A Story About Power

Investing is a story about money and power - who has it, and how it's shared.

Impact investing, then, is traditional investing's answer to the broader social sector. It's using money to invest with an altruistic intent in social entrepreneurs, community development projects and the like, with the intention of generating positive social or environmental impact beyond turning a profit. The goal is to fill gaps in the capital markets by funding projects that support marginalized communities or tackle issues like financial inclusion and climate change.

It's also a story about power.

Unsurprisingly, who has power is unevenly distributed across locations, gender, race, and sexual orientation. More than half of all global venture capital funding goes to startups with headquarters in San Francisco, Boston, or New York. Founders that are women, people of color, and/or LGBTQ+ collectively receive less than 10% of VC funding.

Who decides how power is shared is similarly inequitable. 8 in 10 employees at impact investment funds are white; more than half are white men. Just under half of VC investors in the US attended Harvard or Stanford. This leads to a measurable "like funds like" phenomenon - investors tend to favor investments that reflect their identities, demographics, outlooks and worldviews.

Aside from the social cost of this inequity, there's a quantifiable financial cost. Morgan Stanley estimates that venture capital as an industry could be losing nearly $4 trillion by overlooking diverse founders. If the number of firms run by people of color were proportional to their presence in the labor force, they would own 1.1 million more businesses, adding 9 million jobs and $300 billion in worker's income to the US economy.

Impact investing, when done well, is one way to begin overcoming this gap. It's a profitable one at that. Studies show that gender-diverse companies outperform less-diverse peers, and adhering to social and environmental standards has a positive effect on stock performance. It also meets a growing demand that firms lag behind- 77% of millennials have made an impact investment, but only 53% of advisors say they understand the topic.

Including impact-driven investments in one's portfolio is not the only way to address this social and financial gap. Though it can shift *who* has power, we also need shift *how* power is shared.

The vast majority of impact funds have operating models that closely mimic those of traditional investment firms, which are insular, secretive and accountable only to shareholders. To change this dynamic, we need to change who has power. We need to challenge our assumptions about authority and expertise and rethink who has a voice in making decisions about our collective future.

Participatory funding is the process of shifting decision-making power over investments to the very communities most affected by them. It's a structural fix to the broken power dynamics in traditional funding—a way to change impact investing from closed, opaque and expert-driven to open, transparent and community-driven.

Data shows that bringing in more the perspectives of those with lived experience, beyond those of "experts" and professionals, leads to better intelligence and more effective decisions. Participatory impact investing processes not only lead to more diverse portfolios, but also to more profitable ones.

Participatory impact investing is a shift in both aspects of traditional investing's power: who has it, and how it's shared. It can overcome the gap between young people's demand for impact investment and advisors' knowledge, as well as the output gap between current VC returns and what they could be- all possible with the realization that that the best way for powerful people to make an impact is to simply let go.