

The Real Impact of Impact Investing

Executive board members looking to diversify their nonprofit organization's revenue streams may want to consider a secret weapon: the impact investor

by Richard Tollefson



BEYOND FUNDRAISING PHILANTHROPY

Today's nonprofits can no longer rely on charitable donations alone. "Nonprofits need to maximize the effectiveness of their charities by doing good business," says Jacky Alling of the Arizona Community Foundation.

A *social enterprise* can be a new potential revenue stream: a for-profit arm of the organization, which can be bolstered through *accelerator programs*.

Easter Seals of Central Texas, which serves children and adults with disabilities, partnered with the Greenlights accelerator program, which made a three-year financial commitment to support the Easter Seal's social enterprise, an LLC expected to employ 1,000 of the nonprofit's adult clients in the lawn maintenance and landscape business.

Accelerator programs give nonprofits:

- Access to thought partners and business leaders and access to Social Venture Partners mentors who assist with planning and growth strategy.
- Practice pitching their products and services in a clear, convincing way to attract funders.



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▶ The Desert Botanical Garden of Phoenix relies heavily on one critical natural resource: water. For years its plants were nurtured with the same high-demand, potable drinking water running from residents' taps. The environmental and cost-saving solution: non-potable water from the adjacent Salt River Project canal, offered to the "turf" industry at a 60-percent discount by the city, saving the Garden \$80,000 annually. The problem: a capital equipment cost of \$375,000 — money the nonprofit didn't have.

"The Garden's board is debt-averse," says Ken Schutz, the Dr. William Huizingh executive director of Desert Botanical Garden. "In general, we raise funds first and then implement projects. Though the project was a great idea, there was not an appetite to fund the project with traditional loan debt."

Enter impact investor, the Arizona Community Foundation (ACF), offering a nontraditional 3.5-percent-interest loan with a five-year payback. "ACF's Community Impact Loan fund provides a new source of capital for nonprofit projects with strong social and financial outcomes," says Jacky Alling, ACF chief philanthropic services officer. "Working with Desert Botanical Garden to provide them with access to capital when they needed it was the perfect scenario for us."

HOW TO ATTRACT IMPACT INVESTMENTS

So what, exactly, is impact investing? And *who*, aside from ACF, are these investors?

Impact investors, like venture capitalists, bring inventiveness to the nonprofit arena. They not only support the nonprofit's socially driven mission, vision and values, but they also provide capital funding with an expectation of a financial and social return on investment.

Impact investors are individuals, foundations and corporations. They offer their time and expertise through advisory capacities and nonprofit accelerator programs. They help the nonprofit raise capital through equity investments, sometimes taking an ownership position in the nonprofit organization's for-profit social enterprise arms. Many times, impact investors offer flexible, lower-interest loans. Other times, they may seek only a return of their principal investment.

"We knew if ACF made a loan to Desert Botanical Garden, it would be because they wanted us to succeed," says Schutz. "They were not looking for financial returns. They were looking for returns that would make the Garden — and therefore our community — stronger."

Reinvesting in the community is at the heart of ACF's Community Impact Loan program. "With Desert Botanical Garden, their loan repayment is ahead of schedule, which will allow us to recycle those funds back out to the next worthy project," says Alling.

So how can executives sitting on nonprofit boards work to attract such impact investment capital for their organizations? Where *are* these investors?

"I see impact investment capital as 'new' capital coming to community problems," says Dennis Caver, chair of Greenlights, a social impact-strengthening and investing organization providing resources and guidance to Central-Texas nonprofits. It's no secret, Caver says, that individual philanthropists have charitable budgets and give funds away for the greater good. "They also have purely financial assets that are being invested, and it is here where they may consider allocating a portion of their funds to impact investing. They're not ready to give their money away, but want to invest it in something that addresses some problem in the community and offers some social return."

Other global organizations, including Social Venture Partners (SVP), work to create meaningful connections and investment opportunities between nonprofits and individual philanthropists worldwide. SVP teaches its more than 3,500 socially minded investors how to strategically invest their financial and human capital through hands-on engagement with local nonprofits. Greenlights is one such organization that has benefitted from being an affiliate organization with SVP.

As nonprofits seek social impact investors, they must reframe their thinking. They must know themselves and understand:

- What do we do best — better than anyone else?
- What is our unique value-add or distinct competitive advantage?
- Which of our services or products is industry-leading and can be monetized?
- How can we think beyond mission, service and local community impact to scalability, replication, global impact and profitability?
- How can our impact be expanded to more people — *new* people — in the community and beyond?
- How can we make money doing this so that we can provide *more* services — better services — to our own community?

Nonprofits also would be wise to consider unique opportunities for engaging potential impact investors. "Like venture capital, impact investing offers people the opportunity to contribute human as well as financial capital to social enterprises — people who are eager to make an investment, if not a grant or gift," says Ruth Jones, CEO of Social Venture Partners.

It is a movement that is gaining traction, offering the nonprofit innovative funding opportunities, the investor a sense of social impact, and the community much-needed solutions. ■

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