

CASE STUDY



A Participatory Model for Restorative Community Wealth Building:

A Look Into the Ujima Fund



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THE UJIMA PROJECT IN BOSTON

Participatory model for local wealth building and small dollar investor engagement

WHILE NASCENT, local initiatives that center community decision-making through participatory models present an intriguing vision for the future of community investing ecosystems. The Boston Ujima Fund – one of the first democratically managed pool of funds – traces its roots back to coordination among grassroots activists and impact investors seeking to bridge the divide between their respective work. Groups like the Boston Impact Initiative, the Boston NAACP, City Life and others recognized the significant potential for impact in equipping the local grassroots sector with community development financing tools.¹

Launched in 2018 with a \$5 million capital raise targeted for 2021, the Ujima Fund empowers local residents, businesses and other stakeholders to invest in building the wealth of their own community. Specifically, the Ujima Fund seeks to support small businesses, as well as real estate and infrastructure projects in Boston’s working-class communities of color. There are three tiers of noteholders within the fund’s structure, the first being nonaccredited investors in Massachusetts who can purchase notes as low as \$50 and up to \$10,000. Second tier investors, offered to accredited investors from Massachusetts and some neighboring states, can invest between \$1,000 and \$250,000, and the third tier is reserved for philanthropic investors committing at least \$5,000.²

The fund is especially innovative in two ways. First, the fund itself is democratically managed. Community stakeholders outline their priorities for economic development, engage in the due diligence process with potential entrepreneur investees directly, and make informed voting decisions on whether to allocate funds to projects with the assistance of data collected by the staff at the Ujima Project. Additionally, a democratically elected standards committee reviews the social and environmental impacts of the portfolio companies using 36 impact metrics chosen by the community itself. The Ujima Fund is also particularly innovative in its employment of a unique capital stack. Rather than relying on traditional financing structures in which those who take on the lowest risk receive the lowest return, the Ujima Fund prioritizes securing financial returns first for those who have invested smaller dollar amounts and purchased notes with a shorter duration. Furthermore, the fund is structured so that the highest rates of returns



¹ Beek Center for Social Impact + Innovation, Georgetown University, Webinar: “We Need a New Model for Philanthropic Funding,” August 2020.

² Brett Theodos and Leiha Edmonds, Urban Institute, “New Models for Community Shareholding: Equity Investing in Neighborhood Real Estate Investment Trusts and Cooperatives,” December 2020.

flow to the smaller, nonaccredited investors in the first tier. In examining the capital stack, philanthropic program related investments (PRIs) and grants for loan loss reserves would be situated near the bottom and the smaller dollar investor assets would sit at the top. The philosophy behind this decision is that the timeline for and relative size of returns should be based on proportionate risk taken relative to the investor's total assets to better enable communities to meaningfully combat wealth inequalities, rather than perpetuating them. In this way, the model provides a platform for individuals to invest in their local economies to a degree that they may not have otherwise been able to previously.

Currently, the fund expects its first-tier local investors to receive average returns of 3% after three years. Second tier investors can expect 3% returns after seven years or 2% returns after two years, and the fund is targeting 1.5% in annual returns over seven years for the bottom tier of philanthropic investors.³

The Ujima Project also leveraged the unique assets of the surrounding area, by connecting their portfolio companies directly to procurement opportunities at large anchor institutions, like the Boston Children's Hospital and Northeastern University.⁴ A representative from the project noted that this was a high-touch, long-term process and offered that more incentives or requirements for anchor institutions to contract with minority-owned businesses could be an effective intervention to ensure that these businesses can adequately access financial opportunities.

While encouraging in its potential for deep impact, models like that of the Ujima Fund are unlikely to scale in size by design. The core purpose of the fund is to provide underserved small businesses with the type of financing they need, such as a \$9,000 loan for an owner of a local wholesale grocer seeking to install a walk-in freezer, according to an example provided by a representative from the project. If the fund followed a traditional path to scaling, it would be pressured to increase loan ticket sizes and would be unable to deliver on its core impact goal of meeting the needs of its target population. That said, initiatives like the Ujima Fund represent a growing trend that could create impactful outcomes for those historically excluded from financial decision-making and investment opportunities in their own communities. 🐦

SIMILAR INITIATIVES:

Runway Project's Real People's Fund

Nico Echo Park, Benefit Corp

Heron Announcement on Community Investment Committees

Community Investment Trust

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³ Ujima Fund, Offering Memorandum.

⁴ Jordan Heller, Huffington Post, "One Of America's Most Racially Unequal Cities Has A Plan To Close The Wealth Gap," May 2019.