Helping Nonprofits Select Impact Investing Structures

S-Lab Report: Rare

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Disclaimer
The findings and conclusions in this report represent the interpretations of our project team and do not necessarily reflect the views of Rare or organizations interviewed during our primary research.

Executive Summary
The promise of impact investing is a unique combination of social impact and positive financial returns. There's no surprise the concept has attracted significant attention from nonprofits looking to direct private capital towards traditionally philanthropy-supported areas, in order to expand their impact across the projects and communities they support.

In this report, we introduce a leading NGO, Rare, who has tasked our project team with evaluating potential impact investment structures to support their decision to enter the impact investment space. Rare has extensive experience working with rural communities to promote conservation practices using a unique process that is proven to achieve results. For Rare, impact investing is not a question of *if* they should do it, but rather *how* they should do it. To help Rare, as well as other nonprofits considering entering the impact investing space, we sought out to answer the following key questions: What should the structure of the impact investing fund be? How should investors access the fund? In what ways can the fund be marketed?

We conducted extensive primary research, interviewing some of the leading nonprofits and impact investment firms about their strategic decisions around structure, investor access, and marketing. Through this process, we gained critical insights that helped us develop four categories of impact investing structures (off balance sheet, on balance sheet-integrated, on balance sheet-separate, and facilitator), which we discuss in depth in this report. The decision on structure, we believe, has clear implications for investor access and marketing and as a result answering our second two questions first requires an answer to our first question.

In addition to directly addressing the key questions mentioned above, this report also introduces key themes and questions our project team consistently heard across interviews in the form of decision criteria. We identify tradeoffs across capacity, efficacy and alignment that need to be considered when making a decision between the four structures.

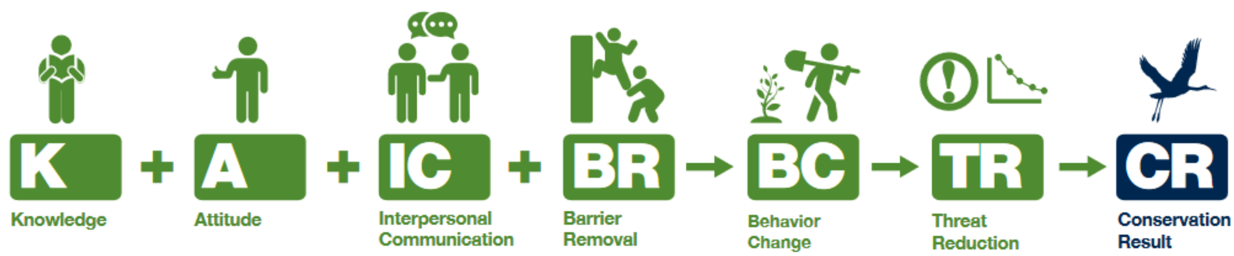
We recognize there is no right structure or approach for all impact investors, but rather a series of considerations and tradeoffs that must be addressed over time as operations develop and capabilities change. Understanding these tradeoffs is key to success and may have a substantial influence on investment returns and/or the viability of the business. Impact investing should continue to evolve and best practices will continue to be established as organizations, like Rare, help push the industry forward.

Project Context

Rare is an international conservation NGO founded in 1973, based in Arlington, Virginia. Rare works to promote sustainable behaviors in rural communities, with a particular focus on fisheries, freshwater, and agriculture. To date, the organization has worked on more than 350 projects in 57 countries around the world.

Each sustainability project, also referred to as a Pride Campaign, follows Rare's "Theory of Change" model, a seven step process towards achieving conservation and social impacts. The model begins with Knowledge, increasing awareness of the issue at hand and how human behaviors affect it. Next is Attitude, speaking to people on an emotional level about the benefits of protecting nature. Interpersonal Communication, getting people to speak with each other about the issue at hand, greatly increasing the likelihood of change. Barrier Removal, identifying social, economic, political or technological barriers and providing alternatives or solutions to resolve an issue. Behavior Change, promoting the sustainable action(s). Threat Reduction, measuring the decreased threat to biodiversity, which leads us to the Conservation Result, the changes in health or population size of the target species, habitat, or ecosystem, along with the Social Result (not pictured below) of improving local livelihoods and economic resilience.

Figure 1: Rare's Theory of Change Model



A part of the Rare Pride approach is to create a mascot fashioned after the target of the sustainability initiative to the local community for each Pride Campaign to help drive engagement for the years to come. Recent Pride Campaigns include a managed access coastal fisheries project in Belize with the mascot *Longostin* the Lobster, a watershed protection program in Peru with *Cucho* the Spatuletail Hummingbird, and a newly established fish recovery zone led by *Bryde* the Whale.

Figure 2: Langostin and Cucho

While Rare has grown to become a leading NGO through grant funds, they aim to create self-sustaining funding mechanisms that as part of a blended finance approach to scale the impact of their activities. They determined that an impact investing vehicle that is closely connected to the mission of their NGO and invests directly in fishery supply chains in the developing world is the one promising approach to accomplishing this goal. They already have interested investors and deals in their pipeline, which are motivating factors to moving quickly. For our S-lab project, Rare challenged us to research and evaluate impact investing structures available to them.

Rare was specifically interested in the following questions, which we believe can be applied more broadly to any nonprofit looking to enter the impact investing space:

1. What should the structure of the impact investing fund be?
2. How should investors access the fund? (e.g., what types of investment options?)
3. How should they market the fund?

Methodology

In order to answer the questions above, we relied heavily on published reports on the topic of impact investing, as well our own primary research, which consisted primarily of interviews with 12 leading nonprofits and impact investing firms. Our goal was to inform the audience of this report, Rare and other nonprofits interested in expanding their reach through impact investment, about the pros and cons of the different models used by leading organizations in this space.

The following reports, some of which were created by organizations we later interviewed, were used to help us get more familiar with the current opportunities, challenges and best practices of impact investing.

Figure 3: Published Reports on Impact Investing

Report Name	Publisher	Description	Date
Connecting the Dots: Linking sustainable Wild capture Fisheries initiatives and impact investors	Wilderness Markets with support from The David & Lucile Packard Foundation, Gordon and Betty Moore Foundation	Series of value chain assessments to better understand the opportunities and constraints for private impact capital to flow into wild-capture fisheries markets	3/2016
Investing for Sustainable Global Fisheries	Encourage Capital with support from Bloomberg Philanthropies' Vibrant Oceans Initiative & The Rockefeller Foundation	6 Investment Blueprints, designed to serve as a roadmap for investors, entrepreneurs, and stakeholders seeking to attract and deploy private capital to scale and accelerate fisheries reform.	1/2016
Investing in Conservation A landscape assessment of an emerging market	Co-authors: NatureVest and EKO Asset Management Partners Steering Committee: The David & Lucile Packard Foundation, The Nature Conservancy, Gordon and Betty Moore Foundation, JPMorgan Chase	Investor survey (56 investors) documenting $23.4 billion in global conservation impact investments from 2004 through 2013, across three specific areas of conservation investing: sustainable food and fiber production; habitat conservation; water quantity and quality conservation	11/2014

Based on our initial understanding of impact investing, our strategy for targeting organizations to interview was broad, in the hope of capturing unique variations in structures, investment vehicles and positioning to potential investors. We spoke with traditional investment firms with a sustainability approach, family foundations, standalone impact investment firms, and nonprofits with a related (in a variety of ways) investment strategy. Though only the last of those is directly analogous to Rare, all served as opportunities to learn about distinct approaches to impact investing and the merits of different structures. While Rare's motives and circumstances are different from the MacArthur Foundation, MacArthur still had to weigh the relative merits of different structures and opportunities. We built a target list of organizations, based on recommendations from Rare, our own knowledge of the impact investing landscape, and publicly available resources, such as the ImpactAssets 50 list.

Figure 4: Interview Summary

	Organization	Type	Date
1	**Media Development Investment Fund (MDIF)**	Nonprofit entity with separate grant and impact investing initiatives	4/11/2016
3	**Investisseurs & Partenaires (IETP)**	Impact investing entity, not associated with nonprofit	4/12/2016
2	**Verde Ventures**	Nonprofit entity with integrated grant and impact investing initiatives	4/13/2016
4	**VilCap Investments (Village Capital)**	Impact investing entity associated with nonprofit	4/15/2016
5	**LGT Venture Philanthropy (Lichtenstein Royal Family)**	Impact investing entity associated with nonprofit	4/20/2016
6	**Global Partnerships**	Impact investing entity associated with nonprofit	4/20/2016
7	**NatureVest (The Nature Conservancy)**	Nonprofit entity with dedicated unit for sourcing and facilitating impact investing initiatives	4/21/2016
8	**Moore Foundation**	Nonprofit entity with integrated grant and impact investing initiatives	4/21/2016
9	**Generation Investment Management**	Impact investing entity associated with nonprofit	4/22/2016
10	**Root Capital**	Impact investing entity, not associated with nonprofit	4/28/2016
11	**Aqua-Spark**	Impact investing entity, not associated with nonprofit	4/29/2016
12	**MacArthur Foundation**	Nonprofit entity with integrated grant and impact investing initiatives	5/3/2016

Our primary market research helped us hone in on the key impact investing structures and subsequent investor and marketing strategies discussed in this report. Additionally, we heard some common themes across interviewers, which we captured and defined as decision criteria to help nonprofits select between impact investing strategies.

Decision Criteria

In order to best evaluate the potential options, we developed three broad criteria an organization can use to determine what impact investing structure is right for them: capacity, efficacy, and alignment. These criteria are based on our primary research and industry knowledge, and are meant to address the most commonly cited areas of concern or challenges that arose when putting together a new investment vehicle. We will walk through each broad criteria in turn.

Capacity: Capacity encapsulates whether an organization has the necessary funds, staff, network, and geographic scope to support a given impact investing structure. The capacity criteria is agnostic of what a nonprofit's fund *should* be doing, and simply asks *could* it realistically build and support a given structure within a reasonable time frame. In impact investing terms, capacity sub-criteria include:

- Whether an nonprofit has access to the necessary *levels of deal flow*
- The *amount of capital* the nonprofit can raise
- The *levels of operating expense* the fund can sustain (and thus the amount of capacity development and portfolio support they can offer)
- The *geographic scope* at which they can maintain operations
- Whether their *staff have the right capabilities and background*
- The strength of a nonprofit's impact investing *partnerships*

Efficacy: Efficacy encapsulates how well a given impact investing structure will help a nonprofit achieve its impact investing objectives. For example, if a nonprofit's main objective in starting an impact investing fund is to support their core grant making activities, the extent to which an impact investing structure allows that support would be the core measure of efficacy. Nonprofits may also be interested in how well a structure allows them to deliver capacity development to their portfolio; whether a structure allows the traditional nonprofit employees and the new fund management employees to work closely together; how well a structure achieves deep, tailored impact within a given geography; how well a structure generates globally scalable solutions; etc. The core measure of efficacy depends on what a nonprofit wants to achieve with impact investing.

Alignment*:* Alignment encapsulates how well a given impact investing structure fits with a nonprofit's existing culture, mission, and team composition. It is focused on internal political concerns. This criteria takes a step back and assesses how big of a leap adopting an impact investing structure will be from an organizational change perspective. In impact investing terms, alignment sub-criteria include:

- *The extent to which impact investing advances the core mission of the nonprofit*
- The *level of staff change* necessary (e.g., the volume or skills of new hires)
- The *amount of culture change* necessary to adopt a certain impact investing structure
- The *level of staff discontent* that could arise (e.g., as a result of significant differences in compensation)

When a non-profit is considering which impact investing structure to adopt, they need to weigh tradeoffs amongst these three criteria. For example, a structure that would best achieve the impact investing objectives may require a large culture change. The next section will walk through the four impact investing structures a non-profit can adopt. The final section will apply these criteria to the four impact investing structures.

Impact Investing Structures

Based on our primary research with non-profits active in the impact investing space, we classified organizations into four broad structures: off balance sheet; on balance sheet - integrated; on balance sheet - separate; and facilitator. Though there are countless ways to categorize the legal underpinnings of an investment vehicle, we found the most important distinctions in structure came from the ultimate responsibility for the investment assets. In other words, on whose balance sheet do the investment assets sit? The balance sheet distinction turns out to have significant implications beyond just legal structuring. This section will describe each structure and what it implies for investor access and marketing. For each structure, we will also discuss the tradeoffs between the decision criteria of capacity, efficacy, and alignment.

Off Balance Sheet

The first and most straightforward option for a nonprofit looking to start impact investing is to create a separate legal entity purely devoted to investing. Examples of nonprofits who have adopted this approach include Village Capital's VilCap, Global Partnerships, and Root Capital. In each case, despite a strong relationship with their parent nonprofit, the investing entities are legally distinct and their financial decisions cannot affect their parent nonprofit. In most cases there is some sort of joint oversight across the two entities, potentially a shared back office and occasionally some overlap in terms of the projects receiving grants and investments. However, investment decisions are made purely from an investment perspective, in accordance to financial or social/environmental performance metrics, such as expected or required return.

From an **efficacy** standpoint, the off-balance sheet structure offers almost exclusively positive benefits. It is not limited in any way by scale or scope and can grow as much as the investing activities allow. Being a separate entity off the nonprofit's balance sheet not only protects the nonprofit from potential risk as the investment portfolio grows, but ultimately sets up the firm for long-term growth across impact investing activities. Firms can have enough scale to think about de-risking markets to crowd in non-concessionary capital. Further, operations can focus purely on investing, rather than investing in the context of a nonprofit. It also provides the most flexibility for investor access, meaning the firm can accept grant funding, loans, and investment funds. These impact investing firms tend to accept investment capital with clear cut return expectations (at least relative to a benchmark), but also take grants and/or offer concessionary returns in order to support ongoing research and project development operations. This sort of funding is generally contributed directly to the investment firm through the general partner or as a contribution from the legally unaffiliated non-profit (though that capital generally is raised with the express intention of supporting investing operations).

In marketing this type of impact investment firm, an organization would need to (and have the flexibility to) speak to both the financial and social benefits of the projects. This type of structure is likely to attract a much wider array of investors, and in particular a set of investors less traditionally involved in pure philanthropic efforts. Potential investors will want to understand the relationship between the investment entity and the nonprofit, the guiding principles of the investment entity, and shared oversight, but these sorts of questions would be asked of any investment firm. Because of the separation, it is important to constantly be evaluating the alignment of investment projects with the mission of the nonprofit, and position the benefits it provides in terms of a successful track record of projects and future source of investment opportunities.

So while the off-balance sheet clearly is ideal from an **efficacy** standpoint, and offers minimal issues from an **alignment** perspective (given that the nonprofit and investing vehicle are two distinct entities), **capacity** stands as the major hurdle. An off-balance sheet structure requires a large amount of investable capital, consistent deal flow, and team with significant investment expertise in order to cover what are generally quite substantial operational expenses and reach expected return goals. With significant external capital, but insufficient deal flow, a firm risks the possibility of having to lean on significant grant money to cover expenses, losing top talent, and shutting down operations. So while the off balance sheet structure has clear benefits, answering the questions surrounding **capacity** in a detailed and specific way is essential before starting operations, because the **efficacy** and **alignment** questions are irrelevant to any firm that cannot operate.

Figure 5: Summary of the Pros and Cons of an Off Balance Sheet Structure

Structure	Pros	Cons
Off Balance Sheet **Capacity** Low **Efficacy** High **Alignment** Moderate	Less financial risk for nonprofit parent Independent investment decisions Able to attract a wider array of investors Reduces “political” nature of capital allocation and compensation decisions Scalable foundation for long-term growth	Requires large amounts of capital upfront and high ongoing deal flow High operational costs (i.e. high legal fees, high salaries) Less perceived alignment with nonprofit mission activities Risk of fund getting “orphaned” if success is limited or deal flow is low in the first few years

	Ability to de-risk a market and crowd-in compatible investment	

On Balance Sheet

Some nonprofits and foundations decide to keep their impact investing activities on their balance sheet and operate as one legal entity. There are two broad ways to do this. The first is an *integrated* approach in which funds enter the nonprofit and are given away either through grants or investments on case-by-case decisions. The nonprofit is vehicle agnostic, and makes grants or investments based on the opportunity set at hand. The Moore Foundation is a good examples of this structure. The second is a *separated* approach where the non-profit explicitly dedicates a certain percentage or amount of its capital to impact investing (the rest go to granting activities). The Packard Foundation and the Media Development Investment Fund are structured this way. While there is a subtle distinction in capital allocation between an integrated and separated on balance sheet structure, it raises important efficacy and alignment tradeoffs.

An on-balance sheet structure provides inherent limits to the scale and risk level of investor access. Nonprofits cannot take on disproportionate risk or large liabilities unless they themselves are very large. Significant investment capital on the balance sheet of a nonprofit presents a risk; if those investments were to return zero, or worse yet if the nonprofit were to be sued over an investment, the entirety of the nonprofit would be at risk. Because of this, nonprofits with on balance sheet impact investing structures tend to receive and make smaller and lower-risk investments, potentially distracting from the intention behind impact investing. Lastly, in some cases investors think of these investments as more philanthropic. This limits investors to those that are explicitly impact-first and willing to accept a lower rate of return. This is not the case across the board, but a dynamic we observed in some on balance sheet firms.

Firms with on balance sheet structures heavily market the advantages of impact investing from within a nonprofit. The lack of walls between the traditional work of the nonprofit and its impact investing activities provides a deal source. It typically also gives investees access to a package of capacity development and technical assistance through the traditional granting activities of the nonprofit. In essence, these organizations understand their philanthropically minded investors or donors, market the impact holistic impact the nonprofit has (and the merits of the various vehicles at their disposal), not financial returns.

There are clear tradeoffs amongst the decision criteria when analyzing an on balance sheet structure. From a ***capacity*** perspective, the structure is easier to implement because it does not require setting up a separate legal entity and has lower capital / deal flow requirements. On the other hand, growth is ultimately limited by the non-profit's risk profile and balance sheet. There is also a limited (though by no means small) pool of philanthropic-focused funds to draw from. Investor access is a challenge, though theoretically could be done in a variety of ways, is likely to be exclusively grant funding, with potentially debt structures or co-investment structures at the nonprofit's disposal.

The integrated and separated structures have significant differences from an ***efficacy*** perspective because they identify and execute investments differently. The process for making investments changes when there is a dedicated pool of capital and relevant team members are solely focused on evaluating investment opportunities (separated structure). On the other hand, nonprofits using the integrated structure try to identify the highest value add opportunities to achieve their mission and then make case by case decisions to apply the right funding structure (grants vs. investment). This may make overall deals better, but takes longer and may be more expensive. It could also lead the team to misunderstand the economic viability of impact investing projects while looking at them from a pure impact orientation. Finally, it may be difficult to justify having dedicated investment staff with expertise when it is unclear how many impact investing deals will actually be executed each year. This could lead to people who are less familiar with impact investing making decisions. For both on balance sheet structures, it is easier to support investment activities with capacity development from the granting arm of the nonprofit. It also avoids the orphan fund risk. Both of these things lead to higher efficacy.

From an ***alignment*** perspective, there are no walls between the impact investing and granting work of the nonprofit in an integrated structure. However, in a separated structure the allocation of money can become a political battle between the granting and impact investing functions. There can also be resentment among staff and cultural tension if a nonprofit has to offer higher salaries or hire people from the private sector.

Figure 6: Summary of the Pros and Cons of an On Balance Sheet Structure

Structure	Pros	Cons
On Balance Sheet - Separate **Capacity** Moderate **Efficacy** High **Alignment** Low	Less capital required up front, and lower operational costs Independent investment decisions Potential for internal collaboration on projects Potential for integrated capacity development and technical assistance Able to position nonprofit mission as well as financial returns	Real risk to nonprofit from investment decisions Focus on lower-risk projects High alignment concerns regarding compensation, capital allocation, and resource allocation Potential challenges in attracting and retaining talent Limited growth potential and ability to scale
On Balance Sheet - Integrated **Capacity** Moderate **Efficacy** Moderate **Alignment** Moderate	Less capital required up front, and lower operational costs Co-dependent grant and investment decisions based project opportunities Internal collaboration on projects Integrated capacity development and technical assistance Able to position nonprofit mission as well as financial returns	Real risk to nonprofit from investment decisions Focus on lower-risk projects More targeted pool of investors Slow investment process and high transaction cost Potential challenges in attracting and retaining talent Limited growth potential and ability to scale

Facilitator

The Facilitator structure involves originating and organizing individual investments rather than raising an investment fund. The approach is not mutually exclusive to investing off the nonprofit's balance sheet (alongside other investors), but the primary purpose is to attract external capital to a specific investment. The facilitator structure offers simplicity and solves many of the ***capacity*** issues mentioned elsewhere, but over time is limiting of ***efficacy*** as appropriate scale cannot be achieved and transaction costs remain high.

Facilitators can avoid two primary ***capacity*** challenges. First is the ability to raise sufficient capital. While there is a great deal of capital interested in impact investing, it is not always easy to attract sufficient capital to a new/unproven team or approach. The Facilitator structure gives investors an opportunity to build credibility while asking investors for substantially less capital (enough for a single investment rather than for a full-scale fund). The second challenge is finding sufficient deal flow. A stand-alone impact fund will generally require a certain amount of deal flow in order to be financially viable and as a result portfolio managers may feel pressure to pick lower quality projects simply to satisfy a set of capacity or investments goals. A facilitator has the ability to pass along investment opportunities for others only when they deem a project to be a worthy investment. Success in deal origination can serve as a model for a future fund; lower than expected deal flow allows investors to adjust their approach or remain in the low volume business.

In terms of marketing, rather than pitching a specific fund or the firm itself, the facilitator would be selling a specific deal. Successful impact investing firms tout past returns and experienced staff. By pitching a deal and not an in-house fund, impact investing facilitators can increase ***efficacy*** by staying on mission and still offering technical assistance to the investees in the deals. The role of the non-profit and the investors would be very clearly delineated and there would be few ***alignment*** or priority issues. For the same reason, on the other hand, the facilitator model comes with significantly higher transaction costs than other options. Raising capital for each investment individually requires significant time and energy from employees, and the legal costs of setting up a new investment vehicle can be substantial. This can be mitigated to a degree by cultivating strong relationships with investors and by having a set of standard structures and terms for a given investment limiting legal costs, though both are easier said than done. Costs can also be passed on to investors through an origination fee or transaction cost, but this of course would make fundraising more challenging.

This is not to say that entering the impact investing space as a facilitator would be effortless. Even if a nonprofit does not start its own fund, the company would still need to attract new talent with deal sourcing and investment experience to ensure each investment opportunity is wise. Impact investing facilitators are at a disadvantage in doing so as they do not have the capability to charge fees in the same way a standard investment fund does. Further, since facilitators do not have to put capital on the line, it also needs to be extra diligent in its evaluations to avoid upsetting the foundations and funds it chooses to partner with. The relationship could create a scenario where the impact for the facilitator on the target project is weakened as the investor may leverage more bargaining power.

Figure 6: Summary of the Pros and Cons of a Facilitator Structure

Structure	Pros	Cons
Facilitator **Capacity** High **Efficacy** Moderate **Alignment** High	Zero financial risk to nonprofit Greater flexibility for investor access (smaller ask) Low deal flow requirements High degree of internal collaboration on projects Integrated capacity development and technical assistance	High transaction costs per impact investing project Difficult to fund deal development costs Fundraising required for every investment Potential challenges in attracting and retaining talent Control issues between facilitator and investor / decision-making limitations Limited scale-ability potential

Applying this Approach to New Impact Investors

New nonprofit entrants to impact investing have options to develop a structure exactly tailored to the goals and realities of their pending impact investing strategy. The most important thing for new entrants to understand is there is no one model that trumps all others. Firms need to balance their ability to reach the required capacity constraints for any given fund, while also having long-term efficacy targets. These structures are by no means mutually exclusive over time (a transition from one structure to another is entirely feasible, though logistically complex). We would encourage impact investors to consider their biggest obstacles when evaluating and to pick the structure that best manages the most acute potential shortcomings or uncertainty. Below, we identify what we think are the most frequent and most essential concerns likely to drive an investor to one of our four structures. This list is by no means exhaustive, but each should serve as an example of putting our methodology to use.

Deal Flow - the Facilitator Structure

Nearly every investor we spoke to stressed the challenges of deal sourcing. To paraphrase, we spoke to one investor who remarked that she started with a great deal of skepticism about their ability to originate loans, and even severely underestimated the difficulty of sourcing and execution. For an impact investor starting with these concerns, or for an investor optimistic about deal flow in the long term but with limited identified investments, the facilitator model serves as an opportunity to build out this capability without risking the long term viability of the business. Investors can falter in deal sourcing, take time to develop investor relationships, and refine the strategy, without risking the long-term viability of the fund. Launching into a standalone fund, or even a strategy within a larger organization requires capital allocation, investors, and return expectations before the investments available are entirely clear. A lack of early success in non-facilitator models may make it challenging to continue operations and continue to receive financial support; the facilitator model meaningfully de-risks this concern.

The important caveat for the facilitator model is it does not need to be a long term solution. The negatives are evident and clearly outlined above and without a doubt limit the long-term efficacy of the strategy. That said, with a facilitator approach that proves high deal flow and consistent returns, an investor can transition to an off balance sheet approach. In other words, the facilitator model should serve as a de-risking option for impact investors facing one of the more prevalent problems in the industry, but as soon as deal flow isn't a primary concern, investors might consider other options.

Impact by Project - On Balance Sheet

Firms concerned first and foremost about impact might choose a structure that keeps investments on balance sheet with their non-profit ventures. On balance sheet firms do not need to have legal or functional walls between their funds and their non-profit activities. Knowledge, best practices, and deal sourcing can all be shared freely. On balance sheet investors will likely have a wider range of opportunities available; it might be hard to justify an investment almost certain to lose money to institutional investors who were promised a certain return threshold, but an on balance sheet investor can justify *any* level of return if it is impact maximizing. Finally, the on balance sheet approach better allows for the team to evaluate if impact investing really is the best vehicle for impact. An investor working directly for a major foundation is far more likely to suggest grant capital is more sensible for a given project, than an investor working at an investment firm.

On balance sheet firms can also solve any concerns about limited scale by involving other firms in their projects. Though the Moore Foundation, for example, may never make investments at the same scale as Generation Investment Management, the Moore Foundation can attract capital to a given project through special purpose vehicles or partnerships.

Impact at Scale - the Off-Balance Sheet Structure

While the off-balance sheet structure has many merits that have already been outlined, the most important advantage, we believe, is the scale that the off balance sheet approach can achieve.

Both the on balance sheet approaches and the facilitator model come with significant limitations to any fund doing a high volume of transactions and managing more than $30m in capital. The off balance sheet structure is the only one that reasonably allows for an investment strategy at scale and is the only one that is likely to attract the right personnel to execute on said strategy.

There are real efficacy and impact benefits from operating at scale. Of course, more projects should be directly correlated with more impact. Further, more projects should offer a greater opportunity to improve practices, better identify deals, and create more impact per deal. Finally, operating at scale gives impact investors a much better chance to serve as "proof of concept." If the ultimate goal is to attract non-concessionary capital and convince local banks to give reasonable rates for loans, the investor's needs to show "proof" that is not too small in size.

Summary

Ultimately, a nonprofit needs to face fundamental tradeoffs when selecting an impact investing structure. The following table summarizes the tradeoffs raised throughout this paper. Nonprofits need to choose the right structure for their specific situation, taking into account their goals, resources, and culture.

Figure 7: Summary of Impact Investing Structure Tradeoffs

Structure	Capacity	Efficacy	Alignment
Off Balance Sheet	**LOW** *Requires high deal flow, significant capital, and experienced investing staff that nonprofits often lack*	**HIGH** *Allows for scaling of the fund with deal flow and a greater focus on financial returns to prove concepts for regular investors*	**MODERATE** *Employees have different motives and compensation, but work for different organizations with a different purpose*
On Balance Sheet	**MODERATE** *Has lower deal flow and capital requirements; investing staff may be less experienced because nonprofits cannot pay market rates*	**MODERATE** *Growth of the fund is limited by the nonprofit's balance sheet; funds come from more impact oriented investors; the fund can leverage nonprofit expertise*	**MODERATE** *Staff are more integrated than off balance sheet, but there can be battles for resource allocation between grants and investments*
Facilitator	**HIGH** *Facilitating deals gives a nonprofit time to build deal flow, partnerships, and a team in a low risk environment, but it may be difficult to find funders*	**MODERATE** *Facilitators can be hyper focused on their mission and help source deals regardless of size, but are inherently limited in their role*	**HIGH** *Facilitators have a more gradual culture change and build of capabilities, making it easier to stay on mission and avoid conflict*

Conclusion

Following a long list of conversations with some of the leading impact investors around the world, we feel strongly that there is no one ideal structure that will work across the industry. Rather, impact investors should be thoughtful in developing a fund structure as a part of the strategy, in the same way they would in developing an investment approach or in building an investment team.

The common refrain we heard in each of our conversations was that measuring impact, balancing social / financial / environmental priorities, and creating sufficient deal flow are the primary and unceasing challenges of being an impact investor. As much as possible we would encourage a structure that allows new funds or strategies to develop capabilities and a track record of managing each of these three challenges. Each of these structures will likely initially require a mix of grants and investments, and having thoughtful answers to these frequent stumbling blocks should help fundraising efforts meaningfully. Though the work will never end, the space and opportunity to experiment and develop best practices in these areas will advance not just a given strategy, but the industry as a whole.