How INGOs do impact invest-ing

Impact Europe

1. Introduction

International Non-Governmental Organisations (INGOs) have traditionally played a crucial role in addressing global challenges, providing humanitarian aid and fostering sustainable development. By leveraging their extensive networks, local knowledge and deep-rooted trust within communities, they have delivered critical services and implemented development projects in the world's most underserved areas. Some of the largest INGOs exemplify this reach: in 2022 alone, **Oxfam**[1] impacted 15.6 million people[2], the **Red Cross and Red Crescent Movement**[3] supported 160.7 million globally[4] and **CARE International**[5] reached 170 million[6], illustrating the scale at which they mobilise resources and deliver transformative outcomes. Their mandates and effective use of resources have allowed them to **achieve investor additionality** — generating outcomes that would not have occurred without their intervention. They have pursued this additional impact through both financial additionality, such as providing grants or running programs with a catalytic mindset, and non-financial additionality, including offering technical assistance.

However, the development landscape has posed significant challenges to the traditional operations of INGOs in recent years. Events such as the COVID-19 pandemic, ongoing Russia-Ukraine and Israel-Palestine wars, and other energy and climate emergencies have placed severe budgetary constraints on the public sector, reducing the flow of funding to INGOs. In fact, the UN reported a record funding gap for its humanitarian projects in 2022, with only a third of the required $48.7 billion secured as global needs outpaced pledges[7]. In 2024, the Official Development Assistance revealed that only five of the wealthiest countries in the Organisation for Economic Co-operation and Development (OECD) have met the UN target of allocating 0.7% of their gross national income to official development assistance[8].

These funding fluctuations and current budget constraints have influenced INGOs to rethink how they use the available capital to sustain their work[9]. They face tension between exploring more effective and innovative ways to deploy capital while remaining true to their missions and visions. As a result, many INGOs have begun to

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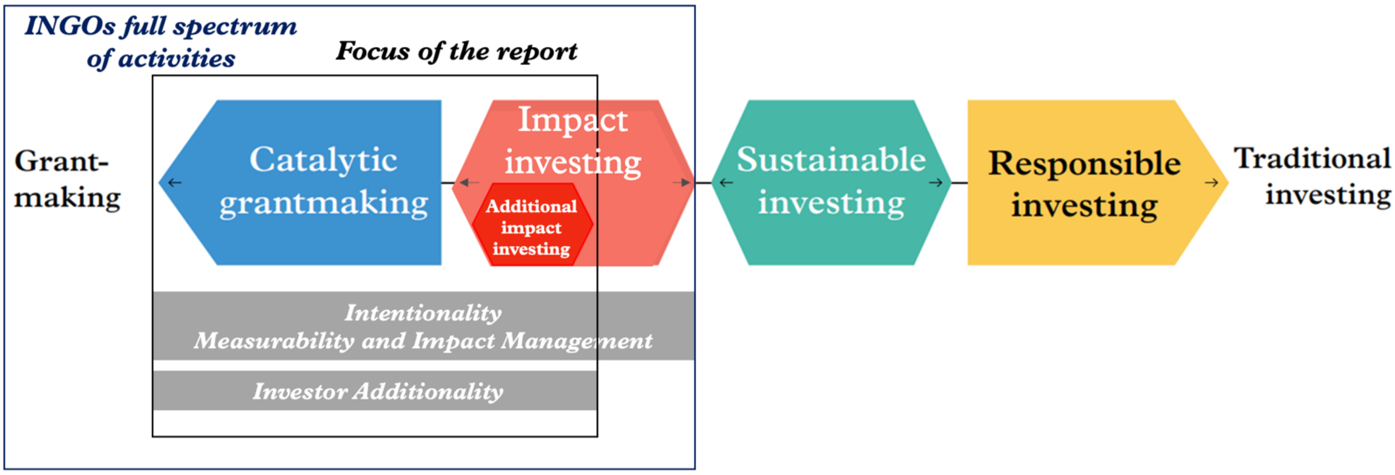
[1] https://www.oxfam.org/en
[2] (2022) ''Oxfam's Impact in 2022''. Oxfam. Available at: https://www.oxfamamerica.org/explore/stories/oxfams-impact-in-2022/
[3] https://www.icrc.org/en
[4] (2022) '' Strategy 2030''. Red Cross and Redd Crescent Movement. Available at: https://www.ifrc.org/who-we-are/about-ifrc/strategy-2030
[5] https://www.care-international.org/
[6] (2022) '' CARE analysis shines the spotlight on the most under-reported crisis of 2022''. CARE International: https://www.care-international.org/news/care-analysis-shines-spotlight-most-under-reported-crises-2022
[7] (2022) ''UN Humanitarian agencies face record funding gap this year''. Reuters: Available at: https://www.reuters.com/world/un-humanitarian-agencies-face-record-funding-gap-this-year-2022-08-12/
[8] (2024) ''Slight Increase in Official Development Assistance in 2023''. Focus 2030. Available at: https://focus2030.org/slight-increase-in-official-development-assistance-in-2023
[9] Farber, V., Reichert, P., et al ''Humanitarian Impact Finance: Instruments and Approaches''. IMD. Available at: https://www.imd.org/research-knowledge/finance/reports/navigating-humanitarian-impact-finance/

explore the continuum of capital[10], discovering strong potential in engaging in impact investing.



While INGOs engage in a broad range of activities, from traditional grant-making to impact investing, this report narrows its focus to their catalytic grant-making and impact investing initiatives.

We seek to explore the motivations behind INGOs' interest in impact investing, showcasing different pathways available to do so, and shedding light on key challenges they might encounter, as well as opportunities to amplify their impact. The insights presented in this report are primarily based on in-depth interviews, conducted by Impact Europe, with ten INGOs, nine of which have their headquarters in Europe; additional desk research complemented these interviews.

As readers engage with this report, it is important to consider **three contextual factors**: **1)** The sample size may not adequately capture the wide range of viewpoints of all INGOs involved in impact investing, even though it serves as a representative sample of those operating in Europe; **2)** The available literature on INGOs engaging in impact investing is currently limited, which may restrict the depth of our analysis; **3)** The core constituency of INGOs we consulted understands **additionality** in a way that aligns closely with our definition[11] and considers themselves as pursuers of additionality through their activities, both in financial and non-financial ways. While we acknowledge that this concept may be relatively unfamiliar to some INGOs that are newly exploring the impact investing space, we will consistently employ this definition throughout the paper to maintain clarity and coherence in our analysis.

[10] In 2017, the Omidyar Network established a framework called the "continuum of capital" to evaluate financial returns and social impact. This framework spans from fully commercial investments on one end to philanthropic grants on the other. Available at: https://omidyar.com/wp-content/uploads/2020/09/Across-the-Returns-Continuum.pdf
[11] In the impact context, **additionality** refers to achieving positive outcomes that are better than what would have happened without the investment. Discover our research on additionality. Impact Europe.

2. Why INGOs engage in impact investing

INGOs' financial support to grassroots organisations has traditionally come in the form of grants. However, grants' often-short-term nature, limited flexibility and project-specific focus might not be the best fit for organisations on the ground. Impact investing emerges as a complementary strategy to better address the needs of organisations that face constantly changing conditions and struggle to achieve long-term financial sustainability.

The literature about this strategic shift among INGOs was limited until 2016, when the **INGO Impact Investing Network[12]** released its first comprehensive report on the state of the sector. At that time, impact investing funds managed or established by INGOs amounted to $545.1 million in assets, positioning INGOs as relatively new actors within the impact investing ecosystem[13]. Interest and participation grew significantly over the following years, a trend documented in a second report from the INGO Impact Investing Network in 2018, where INGOs managed approximately $916.7 million in assets[14]. While this amount represented only a small fraction of the global impact investing market — which was estimated to be $502 billion by the end of 2018[15] — INGOs' participation in the impact investing ecosystem has steadily increased, as have the range of impact investing approaches and successful initiatives, several of which will be highlighted throughout this report.

The INGOs consulted for this research display a growing recognition of the continuum of capital and its relevance to address social and environmental challenges; some are **gradually bridging the divide between grant-making and impact investing**. This means the time is right for INGOs to look at this paradigm with fresh eyes as they are, arguably, among the most knowledgeable funders of structural problems.

INGOs engaged in impact investing strategically adapt existing financial instruments to navigate a strained humanitarian funding landscape. They innovate by redesigning their operational frameworks, refining and strengthening their strategies and introducing novel approaches

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[12] https://andeglobal.org/
[13] (2016) INGO Impact Investing Network ''Amplify II: The INGO value proposition for impact investing''. Available at: https://www.pactworld.org/library/amplify-impact-investing-ingo-value-proposition-impact-investing
[14] (2018) INGO Impact Investing Network. ''AmplifyII, The next mile of Impact investing for INGOs''. Available at: https://andeglobal.org/publication/amplify-ii-the-next-mile-of-impact-investing-for-ingos/
[15] (2018) GIIN ''Annual Impact Investor Survey '' Available at: https://thegiin.org/publication/research/annualsurvey2018/

that have not traditionally been present in the humanitarian sector. Those consulted for this research all display how this form of innovation amplifies their impact, an argument to be found later in the paper in the featured cases.

The INGOs consulted for this research engage in or consider impact investing for four main reasons:

1 It diversifies revenue sources and funding strategies
2 It helps amplify missions and programs
3 It provides fit-for-purpose funding
4 It helps scale impact

1 | It diversifies revenue sources and funding strategies

While budgets needed to address humanitarian crises continue to grow, available resources are increasingly shrinking. This mismatch has posed significant challenges for INGOs, as government cuts to overseas development expenditure have placed them under financial strain. In response, INGOs have begun tapping into new, previously unexplored sources of funding, with impact investing offering a promising approach to both broaden and diversify their financial support and experiment with new business models.

> *"Engaging in impact investment encourages INGOs to rethink their approach to problem-solving, moving beyond the traditional grant-seeking model. The goal should be solving problems, not just raising money for funds. This shift in perspective can lead to more effective solutions. To persuade INGOs to explore impact investing, it's crucial to address their dependency on grants and encourage them to think differently about solving problems".*
> - **Edward Thomas**
> **Partnerships Manager, Oxfam**[16]

From pursuing capital preservation to targeting market-rate returns, impact investing offers INGOs an opportunity to reduce their dependence on traditional donors and/or adapt to evolving capital flow dynamics. While it is unlikely to replace traditional donor funding, impact investing is expected to complement existing funding sources, providing additional flexibility to enhance and amplify the impact of

[16] https://www.oxfam.org/en

their programs. A notable example is the French-based INGO Acted, discussed in more detail in Chapter 3, which originally focused on grant-making but has now discovered a way to expand its reach through microfinance, while maintaining its core mission.

2 | It helps amplify missions and programs

In their quest to stretch existing funding further, INGOs have found in impact investing a way to expand the toolbox available for achieving mission objectives. In fact, the 2024 Beyond Grants: How Financial Innovation is reshaping humanitarian aid report revealed that the primary motivation for them to engage in impact investing was to amplify their impact by leveraging private capital and enhancing efficiency and effectiveness of their resources[17].

Complementing traditional grant funding, impact investing equips INGOs with a new range of financial instruments and financing mechanisms — e.g., loans, debt and equity — that are more **versatile, flexible and often better suited to the evolving needs and long-term sustainability** of the organisations they support. These instruments also help INGOs unlock new types of capital by either attracting additional capital providers to support their projects — e.g., through blended finance— or enabling them to recycle funds into new initiatives.

INGOs' extensive knowledge of local contexts and sector expertise make them a perfect example of additional impact investors. For example, because ACTED understood the specific challenges their beneficiaries faced in accessing materials to develop agricultural activities in Central Asia, they were able to adapt and launch microfinance initiatives tailored to meet these needs. Such an example reflects how INGOs can direct investments to impact organisations that often target underserved capital markets and contribute to addressing social and/or environmental challenges[18]. This unique positioning of INGOs, complemented with a broader financial toolbox, enables them to address significant gaps in the market. A wider array of complementary financial tools lets INGOs support initiatives with growth potential; mainstream capital providers often perceive such initiatives as too risky, not investment-ready or financially unattractive, especially in the challenging contexts in which they operate.

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[17] (2024) Reichert, P., Farber, V., "Beyond Grants: How Financial Innovation is reshaping humanitarian aid". IMB. Available at: https://www.imd.org/ibyimd/finance/beyond-grants-how-financial-innovation-is-reshaping-humanitarian-aid/
[18] (2024) Gaggiotti, G., Gianoncelli, A. "The 5 Ws of Impact Investing" Impact Europe. Available at: https://www.impacteurope.net/insights/5-ws-impact-investing

Incorporating repayable instruments in their funding strategy has also allowed INGOs to experiment with and implement new financial models tailored to support innovation. The traditional funding system used by INGOs has tended to prioritise processes, compliance and risk management over results-oriented activities. In contrast, this new approach not only supports the development of cutting-edge solutions but also accelerates progress on critical issues by providing the necessary patient capital in a more adaptable and outcome-driven manner. For instance, unlike traditional grants that often impose strict criteria and timelines that can limit innovation, repayable grants and impact investments allow INGOs to pursue longer-term, scalable solutions. This flexibility enables INGOs to focus on achieving specific, measurable outcomes, such as reducing malnutrition rates by increasing access to nutritious food sources, or providing vocational training that leads to job placements for marginalised communities. With these funding mechanisms, resources can be reinvested based on demonstrated success, rather than being confined to rigid project-specific deliverables. However, it is worth acknowledging that both traditional funding and innovative financial instruments are essential for INGOs, albeit applied in different contexts.

3 | It provides fit-for-purpose funding

Expanding the variety of financial tools generally results in more tailored and effective support for the impact organisations INGOs work with. INGOs that have taken this approach recognise that **not all problems their grantees are addressing are grant-shaped,** and that a significant part of their success in resolving them may depend on being supported with the right financial instrument.

Expanding the financial toolbox slightly changes the way INGOs have historically operated. It moves beyond traditional donor-recipient dynamics, towards a **more collaborative and adaptable partnership**, putting the investee needs at the core and designing the appropriate funding instrument around them.

Such a relationship becomes even more sophisticated when an organisation needs multiple financial instruments at different stages of its growth. This requires INGOs to deeply understand the organisation's needs and maintain the flexibility to adjust or blend funding types, ensuring that the appropriate resources are available at each phase of the organisation’s development. For example, an impact organisation operating in a fragile context may require an initial grant to build capacity and stabilise operations, followed by a loan to scale its services once it reaches a certain level of maturity – see the case of **World Food Programme (WFP)**[19].

This fit-for-purpose approach typically leads to better alignment with on-the-ground realities and results in more resilient and sustainable impact organisations. With access to a broader range of financial resources, impact organisations are better equipped to navigate both internal and external challenges.

4 | It helps scale impact

The humanitarian sector's ability to scale impact is often impeded by grant funding being tied to short-term results and risk mitigation. While this donation-based approach is still necessary, it risks leaving innovative solutions unsupported at the crucial stage of scaling; it also results in limited opportunities for investment in organisational and operational capacity.

The shift towards impact investing has introduced a new set of financial instruments that have the potential to address some of these limitations. The flexible and patient nature of these instruments enables INGOs to support impact organisations over extended periods, accommodating the time required to develop, pivot and scale innovative solutions. This approach helps bridge the gap between initial development and widespread implementation, which requires some form of financial sustainability.

At the same time, INGOs are increasingly acknowledging the role of private capital in scaling impact within the development sector. By leveraging their deep expertise, extensive local and regional outreach and strong global alliances, INGOs are uniquely positioned to leverage public finance to attract and unlock private capital. Primarily through blended finance approaches, they are adopting a versatile role — providing technical assistance, guarantees[20], first-loss capital or co-investment — that helps reduce the perceived risk for private investors, making it more feasible for them to invest in projects that might otherwise be deemed too risky. The case of Helvetas, elaborated upon in Chapter 3, exemplifies how engaging with market actors and systems can mobilise impact investing and ultimately finance those organisations that are perceived as high-risk.

[19] https://www.wfp.org/
[20] This report includes a dedicated chapter that further elaborates on this instrument.

3. How INGOs can engage in impact investing

INGOs have multiple avenues to engage in impact investing, with their strategies shaped by their missions, mandates, risk tolerance and organisational capabilities. Yet, they all fit the description of an **additional impact investing approach**, committing to finding where **they can add the most value** within the sector. It is worth clarifying that engaging in impact investing does not intrinsically mean investing capital; INGOs can also leverage their versatile roles to act as facilitators, advisors or ecosystem builders.

INGOs consulted for this research do not see engagement in this space as a radical shift from traditional activities, rather as a progressive step that builds upon and strengthens existing strategies. However, successfully integrating this approach requires more than a strategic adjustment; it needs a fundamental transformation within the organisation, involving changes in processes, mindsets and capabilities. Consequently, INGOs must carefully assess their own readiness to engage.

To that end, it is essential for INGOs to start with **three key considerations**:

1. Does impact investing align with the INGO's goals and objectives?
2. If it does, what is the most suitable strategy to engage?
3. Does the INGO have the capacity to execute this strategy?

Conducting a thorough internal analysis is a first step to get answers. A focus on assessing the organisation's capabilities, resources, strengths and weaknesses not only helps identify potential entry points in the field but also spot areas where INGOs can add the most value and pursue additionality.

In practice, this value addition is reflected in **two practical approaches: direct and indirect engagement in impact investing**. Direct engagement involves INGOs acting as impact investors, either through direct capital deployment or via intermediaries. Indirect engagement positions INGOs as facilitators within the ecosystem: mobilising capital, providing technical assistance and strengthening the broader impact investing landscape.

3.1. Direct Engagement

INGOs' extensive field experience and nuanced understanding of the capital access barriers that impact organisations face can make them well-suited to operate as impact investors. Their role, however, diverges significantly from that of mainstream impact investors; **INGOs step in where conventional investing approaches fall short, facilitating interventions that would not otherwise happen**.

Part of their unique position also stems from their expectations for financial returns. Their additional approach, **which may accommodate below-market rate returns and/or prioritise capital preservation**, enables INGOs to channel capital into impact organisations in the 'pioneer gap' or 'missing middle' (organisations needing funding between $100,000 and $1 million). Some INGOs already active in impact investing target market rate returns, but they are a minority. In fact, a 2018 survey by the Impact Investing Network found that only 24% of the 29 respondents reported seeking market returns[21].

Direct engagement represents an effective approach for bridging substantial funding gaps. INGOs can deploy different financial tools, depending on their resources, targeted gaps and pertinent legal frameworks. Ranked in this report by their level of complexity, the most commonly used tools in this context include: A) repayable financial instruments within programmatic activities, B) microfinance, C) investing through intermediaries and D) setting up an impact investment vehicle.

A. Repayable financial instruments within programmatic activities

INGOs have increasingly adopted repayable financial instruments within their programmatic activities as a strategic means to amplify their impact. Deploying loans or equity has not only proven effective in meeting specific funding needs of investees, it also enables them to work on their-long term financial sustainability and bridge the gap between grant funding and repayable capital.

This approach has been compelling for those INGOs whose mandate and organisational structures do not accommodate more sophisticated financial vehicles, such as impact investment funds or outcome-based finance. By broadening their financial toolbox, they can develop more nuanced programs that support impact organisations at various stages of development, from initial incubation to full-scale operations, ultimately increasing the quality of their services.

To better support impact organisations throughout their lifecycle, INGOs may adopt **a phased approach in their strategies**. In the early stages of ventures, they often

21 (2018) Amplify ii: The Next Mile of Impact Investing for INGOs. Available at: https://andeglobal.org/publication/amplify-ii-the-next-mile-of-impact-investing-for-ingos/

establish incubators or accelerator programs that combine essential capacity-building, technical assistance, mentorship and investment readiness with financial support, mostly in the form of grants. These programs help ventures professionalise while allowing room for testing and de-risking ideas. As ventures progress, INGOs may consider transitioning to repayable instruments to better address their evolving financing needs.

To exemplify this approach, the **World Food Programme (WFP)** has recently developed an innovative structure aimed at bridging the gap between grant funding and repayable capital for impact organisations. Through its WFP Innovation Accelerator, WFP acts like a startup accelerator, helping both internal teams and external ventures refine their ideas to improve service delivery. Historically, the **WFP Innovation Accelerator**[22] provides grants funding. However, growing capital needs and the ongoing challenges impact-driven businesses face in accessing traditional financial instruments underscore the need for more diverse capital offerings.

Recognising this need, WFP partnered with the **United Nations Capital Development Fund (UNCDF)** to launch the **WFP BRIDGE**[23] in September 2023. This partnership allowed WFP to complement its global scale and expertise with UNCDF's investment mandate and deploy concessional debt (low-interest loans) and guarantees through UNCDF.

The WFP BRIDGE is currently structured into two key sub-windows:

1. WFP Innovation BRIDGE: Targets external impact businesses from the WFP Innovation Accelerator and regional innovation hubs, providing concessional debt and guarantees, enabling ventures to move beyond grant dependency and access returnable capital.
2. WFP Rwanda BRIDGE: This initiative supports organisations along agricultural value chains in Rwanda, with a specific focus on generating outcomes for youth and women entrepreneurs. The facility forms a part of a wider programming sponsored by Mastercard Foundation.

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[22] https://innovation.wfp.org/
[23] https://innovation.wfp.org/project/wfp-innovation-bridge

"The complementarity of grants and other types of capital has become an important element to how we approach our programmatic activities. There is a journey of grant support before impact businesses reach a certain level of maturity and sustainability in the contexts within which the WFP operates. At that point, we provide investment readiness support to ensure that impact businesses are prepared to accept returnable capital."

- **Nora Praher**
  Innovative Finance Venture Lead, WFP

To complement its support for impact businesses at the Small and Medium-sized Enterprise (SME) level, WFP launched the SheCan Initiative, a blended finance program designed to provide tailored, gender-responsive loans at the micro level, particularly targeting women in agriculture. In addition to offering technical assistance to de-risks these borrowers, SheCan partners with microfinance institutions (MFIs), using blended capital to encourage them to serve these borrowers who are often viewed as too risky or not viable.

Through these initiatives, WFP has developed a structure that combines technical assistance, concessional debt, and guarantees to support impact businesses, particularly those focused on youth, women, and climate finance. It is worth noting that by leveraging partnerships, WFP is now able to deploy returnable capital while maintaining its focus on programmatic objectives and better serving their programmatic needs. At the same time, repayable instruments allow them to recycle the capital deployed, enabling them to use the same pool of funding to support multiple impact businesses over time.

This approach not only creates a more flexible and dynamic funding environment but also maximises resource efficiency, increases risk tolerance, and shifts the focus toward innovative solutions and partnerships that traditional grant making might not have initially served.

How is the United Nations engaging in Impact Investing?

The UN is increasingly exploring pathways for innovative finance, including through impact investing in SDG-aligned operations. Its capacity for impact investing is limited by specific mandates and constraints at each agency level. The majority of UN agencies lack the mandate to invest directly or deploy returnable capital to the private sector.

However, there are a few exceptions, notably the **United Nations Capital Development Fund (UNCDF)[24]**. UNCDF is uniquely positioned to address gaps in the current development finance architecture through blended finance solutions that aim to de-risk investments and enhance access to capital, particularly in fragile contexts where traditional financial mechanisms often fail.

UNCDF was established in 1966 with a unique mandate to support countries to expand their traditional sources of capital. With its unique on- and off-balance sheet instruments, it effectively expands the toolkit available to the broader UN system for financing development and the SDGs. As the Addis Ababa[25] and Financing for Development[26] agendas have gained momentum, UNCDF's unique capacity to deploy capital to the private sector for SDG-aligned impact has gained attention and relevance.

As a non-credit rated hybrid development and finance institution, UNCDF's unique value proposition lies in its dual role as an off-balance sheet de-risker for national governments and larger development finance institutions, unlocking domestic capital and attracting larger private finance sources, while augmenting the development impact of the UN system through its distinctive investment capabilities (performance-based payments, guarantees and fit-for-purpose financial instruments). It works in combination and in sequence with other capital providers to catalyse greater flows of capital to meet the SDGs. Active financing partnerships include investing in child

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[24] www.uncdf.org

[25] "The Addis Ababa Action agenda establishes a strong foundation to support the implementation of the 2030 Agenda for Sustainable Development. It provides a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities" UN Sustainable Development Goals. Available at: https://sustainabledevelopment.un.org/index.php?page=view&type=400&nr=2051&menu=35

[26] The Financing for Development (FfD) agenda is a framework established by the United Nations to promote sustainable development through increased financial resources and investments. It aims to mobilize both public and private funds to support the achievement of the Sustainable Development Goals. Available at: https://www.un.org/sustainabledevelopment/financing-for-development/

nutrition and local manufacturing in collaboration with **UNICEF**[27] and investing in food systems innovation in collaboration with WFP.

UNCDF looks at ticket sizes between $500,000 and $5 million, providing an offering that complements other DFIs. It operates with a commitment to support the growth of early-stage, revenue-generating businesses, and filling capital gaps where other DFIs may not operate. UNCDF also regularly deploys portfolio guarantees in partnership with local, domestic financial institutions to engage with SMEs, particularly women- and youth-led SMEs, that need access to private capital.

UNCDF's expected financial returns are closely linked to their capital sources. As they cannot raise funds from capital markets and are primarily donor-funded, their asset growth is built on contributions from countries and foundations that perceive the unique added value and development impact multiplier of an investment agency with the UN deploying and recycling capital.

B. Microfinance

INGOs are increasingly incorporating microfinance activities into their impact investing strategies to address a critical gap in access to financial services. While there is a diversity of microfinance models, the subset Impact Europe classifies as impact investing pertains specifically to microfinance services targeted at impact organisations and/or underserved segments such as Micro, Small and Medium-sized Enterprises (MSEs) or disadvantaged individuals, among others[28]. Microfinance institutions provide localised financial support through small loans to MSMEs. They do this to fill a gap created because public and commercial banks are often reluctant to lend to smaller businesses, particularly those operating in disadvantaged areas or serving vulnerable populations, due to perceived risks.

The approaches that INGOs adopt to participate in microfinance vary. Many make **investments in microfinance institutions (MFIs)**, providing the funds that such institutions need for growing their lending operations to reach more underserved clients. Integrating microfinance services into INGOs' **programmatic activities** is also a common approach, often carried out in partnership with local organisations, to provide financial services such as small loans, savings accounts and insurance to marginalised populations. A few INGOs take the extra step of **establishing their own microfinance institutions**, either independently or in partnership with local stakeholders.

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[27] https://www.unicef.org/
[28] (2022) Gaggiotti, G., Gianoncelli, A. ''Accelerating Impact''. Impact Europe. Available at :https://www.impacteurope.net/insights/accelerating-impact

One such example is **ACTED**[29], a French-based INGO founded 30 years ago during the Afghan refugee crisis of the 1990s[30]. Originally focused on humanitarian relief, development and protecting human dignity through grant-making Acted soon recognised that, in specific contexts, achieving sustainable development required a deeper investment in local economies and existing market structures. This mindset paved the way to explore microfinance solutions in Central Asia, where Acted used first grants to create revolving funds and began issuing microloans. As demand grew beyond what they could handle as an INGO, they formalised these efforts by creating MFIs in Kyrgyzstan, Tajikistan and Afghanistan. They established a holding company with three affiliates in these regions, with Acted holding nearly 90% of the shares.

Having successfully engaged in the microfinance sector and having gained valuable impact investing experience through this endeavour, Acted now seeks to expand its impact investment capabilities to launching and financing investment projects that deliver social and environmental impact along with appropriate financial returns. Infrastructure and natural capital are two emerging frontiers that, along with Acted's existing microfinance operations, will form the base of Acted's impact investment strategy.

> "*Microfinance was a gateway to first connect with the investment world, allowing us to attract nearly 45 million EUR from European social impact funds through bond issuance. This invaluable experience equipped us to raise, manage and repay investments in a sector where few field actors hold such expertise*"
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> - **Aurélien Daunay**
>   **Vice CEO Mobilisation, Innovation & Investment, ACTED**

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[29] https://www.acted.org/en/

[30] The Afghan refugee crisis of the 1990s was a result of ongoing conflicts and instability in Afghanistan, primarily due to the Soviet-Afghan War and the ensuing civil war in 1990s. These crises led to substantial displacement, particularly to Pakistan and Iran, which hosted the majority of Afghan refugees at the time. UNCHR. Available at: https://www.unhcr.org/publications/refugees-magazine-issue-108-afghanistan-unending-crisis-iranian-surprise

C. Investing through intermediaries

Although INGOs have a vast network of organisations that could benefit from their direct capital deployment, those new to the concept of impact investing often opt for investing through experienced intermediaries as a starting point. Partnering with intermediaries is a prudent strategy for INGOs facing one or both of the following circumstances: **1)** They want to amplify their impact but are restricted by mandates that prevent direct investments; **2)** they seek to allocate capital efficiently without the need to build in-house investment capabilities or take on the complexities of sourcing and evaluating investment opportunities independently.

Additionally, a key benefit of working with intermediaries is **risk mitigation**. Direct investments in impact organisations can be challenging due to the high-risk nature of early-stage ventures or the volatile environments in which they operate. Intermediaries can help INGOs manage these risks by providing expertise and experience in selecting and managing investments, ensuring that capital is deployed effectively to support recipients in achieving the intended impact.

These were precisely the initial steps taken by **Ayuda en Accion**[31], a Spanish INGO focused on socioeconomic inclusion, when they ventured into impact investing. They first invested in three pioneering initiatives within the impact investing space, **Global Social Impact Investment**[32]**, Hivos Impact Investments**[33] and **Fondo de Fundaciones**[34]**.** They then hired, in early 2023, a full-time impact investing director tasked with building —with the support of **Kaya Impacto**[35], a Latin American B Corp financial consulting firm— their internal capabilities to make direct investments independently and build a diversified portfolio, including both direct and indirect investments. Since then, **Boosting Opportunities**[36] —the impact investing initiative of Ayuda en Acción— has made four additional investments. Further details can be found in the following section.

INGOs with experience in impact investing often choose this strategy as an effective way to expand their efforts.

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[31] https://ayudaenaccion.org/
[32] https://globalsocialimpact.es/
[33] https://hivosimpactinvestments.com/
[34] https://fondodefundaciones.es/
[35] https://kayaimpacto.com/en/
[36] https://boostingopportunities.com

Oxfam Novib[37], for example, which has been engaged in impact investing for almost 30 years and set up investment funds and repayable instruments into their programmatic activities, **has also built a solid track record of successfully working with intermediaries**. One of their most successful cases was the co-creation of **Triple Jump**[38], an impact-focused investment manager that spun off from Oxfam Novib in 2006 and currently manages around €1.1 billion in assets and oversees seven investment funds, portfolios or mandates. This successful model has paved the way for further collaborations with experienced and responsible asset managers, with a prominent example being Oxfam Novib's partnership with **Goodwell Investments**[39] to establish a €20 million fund dedicated to supporting early-stage businesses in East Africa, particularly targeting the 'missing middle.' With Goodwell Investments managing the fund, this collaboration is notable as one of the rare instances where an INGO and an impact investing firm have jointly developed an investment program specifically tailored to SMEs.

D. Setting up an impact investing vehicle

One of the most sophisticated approaches to engage in impact investing is setting up an impact fund vehicle. This strategy is often adopted by INGOs that initially engaged in impact investing through intermediaries and now have a dedicated, robust team with financial and impact expertise.

INGOs that have pursued this strategy have often created separate vehicles to distinguish their investment activities from core charitable work, thereby protecting their reputation, managing risks and streamlining investment processes (see the case of Ayuda en Accion below). This allows INGOs to enter an ongoing process wherein they can build internal capacity and strategically determine how impact investing complements their core functions.

The first step for INGOs using this vehicle is to establish a clear **investor thesis and impact strategy**. Consulted INGOs that took this option built their impact fund vehicle specifically to bridge the capital shortages that high-potential impact organizations face, which are often hindered by inadequate ticket sizes, unfavourable financial return conditions or high-risk profiles. The primary goal is therefore not to disrupt the market but to address these capital gaps effectively.

37 https://www.oxfamnovib.nl/
38 https://triplejump.eu/
39 https://goodwell.nl/

The benefits of this approach are significant: setting up impact fund vehicles allows INGOs to streamline and better manage the capital they deploy. By managing investments directly, INGOs can align their investments more closely with their mission and accelerate decision-making. With no other parties involved, interactions are simplified between the INGO and the supported impact organisations. However, this direct approach also has a downside for capital recipients, as it might limit their opportunities to build relationships with local stakeholders, such as banks, which are important for securing additional funding and fostering long-term success.

This approach also has an impact for INGOs, which often face hurdles in securing capital for their investments, whether through their own funds or external fund managers. Most of them concentrate on the missing middle, and these investments are typically high-risk; they require patient capital with long investment horizons, often extending beyond 10 years, and may offer returns below market-rate. Targeting the missing middle also demands careful segmentation and adaptability to diverse market conditions across different countries, which can impact the fund's liquidity or the ability to attract investors. Yet, the 2018 INGO Impact Investing Network survey supports this approach: the investments reported by the 45 survey respondents ranged from $10,000 to $20 million, with an average investment size of $702,500[40], showing alignment with the ticket sizes typical of the missing middle, $100,000 to $1 million.

Spanish INGO **Ayuda en Acción**, who is still early on its impact investing journey, exemplifies how an organisation can integrate impact investments with their core philanthropic activities. To lay the groundwork for their investment activities, they launched a pilot program using their foundation's own capital; they conducted in-depth research and test their approach to refine their investment strategy.

Later on, the INGO set up Boosting Opportunities, a wholly owned limited company, to manage their impact investments, separating it from their core charitable work to ensure clear governance. They designed an investment vehicle to support SMEs with a focus on capital preservation and an explicit goal to contribute to reducing poverty and inequalities that affect local communities and vulnerable populations alongside strengthening the socioeconomic fabric of the territories where the foundation operates. The fund's hybrid strategy, which combines different financing mechanisms, has developed a fully active pipeline of both direct and indirect investments. A unique aspect of their

[40] (2018) INGO Impact Investing Network. "AmplifyII, The next mile of Impact investing for INGOs" Page 16. Available at: https://andeglobal.org/publication/amplify-ii-the-next-mile-of-impact-investing-for-ingos/

model is how the investment vehicle seek to integrate closely with the foundation’s activities.
While the foundation incubates high-potential, early-stage projects through grants, they hope for some of these to transition to investment prospects as they mature and become ready for repayable instruments. Additionally, the fund supports more mature social enterprises, sourced principally from a strong network of local allies. Ultimately, the goal is for invested companies to benefit from and/or participate in the foundation's other programs (such as **Qallariy**[41], its Peruvian accelerator), creating a feedback loop where they provide insights that inform the foundation's broader philanthropic work, strengthening future programs.

When looking at pioneers in the sector, **Save the Children**[42] stands out as one of the INGOs with the most solid track record in testing and building various impact investing models. In 2020, they launched one of the first INGO-led social impact funds through **Save the Children Australia**[43], raising USD 7.4 million to invest in edtech, e-health and fintech start-ups that support disadvantaged children and families. As a fund that displays the traits of additional impact investing, it targeted a 5-7% internal rate of return over 10 years, and already managed to deploy 60% of its capital. Building on this, Save the Children launched **Global Ventures**[44] to provide a suite of products in three areas: Impact Investment – where a $50m debt fund is due to reach first close in 2024; Innovative Finance – in areas such as disaster risk financing, energy transition and access to finance to grass root organisations; and Climate Finance – where a Nature Based Solutions accelerator has been launched.

41 https://ayudaenaccion.org/proyectos/articulos/qallariy-aceleradora/
42 https://www.savethechildren.org/
43 https://www.savethechildren.org.au/
44 https://scgv.org/

3.2. Indirect engagement

Alongside providing capital, INGOs have increasingly taken on an indirect role in impact investing by acting as key partners to impact investors. They help de-risk investments in two ways: **1) Non-financially,** through capacity building and technical assistance activities, both of which enhance the operational effectiveness and strategic positioning of impact organisations; **2) Financially**, providing first-loss grants or guarantees.

These two roles demonstrate that INGOs are not always required to master the financial complexities of investment structures to engage in impact investing. Instead, INGOs can effectively partner with experienced impact investors to handle these complexities, enabling them to focus on their core competencies: generating and sustaining impact in vulnerable contexts, leveraging their field experience and network.

A. Capacity building and technical assistance

INGOs can add value to impact investments through capacity building activities and technical assistance. Their unique value lies in their ability to **support both supply and demand**, not only benefiting the organisations they support but also impact investors and other stakeholders involved in tackling specific challenges.

In working with impact organisations, local institutions and private actors, INGOs provide a broad range of non-financial support, including capacity development and training — typically funded by donor programmes — as well as assistance with business plan creation, impact measurement and management, fundraising and scaling operations. Given their extensive experience in the field, INGOs have developed frameworks that measure both social and financial return on investment, creating a transparent and accountable impact investment pipeline. INGOs screen organisations in similar ways to impact investors. When organisations are not yet investment-ready, or are still in the early stages of development, it makes them particularly vulnerable, and placing them in the so-called "valley of death." In their efforts to bridge these gaps, INGOs deliver substantial **non-financial additionality**, enabling impact organisations to become more investment-ready and supporting their path to sustainable growth.

Behind their motto "*Think Local – Act Global*", Acted has a longstanding track record of providing non-financial additionality to SMEs and local institutions. They offer training to develop technical skills and core competencies in business management, while also creating reliable networks to facilitate expansion. A prime example of this effort is their support for 300 agricultural SMEs in rural Sri Lanka, which aims to diversify business activities, engage in e-commerce and develop business recovery plans to build resilience. Through this project, Acted seeks to enable tailored, risk-sensitive business development by providing specialised training in technical and management skills[45].

The additionality component is still present when INGOs partner with impact investors, especially when the target population is perceived as hard to reach or the region is considered too risky. When impact investors lack comprehensive understanding of local environments, yet still aim to minimise risks, INGOs can jump in as the best partners due to their understanding of local environments. Acting either as advisors or service providers, on a case-by-case or opportunistic basis, their technical assistance focuses mostly on impact measurement and management; they also source deals and support in balancing positive impact and financial returns[46].

INGOs can also provide technical assistance to other capital providers, particularly when they partner with established microfinance institutions to enhance their efficiency, market presence and integration of digital financial solutions that support environmental sustainability. A prime example of this is Oxfam Novib's work in advancing green inclusive finance in Sub-Saharan Africa. This work supports microfinance institutions to deploy digital financial solutions aimed at increasing access to renewable energy products and climate adaptation resources. By supporting MFIs in integrating digital services, Oxfam Novib enhances financial inclusion for underserved communities, helping them to access environmentally sustainable options[47]. This approach not only builds climate resilience but also addresses critical gaps in the provision of affordable, clean energy and other green resources in vulnerable regions.

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[45] Acted ''Sri Lanka: Bringing support to small businesses in rural areas". Available at: https://www.acted.org/en/sri-lanka-bringing-support-to-small-businesses-in-rural-areas/

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[47] Green Inclusive Finance in Sub-Saharan Africa: Enabling environments, challenges and opportunities. Oxfam Novib. Available at: https://www.oxfamnovib.nl/donors-partners/about-oxfam/projects-and-programs/oxfam-novib-investments/rising-from-the-rubble-rukhsana-s-battle-against-climate-disasters/green-inclusive-finance-in-sub-saharan-africa

B. Mobilising capital

In preparing local organisations for investment and operational effectiveness, INGOs are making significant efforts to help them mobilise capital. Their indirect engagement in impact investing often includes acting as **funding facilitators**, ensuring that capital is channelled effectively toward such high-impact initiatives by bringing together different stakeholders, whose expectations for returns and impact often vary.

"We do not intend to become a huge financial player ourselves, but rather a facilitator to connect different actors and to support them in filling the gap for the businesses in the so called ‘'missing middle' until they are ready to be invested by more commercial oriented impact investors." **Andreas Müller, Advisor for Financial Inclusion and Private Sector Engagement, Helvetas[48].**

Some INGOs use **guarantees** to mobilise capital. As a risk-mitigation tool in the development sector, guarantees are a legally binding agreement under which the guarantor (in this context, the INGO) agrees to pay a part or the entire amount due on a loan, equity or other financial instruments in the event of non-payment by the borrower or loss of value in the case of investment[49]. In other words, a guarantee involves a third party agreeing to cover part of the potential losses for investors, which helps make investments in high-impact but higher-risk projects more appealing.

The use of guarantees is strategically valuable for INGOs for several reasons:

1. **De-risking:** Guarantees can reshape the risk-return profile of investments and ease credit barriers for underserved borrowing organisations. This allows organisations to attract additional capital that would not flow to that type of deal without the INGO's involvement.
2. **Flexibility:** Guarantees are customisable, serving various development purposes: they can support high-impact investments in risky markets, de-risk local banks' loan portfolios for SMEs or transfer risks from local financial institutions to better serve underserved borrowers[50].
3. **Blend-able:** Guarantees can be integrated into **blended finance structures**, broadening the pool of capital available for development initiatives and/or for supported organisations[12].

[48] https://www.helvetas.org/en/switzerland
[49] (2021) ''Making Blended Finance Work for Sustainable Development. The role of Risk Transfer Mechanisms''. OECD. Available at: https://one.oecd.org/document/DCD(2021)16/en/pdf
[50] Idem

Helvetas exemplifies the effective use of guarantees through their implementation of the Market System Development (MSD) approach[51], where they have been engaging with market actors and systems to mobilise impact investing. In their project in Ethiopia, Helvetas is partnering with two distinct financial institutions[52] to create loan guarantee funds[53], thanks to which they can finance high-risk organisations. After Helvetas establishes the loan guarantee funds and forms key partnerships with local financial institutions and community organisations, Helvetas aims for these institutions to eventually take over the management of the funds. This would ensure that support for underserved communities continues even after Helvetas' involvement ends. Helvetas challenges these financial institutions by presenting a strong business case for lending, proving the value of investing in these communities. Helvetas does not pursue financial returns, instead focusing on facilitating connections between stakeholders to unlock additional capital[54].

INGOs' extensive knowledge of local contexts is a significant asset in mobilising capital for high-impact projects in underserved markets. While more mainstream impact investors might be reluctant to target these markets, due to high due diligence costs, particularly in blended finance deals, INGOs can leverage their deep local expertise and established networks **to streamline the due diligence process**. This capability helps reduce transaction costs and mitigate the risks associated with investing in challenging environments, making such projects more attractive to potential investors.

[51] The Market System Development (MSD) approach focuses on improving market conditions to benefit poor and marginalised people who are commercially active. Instead of directly supporting individuals with inputs or training, which only addresses symptoms, MSD targets the root causes of market dysfunction. It aims to change the incentives, behaviours, and rules of market players, aiming for sustainable, large-scale impact. (Swiss Agency for Development and Cooperation SDC)
[52] Helvetas has established two MoUs with these financial institutions, with one still under negotiation.
[53] A loan guarantee fund is a financial mechanism that encourages lending by providing guarantees to lenders (such as banks) for loans to specific borrowers. These funds reduce the risk for lenders, making them more willing to extend credit to individuals or businesses that might not qualify for traditional loans. Typically used to support small businesses, these funds can be financed by government entities, non-profit organisations, or international development agencies.
[54] (2024) "NGOs as Impact Investors". Impact Europe. Available at: https://www.impacteurope.net/insights/ngos-impact-investors

4.Common challenges

INGOs venturing into the impact investing space have encountered scepticism from both internal stakeholders and broader ecosystem actors. A recurring point among consulted organisations is whether they have the necessary skills or if they can bring additional value beyond what impact investors usually provide. These challenges, whether perceived or real, represent significant hurdles that INGOs must navigate as they explore impact investing.

4.1. Internal challenges

The first internal challenge INGOs must address is the **shift in organisational culture** required for engaging in impact investing. Traditionally, INGOs have been impact specialists, often operating within a model of one-way capital flows, where funds are provided as grants or donations without expectation of repayment. For those accustomed to this model, the introduction of repayable investments might seem contradictory, with a common question being: **will this approach undermine our ability to reach the most vulnerable communities**?

This transition, therefore, needs significant internal sensitisation and a substantial mindset shift. The challenge lies in aligning impact investing with the INGO's core mission, demonstrating that it does not conflict with core activities but rather complements and amplifies them. Governing bodies and top management must be the first to understand how this strategic shift can strengthen the INGO’s mission. INGOs consulted for this research perceive management buy-in as one of the most challenging components of this cultural shift, yet it is crucial for allocating necessary resources and approving strategic directions. When governing bodies have championed impact investing, it has facilitated effective communication and endorsement throughout the rest of the organisation, fostering a working environment that is receptive to this approach.

A second internal challenge INGOs face is developing the necessary capacity to effectively engage in impact investing. This involves acquiring different skills, such as investment expertise, which are distinct from those used in grant-based funding and program execution. Added to this is the need to address the limited expertise within legal departments for handling financial transactions beyond grant-making. Building such capacity is a gradual process, often slow and complex. Many INGOs may initially lack the financial expertise needed, requiring them to reassess traditional operations, evaluate existing human resources and bring in new team members with backgrounds in finance, SMEs, private sector operations or related fields.

INGOs that engage in impact investing are also confronted with **legal and regulatory barriers**. One of the primary ones is **restrictive mandates**, where internal policies or organisational structures limit their ability to directly participate in investment activities. A clear example of this is UN Agencies like the World Food Programme (WFP), which requires the collaboration of the investment arm of the UN, the United Nations Capital Development Fund (UNCDF), to make repayable financial instruments available for their programmatic activities[55].

Complex structures or rigid legal frameworks, especially in large, bureaucratic organisations, can slow down the structuring and deployment of new financial mechanisms. This points to the need for INGOs to perform a comprehensive internal analysis to determine their legal and regulatory boundaries and develop impact investing strategies accordingly.

4.2. External challenges

INGOs call on unique expertise to contribute to impact investing, yet they still encounter challenges in gaining recognition from other public and private stakeholders in the ecosystem. Many[56] continue to view them as charitable organisations focused on traditional development, service provision, technical assistance or pipeline sourcing. Such perception often limits their recognition as potential partners capable of unlocking capital, providing catalytic funding or de-risking investments through blended finance. To address this issue, several initiatives have

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[55] For more information, see the box titled '' How is the United Nations engaging in Impact Investing?''
[56] Many stakeholders, including impact investors, continue to perceive INGOs as primarily focused on traditional development or humanitarian work rather than as strategic partners in impact investing. ''NGOs as Impact Investors'' Impact Europe. Available at: https://www.impacteurope.net/insights/ngos-impact-investors

emerged, such as **Alliance 2015**[57], a network of seven European NGOs focused on humanitarian and development action, that aim to clarify the role INGOs can play in impact investing and to position them as effective partners for both financial and non-financial engagement.

Partnering with impact investors also presents its own set of challenges, particularly due to the prevalent **mismatch between ticket sizes**. INGOs often support impact organisations that require smaller amounts of capital, which do not align with the larger ticket sizes typical of many mainstream impact investors. As a result, the high investment thresholds of these investors can create barriers for INGOS, making it difficult to structure deals that would direct capital to such ventures. Transaction costs associated with these large investments can also add another layer of complexity to the partnership, as these costs can be disproportionately high relative to the scale of the projects or impact organisations involved.

Such practical imbalances led INGOs to consider and prioritise blended finance approaches, combining philanthropic capital with other forms of investment to create a more balanced and flexible funding structure capable of reducing the overall cost of capital and align the interests and investment sizes of different investors.

Jurisdictional variability — differences in regulations and legal frameworks across the countries and regions INGOs operate in — along with **currency risks** related to fluctuations and restrictions, complicates compliance and cross-border investments. While some INGOs, such as Oxfam and Save the Children, have been addressing these issues by engaging with impact lawyers, the INGO Impact Investing Network has highlighted the opportunity to develop cross-sector collaborations and platforms to produce and share knowledge on legal and regulatory environments across different markets[58].

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[57] https://www.alliance2015.org/

[58] (2018) Amplify Impact Investing 2: The Next Mile of Impact Investing for INGOs. INGOs Impact Investing Network. Available at: https://andeglobal.org/publication/amplify-ii-the-next-mile-of-impact-investing-for-ingos/

5. Get Started

Venturing into impact investing represents an evolution from the traditional way of working for many INGOs. With a variety of strategies available, the idea of getting started might seem overwhelming. The five steps outlined here are designed to provide a clear roadmap, offering guidance for INGOs seeking to begin an impact investing journey.

Impact investing activities can be integrated into an INGO's core operations or managed through a separate entity. Some elements are more or less relevant depending on the chosen approach.

Step 1: Conduct internal analysis and develop a strong business case

To begin a journey into impact investing, the first essential step is to create a compelling business case supported by robust data and thorough internal analysis. Since this strategic shift may be met with scepticism, INGOs must gather detailed information that highlights the potential benefits of impact investing and assesses the organisation's capabilities, resources and overall readiness for this transition.

To assist with this process, the INGO Impact Investing Network developed a guiding framework for those who are in their early stages of understanding impact investing and considering their engagement[59]. As INGOs work through this, they can consider key questions such as: What is the primary objective behind developing an impact investing strategy? What are the anticipated results of the impact investing efforts? What resources are available to support this transition?

Step 2: Engage key stakeholders

Having a strong business case will help INGOs onboard a range of internal and external stakeholders necessary for a successful shift.

[59] Idem.

Securing leadership buy-in, including the board, is crucial to driving an impact investing initiative forward. Their endorsement can not only secure the necessary resources but also align the impact investing strategy with the broader mission. It is equally important that leadership understands the long-term implications of impact investing, as their commitment ensures it becomes an integral part of an INGO's organisational culture. Reassuring them that this shift will complement, rather than replace, existing values and expertise will help smooth the transition and reinforce the ongoing relevance of the organisation's mission.

Engaging external stakeholders, such as donors and partners, requires clear communication about the rationale for adopting impact investing, as these stakeholders may not immediately grasp why the organisation is entering this space. This is where strong internal leadership buy-in is again vital, as they can help create a strong, clear narrative, and help build a network that supports and understands impact investing goals.

Step 3: Choose the right strategy

Once the vision is set and the INGO's capabilities are clear, the next step is to define the appropriate strategy. In this report, we've outlined various ways to engage in impact investing, accommodating different levels of resources, risk tolerance and expertise. Ultimately, each INGO should choose the strategy where it can provide the most added value, ensuring that supported organisations and target beneficiaries remain at the core of their efforts.

Whether the approach involves direct or indirect engagement, it is crucial to formulate a clear, long-term strategy that aligns with the organisation's overall mission. Given that impact investing is a relatively new path for many INGOs, it is natural that strategies may shift over time; testing different models is part of the process. Ultimately, the goal is to find the approach that maximises impact without compromising on core values.

Step 4: Build the right team

Impact investing may be a new domain for many INGOs, but INGOs might already have staff with relevant backgrounds in finance. Complement these existing capabilities by hiring experts with experience in impact investing, financial strategy and market analysis. Setting up trainings and capacity building will ensure teams are fully prepared to manage and execute impact investing strategies.

The capacity building required can be significant. Experienced INGOs like Save the Children have invested considerable effort in collaborating with their country offices to explore how various aspects of their operations might be supported through impact investments and other innovative finance mechanisms. Skills such as designing a sustainable business model, evaluating market fit, understanding competitive advantage and pitching investment ideas are not typically within the traditional INGO skill set. Consequently, it took time to develop a robust pipeline of viable investment opportunities[60].

Given that developing these skills internally is a long journey, INGOs might consider working with external consultants who bring specialised knowledge. These consultants can provide immediate expertise and guide teams through the complexities of impact investing, while also facilitating learning and knowledge transfer within organisations.

Step 5: Start small and build gradually

An impact investing journey can start with manageable investments. INGOs can use internal resources or existing initiatives to pilot approaches and gain experience. Starting small allows INGOs to test and refine strategies, build a track record and understand the different ways they can engage in impact investing. Gradual scaling will help mitigate risks and ensure that INGOs can adapt and grow impact investing activities over time.

Equally important is the opportunity to learn from people and organisations already active in the field. Practitioner communities are a source of insights and guidance. For example, Ayuda en Acción has been one of the early funders of the Fondo de Fundaciones initiative, which connects 40 foundations, to provide a platform for INGOs exploring impact investing through real-world applications. Similarly, Oxfam's Impact Investing Lab facilitates internal coordination and collaboration with other offices, creating a hub for sharing knowledge and resources. Engaging in such initiatives is a great opportunity to learn from peers and adopt best practices.

[60] (2023) Save the Children Global Ventures Member Spotlight with Paul Ronalds. Convergence. Available at: https://www.convergence.finance/news/7w42nAv6yvPnsxJqaiI0Bd/view

6.Conclusion

COVID-19, ongoing wars and humanitarian crises of the past five years have shifted the landscape of international development. INGOs have had to adapt, as they continue to face restrictions in accessing traditional public- and donor funding. In this evolving context, INGOs can find in impact investing an innovative approach to address the widening gap between diminishing resources and ever-increasing needs. Impact investing allows INGOs to stretch existing funding further and tap into new sources that enhance their mission and impact.

INGOs can adopt a growing range of successful models and repayable approaches across the continuum of capital. As a result, they are uniquely positioned to address capital gaps that mainstream impact investors cannot. They are additional impact investors with local expertise, higher risk tolerance and the ability to provide patient capital. Their versatility allows them to play a catalytic role by deploying capital or mobilising it.

By advocating for European INGOs to engage in impact investing, it is estimated that between €1 billion and €2 billion of capital could be mobilised towards impactful projects aligned with their missions. With over 38,000 INGOs actively operating across Europe[61], even a modest shift of resources towards impact investing could significantly enhance funding for initiatives with measurable social and environmental returns.

While INGOs continue to face both internal and external scepticism, along with various challenges, those that are engaged in impact investing are already demonstrating successful examples and sharing best practices, paving the way for others to follow. This does not mean INGOs will or should attempt to solve every problem through impact investing, nor is it a replacement for INGOs' philanthropic work. Instead, impact investing is a complement to existing efforts. This approach enables INGOs to collaborate more dynamically with stakeholders like private investors and development finance institutions, expanding their role beyond traditional field partnerships. By engaging in blended finance, co-investing, providing technical assistance, or supporting pipeline development, INGOs can find specialised roles that complement and enhance the impact ecosystem — creating new opportunities for alignment and partnership with other impact investors.

By exploring and engaging across the capital continuum, INGOs are creating new pathways to fulfil their missions, expanding beyond traditional humanitarian aid to leverage innovative financial approaches that drive sustainable, scalable impact. The engagement of INGOs in the continuum of capital opens the door to explore several unanswered questions and highlights the need for further research in a field currently characterised by limited quantitative and qualitative data. As we will closely observe those INGOs that are establishing a track record in impact investing, it is equally important to pay attention to those that are just beginning their journey, as well as to

[61] The Yearbook of International Organizations. Available at: https://uia.org/yearbook

understand the motivations behind the reluctance of others to engage in this space. A continued collection of case studies and the development of robust evidence will help clarify these dynamics and support INGOs in navigating scepticism from other ecosystem actors, some of whom still view them primarily as charitable organisations.

While it remains uncertain if more INGOs will embrace impact investing in the coming years, the groundwork laid by coalitions like Alliance 2015 demonstrates a commitment to broadening the sector's impact, promoting knowledge sharing and fostering collaboration, which together set a promising foundation for growth in this area.

7. Annex

Contributors

We would like to express our gratitude to the following individuals and organisations for their time to answer our questions through interviews and a survey, all of whom are either members of Impact Europe and/or members of Alliance 2015.

Organisation	**Name**
World Food Programme	Nora Praher
Ayuda en Accion	Carmen Ruiz
Oxfam Novib	Tamara Campero
Oxfam	Edward Thomas
Commonland	Alejandro Diaz
UNCDF	Charles Wetherill
Save the Children	Mauricio Awad
Helvetas	Siham Boukhali Andreas Muller
Acted	Aurelien Daunay Mark Verhoeven
People in Need	Ondrej Nadvornik

The table below takes a deeper dive on the characteristics of the organisations interviewed:

Name	Geographical focus	Focus Area (Our taxonomy)	Instruments (Our taxonomy)	Total Budget (including grantmaking)	% Impact Investing	Expected Return on Investments	Years of experience in impact investing	Types of engagement in impact investing	Type of Investor Additionality
WFP	Global	Food & Agriculture, Health, Climate	Grants, debt, guarantees	€7.6B	N/A	Capital preservation and/or concessional returns	1	Direct and Indirect	Financial and non-financial
Ayuda en Accion	Latin America	Social Services	Grants, debt	€45M	~2%	Capital Preservation	5	Direct	Financial and non-financial
Oxfam	Global	Social Services, Climate	Grants, debt, guarantees	€360M	N/A	Capital Preservation	25	Direct and Indirect	Financial and non-financial
Commonland	Global	Climate	Grants, (soft) loans, equity	ca. €9/10M	N/A	Capital preservation for returnable grants or guarantees, -100% for traditional grants	10	Direct and Indirect	Financial and non-financial
UNCDF	Africa, Asia, Latin America	Food & agriculture, Climate, Energy, Technology, Digitalisation and IT, Social Services, Employment, Financial Inclusion	Debt, guarantees, outcome-based financing	N/A	N/A	Minimal concessionality	10+	Direct and Indirect	Financial and non-financial
Save the Children Global Venture	Global	Education, Health, Climate	Debt	€10,3M	100%	Market-rate and capital preservation	4	Direct	Financial and non-financial
Helvetas	Global	Water & Sanitation, Food & Agriculture, Education, Employment, Other	Grants, guarantees, outcome-based financing	€150M	N/A	No return expected	ca.5	Indirect	Financial and non-financial
Acted	Central & Eastern Europe, Africa, Asia, Latin America	Climate, Social Services	Grants, debt, equity, outcome-based financing, other	€700M	18,32%	6%-20% p.a.	19	Direct and Indirect	Financial and non-financial
People in Need	Central & Eastern Europe, Africa, Asia	Education, Social Services	Grants	€ 245M	Not active	No returns expected	Not active	Indirect	Non-financial
Oxfam Novid	Global	Climate, Employment, Other	Debt, mezzanine finance	€167M	42%	Capital preservation	30	Direct	Financial and non-financial

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