A POWER ANALYSIS

Underpinning this power analysis model is an acknowledgement and understanding that traditional funding models generally set assumptions and norms in social finance processes, even though these standards are often inappropriate to social investment contexts. Traditional finance models themselves are underpinned by a deeply held cultural value in Western and ‘wealthy’ nations that those individuals who hold the most capital are the power holders, or deserve to be. Thus, traditional finance models typically start with investor risk profiles as privileged above the risks of potential investees, building out each process from criteria setting to deal negotiations around minimizing risk to investors.

In traditional funding, the preference for high-growth scale equity as the ‘best’ kind of opportunity is normative. Yet, such investor-driven ambitions of scale may wholly be inappropriate in social finance contexts, whether that is because of the cultural context, the stage of a market’s development, or simply (and importantly) that the well-being of communities is *intended* to be valued on par with financial return, but is not accounted for in traditional models. The disconnects that can happen between funders and communities as a result of inappropriate funding approaches can perpetuate distrust between key stakeholders, creating a sense of ‘wasted resources’ in ill-matched deal-making and ultimately compromising the success of well-intended financing interventions.

It is crucial in social finance that the standard setting around processes does not simply begin with investor risk profiles, but rather prioritizes a deep understanding of local context around social issues in order to inform the appropriate terms around capital flow, ensuring that design principles are upheld by intermediaries.



The overarching power dynamic of privileging investor risk profiles across both traditional and social finance sets assumptions and additional power dynamics around:

1. **Knowledge:** Knowledge of traditional finance is often privileged throughout social finance processes, while knowledge of the social need and/or cultural or community knowledge and experience is not as highly valued. Knowledge dynamics determine which skills and experience are valued across investments.
2. **Access:** Access to social finance can sometimes be limited according to certain standards or expectations around race, ethnicity, gender, education levels, and other social identity markers. Access dynamics have one party (typically investors) determining who is considered 'worthy' to access capital and resources.
3. **Decision Making:** Decision making in both traditional and social finance is often monopolized by the capital holders, who are considered to be synonymous with power holders. Effectively representative decision-making structures ensure not simply that other stakeholders have access to decision making, but that control is effectively shared. Decision making dynamics determine who holds power across each process.
4. **Timing:** Timing is a crucial element around managing the expectations and considering the needs of all stakeholders, especially capital recipients, who tend to have more urgency around receiving capital to continue their work effectively than investors have urgency to move capital. Timing dynamics determine whose time frame matters.
5. **Transparency:** Transparency in finance is generally an expectation more strongly placed on capital recipients than on investors, but clear criteria and effective communication by both sides of the investment table is essential to efficient deal making. Transparency dynamics determine what the process of information sharing looks like, and which parties gets to know what, when.
6. **Risk Sharing:** Risk sharing is imperative when investing capital into communities that have been historically marginalized, and who may have participated in other investment or development interventions that failed to account for community risks previously. Risk sharing dynamics determine whose risks are prioritized and what risk sharing measures should be taken to achieve balance.
7. **Alignment / Incentives:** Alignment between stakeholders becomes more complex in social finance, where both financial and impact returns must be accounted for. Alignment dynamics further determine what is valued by dealmakers by deciding which stakeholders are provided structural incentives to fulfill which objectives of the social investment and how impact and financial objectives might be balanced.

Our analysis of power across multiple cultures and contexts has confirmed that trust, and taking proper measures to build it between deal parties, is essential to effective deal-making. Trust is at the core of investment, with investment processes being designed in order to build trust between investors and entrepreneurs. In social finance, that trust must be more balanced, and must also include affected communities. Trust can either be built or lost, depending on how each of the above power dynamics are addressed. Investment in relationship building through addressing these dynamics effectively is essential to maintain across each investment process.

The above power dynamics manifest in various forms in each individual phase within the overall investment design and implementation process:

1. **Criteria setting:** Identifying which partner/business attributes are valued and how
2. **Applications:** Incorporating criteria into applications and assessing potential partners
3. **Deal sourcing:** Selecting a pipeline of partners and potential investment deals
4. **Capacity building:** Preparing prospective deals to be 'investment ready' standards
5. **Due diligence:** Investigating partners and prospective deals to confirm suitability
6. **Deal structuring and negotiations:** Drafting and negotiating deal terms
7. **Fulfillment of terms and reporting:** Managing and fulfilling deal terms

It is critical to acknowledge that systemic biases and inequalities underpin all social transactions, and that this reality certainly includes investment structuring, where inequalities and bias are often intensified. Inequalities in socioeconomic levels, access to education, access to healthcare, access to political expression, freedom from violence, and other inequalities may all manifest in various ways to impact which individuals are ultimately 'granted access' to investment capital or included in decision making around critical investments in communities. While the pervasiveness of systemic bias and inequality in social life makes specific indicators at scale, beyond the scope of social investment transactions, difficult to isolate and track for these processes, the pervasiveness of such barriers echoing throughout investment transactions makes a demonstrated understanding of systemic inequalities and bias by investment decision makers crucial.

Funder approaches and processes should include investment in a clear landscape of systemic bias and inequality to be named by intermediaries, in order to ensure that a strong understanding of the ecosystem precedes all financial transactions. Capital movement without deep on-the-ground understanding is at high risk of unforeseen consequences. As intermediaries are closer to the ground than funders and in direct relationships with SMEs and communities, they are often well-poised to conduct such mappings. Such mappings should answer the question of: ‘What are the key systemic barriers and types of discrimination that prospective investees face within [these] regions and [these] industries within which we will work?’ The answers to these questions should directly inform the indicators around accessibility and inequality that can be tracked and evaluated. As systemic bias is so pervasive, a demonstrated understanding of this within deal structures will be essential, while tracking indicators should focus on what is ‘doable’, ‘valuable’ and ‘changeable’ for power-sensitive investment decision making. Specific possible indicators to track as proxies for performance against systemic barriers are included in the ‘access’ section of the table below.

POWER ANALYSIS FRAMEWORK – PROCESS METRICS AND INDICATORS

- Metrics named below are the recommended standards for evaluating the performance of investment processes according to best practice gender lens investment benchmarks.
- Intermediary attributes named below are aspirational and directional in nature. They should set the intentions and inform the processes designed by intermediaries.
- Indicators named below are examples of measurable attributes that funders could track in order to evaluate how well the metrics for each dynamic are being fulfilled. Indicators should track success as well as improvement/learning toward metric goals.

KNOWLEDGE

Metric: Local experience and knowledge of the social need/cultural context is valued as a key attribute for all investors and partners

Intermediary Attributes

- Have knowledge of and experience with the social purpose and culture of investors/intermediaries
- Track record of effectiveness in working through partnerships
- Maintain flexibility of funding model to account for social and cultural contexts
- Prioritize social purpose organizations (SPOs) that have strong partnerships with local operators

Example Metric Indicators:

- Dollars spent on what types of expertise (i.e. who is paid for contributing what types of knowledge to the process)
- Number of members from affected communities present on investment committees or key decisi voting power or equitable voting structures
- Months/years of experience by wholesalers or intermediaries working with target communities
- Specific training undertaken by wholesalers or intermediaries in understanding and applying gender lens investment (GLI) approaches
- Hours/days spent on knowledge transfer to/from SPOs, including time spent listening to and mentoring SPOs
- Inclusion of Indigenous frameworks, methodologies and principles in deal process and decision-making

ACCESS

Metric: Inclusion of underrepresented groups across intersecting identities is valued by ensuring a minimum level of representation among applicants and awardees of funding by intermediaries.

Intermediary Attributes:

- Have knowledge of and experience executing investments that evaluate diversity-based criteria
- Are mission-aligned organizations with demonstrable commitment to carrying out representation effectively
- Support SPO development and network growth by providing access to mentors and connections
- Commitment to scoping and seeking to address systemic accessibility concerns

Example Metric Indicators:

- Percentage of overall applicants and awarded partners that are led by underrepresented groups
- Percentage of funding allocated to fund managers and intermediaries that are led by underrepresented groups
- Percentage shift in accessibility gauged as growth in funding towards underrepresented groups as share of overall social finance sector
- Percentage of SPOs in the intermediary portfolio that are led by underrepresented groups
- Percentage of staff receiving anti-bias training across wholesalers and intermediaries
- Percentage of documents that are made available in plain language
- RFP is published in diverse media outlets to ensure recruitment process reaches a broad audience
- RFP response time is extended to ensure recruitment process reaches a broad audience
- Application support for first-time applicants is offered by wholesaler/intermediary
- Applications for RFPs are strength-based and do not simply allow those familiar with the process to succeed
- Accurate and inclusive identity categories are offered for all information requests to determine underrepresented group percentages (including non-binary gender categories; inclusive

categories for race/ethnicity; etc) and sensitivity is applied in asking people to opt to self-identify

- Meetings held in SPO/community locations or virtually to allow capital-seekers ease of meeting access
- Quantity of connections (meaningful business, industry and others provided to SPOs)
- Hours/days of mentoring provided to SPOs
- Surveying of investee and community experience related to discrimination/sense of empowerment throughout process

DECISION MAKING

Metric: Control is effectively and evenly distributed between investors, intermediaries and SPOs with local communities in determining the deal terms for capital allocation and expected outcomes. Attention is incorporated into who is making decisions, how decisions are made, and what information is included in the decision-making processes.

Intermediary Attributes:

- Implement design processes that engage SPOs and affected community members
- Implement decision making processes that directly include SPOs and affected community members

Example Metric Indicators:

- Number of members from affected communities present on investment committees or key decision-making bodies with equal voting power or equitable voting structures
- Number of women involved in decision-making (as at least 50%)
- Number of women with additional intersectional identities involved in decision-making
- Percentage of community concerns flagged and directly addressed related to funding / projects
- Percentage of dollars allocated with explicit community consent

- Percentage of dollars allocated through decision-making committees meeting a minimal threshold of community representation
- Number of different types of input included in decision-making

TIMING

Metric: Timelines for each phase of the investment design and implementation process are designed and committed to in collaboration with stakeholders.

Metric: Each investment phase effectively considers the urgency of capital needs by stakeholders through integrating feedback loops and flexibility across phase processes.

Intermediary Attributes:

- Manage a feedback loop process with capital recipients to account for recipient experience of timing and any changes in urgency around capital need
- Track timing and communication around timing for each phase

Example Metric Indicators:

- Length of each phase of application process, deal sourcing, capacity building, due diligence, deal structuring/negotiations, and fulfillment
- Expected delivery time for capital movement compared to actual delivery time of capital
- Time window of capital (i.e. urgency) named by SPOs compared to actual delivery time of capital

TRANSPARENCY

Metric: Transparency on criteria required for all partners (intermediaries and SPOs) is set, clear, substantiated, and shared effectively across each phase.

Metric: Effective co-communication processes and information flows ensure that all stakeholders are kept informed of phase progress and action items.

Metric: The reporting burden is maintained by the wholesalers or intermediaries rather than SPOs or their communities.

Metric: There is an opportunity for SPOs to conduct due diligence on intermediaries and wholesaler, with support provided.

Intermediary Attributes:

- Manage a feedback loop process with capital recipients to account for recipient experience of various investment phases
- Track timing and communication around timing for each phase

Example Metric Indicators:

- Frequency of multi-stakeholder check-ins and communication points
- Rates of satisfaction by wholesalers with the application process
- Rates of satisfaction by intermediaries and SPOs with the capacity building, due diligence, deal structuring, and fulfilment processes
- Percentage of processes in which there are information resources readily available and accessible for all stakeholders

RISK SHARING

Metric: Risks to communities and social organizations are valued with the same weight and evaluated with the same rigor as risks to investors.

Metric: Approaches to risk sharing design, implementation, and accountability are substantiated by explicit processes across each investment phase that include representation from affected communities.

Metric: There is a disbursement of funds across a variety of sectors.

Intermediary Attributes:

- Diversify investments across a range of industries and sectors

Example Metric Indicators:

- Percentage of risks to community identified / directly addressed
- Percentage of risks to investors identified / directly addressed
- Dollars spent on risk management for wholesalers, intermediaries and SPOs, comparatively
- Expected returns for investors compared to expected returns to the community

ALIGNMENT / INCENTIVES

Metric: Cross-stakeholder alignment is valued by embedding incentives for all key partners to deliver a quality of impact return that matches or exceeds financial returns to investors.

Intermediary Attributes:

- Have strong mission alignment with funders and a long-term interest in meeting the needs of SPOs and communities in target markets
- Meet with SPOs regularly and in the same context as meeting with shareholders/investors
- Have urgency to move capital in quality deals that match the needs of SPOs
- Have systems of accountability and feedback to ensure that the type of capital desired by SPOs is not excessively influenced
- Acknowledge the need for, and want, systems change

Example Metric Indicators:

- Percent growth of wholesaler portfolio amount
- Percent of funds paid to intermediaries to move capital
- Percent of funds paid to intermediaries to demonstrate impact
- Percent of funds spent on SPO capacity building
- Percent of funds SPOs and affected communities are paid in exchange for their time
- Rates of improvement to community conditions post-investment (individualized to target impact of each deal)
- Rates of satisfaction across all parties

RESOURCES AND EXAMPLES

The below examples include funders that address a variety of the above named power dynamics through various approaches.

Knowledge, Access, Decision Making and Alignment/Incentives

Example: The *Boston Ujima Project* is a community-funded capital fund that invests in a range of community projects from small businesses to real estate and infrastructure. The Fund is innovative in that they offer different notes for different kinds of investors. The smaller investors get a higher return than the larger investors, on the theory that the larger investors can afford to take more risk. The Project uses a democratic investment model and has strong investing and social impact standards. Members are a part of the due diligence process. The Ujima team produces a report on proposed investments that is shared with members (who may know about the business and/or the business owner), who then can vote on investment.
https://www.ujimaboston.com/

Example: The *Buen Vivir Fund* is an initiative out of *Thousand Currents* that invests in grassroots organizations in the global south. Founded by a combination of grassroots groups and investors, the Fund was intended to transform typical impact investing processes. The co-creation process involved a wide range of diverse stakeholders, with options for engaging in person and online. The fund promotes a financial model that seeks to be transformative, not transactional, by broadening the definitions of return to include communities' holistic wellbeing, while avoiding the traditional focus on maximizing capital accumulation.
https://thousandcurrents.org/buen-vivir-fund/

Example: The *Olamina Fund* is an initiative out of Candide Group that invests in racial justice and social equity, and in particular, Black and Native communities. At least 80% of the borrowers will be led by people of color and women, and all stakeholders will be invited to participate in profits and a governing structure. Their investment strategy also includes non-financial aspects, including access to networks.
https://candidegroup.com/olamina-fund

Example: *Raven Indigenous Capital Partners* is an Indigenous financial intermediary and impact investment firm with an approach that involves adopting an Indigenous lens, supporting social enterprise, using creative solutions, increasing relationship capital, and

providing technical assistance. They have been explicit in structuring their negotiations and terms to benefit entrepreneurs, investors, and the community.
https://ravencapitalpartners.ca/index

Knowledge

Example: *Robasciotti & Philipson* is an investment management firm that is 'majority owned and operated by women, people of color, and members of the LGBTQ community.' When investing in public equities, the organization pays social change organizations to provide them with research and insights on public equities that the investment committee is evaluating, demonstrating well how various types of expertise outside of purely financial expertise are valued by the firm and incorporated into decision making.
https://robasciotti.com

Access and Transparency

Example: *Illumen Capital* has dedicated substantial resources to uncover how racial bias affects decision making in impact investment. They conducted a study in partnership with 'do-tank' Stanford SPARQ. The partnership aimed "to promote fairness across the financial services industry by examining how unconscious bias drives racial and gender disparities in the sector." The study compared how asset allocators judged opportunities with all characteristics kept constant other than race, and revealed that funds led by people of color experience more bias as their performance increases. Illumen Capital deliberately sets out to address the gap created by racial bias in impact investing, targeting high-impact entrepreneurs of color that have been overlooked by biased impact investment actors.
https://www.illumencapital.com/applied-research

Access and Risk Sharing

Example: *Windmill Microlending* is a Canadian charity that provides low-interest loans to support immigrants and refugees in advancing their careers. Investors have acted as limited recourse guarantors that the organization could leverage to access lines of credit. It is a successful example of a guarantee program operating in Canada. To date, there are 2,225 active loans, including 291 in their Refugee Loan Program.
https://windmillmicrolending.org/

Decision Making

Resource: *Integrated Investing* by Bonnie Foley-Wong
This resource unpacks the ways that information is included in the decision-making process, including examples such as size, tenure, financial returns versus diversity, inclusion, belonging, social cohesion, creativity and how people are left feeling, impacts, etc.
http://integratedinvesting.ca

Decision Making, Transparency and Aligned Incentives

Example: *Marigold Capital* is a Canadian venture capital fund and impact investor that specializes in gender lens investment. They make efforts to employ high levels of transparency across models for deal selection, investment processes, financial instrument development and portfolio development. They employ investment decision making processes to account for bias in impact investment decision making. Investments are focused on those that directly address power dynamics, bias, and inequality.
https://marigold-capital.com/

Risk Sharing and Alignment/Incentives

Example: *Pioneer Valley Grows Investment Fund* is an investment vehicle that provides financing and technical assistance to local farm and food businesses through community investments. The Fund operates three different pools of assets available to different levels of investors with a Community Investment Pool open to everyone and a Risk Capital Pool limited to foundations and institutions designed to serve as a loan loss reserve for the Community Investment Pool. The Fund's primary directive is to support mission-aligned businesses.
http://www.pvgrows.net/investment-fund/about-the-fund/

Alignment/Incentives

Example: Providing mission-lock within a deal allows the leadership of an SPO to retain veto power on decisions if there are concerns that they may compromise the social mission of the organization. A strong example of this impact is demonstrated in an investment deal made through the Australian Government's Department of Foreign Affairs and Trade (DFAT) pilot innovation project Pacific Readiness for Investment in Social Enterprise (Pacific RISE).
http://www.pacificrise.org/