

Racial Equity and Social Impact Investment Memo

In this memo, we're sharing our journey to implement a racial equity investment program. We believe it is critical to ensure that access to financial services is not reserved for those with privilege, and this investment is just one way we're committed to driving change. We aim for this memo to illuminate the process for other organizations looking to make similar investments.

OUR APPROACH TO SOCIAL IMPACT

Last year Square, Inc. committed to invest \$100 million in minority and underserved communities to further our purpose of economic empowerment. We believe it is critical to ensure that access to financial services is not reserved for those with privilege. Unfortunately, over centuries, we've seen racism and structural inequality codified into U.S. law and advanced by legacy financial institutions. To push back against this history of discrimination, in 2019 we began working with **Community Development Financial Institutions (CDFIs)** and **Minority Depository Institutions (MDIs)**—organizations dedicated to offering responsible, affordable financial services to communities that have historically seen less investment—by placing deposits in several CDFIs and MDIs across the U.S. After successful partnership with a handful of institutions, and recognizing the need to do more, we looked for opportunities to scale our efforts. That plan took on an increased urgency in the wake of George Floyd's murder and the Black Lives Matter protests around the world. Furthermore, once we saw data on how minority communities have been disproportionately affected by the COVID-19 pandemic, there was a clear need to take more action, which helped lead us to the \$100 million investment plan.

We're sharing our perspective here to illuminate the process for other organizations looking to make similar commitments. This memo covers how to define goals, establish investment parameters, coordinate cross-functional efforts, source opportunities, and track impact.

DEFINING GOALS

The goals of Square's program are to:

- Help minority-owned small businesses grow through finance.
- Allow CDFIs and MDIs to increase their capacity to make loans to local small business owners.
- Enable economic empowerment by providing unbanked individuals with access to savings and other financial tools that have historically been limited to those with privilege.

As other companies think through defining goals, we encourage collaborating with community groups and considering specific ideal outcomes for the communities you are serving. This allows the company and its investment recipients to partner on concrete action.

According to the [U.S. Department of the Treasury CDFI Fund](#), **CDFIs** can be banks, credit unions, loan funds, microloan funds, or venture capital providers. CDFIs are helping families finance their first homes, supporting community residents starting businesses, and investing in local health centers, schools, and community centers. They strive to foster economic opportunity and revitalize neighborhoods.

According to the [FDIC](#), the term "**minority depository institution**" is any depository institution with 51 percent or more of the stock owned by one or more "socially and economically disadvantaged individuals."

ESTABLISHING INVESTMENT PARAMETERS

Once we had alignment on goals, we solidified the investment parameters. After a review of our balance sheet and liquidity position with senior leadership, we landed on \$100 million as the appropriate commitment at that time—it's meaningful enough to drive impact, and it's a responsible amount as a percentage of our liquidity. We specified that we would look for opportunities that align with our stated goals as well as provide reasonable assurance of capital preservation through risk management capabilities. Additionally we targeted a maturity date of 10 years or fewer for all investments. Any company considering a strategy like this should complete a similar process to review liquidity needs and risk tolerance levels.

CROSS-FUNCTIONAL COORDINATION

A commitment of this magnitude requires coordination across the company. We sourced input from numerous teams, as each investment opportunity presented itself with different risks and impacts that needed to be assessed by a cross-functional team. We worked closely with the following teams across our organization:

- **Treasury**
Review the balance sheet to determine responsible asset allocation as part of due diligence on potential opportunities.
- **Policy/Community Affairs**
Help define goals and source/vet opportunities in partnership with community groups.
- **Legal**
Review all documentation to advise on structure, terms, etc., and ensure compliance with policies, procedures, and regulations.
- **Tax**
Evaluate target investments for tax implications unique to the company.
- **Accounting**
Analyze target investments for accounting considerations that could affect financial reporting.
- **Communications**
Ensure clear communication of program goals with both internal and external stakeholders.
- **Inclusion & Diversity and ESG**
Attest that program goals align with other internal and external efforts around diversity and inclusion and environmental, social, and governance initiatives.

Securing the appropriate levels of approval for a corporation should also be considered in addition to the investing approach. Some social impact investments may already fit within a company's established corporate investment policies. For example, many companies mandate that all cash not needed for immediate operations be invested in a short-term security that receives at least a market rate of return without undue risk to the principle. Some impact funds meet those same investment standards, requiring minimal additional lift to invest in them. Meanwhile, more risky funds, funds with lower expected yields, or funds with longer maturity terms may require a reassessment of the company's investment policy—or the investment can be seen as a business decision that exists separately from the standard investment program, and therefore can deviate slightly if it's in service of other goals, like social and racial equity. It is also important to have support from the chief financial officer and check with Legal on requirements to inform the Board of Directors or seek Board approval for a particular type of investment.

SOURCING OPPORTUNITIES

With these parameters in mind and approvals secured, we began sourcing opportunities. We leveraged the strong relationships built by our Policy/Community Affairs team over the years with community partners at CDFIs and MDIs. Through these conversations, we learned the needs of the industry and how Square could most meaningfully contribute. Many MDIs had a need for direct, non-deposit investments, and we wanted to tackle that issue in a scalable way. This led us to the **MDI Keeper's Fund**, an investment sponsored by the **National Bankers Association**. We also leaned on the work that other companies have done in the space—namely joining the **Black Economic Development Fund** pioneered by the Local Initiatives Support Corporation (LISC) and Netflix. The diligence we performed on each opportunity weighed the potential impact of the fund against various risk factors. Key considerations included the financial strength and track record of the fund, underlying loan quality, the composition and collective experience of the management team, sources of investment capital, and regional focus. The investments we chose represent a spectrum of risk vs. impact that best protects Square from loss while maximizing impact—companies big and small can similarly cater their investments within this spectrum to meet their individual needs.

The **MDI Keeper's Fund** is a national CRA-Social Impact MDI Capital Fund providing capital investments to qualifying institutions, allowing them to increase lending to lower- and middle-income individuals and communities.

The **Black Economic Development Fund (BEDF)**, managed by LISC, is one of the country's largest and most impactful social enterprises supporting projects and programs to revitalize communities, bring greater economic opportunity to residents, and facilitate financing of Black-owned businesses. Learn more about it [here](#).

TRACKING IMPACT

As we finalized the initial opportunities most aligned with the spirit and goals of our commitment, we also needed to ensure a level of accountability. Our partners are held accountable to their impact goals through annual reporting on metrics including jobs created or protected, affordable housing units created or protected, number of small business loans provided, etc. We have high-level oversight on fund performance through the information we receive for financial reporting each quarter. We also remain in regular contact with our fund partners and receive quarterly updates on the projects they've invested in, like **Dantes Partners**. Additionally, we hold ourselves accountable by transparently communicating these results to our company on an annual basis and keeping our Board and Square Communities (our employee resource groups) updated on our work. Employees are passionate about the work that we're doing and are committed to ensuring that we act as good stewards of Square, Inc.'s financial resources.

“Self-Help, a family of nonprofits including two community development credit unions, is rooted in providing fair-rate financial services to communities underserved by conventional banks, such as entrepreneurs of color and low-wealth borrowers. With deposits from mission-aligned investors like Square, we have been able to extend fair-rate capital when our members most need it. Since the Paycheck Protection Program was launched, we have delivered over \$253 million in forgivable loans to small business owners across the country, of which 65% has gone to borrowers of color.”

**VIOLA MAI, INVESTOR RELATIONS
SELF-HELP FEDERAL CREDIT UNION**

“Like the millions of voices raised in protest following the murder of George Floyd, countless corporations voiced their own outrage and support for racial equality. However, when words begged for action, only a few pledged to address those inequities. Square is showing the country how profits can coincide with purpose, by investing in companies like ours that are committed to closing the racial wealth gap by building communities and changing lives. It's about leading the way for corporate America to move beyond words and toward action.”

**DARRIN WILLIAMS, CEO
SOUTHERN BANCORP, INC.**

LOOKING FORWARD

We continue to identify ways to partner with CDFIs and MDIs across the country. At the request of our CDFI and MDI partners, we've renewed and extended Certificates of Deposit to increase those institutions' lending capacity. Of note, not all CDFIs and MDIs have a need for deposits and, in some situations, they could be harmed by a high deposit ratio. When considering how to partner with a CDFI or MDI, it is important to do it in a way that makes sense for both parties to achieve their goals, whether that be through capital and/or equity investments. Square is also investing in individual Community Development Loan Funds (CDLFs), which target economic growth in a specific state or geographic region, making low-interest loans to small business owners and entrepreneurs who might not qualify for a bank loan. These funds fulfill direct lending needs and tackle important local projects that assist marginalized populations. Square decided to invest in individual CDLFs in response to calls from local partners, elected officials, and community leaders. Investment in individual CDLFs also allows for targeted investment in disproportionately disadvantaged small business owners, including Native American and AAPI communities. Furthermore, we remain committed to the work ahead and continue to have ongoing dialogue with other organizations about future work.

Dantes Partners' goal is to facilitate and enhance local urban economic development by designing and structuring innovative funding and financing solutions for affordable, workforce, and mixed-income housing and community-based real estate initiatives. The BEDF investment will enable Dantes Partners to preserve or create ~3,000 units of affordable housing in Washington, D.C., and NYC. Learn more about it [here](#).

\$25 MILLION ALLOCATION

With a portion of the previously unallocated \$25 million of our commitment, Square set aside \$10 million for the **Entrepreneurs of Color Fund**, managed by LISC. Additionally, as racial and social inequity are not limited to the U.S., we've earmarked \$10 million to work with international organizations that support our goals. We'll also focus on increased financial access through bitcoin with the newly created **Square, Inc. Bitcoin Endowment**, aimed at providing grants to organizations and individuals working on financial education and bitcoin access in historically under-resourced communities across the globe.

“Across the Deep South, the demand for capital to build wealth through home and business ownership always exceeds the supply in communities of color. Square’s investment in Hope Credit Union, a Black- and women-owned financial institution, is an important step toward providing opportunity ladders for historically underserved people and places.”

**BILL BYNUM, CEO
HOPE CREDIT UNION**

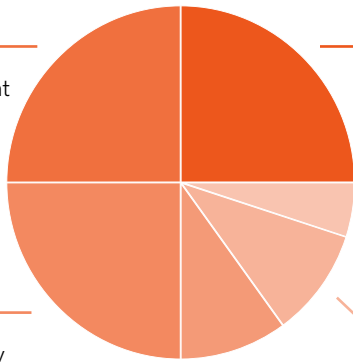
CURRENT INVESTMENTS AND ALLOCATIONS

\$25M

to the Black Economic Development Fund, led by LISC and Netflix

\$25M

to the Keeper’s Fund, sponsored by the National Bankers Association



\$25M

to CDFIs and MDIs, through deposits, equity investments, and/or CDLFs, with \$14 million left to deploy

\$5M

toward the Square, Inc. Bitcoin Endowment grants, Square has selected Black Bitcoin Billionaire as the first recipient

\$10M

to the Entrepreneurs of Color Fund, led by LISC

\$10M

to international projects focused on minority and underserved communities

ADDITIONAL RESOURCES

List of Certified CDFIs in the United States

Racism and the Economy, Federal Reserve Bank of Minneapolis

Equity vs. Equality, George Washington University Milken Institute School of Public Health

Finance Justice Fund

Impact in Place: Emerging Sources of Community Investment Capital and Strategies to Direct It at Scale, Commissioned by the Federal Reserve Bank of New York

Inclusiv

Clear Vision Impact Fund

AEO

The **Entrepreneurs of Color Fund** is designed to not only get much-needed capital directly into the hands of African American, Latinx, and other small business owners, but also provide critical support such as coaching, operational guidance, and training. Learn more about it [here](#).

We lent a portion of our corporate bitcoin holdings to **Genesis**, a digital currency lender, to earn a nominal yield on the capital. Square will use the interest income for grants to selected applicants. Learn more about Genesis [here](#).

NOT INVESTMENT ADVICE: This memo is for informational purposes only. Individuals and entities should not construe any such information as legal, tax, investment, financial, accounting, or other advice. Nothing contained in this paper constitutes a recommendation or endorsement by Square to invest in any particular entity or to buy or sell other financial instruments.