This piece was written in collaboration with our Partner – Impact Giving
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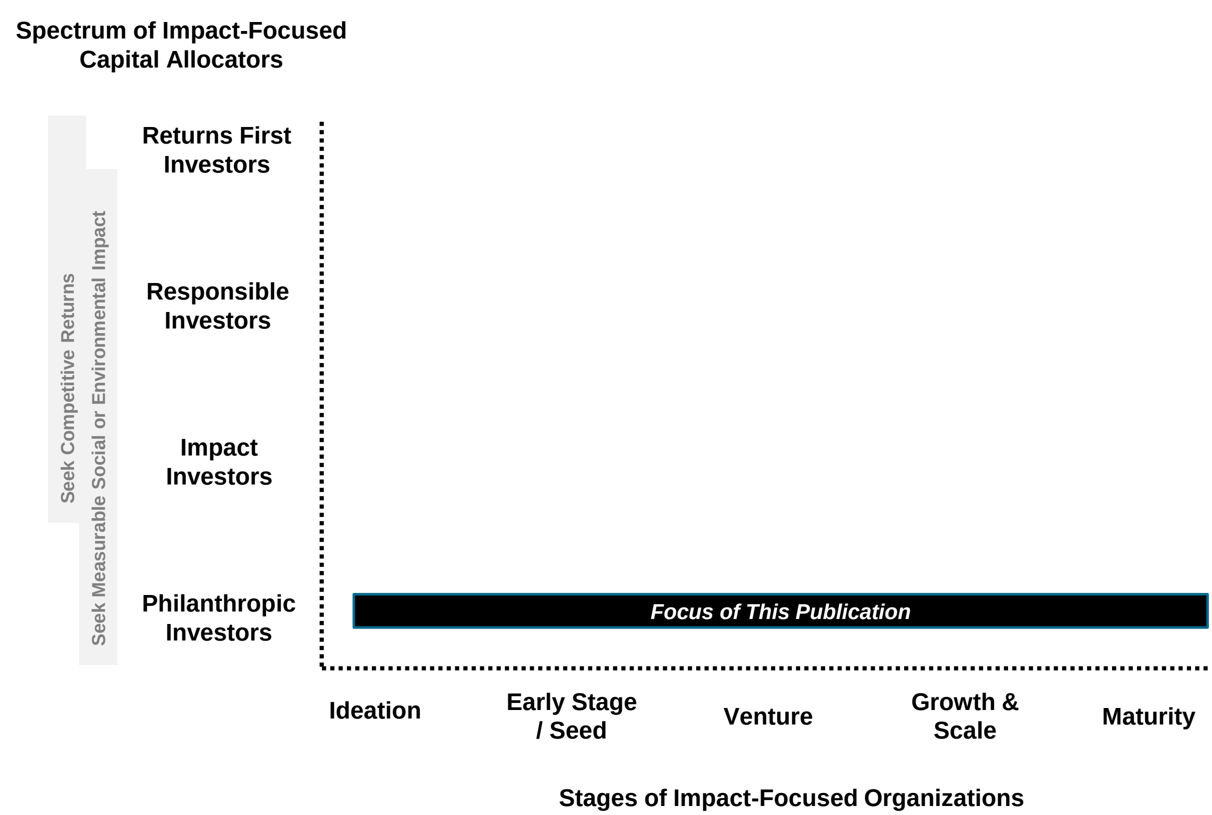
Treat your philanthropy like a traditional investment

"I do this purely for social return. I want to know my contribution is making a difference in my community. I want to effect real change. I want to provide funding to the people who are solving problems that our society is facing today. If I can expect a financial return on my traditional investments, shouldn't I expect a social return on my philanthropic investments? I am beginning to realize that I need to treat my philanthropy with the same level of due diligence as I would any traditional investment if I want to ensure my dollars are put to good work".

*– an anonymous **Philanthropic** investor*

Wondering why the words "philanthropic" and "investment" go together? We did that on purpose. In this paper, we aim to share one critical opinion – if your intention is to use your capital to create social / environmental return and you are giving to a cause that you care about - **you need to approach your philanthropy with the same level of due diligence as you would for a traditional for-profit investment**



Let's Start With Definitions
Philanthropic Investors allocate capital with the sole purpose of maximizing social or environmental return, with no financial return. It is useful to start discussions on philanthropy by reconciling definitions (Appendix 1)

When do Philanthropic contributions fail to result in true impact?
Here, "failure" is when your capital does not deliver the social or environmental return that both yourself and the recipient intended to create

The Stanford Social Innovation review titled "Non-profit Starvation Cycle" - a seminal piece of work on the struggles faced by the not-for-profit sector often referenced – is well worth a read. Its rigorous research in understanding why nonprofits struggle to succeed, unearthed some root causes of failure:

- **Funder Expectations:** Unrealistic expectations by the funders of how much it costs to successfully operate a nonprofit organization, along with their capacity to both execute and measure impact
- **Poor Operating Models**: Operating models with an unhealthy amount of overhead, resulting in a lack of resources, infrastructure and talent, coupled with unsustainable financial strain and funding requirements
- **Talent Retention:** "A low pay, make do, and do without culture" that limits their ability to hire and retain top talent and execute on the organizations vision
- **Reporting:** Lack of infrastructure and human capital to measure and report on the social outcomes
- **Competition and lack of funding:** Competitive pressure with more entrants

One can quickly grow to appreciate how each problem inevitably leads to the next

Despite this, North Americans allocate a great deal of philanthropic capital and are increasing their contributions at a healthy rate (Appendix 2). It is therefore important that we understand why our philanthropic investments sometimes fail to achieve the desired outcome

Sources: The Nonprofit Starvation Cycle (Original), The Systematic Starvation of Those Who Do Good (Updated)

Looking through the lens of a traditional investor can help change trajectory:
Our work suggests that applying an investors' lens to your philanthropy increases the likelihood that your philanthropic capital leads to tangible impact and reduces the likelihood that it will be allocated and executed poorly.

1. Have a commercial due diligence process that draws from traditional investing practices
An in-depth approach to business model assessment (Appendix 3) is often avoided by nonprofits, but can help prevent many of the root causes of failure

2. Apply quantitative rigor to social returns & impact measurement from day one
Impact measurement is one of the fastest growing themes in the philanthropic sector. The more one is able to quantify the impact of an organization, the more likely you are to know if your capital is delivering the intended social or environmental return (Appendix 4)

3. Compare philanthropic investments to all for-profit investments that have a similar vision / mission
When treating your philanthropy like an investment, you will begin to recognize that there are for-profit companies that may be attempting to solve the same social or environmental problems that align with your values. This mindset will help to (i) hold nonprofits accountable (ii) provide greater opportunity to contribute capital across all asset classes in order to solve the social or environmental causes that you care about

Appendix 1

Our spectrum of Impact-Focused Capital Allocators

Seek Competitive Financial Returns

Seek Measurable Social or Environmental Impact

Returns-First Investors
Investors who purely seek to maximize financial returns

Responsible Investors
Investors who avoid irresponsible companies and/or seek companies that actively integrate responsible business practices (e.g, ESG, SRI Investments)

Impact Investors
Investors who allocate capital to any organization where their primary objective is measurable social or environmental impact alongside a financial return

Philanthropic Investors
Investors who allocate capital with the sole purpose of maximizing social or environmental impact, with no financial return

Why Do We Define It This Way?

We look at all types of capital that could be used to create a social or environmental return as one huge pool of capital that could be used to solve some of society's largest problems

Traditional industry-wide terminology and how they fit with the framework above

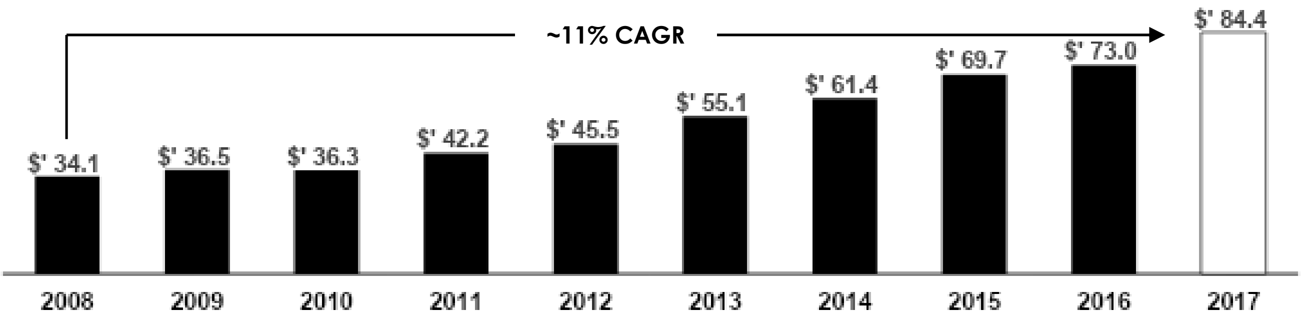
Foundational Definitions

- Philanthropy: Altruistic concern for human welfare and advancement, manifested by donations of money, property, time or talent to those in need, by endowment of institutions of learning, hospitals, and generosity to other social purpose organizations.
- Philanthropist: Any individual or institution that gives a portion of their wealth (financial assets, physical assets, knowledge and time) to benefit society, with no expectation of a financial return.
- Not-for-Profit / Nonprofit Organization: A tax exempt organization that is not conducted or maintained for the purpose of making a profit and whose purpose is to solve a social or environmental problem
- Social Enterprises: a business that has specific social objectives that serve its primary purpose. Social enterprises seek to maximize profits while maximizing benefits to society and the environment. Their profits are principally used to fund social programs
- Venture Philanthropy: the application or redirection of principles of traditional venture capital financing to achieve philanthropic endeavors
- Donor-Advised Funds: a charitable giving vehicle administered by a public charity created to manage charitable donations on behalf of organizations, families, or individuals

Appendix 2

North Americans give away a great deal of philanthropic capital and are increasing their contributions at a healthy rate

Philanthropic Contributions are Large and Growing
(C$ in billions)



Source: Philanthropic Foundations Canada

USA – Philanthropic Contributions in the USA Are Large and The Nature of These Contributions is in Flux
Certain subsegments growing rapidly and others more modestly
(US$ in billions)

$428 Billion

American individuals bequests, foundations and corporations gave an estimated $427.71 billion to U.S. charities in 2018

20+ Million

Households that indicate an itemized deduction due to a charitable contribution in 2018.

3.4% YoY Decline

Giving by **individuals** totaled an estimated $292.09 billion, declining by 1.1% in 2018 (a decrease of 3.4%, adjusted for inflation).

4.7% YoY Growth

Giving by **foundations** increased by an estimated 7.3%, to $75.86 billion in 2018 (an increase of 4.7%, adjusted for inflation)

2.9% YoY Growth

Giving by **corporations** is estimated to have increased by 5.4% in 2018, totaling $20.05 billion (an increase of 2.9%, adjusted for inflation)

2.3% YoY Decline

Giving by **bequest** totaled an estimated $39.71 billion in 2018, remaining flat with a 0.0% increase from 2017 (a 2.3% decline, adjusted for inflation)

Appendix 3

North Americans give away a great deal of philanthropic capital and are increasing their contributions at a healthy rate

Philanthropic Investor Due Diligence Model

Mission, Vision, Purpose

Targets
- Customers & Markets
- Geographies

Value Proposition
- Competitive Landscape
- Products, services, pricing

Go To Market Strategy
- Distribution & channels
- Sales & marketing
- Financial / Return Model
- Partner Strategy

Organization
- Team & org. structure
- Systems & technology
- Internal Operating Process
- Funding Model

Impact Measurement
- Data collection
- Reporting & Benchmarking

Important Notes About This Framework

- Built from industry-standard business plan frameworks (e.g, Business Model Canvas)
- Designed to ensure philanthropic investors consider the major aspects of a "business plan" to address some of the major challenges that prevent nonprofits from succeeding
- Areas in red directly tie to a cause of *failure,* outlined in the Executive Summary's Starvation Cycle by The Stanford Social Innovation Review
- **Using a similar framework can help us work toward solving society's largest social problems by increasing the likelihood of success within the not-for-profit space**

The areas of this operating model highlight in red, were designed to tie directly to the root causes of failure within the not-for-profit space

- **Value Proposition:** Not-for-profit organizations are unable to allocate enough time, resources and human capital to build for and react to competitive pressures and complete value proposition
  Source: The Stanford Social Innovation Review + Thought Analysis
- **Sales & Marketing:** Not-for-profit organizations struggle to retain and acquire key business talent in customer acquisition, business development strategy, sales & field management as a result of the Starvation Cycle
  Source: The Stanford Social Innovation Review, The Human Capital Crisis Whitepaper (Ripple Works with analytical support from McKinsey & Company)
- **Return Model + Funding** North Americans allocate large sums of capital toward philanthropy and it continues to grow at a healthy rate - yet 81% of not-for-profit leaders say access to capital is their biggest challenge and are overburdened – preventing them from spending the necessary time on their overall financial strategy. An unrefined approach to a funding model is a direct result of the Starvation Cycle
  Source: The Stanford Social Innovation Review, The Human Capital Crisis Whitepaper (Ripple Works with analytical support from McKinsey & Company)
- **Organization:** Challenges directly rise from overburdened overhead and are directly correlated with the Starvation Cycle
  Source: The Stanford Social Innovation Review, The Human Capital Crisis Whitepaper (Ripple Works with analytical support from McKinsey & Company)
- **Impact Measurement:** Learn more in Appendix 4

Appendix 4

Why should measuring impact matter?

Impact measurement has been written at in such great length and is one of the major topics being brought to light in discussions that relate to social and environmental return.

Reiterating the work of hundreds of experts, we provide a succinct summary of our view on measurement and a simple framework to get you to think about how to measure impact. We also provide extensive and rigorous impact measurement content produced by industry authorities.

1. The Importance of Measurement
Social impact is difficult to define, creating potential for scarce resources (capital and human capital) to be deployed into programs that are not truly creating impact; given the volume of capital and resources that nonprofits are using, there is a heightened desire amongst funders for:

- A need for quantified outcomes and tangible results vs. subjective articulations of the social and environmental impact
- Accountability from the not-for-profit sector to measure results
- Awareness of the efficacy amongst programs and ability to compare similar initiatives
- A case for support for funders to prove that organizations are delivering impact

2. What Happens When we Don't Measure Impact
- Greenwashing / Blue Washing: Enterprises with emotionally driven marketing and collateral and measurable, results driven programs are funded over organizations that are not creating measurable value for society
- The underlying objective of your capital (a positive social or environmental return) is often not met

3. The Difficulty in Measurement
How do we define "doing good", or "social impact"? Even if defined reasonably well, tying impact outcomes to financial values is challenging due to the number of stakeholders affected. As a general statement, the not-for-profit sector lacks quality data infrastructure to track impact, and established methods of measurement are criticized for some level of required subjectivity – the catch 22 is that while investors demand tracking, often non-for-profits lack the capacity and capability to track data / measure properly

4. Difficulty is Not An Excuse
The challenges in measurement is not an excuse for us to ignore impact measurement. Whether you are a philanthropic investor, impact investor, responsible investor or returns-first investor – you should develop an approach to measure the impact of your capital.

Opportunities for growth and learning – you can learn to start measuring now:

- **Rally Assets Impact Approach:** A complete and rigorous analysis process rooted in the UN's 17 Sustainable Development Goals (SDGs) – learn more here
- **Measuring Not-for-profit Social Impact – A Crash Course:** A handy crash course by Donorbox that is instructive for organizations or funders who are thinking about impact measurement for the first time – learn more here:
- **A Measurement Suite – National Council of NonProfits**: A wealth / repository of measurement resources curated by the National Council of NonProfits in America – learn more here: