The Foundation Review

Volume 14
Issue 4 *Impact Investing*

12-2022

The Ford Foundation's Work to Build the Field of Impact Investing

Margot Brandenburg
Ford Foundation

Abeda Iqbal
Ford Foundation

doi: 10.9707/1944-5660.1634

The Ford Foundation's Work to Build the Field of Impact Investing

Margot Brandenburg, M.P.A., and Abeda Iqbal, M.P.A., Ford Foundation

Keywords: *Impact investing, field building, ESG investing, program-related investment, mission-related investment, Ford Foundation*

Key Points

- Impact investing has grown dramatically over the past 15 years, with foundations playing a critical role through their program-related and, increasingly, mission-related investments. A smaller number, including the Ford Foundation, have dedicated grant and other programmatic resources toward growing the field. Without this funding, the metrics, engagement, policies, and norms needed to underpin capital markets at scale will be slow to materialize.
- This article looks back at the long history of aligning financial investments with social values; touches on the Ford Foundation's pioneering role in the emergence of PRIs as a tool to stretch grantmaking budgets; and details the impact of its 2017 decision to commit $1 billion to MRIs, using a portion of its endowment to invest in such vital areas as affordable housing, quality jobs, and health technology and demonstrating that an investor need not sacrifice financial return for a commitment to social impact.
- This article highlights several reasons for foundations to strengthen the infrastructure of impact investing: the scale of the problems they seek to address, the proliferation in approaches to social impact, and the innovation potential of cross-sector partnerships. And it discusses a number of ways Ford has worked to build the field, specifically its focus on policy and regulation, impact reporting and management, and company engagement and collective action among investors. For Ford, impact investing is the tip of the spear, and sustainable investing is a bridge between the status quo and capital markets where all investments are made with intent to create positive impact.

Introduction

Foundations are increasingly using impact investments to complement grantmaking in service of their mission. These typically take the form of program-related investments (PRI) or mission-related investments (MRI) made from the foundation's endowment. Less common but arguably as impactful, foundations can also help shape the development and growth of impact investing through dedicated grantmaking, convening, research, and investments in industry infrastructure. Without this funding, however, the metrics, engagement, policies, and norms needed to underpin impact capital markets at scale will be slow to materialize.

Impact Investing in Historical Context

Foundations were not the original investors, nor were they the first to seek to align their investments with their values. Many faiths as well as Indigenous cultures have long considered the impact of their financial decisions on others and have had formal guidelines prohibiting investment in certain products or services — such as slavery, alcohol, tobacco, and gambling — that violate their traditions and beliefs. In current parlance, this would be called "negative screening."

It wasn't until the 1960s, however, that socially responsible investing began to gain wide attention. The decade's civil rights activism and early opposition to the U.S. military's involvement in the Vietnam War led to pressure on American businesses and industries that were seen as profiting from and enabling segregation and war. Activism evolved through the 1980s, most notably into efforts to dismantle apartheid in South Africa — individual and institutional investors pulled away from companies with operations in the country, and students pressured universities to divest from companies that conducted business there.

The work of civil rights activists spurred passage in 1977 of the Community Reinvestment Act. The act, which addressed historical disinvestment in America's low-income and minority communities, requires financial institutions to provide credit to people of all income levels in the communities where they do business. The CRA would lay the groundwork for the federal Low-Income Housing and the New Markets tax credits, aimed at enhancing returns to community investing, as well as the emergence of community development financial institutions, which have a specific mandate to make credit and capital available to underinvested communities. These CDFIs, with support from foundations, have financed such high-impact projects as community health centers, affordable housing units, and schools.

Public demand in the 1970s also led to the first sustainable mutual funds, which developed positive and negative screens for stock selections. The field of socially responsible investing, which uses environmental, social, and governance (ESG) data to screen or weight stocks in a portfolio, has grown steadily since. Outside the United States, microfinance institutions emerged to provide underbanked communities with access to basic financial services. In Bangladesh, Muhammad Yunus established the Grameen Bank in 1983 "fueled by the belief that credit is a fundamental human right" (Nobel Foundation, 2023, para. 5). His objective was to help low-income people escape the poverty trap by providing credit on terms suitable to them. His work advanced to the forefront of a flourishing global movement toward eradicating poverty through microlending.

Corporate social responsibility — a term coined in 1953 by American economist Howard Bowen — came into common use in the 1990s with the growing awareness of the environmental consequences of economic activity. In 1992, the first United Nations Conference on Environment and Development — or "Earth Summit" — produced Agenda 21, a framework for implementing global environment protection and sustainable development. The Kyoto Protocol convened world leaders in 1997 to set goals for reducing greenhouse gas emissions. These events increased pressure on multinational corporations for meaningful CSR efforts and underscored the need for industry to consider its environmental impact at the global level. Early in the following decade the Global Compact (2004), a joint initiative of the United Nations and international financial institutions, issued a call for "better inclusion of environmental, social and corporate governance (ESG) factors in investment decisions" (p. 3).

Impact investments are one of a number of approaches built on these antecedents that seek to involve the private sector in addressing social and environmental problems. Intended to generate positive social and/or environmental impact alongside financial return, impact investing was as well as a burgeoning movement by social entrepreneurs seeking innovative and nontraditional solutions that were often financially self-sufficient and thus sustainable without ongoing philanthropy.

Impact investing has grown exponentially over the past 15 years. According to the Global Impact Investing Network, the global impact investing market had grown to $1.16 trillion at the end of 2022 (Hand et al., 2022). The International Finance Corp. estimates that the market is even larger, at $2.3 trillion (Volk, 2021). The number of signatories to the Operating Principles for Impact Management (n.d.), known as the Impact Principles, now stands at 173. In recent years, the COVID-19 pandemic, the movement for racial justice in the United States, and other political and economic developments have increased awareness of our shared challenges and created greater urgency to address them.

The Role of Foundations in Impact Investing

Foundations have been making impact investments for over 50 years, well before the term came into existence. In 1968, the Ford

Foundation and the Taconic Foundation pioneered the program-related investment — a programmatic tool that allows foundations to offer not only grants, but also loans, equity investments, deposits, and guarantees to create positive impact. It was developed for cases where a foundation interested in funding an organization or initiative has identified returnable capital — typically equity or loans — as more effective than a grant. Internal memos enthused that "the philanthropic dollar could be stretched further to do double, triple, or even higher multiple duty" (Wimpee, 2019, para. 8). Changes in tax laws in the 1960s, developed with input from Ford and Taconic, made PRIs possible provided their primary purpose is to advance an IRS-approved charitable cause rather than producing income. The Ford Foundation made its first PRIs to promote minority business development, increase the supply of low-income housing, and tackle environmental issues.

Foundations have been making impact investments for over 50 years, well before the term came into existence. In 1968, the Ford Foundation and the Taconic Foundation pioneered the program-related investment — a programmatic tool that allows foundations to offer not only grants, but also loans, equity investments, deposits, and guarantees to create positive impact.

Program-related investments gave Ford and other philanthropies a new tool to stretch grantmaking budgets. Funding for PRIs counts against a foundation's 5% payout requirement and is generally managed separately from the endowment. As the investment generates returns, the principal is usually returned to the grant or PRI budget, while investment earnings are allowed to return to a foundation's general corpus. Ford's budget for PRIs grew from $10 million in 1968 to nearly $300 million by 2017. The foundation's success in managing PRIs, combined with the growth and maturation of the impact investing ecosystem, eventually encouraged Ford to consider the next step: mission-related investments out of its endowment.

The Other 95%

A few decades after foundations started making PRIs, some began examining their assets more broadly. In 1996, the board of the four-year-old F. B. Heron Foundation (2023) concluded that because of its mission and tax-exempt status,

> the foundation should be more than a private investment company that uses its excess cash flow for charitable purposes. Without changes, in the board's view, there could be very little to distinguish the foundation from a conventional investment manager. The board began to view the 5 percent payout requirement as the narrowest expression of the foundation's philanthropic goals. By looking to the other 95 percent of assets, the "corpus," the board could conceive a broader philanthropic "toolbox" capable of generating greater social impact than by grant-making alone. (para. 2)

Heron initially committed 40%, then ultimately 100%, of its endowment to what became known as mission-related investments. Distinct from PRIs, MRIs are impact investments made out of a foundation's endowment. For a foundation with a mandate to exist in perpetuity, MRIs essentially need to generate a risk-adjusted market rate of return. Both MRIs and PRIs are impact investments, but typically have different requirements for both financial return and charitable purpose. Heron's decision ushered in a more expansive way of thinking about the resources a foundation could bring to bear on its mission.

Other foundations have followed Heron's lead. In 2017, the Ford Foundation committed $1 billion of its endowment — 8% at the time — to

Through PRIs and eventually MRIs, U.S. foundations have been allocators of capital to impact investments. Some have gone a step further, dedicating their grantmaking and convening power to build the field of impact investing.

MRIs. Its MRI portfolio was initially targeted at investments in affordable housing and financial inclusion, two of Ford's longtime programmatic focuses and areas with relatively greater investment opportunity. Soon three additional impact themes were added: quality jobs, diverse managers, and health technology. Ford's MRI commitment remains the largest by dollar value to date, although a number of smaller foundations have made more significant commitments as a percentage of their total assets.

Building the Rails (and the Field)

Through PRIs and eventually MRIs, U.S. foundations have been allocators of capital to impact investments. Some have gone a step further, dedicating their grantmaking and convening power to build the field of impact investing.

The concept of impact investing had long existed in practice in certain sectors — notably microfinance, community development finance, and clean technology — but an overarching definition had not previously situated it under a single tent until 2007, when the term itself was coined at a meeting convened by the Rockefeller Foundation (Madsbjerg, 2018). The following year, Rockefeller's board approved a $37 million, three-year initiative to build a field of impact investing that included substantial grant funding as well as limited PRI capital.

Rockefeller was perhaps the single largest field builder in the early days of impact investing, but other foundations — including the Omidyar Network and the Ford, Sorenson, and John D. and Catherine T. MacArthur foundations — provided instrumental early support for field-building organizations such as the Global Impact Investing Network, B Lab, and Social Finance. Others, notably the Skoll Foundation, made available commensurate levels of funding in the form of grants to social entrepreneurs — a number of whom raised capital from impact investors.

Foundations that engage in field-building typically use grant funding to support public goods — research, impact measurement frameworks, network development, convening, and advocacy — that aren't "monetizable" and that even concessionary investment capital cannot pay for. Over time, many field-building organizations have used membership fees or other earned revenue to lessen dependence on philanthropy. At the same time, growth, expansion, and increased sophistication and specialization in the field have led to an evolving set of philanthropic needs. A conservative estimate is that total foundation grantmaking dedicated to impact investing field-building exceeds $30 million annually.

Some foundations, in particular Ford and Omidyar, have expanded their grantmaking beyond impact investing to focus more broadly on the field of "inclusive capitalism" — also known as "stakeholder capitalism" — which includes the ESG investors that represent a much broader slice of the capital markets than the relative sliver that self-identify as impact investors. Admittedly, the blurry line between "ESG" and "impact" often lies in the eye of the beholder. In general, ESG investing is almost always associated with market-rate returns, while impact investing often implies concessionary investments. Ford's experience with MRIs, however, proves that impact investing need not require an investor to sacrifice financial return. As of May 2022, five years after it started making MRIs, returns on the Ford Foundation's MRI was 28% — three times its hurdle rate for the endowment overall.

Why Should Foundations Focus on Field-Building?

There are several reasons for foundations to build and strengthen the infrastructure of impact investing. These include the scale of the problems they seek to address, the proliferation in approaches to social impact, and the innovation potential of cross-sector partnerships.

There are several reasons for foundations to build and strengthen the infrastructure of impact investing. These include the scale of the problems they seek to address, the proliferation in approaches to social impact, and the innovation potential of cross-sector partnerships.

The Imperative to Mobilize Resources at Scale

Philanthropy provides critical grant resources to social and environmental causes, but many problems are likely too large for philanthropy to solve with grants alone. For example:

- The number of people living in extreme poverty, defined as living on less than $1.90 a day, was projected to increase to between 657 million and 676 million in 2022 (United Nations, 2023).
- Two billion people globally have no access to drugs and vaccines and 100 million people fall into extreme poverty each year due to health expenses, forcing them to choose between their health and other necessities (World Health Organization, 2017).
- Thirty-one percent of the global adult population remains unbanked and an even larger percentage is underserved, with limited access to financial services (World Bank, 2022).
- Ongoing structural and systemic discrimination and income inequality is found not only between countries, but also across communities. This holds back millions of people — in particular women and girls, Indigenous peoples, and ethnic and other people of color.

These situations have only been further exacerbated by COVID-19 and will further deteriorate with climate change, which acts as a "crisis multiplier" and whose impacts are already being felt across the globe. Extreme weather events — heat waves, droughts, and floods — are affecting billions of people globally, contributing further to poverty, food insecurity, and inequality. The pandemic further delayed the urgently needed transition to greener economies. Based on current national commitments, global greenhouse gas emissions are set to increase by almost 11% over the current decade (United Nations, 2022).

Foundations can devote all of their resources directly to addressing these problems, but they also have the option to fund the field-building infrastructure that can attract larger sources of nonfoundation capital to address them. The latter has the potential to ultimately free up greater resources for impact. The combined outstanding value of global bond markets and global equity market capitalization is estimated at $185 trillion (United Nations, 2023). Mobilizing even a fraction of that could finance the estimated outstanding $5 trillion to $7 trillion annual funding gap to achieve the U.N. Sustainable Development Goals.

Shifts in Consumer, Employee, and Investor Behavior

Technology and social media have made it possible to bring awareness of the world's problems to the doorsteps of many people, arousing empathy for those affected. As a result, more individuals are now contributing to charitable causes. Ethical consumer behavior, which incorporates the consideration of environmental and human welfare issues into consumption

The Ford Foundation believes that an inclusive capitalism strategy must take a systemwide approach that engages companies, asset managers, and asset owners, as well as the range of stakeholders impacted by their behavior.

choices, is also on the rise. Additionally, many workers no longer want to just do work — they want to do good: some 70% of Americans, for example, say they define their sense of purpose through work (Dhingra et al., 2021). Millennials, in particular, are looking for opportunities in their work to contribute to what they believe is their wider purpose. Individuals are also increasingly adopting sustainable investing principles, with millennials leading the charge. According to a study by Allianz (2019), nearly 64% of millennials said ESG issues are important in their investing decisions, with Generation Xers reporting 54% and baby boomers reporting 42%.

These trends in consumer, employee, and investor sentiment mean that "doing good" is no longer the sole province of 501(c)(3) organizations. Many social entrepreneurs, tired of the prospect of being dependent on philanthropy, are starting for-profit entities. While nonprofits will likely always play a critical role in social movements, foundations can tap into and shape this wider range of impact activity by helping mature the "impact capital markets." These markets allow a broad range of entities to attract resources, as well as to hold them accountable for their claims.

Impact investing has attracted a wide array of actors over the past two decades. The field now includes, but is not limited to, nonprofits, government-backed international finance and aid organizations, business, institutional investors, and fund managers — a breadth of talent and diversity of thought that the nonprofit sector would not have access to on its own. It is well documented that diverse teams perform better than homogenous teams; it stands to reason that diverse coalitions of stakeholders, if united around similar goals, also have great potential.

Ford's Ecosystem Strategy

The Ford Foundation is one of the largest funders of field-building in the areas of impact investing and inclusive capitalism. Its focus was initially on growing impact investing with integrity, through which it hoped to crowd in other, larger sources of capital for the types of investments it was making with its own PRI and MRI capital. However, it soon expanded to the broader goal of shifting the economy "from the paradigm of maximizing shareholder value to one that seeks to maximize stakeholder value" (Walker, 2017, para. 13). This expanded focus was born from the recognition that impact investing, while growing steadily, remains a small portion of the overall capital markets — but that the broad capital markets impact all the other work the foundation cares about: quality jobs, racial and gender equity, healthy democracy, and more. For Ford, impact investing is the tip of the spear, and ESG or "sustainable investing" is a bridge between the status quo and capital markets where all investments are made with intent to create positive impact.

The Ford Foundation believes that an inclusive capitalism strategy must take a systemwide approach that engages companies, asset managers, and asset owners, as well as the range of stakeholders impacted by their behavior. In the absence of systemwide changes, individual companies and investors face challenging headwinds as they attempt to make meaningful investments. Ford's field-building strategy is housed within its mission investments team, where it sits alongside and is informed by the foundation's MRI and PRI portfolios. Wherever possible, this work is done in partnership with other programs and regional offices across the foundation.

Ford's PRI and MRI work is a critical source of insight and credibility for its grant-driven work to build the field. And the reverse appears to be true as well. As one grantee shared, "systems change requires a thriving ecosystem of organizations that are building the market infrastructure that will replace the legacy field. Without those organizations, who need philanthropic support to build the field ahead of everyone else's buy-in, we just have nice ideas that can't possibly compete."

Ford's work to build the fields of impact investing and inclusive capitalism includes the following areas of focus:

Impact Reporting and Management

Investors need consistent, standardized, and widely used definitions for impact and ESG metrics if they are to consider these factors in decision-making. However, nonfinancial disclosure has been highly fragmented and variable across companies and portfolios. For example, there are more than a dozen metrics alone used to report on worker health and safety, which makes it impossible to make an apples-to-apples comparison across companies. This fragmentation can be paralyzing for companies and investors of good intent; conversely, it enables greenwashing by allowing companies to pick the metrics that paint them in the most favorable light. A study by the Sloan School of Business at the Massachusetts Institute of Technology found that differences in metric definitions were responsible for more than 50% of divergence among ESG ratings — a finding it dubbed "aggregate confusion" (Mayor, 2019, para. 1).

Ford was among the earliest supporters of the Sustainability Accounting Standards Board (SASB), and more recently made a significant grant to support the board's merger with the International Sustainability Standards Board. It has also been a longtime supporter of the Global Impact Investing Network, whose Impact Reporting and Investment Standards, or IRIS, drive comparability among impact investors. Most of the foundation's support for impact reporting takes the form of grant funding; however, it also made an equity investment from its MRI portfolio in a company called Novata, which provides ESG reporting and benchmarking services for private companies.

In addition to a baseline of ESG disclosure that Ford hopes will constitute a floor for global capital markets activity, the foundation has supported better impact performance standards. It has been a longtime supporter of B Lab's B Impact Assessment, which is also used by some of its fund managers to manage their own impact performance. Ford has also gone deeper on parts of impact reporting and management that the foundation feels are underdeveloped in the ecosystem, such as supporting PolicyLink's Corporate Racial Equity initiative and working with Just Capital to convene a group of academics and other experts on human capital management. Ford also invested in BlueMark, an impact verification company that verifies the practices and reporting of impact investors.

In most cases, Ford's support for robust, standardized impact metrics and disclosure is intended to be time-bound in order to free up grant resources for other purposes. In some cases, the "exit" for philanthropy is financial self-sufficiency for the entity — whether for a for-profit company like Novata or BlueMark or a nonprofit that earns income from certification or licensing fees. In other cases, it might be a regulatory or quasi-regulatory mandate that "takes out" a nonprofit. The best recent example of this is SASB's merger into the International Financial Reporting Standards Foundation with the creation of the International Sustainability Standards Board.

Company Engagement and Investor Collective Action

An investor's impact on stakeholders is typically intermediated by companies, which employ workers, deliver products and services, etc. The second component of Ford's impact investing and inclusive capitalism strategy consists of engaging companies to act in the interest of all their stakeholders, through a combination of voluntary corporate leadership initiatives and investor-led shareholder engagement. A number of Ford's grantees — B Lab, Just Capital, the Coalition for Inclusive Capitalism, and others

[I]n addition to corporate-led leadership, Ford's field-building work has included support for a number of organizations that use shareholder engagement as a tool to advance a more inclusive economy.

— build community and capacity among companies seeking to lead the way toward a stakeholder economy. Their combined experience has proven that a range of companies, from sole proprietorships to large public companies, can successfully do business in a way that benefits their stakeholders as well as their shareholders.

In these instances, the role of a foundation is often to set and maintain a high bar for impact, and to guard against the inevitable pressure to water down commitments. It may also be to facilitate conversations with civil society organizations, often other grantees, that do not themselves have access to corporate leaders.

Some companies have chosen to go a step further and institutionalize their commitment to stakeholders in their corporate form. Ford and other foundations have supported B Lab to develop the Public Benefit Corp. (PBC), a corporate form that allows companies to obligate themselves to consider the interests of stakeholders and that is now available in 42 states and nine countries. This grant-funded work now appears in Ford's impact investment portfolios, where it often invests in PBCs.

Of course, not all companies voluntarily choose to operate in a transparent, stakeholder-centric fashion. Therefore, in addition to corporate-led leadership, Ford's field-building work has included support for a number of organizations that use shareholder engagement as a tool to advance a more inclusive economy. Shareholders generally also operate with a fiduciary duty that obligates them to pursue maximum financial returns, but they may be more likely to do so with the mindset of a "universal owner" that is invested broadly across the economy and over a long time horizon. As explained by The Shareholder Commons (n.d.), a Ford grantee, "Universal owners — diversified investors with long-term perspectives — dominate capital markets. Their primary interest is in preserving the critical social and environmental systems in which their investments and lives are embedded" (para. 4). Ford has provided grant support to this and other organizations that are working with asset owners and managers to engage the companies they are invested in on ESG matters, such as workers' rights and diversity, equity, and inclusion. These insights from the broader ecosystem have also influenced the way the foundation thinks about its own approach to the public market investments in its mission investments portfolio.

Beyond shareholder engagement, Ford's field-building work provides support for a broad range of collective action among investors interested in deepening their impact. Global Impact Investing Network, Institutional Investors Roundtable, Mission Investors Exchange, Taconic, and similar organizations bring investors together to learn from one another, share strategies and sometimes deal flow, benefit from research and best practices and advocate for enabling policy and regulation. They also contribute to a narrative change about the role of investment capital in addressing social and environmental problems and create proof points that make such a journey more palatable to investors who may still be sitting on the sidelines.

Given the U.S.–European focus of many impact investors and networks, Ford — which has offices in 10 countries across the Global South — makes a dedicated effort to catalyze impact investing networks across regions. The foundation has funded and worked with the Global Steering Group on Impact Investing to support the development of national advisory boards across Asia and sub-Saharan Africa, and the mission investments team works particularly closely with Ford's China office to support the growth of impact and ESG investing there.

Policy and Regulation

Impact investors often innovate in service of a better world, and generally volunteer to go above and beyond what is legally required of them. Mainstreaming this work, however, often requires changes in policy and regulation that level the playing field and raise the floor for how capitalism operates. As was noted earlier, one of the most mature sectors of impact investing — community development finance in the United States — was made possible through policies like the Community Reinvestment Act. For stakeholder capitalism more broadly, relevant policies and regulations include disclosure requirements like those being considered or implemented in the United States, Europe, India, South Africa, Malaysia, and elsewhere; ERISA and other regulations that clarify interpretations of fiduciary duty; and affirmative policies like Opportunity Zones that mandate or incentivize investors to invest in underserved communities. Conversely, policy and regulation can actively impede consideration of impact or ESG — such as the "boycott the boycotter" laws that certain states have contemplated or enacted in the past year, which prevent state pension funds or government contracts from working with financial institutions that they perceive to be pro-ESG. While largely targeting negatively screened funds in public markets, these bills can have a chilling effect on private market impact investments.

As part of its field-building strategy, Ford has made direct grants in support of policy development. Over the past year, the foundation has been increasingly called upon to support analysis and engagement with policies that have been proposed as part of the ESG backlash. However, its largest contribution to policy is implemented through its participation in the U.S. Impact Investing Alliance. Its current policy agenda — backed by a coalition of more than 50 organizations, many of them Ford grantees — includes community investing and stakeholder capitalism. While policies that require legislative change remain challenging in the current political environment, there have been recent successes in regulatory and administrative actions that have, for example, proposed to mandate climate disclosure for public companies and clarified that ERISA-regulated pension funds can consider ESG factors when making investments.

Impact investors often innovate in service of a better world, and generally volunteer to go above and beyond what is legally required of them. Mainstreaming this work, however, often requires changes in policy and regulation that level the playing field and raise the floor for how capitalism operates.

Narrative and Normative Change

While laws play an important role in shaping fiduciary duty, narratives and norms are arguably as influential. Ford supports narrative change across its programs, including its work on inclusive capitalism. The team feels that the narratives, norms, and biases that define and drive business and investment decision-making can work for or against the goal of a more equitable capitalism. An often-singular focus on quarterly financial performance, for example, is the result of norms rather than laws. The misperception — still widely held — that any impact investment must necessarily be concessionary is also the result of a powerful narrative. As Roy Swan (2022), head of mission investments at Ford, wrote in *Barron's:*

> There is an overwhelming — and understandable — fear of the unknown in capital markets. It is human nature. That fear, coupled with the extreme and worsening market volatility of the last two years, has nurtured broader

> misconceptions that double-bottom-line investing and fulfillment of fiduciary duty are mutually exclusive — and that peer rankings, compensation, and employment would be at stake were managers to dip their toes in a nascent investment strategy. As a result, many have frozen, rather than investigate novel investment vehicles such as impact investing. (para. 7)

Better information on impact investment portfolios that have generated commercial financial returns is, in and of itself, one way to refute this misperception. Ford's MRI portfolio has provided one such data-driven proof point. In parallel, a number of Ford's grantees argue that standard benchmarks for performance are not sustainable, or desirable. Grantee Imperative 21 (2023), itself a coalition of other grantees, took out a full-page ad in the *New York Times* on September 13, 2020 — the 50th anniversary of Milton Friedman's seminal essay on shareholder primacy — arguing that the economy needed a reset toward a more just and long-term approach.

Narrative and norms also underpin the massive racial inequities that exist in the capital markets. There is research to document that fund managers of color, particularly those with the best performance, are judged more harshly than their white counterparts by institutional investors (De Witte, 2019). In 2021 the U.S. Securities and Exchange Commission's asset management advisory committee also concluded that gender and racial discrimination "has effectively been codified" in the manager selection process through factors like track record and minimum size of assets under management (Garcia et al., 2021, p. 10–11). While laws do not exist to prohibit asset owners from investing in women or fund managers of color, the power of these norms and biases is such that diverse managers control less than 1.4% of institutional assets under management. Ford's mission investment team deploys capital to diverse managers, and its grantmaking focuses on anti-bias training, support for emerging managers, and tools and metrics that assess progress toward greater equity in investment portfolios.

Conclusion

For foundations with a mission to make progress against the world's most intractable problems, impact investing represents a way to marshal substantially more resources toward solutions. Foundations are increasingly adding PRIs and MRIs to their grantmaking strategies, but fewer have dedicated grant and other programmatic resources toward growing the field of impact investing. Without this funding, however, the metrics, engagement, policies, and norms needed to underpin capital markets at scale will be slow to materialize. Ford has chosen to augment its PRI and MRI portfolios with a dedicated field-building initiative that can grow the field, and its impacts, in the time frame required to make progress against the U.N. Sustainable Development Goals.

References

Allianz Life Insurance Company of North America. (2019). *Allianz ESG investor sentiment study*. https://www.allianzlife.com/-/media/files/allianz/pdfs/esg-white-paper.pdf

De Witte, M. (2019, August 12). Venture capital funds led by people of color face more bias the better they perform, Stanford researchers find. *Stanford Report*. https://news.stanford.edu/2019/08/12/race-influences-professional-investors-judgments/

Dhingra, N., Samo, A., Schaninger, B., & Schrimper, M. (2021, April 5). *Help your employees find purpose—or watch them leave*. McKinsey. https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/help-your-employees-find-purpose-or-watch-them-leave

F.B. Heron Foundation. (2023). *The evolution of Heron — 1996: The tipping point*. https://www.heron.org/enterprise/

Garcia, G. A., Draeger, S. E., & Greff, P. (2021, July 7). *SEC asset management advisory committee subcommittee on diversity and inclusion: Recommendations for consideration by the AMAC on July 7, 2021*. U.S. Securities and Exchange Commission. https://www.sec.gov/files/amac-recommendations-di-subcommittee-070721.pdf

Global Compact. (2004). *Who cares wins: Connecting financial markets to a changing world*. United Nations. https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf

Hand, D., Ringel, B., & Danel, A. (2022, October 12). *GIINsight: Sizing the impact investing market 2022*. Global Impact Investing Network. https://thegiin.org/research/publication/impact-investing-market-size-2022/

Imperative 21. (2023). *Reset*. https://www.imperative21.co/reset/

Madsbjerg, S. (2018, August 15). *Bringing scale to the impact investing industry*. Rockefeller Foundation. https://www.rockefellerfoundation.org/blog/bringing-scale-impact-investing-industry/#:~:text=In%202007%2C%20the%20term%20"impact,social%20and%2For%20environmental%20impact.

Mayor, T. (2019, August 26). *Why ESG ratings vary so widely (and what you can do about it)*. Massachusetts Institute of Technology Sloan School of Management. https://mitsloan.mit.edu/ideas-made-to-matter/why-esg-ratings-vary-so-widely-and-what-you-can-do-about-it

Nobel Foundation. (2023). *The Nobel peace prize 2006—Muhammad Yunus: Biographical*. https://www.nobelprize.org/prizes/peace/2006/yunus/biographical/

Operating Principles for Impact Management. (n.d.). *Signatories & reporting*. Accessed May 2, 2023, at https://www.impactprinciples.org/signatories-reporting

Shareholder Commons. (n.d.). *The Shareholder Commons: The pursuit of mutually assured survival*. https://theshareholdercommons.com/wp-content/uploads/2018/07/TSC-overview.pdf

Swan, R. (2022, July 27). Investors are embracing ESG but avoiding impact: What they're missing. *Barron's*. https://www.barrons.com/articles/investors-embracing-esg-but-avoiding-impact-51658862821

United Nations. (2022). *For a livable climate: Net-zero commitments must be backed by credible action*. https://www.un.org/en/climatechange/net-zero-coalition

United Nations. (2023). *1. No poverty: End poverty in all its forms everywhere*. U.N. Statistics Division. https://unstats.un.org/sdgs/report/2022/goal-01/

Volk, A. (2021, July). *Investing for impact. The global impact investing market 2020*. International Finance Corp. https://www.ifc.org/wps/wcm/connect/365d09e3-e8d6-4da4-badb-741933e76f3b/2021-Investing+for+Impact_FIN2.pdf?MOD=AJPERES&CVID=nL5SF6G

Wimpee, R. (2019, November 1). Supporting economic justice? The Ford Foundation's 1968 experiment in program related investments. *Re:Source*. https://resource.rockarch.org/story/supporting-economic-justice-fords-1968-pri-experiment/

Walker, D. (2017, July 26). *The future of investing is impact investing*. LinkedIn.com. https://www.linkedin.com/pulse/future-investing-impact-darren-walker/

World Bank. (2022). *Financial inclusion: Financial inclusion is a key enabler to reducing poverty and boosting prosperity*. https://www.worldbank.org/en/topic/financialinclusion/overview

World Health Organization. (2017). *Access to medicines: Making market forces serve the poor*. https://cdn.who.int/media/docs/default-source/essential-medicines/fair-price/chapter-medicines.pdf

Margot Brandenburg, M.P.A., *is senior program officer at the Ford Foundation's mission investments team. Correspondence concerning this article should be addressed to Margot Brandenburg at m.brandenburg@fordfoundation.org.*

Abeda Iqbal, M.P.A., *is an impact investing fellow with the Ford Foundation's mission investments team.*