PARTNER CONTENT

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How to Make Sure Your Nonprofit Isn't Wasting Its Time With Impact Investing

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As more and more international nonprofits explore impact investing, six questions can help them decide whether to forge ahead and how to do it.

The explosive growth of the impact investing market has attracted more and more mission-driven nonprofits in recent years, but many of them are jumping in without first assessing if the undertaking is the right fit for their mission, culture, or stakeholders. While some nonprofits are achieving their impact goals while making financial returns, many others have wasted years of staff time or thousands of dollars on expensive consultants with little to show for it.

To help nonprofits avoid wasteful forays into impact investing, we created a tool to help them figure out if they should pursue it at all and, should they move forward, how they should do it. It is based on our work with more than 55 international nongovernmental organizations (INGOs) through the International NGO Impact Investing Network, which we documented in two reports: *Amplifyii: The INGO Value Proposition for Impact Investing* and Amplifyii: The Next Mile of Impact Investing for INGOs. From years of conversations about highly successful ventures and disappointing failures, we have learned that, while international NGOs have important value to add to the impact investing ecosystem, impact investing is not right for every organization.

The full tool involves a comprehensive review of the fit between impact investing and a nonprofit's mission, culture, or stakeholders. But organizations can do a basic assessment by answering these six questions:

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1. Why Impact Investing?

Is your organization primarily interested in impact investing to generate new revenue for the organization or to amplify its mission?

We have found that organizations primarily interested in using impact investing to replace a decline in donor funding have been the most likely to never get started or fail completely. Nonprofits already experiencing fundraising issues simply won't have the capital to invest in a new approach and those that fear future declines are often too risk averse to take the leap. While a successful investment will generate revenue in the future, it won't help a nonprofit weather a tough fundraising year in the short run.

More successful organizations have a clear vision for scaling their impact through the use of private capital, rather than just filling a financial need. These organizations have more freedom to experiment and will measure their success via impact, rather than return.

2. Who Are You?

Culture matters. Before pursuing investments, consider the motivations and mission of your staff and stakeholders. Which aspects will help? Which will hinder? And if you need to change your organization's culture, how would you do it?

We've seen too many nonprofits focus on bringing in the skillsets they need to build an investing practice, while ignoring the issue of cultural fit. New hires with investment banking experience must also be deeply connected to the organization's impact mission and culture to be effective. If they are not, or if staff members are hostile to their mandate, they will be unable to take advantage of the organization's existing assets, making it even more difficult to build decisive support for their impact investing vision.

TEAR Australia spent more than a year seeking the best way for its teams to engage in impact investing, eventually deciding to partner with an organization in India to establish a social enterprise for helping unemployed women. However, the process took considerably more time and financial resources than anticipated. After assessing the experience, the team decided to change its approach. Rather than trying to launch completely new endeavors, TEAR instead aimed to help its network of social entrepreneurs with capacity development and to create partnerships with more established entrepreneurs.

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3. What Are Your Strengths?

The right impact investing approach should match the organization's existing assets. For instance, an INGO with expertise in emerging markets business development would be ideally suited to mentor start-up investees. Another INGO with deep knowledge about a region, nation, city or other geographic location could advise investors on that market's regulations and stakeholders. Or INGOs with industry-specific knowledge can identify the smarter, higher impact investments within their sector.

Counterpart International originally planned to start a fund of its own, but the organization realized it could not differentiate itself from the many new fund managers popping up. It instead focused on using its global network and rich capacity development experience to support promising enterprises and help investors find high-quality opportunities. In another example, Rare, a global conservation organization, launched the Meloy Fund to complement its global coastal fisheries recovery program and provide financial incentives for developing sustainable fisheries.

4. Who Do You Know?

One of the chief assets nonprofit organizations bring to impact investing is their network of stakeholders and ability to build partnerships on a foundation of trust. Nonprofits can leverage this influence to create robust investment ecosystems that steer capital toward the greatest impact.

In 2014, Catholic Relief Services co-hosted its inaugural impact investing conference in Vatican City where Pope Francis discussed the importance of ethics to make "markets serve the interests of peoples and the common good of humanity." Since that year, CRS and the Catholic Church have influenced the allocation of millions of dollars to impact investing through relationships with Catholic institutions with large endowments, such as universities, hospitals, and foundations. CRS is also investing its own money to further galvanize conversations among investors of faith about the critical role of impact capital.

5. What Is the Risk?

Which risks worry your team members most and how will they manage them? There are plenty of threats to ponder: removal of an organization's nonprofit status, revocation of a license to operate in some countries, financial losses, or even reputational damage with donors, board members, or other stakeholders who think you should have nothing to do with investing.

In certain countries, for example, NGOs can't lend money due to the financial and regulatory restrictions associated with nonprofits' legal status. In 2012, when Habitat for Humanity International launched its MicroBuild Fund—one of the first microfinance investment vehicles focused on the housing sector—it overcame these hurdles by establishing the fund as a limited liability company.

6. What Is in Your Pipeline?

Both our network of nonprofits and the broader ecosystem of investors saw access to a sufficient pipeline of investable businesses as a top challenge. Is your organization in contact with enough impact-oriented businesses in which it can invest? If not, what is the strategy for finding them, and how will it be better than other investors' efforts?

Mercy Corps Ventures, for example, works with the organization's country-based offices to find enterprises in alignment with its mission and then evaluates their investment readiness. The local teams also help the fund's staff members advise investees on scaling their operations.

No Time to Waste

The urgency of the world's problems puts more pressure than ever on decisions about how to spend nonprofits' limited resources. Impact investing isn't right for every organization, but done right, it can be a powerful force for positive change. We hope these six questions and our full assessment tool can help nonprofits make smarter decisions about when to jump in to impact investing and when not to.

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