

ESG

ENVIRONMENTAL SOCIAL GOVERNANCE



The Environmental, Social and Governance Framework in Philanthropy: Going Beyond Grants to Achieve Impact

by Terri Bradford Eason

Increasingly, Americans are centering social responsibility in decisions around where to spend and invest their dollars. Seventy percent of Americans believe that it's either "somewhat" or "very important" for companies to make the world a better place – and business leaders are paying attention. In 2019, an estimated 90 percent of companies on the S&P 500 index published a corporate social responsibility (CSR) report, up from just 20 percent in 2011.

Today, many companies are going beyond CSR to implement Environmental, Social and Governance (ESG) practices, where sustainability and social responsibility are baked into the business model as a competitive advantage. It's a strategy that can pay off. McKinsey notes that paying attention to ESG concerns can help companies increase top-line growth, reduce costs, avoid regulatory and legal burdens, lift productivity and enhance investment returns. Investors are taking note too, leading a steep rise in ESG-oriented investing. In 2020, global sustainable investment topped \$30 trillion, a 68 percent increase since 2014 and a tenfold increase since 2004.

The 2022 African American Philanthropy Summit presented by the Cleveland Foundation will take place on April 30 from 8 a.m. to 1:30 p.m. as a hybrid event with in-person activations at Corporate College East and virtual tracks for attendees on Zoom.

The idea that businesses and organizations have a responsibility to “do well and do good” isn’t new to the philanthropic sector – we have long been in the business of financial stewardship for social benefit.

Traditionally, philanthropy has focused on grantmaking as the primary tool for social impact. Now, foundations and donor-advised fund holders alike are going beyond grantmaking to explore ESG-focused impact investing strategies to advance their charitable goals and do more with their philanthropic dollars. Merging investment and impact efforts can streamline strategy, allowing philanthropists and donors greater freedom and flexibility to test innovative ways to achieve a financial return as they seek impact.

At the Cleveland Foundation, we have a long history of partnering with social impact leaders. We made our first social impact investment in 1982, and today we have allocated \$185 million in our social impact investing program. Established in 2002, the foundation’s Socially Responsible Investment (SRI) Pool uses a customized ESG framework to invest in stocks that are fossil fuel reserves-free and screened for social and environmental responsibility, gender diversity, and a place-based emphasis on Greater Cleveland. The pool excludes private prisons and civilian firearms stocks. In addition to our SRI pool, we have a Racial Equity Investment (REI) Pool, which is the first of its kind among the largest U.S. community foundations. The REI Pool is complementary to the SRI Pool and offers some of the same socially conscious elements while also giving donors a more focused, mission-driven investment option for racial equity.

Differing slightly from an ESG framework, the pool is focused on investing in U.S. public companies that are inclusive of Black, Indigenous, and people of color (BIPOC) representation on their boards (targeting

50 percent more representation than the Russell 3000 Index); have a history of fostering an inclusive, equitable and diverse workplace culture; and have a stated commitment to racial equity. Outside the U.S., the pool invests with BIPOC-owned investment firms to help equalize the diversity imbalance in investment management. In addition to these criteria, the pool excludes tear gas manufacturers, some companies linked to child migrant detention on the Mexican border, and companies that deny access to capital to all individuals – including financial institutions that have a record of discriminatory lending practices. The foundation’s SRI and REI pools demonstrate that competitive market return and social good are not mutually exclusive.

The growth of ESG in philanthropy is one of the topics of focus at the 2022 African American Philanthropy Summit presented by the Cleveland Foundation. The summit is the signature biennial event of the Cleveland Foundation’s African American Philanthropy Committee, which was created in 1993 to promote awareness and education about the benefits of wealth and community preservation through philanthropy.

This year’s summit will take place on April 30 from 8 a.m. to 1:30 p.m. as a hybrid event with in-person activations at Corporate College East and virtual tracks for attendees on Zoom. United by the summit’s theme – Philanthropic Equity: Making an Impact – featured speakers and breakout sessions throughout the day will focus on timely topics in the field of philanthropy – equity, inclusion, sustainability, engagement, transformation and more.

The African American Philanthropy Summit is open to the public, but tickets are required. To register, visit www.ClevelandFoundation.org/AAPC. We invite you to join the conversation on social media by following #GivingHasNoColor.

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