Risk considerations for NFP Boards when exploring Impact Investment

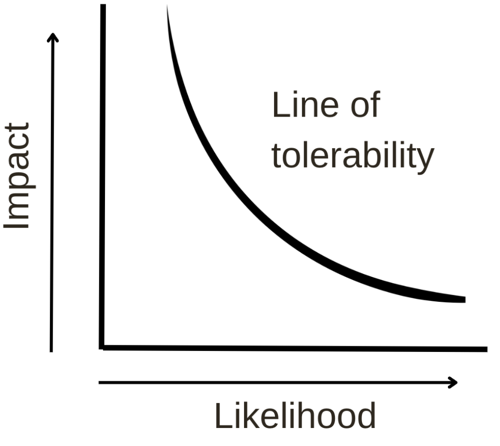
In social investment, there are really two types of fundamental risk:

1. The risk the investment will not produce the outcomes you hope for
2. The risk that the recipient will do something that impairs your future ability to make effective investments

However, for not-for-profit boards, there are deeper risk considerations.

Type of risk	Considerations
Constitutional Risk	Are the objects of the Association (if applicable) in alignment with impact investment?
Ownership of Risk associated with Impact Investment /Risk Governance structure	Where across the agency, from the Board down does risk ownership sit? Is this communicated effectively? Poor governance can also be a risk with social impact investment, leading to a lack of accountability and transparency.
What are the roles and responsibilities to ensure effective mitigation of risk?	Are the people delegated to mitigate risk appropriately skilled in Impact Investing?
Do you understand your risk appetite? As a board and management	Have you considered the types of investors? Are there ethical considerations, areas of operation, types of partnerships, fraud controls, compliance breaches or financial impact considerations
Have you assessed the impact on core service delivery and alignment with constitutional objectives? Is it mission aligned?	Will your investment disrupt or enhance our current core service delivery.? Whilst not a critical risk factor in so far as investment, however, stakeholders may require certain criteria.
Due Diligence – does Board have the expertise to undertake due diligence to assess risks and rewards	Will a sub-committee be developed with relevant experts to manage associate due diligence etc?
Reputational Risk Stakeholder perception	Dependent on how your investment funds have been generated (ie surplus from government funds) what work will be done with stakeholders to manage the perception?
Financial Risk	If the social impact investment does not achieve expected returns, how will this be managed and communicated Social Impact Investments can result in a loss of control over the use of funds, which can again be a risk if the funds are not being used in accordance with mission/constitution.

By utilising the above considerations risk can be modelled utilising the below matrix.



The horizontal axis indicates the likelihood that a risk will occur, and the vertical axis the potential impact of that risk. The area below the line of tolerability (the Board's risk tolerance) is the 'safe zone' when assessing investments against risk criteria.