NONPROFITS: FINANCE

Impact Security: New Charity Funding Vehicle

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What are the biggest challenges for the philanthropic sector? Almost anyone's response will include finding the money to carry out the organizational mission.

There is a new product available that claims it is the first "in which **a financial return might be earned through an investment in a nonprofit.**" It doesn't displace the role of the donor; instead, investor and donor coexist.

The Nonprofit Times recently featured the "Impact Security" offered by for-profit startup NPX: its initial product where "… people pledge a donation but investors also buy into a project and potentially earn a return if certain goals are met."

Will it work? Time will tell.

What is NPX and its Impact Security?

NPX, Inc. describes itself by its "vision"; that is, "to transform the way impact is financed in the nonprofit sector."

NPX has "created a new donor fund model with an unparalleled advantage: linking funding with impact so that donors only donate if and when impact is achieved." The company "create[s] and manage[s] NPX Donor Funds for a wide range of donors, including philanthropists, foundations, wealth managers and advisers, and donor collaboratives." Co-founders Lindsay Beck and Catarina Schwab come from backgrounds that include finance and nonprofit organizations. Ms. Beck was an executive director; Ms. Schwab was in fundraising and development.

In May 2015, the company issued a **press release** announcing the launch of the "first donor fund to ensure impact for every dollar donated. The new fund deploys capital using the Impact Security, a proprietary financial product … that brings together donors and investors to fund nonprofits based on impact."

NPX explains that – traditionally – donors to charity either give money directly or via one of the many donor funds on the market. Either way, they follow the same path: conduct due diligence, make the contribution, and then "**hope for impact**." The NPX Impact Security is different: "donations are **only deployed upon the delivery of objectively measured impact**."

NPX's Impact Security is "similar to a Social Impact Bond (SIB) **but it's not a bond**" and is backed by private donors instead of the government. It is "structured as a debt security" but, because the issuer is a nonprofit, it is **exempt from SEC oversight.**

As a for-profit company, NPX earns a transaction fee at the launch of each deal.

The Pilot Program

The **first pilot program is for four years** and focuses on a San Francisco based nonprofit, The Last Mile, which aims to fund the first-ever web development shop inside a U.S. prison – at the notorious San Quentin State Prison. Under the program, The Last Mile is the first nonprofit to issue to investors an Impact Security: "performance-based debt." It will "make required payments on the debt over time with donations from the established donor fund."

Well-known people and foundations "are **participating in this historic transaction**." The sixteen "donors" include Virgin Unite (the charitable foundation of Richard Branson), other Giving Pledge members, and The San Francisco Foundation. The eleven "investors" include Kate Harbin Clammer, managing director of private equity firm, Source Capital, Inc.; Duncan Niederauer, former CEO of the New York Stock Exchange; and the Omidyar Network.

Here's how it works: The Last Mile raised $800,000 from the investors which will be applied right away to fund the San Quentin web development shop. There is a designated "impact goal" of a set number of 'inmate hours worked' over the four years of the pilot program. The Last Mile also raised an additional $900,000 in donations which will be used to disburse up to that amount to itself to repay the impact investors. There is a maximum return of 12.5 percent over four years.

"The donor fund does not ensure that impact happens, but ensures that donations are only deployed if, and when, impact happens." What happens if The Last Mile does not meet its impact targets? "Investors **may lose some or all of their investment** and the donors in the fund will re-deploy the remaining funds to other nonprofits of their choosing."

Critics Weigh In On the Impact Security

Phil Buchanan, president and CEO of the Center for Effective Philanthropy (CEP) in Cambridge, MA, is "**unimpressed with the 'shiny new toy' for philanthropy**" and doesn't know "why any nonprofit would want to be on the receiving end of this arrangement." He characterized the idea of an impact security as "part of the growing trend of the 'business-ification' of the social sector.'" He wants the sector to "stop pretending that impact can be measured the way profit is measured in the corporate world. It's total fiction."

Antony Bugg-Levine, CEO of The Nonprofit Finance Fund (NFF), "is **a little more optimistic.**" While generally "excited by the potential to improve how we solve social challenges by orienting social sector funding around the results our communities need rather than just paying for activities," he explains that certain cautions are needed in order for it "to be effective."

Professor Brian Mittendorf, chair of the Department of Accounting and MIS at the Ohio State University's Fisher School of Business, **doesn't think it will bring in new capital.** "It uses leverage to put donations in a state of limbo until metrics have been met," he says, and characterizes it as "less a novel investment vehicle than it is bail bonds for nonprofits. An 'investor' puts up bond and is then incentivized to make sure the nonprofit does what they promised."

Conclusion

Notwithstanding these criticisms, the NPX founders are confident that the Impact Security is an important new vehicle to "capture the **enormous wave of impact investing dollars** — trillions of dollars — we as nonprofits have been locked out of that despite high impact work."