## Series Intro

This is the Invest in Results podcast. Mission-driven organizations dedicate their time, talent, and resources to improving lives and communities. Yet they are hindered by a system that too often measures process instead of progress and pays for outputs instead of outcomes. By sharing knowledge, investing in projects, and building networks, we can invest in results.

## Episode Intro

In this episode, **Darren Walker, president of the Ford Foundation**, joins **Antony Bugg-Levine, CEO of Nonprofit Finance Fund**, and **Andrew Plepler, global head of ESG at Bank of America**, in a conversation about the steps Ford Foundation has taken to build trust with their grantees and provide them with the flexibility, time, and resources to do their work. This segment was recorded at the Federal Reserve Bank of New York on June 5, 2017.

## Story

**BUGG-LEVINE:** You know, you've made an interesting move, Darren, recently, to assert that the investment side of a foundation should also be harnessed toward the story. I think you said, if I recall, that it is no longer morally tenable that a foundation can simply invest without having its investments be focused in this area. How do you guys think of for-profit investing as being a complement to grantmaking and helping support outcomes-oriented organizations?

**WALKER:** Well, I think what I said – and really, it was about the particular approach of the Ford Foundation and our mission, so I would never seek to ascribe to all of philanthropy – but, you know, it's kind of hard to call yourself a social justice foundation and then not really interrogate some of your own behaviors that aren't supporting social justice or think about how you don't use all the tools you have to promote social justice. And Antony, I mean, the good work that you did over many years at Rockefeller and now at NFF has made it easier for those of us who have wanted to move to our own institutions, looking at our endowments and how we deploy our capital. And obviously, the work during the Obama administration – of clarifying the MRI, the mission-related investment approach as prudent and acceptable to Treasury and the IRS – has made it easier now. Because in the past, whenever you'd have a conversation about "let's use our endowment," the lawyers would say, "We can't do that. We don't have clarity on this. It's still potentially problematic – there's no safe harbor." Okay, now there is – so lawyers, away!

[audience laughs]

**WALKER (continued):** We need to really focus on this. I think the challenge is, quite frankly, that, as a sector, philanthropy is generally – even though we think of ourselves as progressive – pretty conservative. And, particularly on the investment side, it's one of the critiques I have of institutions like my own. And that is that, over time, we become … we take on the mentality of stewardship. And stewardship can be very problematic for an institution that wants to be innovative, risk-taking, and do things like talk about social justice in a time when the very idea of justice is contested. So I'm very pleased that our board came around, because, in all candor, when I became president, there was an absolute message that we were absolutely not going to use our endowment. And I think they have been open to, over time – and particularly the chair of our investment committee Peter Nadosy and our CIO Eric Doppstadt – to understanding why my vision around social justice has to incorporate all of our tools and capacities. Which, you know, we have a $12.5 billion endowment. And to simply say the responsibility is to make money so that we can have more for grantmaking – when we know, if we're to be honest with ourselves, that a 5 percent give every year is not going to solve the problems that we are mission to solve.

**BUGG-LEVINE:** That's great.

**PLEPLER**: So, your investment for – am I allowed to ask questions too?

[audience laughs]

**BUGG-LEVINE:** Yeah, I'm happy to take a break!

**WALKER:** It's your party, too.

**PLEPLER:** How does the investment portfolio look different with this social mission?

**WALKER:** So, let's just take real assets. So if we were to invest in real estate, we would be investing in high-margin real estate luxury housing – whatever it might be, right? So that's how housing …

**PLEPLER:** Maximized return.

**WALKER:** ... maximized returns. And, I mean, you know, it's quite true. It's – you do make more money investing in super high-end condos on 57th street than you would investing in tax credit housing. But, on the other hand, if you're clear about what you're measuring – and, in our case, I think we have clarity around an affordable housing strategy that will return an attractive IRR and return an attractive social return. And so, that, to my mind, is the next generation of our work. But, as I said before, we need – "we" meaning "we in philanthropy" and those of you in this room – should be asking us these questions. "Why aren't foundations doing this?" I have to say, I remember right after the Treasury issued – well, not right after, before, because they knew this was going to happen – I received a call from the White House, and they said, "We want to organize – this is going to be happening – we want to organize all the big foundations to come together because this will be a great opportunity for you all to make commitments, to cheer on the fact that the administration has pushed through this. Finally you will have clarity that you can use your endowments to do this kind of investing." There was total silence from philanthropy.

The White House couldn't even begin to plan an event because nobody would come – nobody would come to the party! And so they naively thought that philanthropy would be clapping for the White House and Treasury when they issued this, and philanthropy was totally silent, which is an indictment of philanthropy.

**BUGG-LEVINE:** One of the aspects of an outcomes-oriented system is we give money – whether it's from the foundations, the governments, or investors – and we give it based on an agreed-upon contract. And you have trust your money is being well-spent because the people in this room who take that money have to comply with those contracts. And that's the compliance burden that so many people operate under. In an outcomes-oriented system, you're saying, "We want to empower you as an organization to achieve the outcomes we all agree are important for a community," but you are giving that control and trust away. What is it going to take to build the social capital between the people with the money, whether it's grants or investments, and the people who could use it productively in this way, so that we could liberate everyone from this fixation on trust coming through compliance rather than being able to commit resources in partnership with people who will innovate in new ways none of us have figured out yet to solve problems? What does it take – and are there examples in your portfolio? You say there's some resistance, I'm sure there's also been some pockets where your program officers and their grantees have built that trust and it's really unlocked that creativity, and other examples you could describe of where that's happened and what we can do to accelerate it happening more often.

**WALKER:** Well, there are definitely examples. But, I think what's more important is to pinpoint the barrier, so that we say, "What's the intervention to move that barrier?" Right? So it's hard to have trust when the construct is a year-long contract, right? Or a one-year grant. That doesn't create the space for trust to be created. So we have to – "we" grant makers, "we" USAID, or whomever – we have to create the systems that give more space and time, and so we have to go upstream. I mean, if you ask the people at USAID, they would agree. But they get a one-year appropriation from the foreign affairs committee, the Senate. So it's hard for them. So, sure, when you talk to somebody on the ground in Tanzania who works for USAID, they would agree with all we're saying. But the system of funding and financing our government is an annual appropriation. And so, if that's the barrier, that is a major barrier. So how do we fix that? I mean, it's hard. It's hard if foundations and the government only see things in a one-year time frame for measurement, because the result of that is that you measure what you can measure in that narrow time, right? And so it's no surprise that we're in this situation. And I think that, you know, I feel that, as someone in philanthropy, I should be interrogating our own practices and I should also be challenging government. And I think everyone in this audience should be challenging philanthropy and government to say this doesn't work. I mean, we can't do our work in these narrow frames. Otherwise – I mean, this is a very hard conversation to have, right? I mean, I'm sorry. I mean, it's a really hard conversation to get at what you're getting at in this book if the architecture under which we all sort of exist is so counterproductive to the aspiration.

**BUGG-LEVINE:** I would argue that there's a particular role you guys in the private sector have. Because you mentioned that it's hard to get people to make longer-term commitments because it's hard to trust people to know that they're going to ultimately make it work. Political – politicians who have election cycles before that grant might pay off, it's going to be very hard to pay off. And for those people who work in agencies and governments, are accountable to a risk-averse bureaucracy. So I would argue that there's a specific role that that you guys could be playing recognizing that you are – despite feeling constrained – a little bit less constrained.

**WALKER:** Oh my gosh, we're not constrained. I'm actually not – I mean, I'm – this is my great frustration, is the level of flexibility we have and what we leave on the table. I mean, this is what you all should be demanding. I mean – no, seriously! I mean, it is enormously frustrating to me that we in this sector – meaning private foundations – leave so much on the table that we do not push ourselves to really interrogate how we could do more. And it's really problematic. And I think at some point, you know, this can't go on forever in an environment of growing inequality where there is more cynicism about large piles of money that are not being deployed for social objective, [this] is really problematic. And I would say that to any of my colleagues. But I also, though, have to be fair, because I think

**BUGG-LEVINE**: [laughing] That's no fun!

**WALKER:** It's just, you know, I am very fortunate. I mean, I work at a foundation that talks about justice. And I have a board that supports that idea and that is willing to ... I mean there's – you have to be sort of cognizant of your own ignorance, right? I mean, you have to be comfortable with that. And I think we've had to – we have been on that journey. And I think it's very hard for a sector, though, because not every foundation, – I mean, I've actually had other foundation presidents say, you know, "I wouldn't talk about that justice stuff like that with my board." And okay, then we've got to figure out another word, because ultimately we need to do more, and you all should be demanding more of us. Where we are on our journey is just that. I mean, it is a journey, and I think all of the incentives work against doing what we're trying to do, right? And so the incentives within a foundation are such that the individual program officer wants to feel that they own a piece of something, and that's their piece, you know? I mean, you know, Antony remembers when we were at Rockefeller Foundation, you know, the greatest example of the great Rockefeller program officer was Norm Borlaug, who worked in a ... you know, he was a brilliant agricultural seed scientist, and he worked by himself to come up with this seed for wheat that solved poverty in Mexico and then went on to India. Well, you know, and he, you know, won the Nobel Prize. Well that's the – I mean, it wasn't a team, it wasn't a large-scale strategy, it was like this one program officer, right? So that model is what's incented. And so, when we interject a different model and say, "Actually the model is the work of the team," people say, "Oh, a team... [sighs]"

[audience laughs]

**WALKER (continued):** "Can't you just give me my grantmaking budget and let me go make my grants? Why are you, you know, and what do you mean, I've got $10 million and I've got to give $5 million in general support? Ugh!" I mean, that is – what are we buying? Right? I mean, it's a very different ... and so, the incentives. And then at the board level, because you've got trustees who say, "What are we buying?" Or who say, "I was at that event and they didn't mention our name. They mentioned, you know, Carnegie and Rockefeller." Am I right? And so, these are ... we have to call all of that out and talk about how insidious all of that is, and how it defeats these larger aspirational objectives we have.

And, I don't know. To my mind, it's just …, I mean, Denise, you know me. I mean, I just gotta, like, call it what it is! I mean, you just, like, have to speak it and talk about it and be comfortable writing about it and coming to places like this. And, you know, [it's] more challenging with foundation audiences and saying the same thing.

## Outro

Thank you for listening to the Invest in Results podcast. Visit InvestInResults.org to learn more about this campaign and to download a free copy of the book that fueled this project, "What Matters: Investing in Results to Build Strong, Vibrant Communities." You can find Nonprofit Finance Fund at nff.org, tweet us @nff_news, or follow our work on LinkedIn. We'd love for you to join the conversation on social media by using the hashtag #InvestInResults. We'd like to thank the Federal Reserve Bank of San Francisco for their dedication and collaboration. Thank you for listening!