"Fed & Main" Interview: Antony Bugg-Levine

The New York Fed's Community Development function seeks to link capital with the people who make change in low-and moderate-income communities – neighborhood leaders, nonprofits, businesses, and grassroots groups. **Otho E. Kerr III**, the New York Fed's director of strategic partnerships and community impact investing, looks for ways to make those connections. As part of that work, he recently spoke with **Antony Bugg-Levine**, an influential leader in impact investing. Below is an edited version of their conversation.

Otho Kerr: Antony, you're a rock star in the impact investing space. You convened the meeting that coined the phrase "impact investing" in 2007. You then co-founded the Global Impact Investing Network two years later, published the first book on impact investing in 2011, and spent the 2010s growing a community finance institution. What was purpose of the meeting that you convened in 2007 that resulted in coining the term "impact investing?" What was the problem you were hoping to address?

Antony Bugg-Levine: I had joined the Rockefeller Foundation at the start of 2007. The Foundation aimed to solve massive human challenges at a global scale. When I added up the amount of capital required to, for example, provide everyone access to a decent house and sanitation, quality education, healthcare, improved agricultural inputs, etc. it was clear that there was not enough money in philanthropy to grant fund solutions at scale. But I also knew there was enough money in the global capital markets. We just had to figure out how to help money flow from where it was invested to where it could be invested to address these challenges. So ,I began cold calling anyone who appeared to be working on that challenge. And I asked about 15 of them to join me at the Rockefeller Foundation's Bellagio Center in Italy to help create a roadmap for what actions we could take together to create the conditions in which more investment capital would flow to investments that addressed social and environmental challenges.

Kerr: Why was it important to create and popularize the term "impact investing"?

Bugg-Levine: The idea that a for-profit investment can be a morally legitimate and economically effective way to address social and environmental challenges had been around long before 2007. In the U.S. context, the community finance movement was born out of the mid-20th century Civil Rights movement and codified in the 1977 Community Reinvestment Act.

But during the meeting, we agreed that we needed a way to describe this work that could bring more people together. The term "impact investing" has had the power

to galvanize a movement from a fragmented set of activity. People and institutions who previously identified as affordable housing investors, green investors, micro-finance providers, etc. have been able to recognize and advance a common agenda. It's funny to remember now that when we created the term "impact investing" in 2007, I set a Google alert to know whenever it was used, and I was so excited when a blogger mentioned it that I forwarded the link to the President of the Rockefeller Foundation. Three years later, President Obama, Prime Minister Cameron, and the Pope all gave speeches on impact investing.

Kerr: Looking back over the past 15 years, how do you assess the progress that has come out of this?

Bugg-Levine*:* We've come a long way from being excited about Google alerts. Over the last five years especially, the engagement of institutional asset owners and traditional financial services firms in impact investing has been remarkable. By building a broader impact investing industry, we've especially given institutional-scale investors and asset owners an easier way to engage without having to choose and create separate strategies for each part. The GIIN's 2022 annual meeting brought together 2,000 people from 65 countries representing institutions with trillions of dollars of investable capital. In contrast to the early days, people showing up now have mandates to invest billions of dollars.

Kerr: Despite all the attention on impact investing, especially among younger investors, most asset managers continue to focus exclusively on financial risk and return. Why do you think more asset managers haven't moved their investment practice toward investing for impact?

Bugg-Levine: Over the last 15 years, I've had the opportunity to meet with and advise thousands of people in hundreds of institutions exploring impact investing, from family offices to wealth advisors, to nonprofits and foundations with endowments, to the largest private banks and corporations. Any new way of doing things will be held up to a higher level of scrutiny than business as usual. That's

just human nature. So, part of the challenge is overcoming institutional risk aversion. I think the biggest challenge to action is simply inertia. People with the power to change how they invest have acquired that power, and have often been very well rewarded financially, by doing things the old way. And many people are anchored in a belief that impact investing necessitates reduced financial return and therefore cannot be appropriate for fiduciaries operating within constraints to pursue only market-rate investments.

Kerr: In your experience what has worked to get people to move from that anchor and from talk to action on impact investing?

Bugg-Levine: It's crucial that organizations begin by "agreeing on the why" by asking, "What can we achieve through an impact investing program that we cannot achieve any other way?" This question is deceptively simple but people in organizations that do not answer it explicitly can spend months talking past each other. There are many "right" answers and different people will value them differently. But the answer cannot only be "to generate profit" because conventional investors are going to say that's easier to do with conventional investments. And it cannot only be "to have social impact" because the philanthropically minded are going to argue that's easier to do with grants or the usual corporate engagement playbook.

I have found it helpful to propose a thought experiment: "Imagine that all your investments and those of your peers were held in a diverse portfolio focused on the social impacts you or your clients care about. Then imagine that someone proposed reinvesting these assets without regard for the impact the investments have. And that the research about whether this new approach would generate more financial return or lower risk was inconclusive. Would you agree to the proposal?"

Most people do not become uncomfortable about impact investing through research. Their discomfort comes because impact investing challenges core

assumptions they've been working under for their entire adult lives. You're not going to get them comfortable by showing them more and more research reports. They need to hear about impact investing from people they view as peers. That's why it's so important to create ways for early adopters, especially within institutional asset management, to share their actions and insights.

Kerr: You've said the success of impact investing should not be measured in the popularity of the phrase, or even in the amount of capital counted as impact investment, but in the positive contribution this capital makes to advancing social and environmental progress. What will it take in the next 15 years to meet that bar?

Bugg-Levine: I appreciate the clarity of the charge the GIIN gave us, in their Roadmap for impact investing industry, to "scale with integrity." We seem to be on a good path on the scaling front, with the recent and accelerated engagement of both institutional asset owners and policy makers whose participation and leadership is crucial to reach scale. But I worry that lack of discernment could mute the impact these investments ultimately have. If investors allocate capital to investment approaches that place a veneer of impact on what is really business as usual, then impact investors seeking to work with impact integrity will fail to thrive or grow because it's harder to do this work well.

Kerr: In your experience, what can be done to help investors become more discerning?

Bugg-Levine: Having sat on various investment committees for the last 15 years, I'm struck by how discerning good investment teams are. They just have to apply the same analytical rigor and skepticism to potential investees' claims for how they will generate impact as they do to their claims about how they'll make money. Often that will also require bringing people into the investment process with the

skills and training to understand how impact can be generated and managed. But fundamentally, good impact investing looks like good investing.

I have found it particularly helpful to focus on three simple practices to improve discernment. First, don't believe what people say; ask what they're doing. And crucially, ask the people supposedly benefitting from an investment what difference it makes for them. Any impact measurement methodology that can be administered from a desk without engaging with supposed beneficiaries seems to be built around the comfort of investors rather than the management of real impact.

Second, focus on what happened, not what got announced. Impact investing fund announcements tend to get a lot of attention, in the media or at conferences. But I see little examination of what then actually happened. Whenever possible, seek to find out what happened, how the execution of the strategy inevitably drifted from initial plans, and how the investor evolved.

Finally, learn from the doers, not the hypers or the haters. Impact investing is theoretically powerful and compelling. Unfortunately, many people now express authoritative opinions derived from theory rather than experience. Listen for perspectives from people operating in the world the way it is, not from logical projections of how they think the world *should be*. In impact investing there are only three kinds of people: hypers, haters, and doers. The hypers will tell you this is easy and there's never a trade-off between return and impact. The haters will tell you it's impossible or immoral. The doers will reaffirm that it's a struggle worth joining and teach us all what it really takes to do this work well.

Kerr: In the years since you began this work, the issue of equity – including gender and racial equity -- has become more prominent, including within the US financial services sector. What relevance does impact investing have for advancing equity in the US?

Bugg-Levine: Impact investing is built on the understanding that for-profit investment creates impact beyond financial return. Since 2020, more people have come to appreciate that in the U.S. context, financial services institutions have historically facilitated and exacerbated gender and racial inequity. This is not a new insight. The community finance movement has been working for 50 years to make capital access more inclusive. But having more people with more power over more capital feeling compelled to do something about this is helpful.

Yet there is so much more work to do. Of the roughly $50 trillion professionally managed in the United States, more than 98 percent is managed by firms owned by white men, according to research from the Knight Foundation. Fewer than 20 of the roughly 3,500 banks in the United States are Black owned, while only nine Black-owned companies have ever gone public on a major U.S. stock exchange out of the roughly 20,000 to do so. And for people seeking capital, there is continued evidence that investment capital is more expensive and less available to homeowners and entrepreneurs who come from or work in communities that are majority people of color.

There are many ways impact investors can join with the broader movement to address these inequities. Discernment and sustained action will be crucial. There are amazing people in many institutions genuinely committed to advancing equity. But there has been far more focus on the initial announcement of pledges in 2020 and not enough on the follow-up to these pledges. And what was announced is still not enough to move the needle on the structural realities I mentioned above. As with impact investing in general, I am heartened by the momentum but worried we're not moving far enough fast enough.