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Impact Investing and the Australian INGO Market



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Image courtesy Minzayar Oo, Panos, Save the Children

Executive Summary

The international development sector is facing the enormous challenge of needing capital in an environment where traditional government and philanthropic funding is dwindling.

Globally, governments are reducing their aid budgets making it increasingly difficult for NGOs and for-purpose organisations to achieve effective developmental outcomes. Without alternative financing models, this funding gap will continue to be one of the largest challenges in achieving the Sustainable Development Goals by 2030.

Impact Investing is emerging as an innovative approach to increase the capital and resources available to organisations who are striving to achieve sustainable, international development. This paper builds on two industry roundtables hosted by the Global Health Alliance Australia in 2019, where pioneers shared their experiences related to implementing Impact Bonds, as a proposed solution to this challenge. The 90 participants were keen to gain more insight into the market and were buzzing with excitement surrounding the potential of this alternative financing mechanism.

From funding eye hospitals in Cameroon, to supporting women-led businesses in the Pacific, impact investing has created the opportunity for private financing to complement traditional aid, and to achieve real impact. This paper presents a synthesis for international NGO's to understand the market a little more, and to learn from industry pioneers regarding the challenges and essential considerations needed for impact investing. The paper has been developed as a support to the impact investing session at the 2019 ACFID National Conference.



Misha Coleman

Executive Director, Global Health Alliance Australia



From funding eye hospitals in Cameroon, to supporting women led businesses in the Pacific, impact investing has created the opportunity for private financing to complement traditional aid, and to achieve real impact.



Overview: What is Impact Investing?

Impact investing is an emerging form of investments for interventions that primarily create tangible social impact, whilst also having the potential for financial return on investment.¹

This outcomes-based approach is gaining momentum in emerging and developed markets, creating the potential for private capital to address the most pressing challenges globally.² The nascent impact investing market brings together governments, service providers, investors and communities to tackle a range of social and environmental issues.³ Impact investing comes in many forms; however, these structures generally drive stronger evaluation measures, creating a heightened focus on evidence-based decision making and outcomes.⁴

Since the Global Financial Crisis in 2008, the for-purpose sector has faced many challenges in securing funding through traditional funding instruments, such as grants.⁵ Impact investing is an alternative financing mechanism which attempts to overcome this issue by creating projects with the potential for return on investment, while also producing measurable positive impact.⁶ Thus, the opportunity is presented to create economic and social value, to improve quality of life and make social progress.⁷

Socially responsible investing is an established concept with investors desiring ethically sound investments throughout the 20th century. Since the term *impact investing* was coined a decade ago, there has been an increased interest and demand across investment sectors, government agencies and non-government organisations.⁸ An ecosystem has been developing, including global and domestic investor networks, academic awareness (including impact investment courses from leading universities), and expanding interest from the public sector.⁹ Despite this rapidly growing global market, considerable research is still needed to determine how organisations can secure investment funding through this mechanism.¹⁰ Additionally, while there are standards of evaluation present, much still needs to be established in determining appropriate evaluation measures and outcomes, to ensure these measures can be evaluated with the rigour needed for this mechanism.¹¹

The United Nations Sustainable Development Goals (SDGs) are an ambitious and universal call to action to end poverty and protect the planet, which are not limited to public and for-purpose sectors. The SDGs also present an opportunity for the private sector and investors to support the global agenda by deploying increasing amounts of capital to high impact projects, addressing society's greatest challenges.¹² Investors are increasingly attempting to align their investments to the SDGs, with a recent Global Impact Investing Network (GIIN) survey mapping impact investments to those directly measuring investments against the SDGs.¹³

- 1 Ruttman, R. Investing for impact how social entrepreneurship is redefining the meaning of return. Credit Suisse Research Institute, in collaboration with the Schwab Foundation for Social Entrepreneurship. 2012.
- 2 The Global Impact Investing Network. Annual Impact Investor Survey. 2019
- 3 The Treasury – Australian Government. Australian Government principles for social impact investing.
- 4 Australian Advisory Board on Impact Investing. Data Availability and Use. 2016. Retrieved from: <https://impactinvestingaustralia.com/wp-content/uploads/AAB-and-Impact-Investing-Australia-submission-PC-Inquiry-Data-July2016.pdf>
- 5 Geobey, Westley & Weber. Enabling Social Innovation through Development Social Finance. 2012
- 6 Urbman. An empirical study on measures relating to impact investing in South Africa. 2018
- 7 Höchstädter AK, Scheck B. What's in a name: An analysis of impact investing understandings by academics and practitioners. Journal of Business Ethics. 2015 Dec 1;132(2):449-75.
- 8 Principles for Responsible Investment. Impact Investment Market Map. 2018
- 9 Clarkin & Cangioni. Impact Investing: A Primer and Review of the Literature. 2016
- 10 Lyons & Kickul. The Social Enterprise Financing Landscape: The Lay of the Land and New Research on the Horizon. 2013
- 11 Reisman & Olazabal. Situating the Next Generation of Impact Measurement and Evaluation for Impact Investing. The Rockefeller Foundation. 2016
- 12 Global Impact Investing Network. Financing the Sustainable Development Goals: Impact Investing in action. 2018
- 13 Abhilash Mudaliar et al., 2018 Annual Impact Investor Survey (New York: The GIIN, 2018)

It has been estimated that the achievement of the SDGs by 2030 will require US\$5-7 trillion, with the current investment gap being \$2.5 trillion in developing countries.¹⁴ Private sector investments hold the potential to address these pressing social, health and environmental issues.

The International Non-Government Organisations (INGOs) Impact Investing Network have outlined the benefits of this structure in the international development space.¹⁵ Impact investing not only provides access to private capital in the face of reduced grant and aid funding but can also unlock new partners and novel alliances which can foster new ideas and opportunities. Further, impact investing encourages new approaches in achieving the SDGs. INGOs need to find new ways to support and grow business in target markets, encouraging job creation and economic growth. Finally, impact investing is creating an exciting period for new business models which can create mission aligned impact and sustain operations for INGOs.

A Vision for the Future; Australia's Place.



Imagine being part of an Australian leadership role in our region that contributes to: ending poverty, more people having good health and quality education, access to clean water and sanitation. Impact investing is already laying the foundations for this Australia, where the benefits of our economic growth are shared more equally, and we can prepare with confidence for the future.”¹⁶



14 Niculescu, M. Impact Investment to close the SDG funding gap. United Nations Development Programme. 2017

15 INGO Impact Investing Network. Amplify the next mile of impact investing for INGOs. 2018

16 Impacting Investing Australia. Scaling Impact Blueprint for collective action to scale impact investment in and from Australia. 2018

Financing Models and Definitions

Models

Debt and equity financing: traditional investment methods used to fund socially and environmentally positive companies/ start-ups etc. E.g. the Social Enterprise model.

Outcomes-focused grants: grant funding which is contingent on pre-specified outcomes.

Payment by results contracts (including bonds): private-public investments whereby private capital is invested into health and social programs with pre specified outcomes. Investment return is contingent on outcome measurement.

Definitions

Capital: money or resources owned by an individual or organisation which can be used to invest.

Concessionary Rate Impact Investing: investments that target social or environmental outcomes and deliver below market rate financial returns.

Debt: An amount of money borrowed by one party from another. Used by organisations to raise capital they would otherwise not have access to.

Development Impact Bond: a results-oriented funding mechanism that co-ordinates public, philanthropic, and private sector resources to leverage upfront financing for service delivery, in a developing context.

Equity: an asset class where money is invested into an organisation/company. Investors aim to invest in a company, take a stake and improve the company.

Gender-lens investing: investing with the intent to address gender issues or promote gender equity, whilst maintaining the risk/return objectives appropriate for an institutional portfolio.¹⁷

Impact Investors: High net worth individuals, institutional investors, organisation's unrestricted funds, philanthropic organisations, development finance institutions, corporations, affiliated microfinance institutions and government.

Intermediary: An organisation involved in impact investing, who raises funds from investors, and re-lends these funds to other organisations; or offers intermediation services between parties. Services offered include introducing parties to the deal, gathering evidence and producing feasible options, facilitating negotiations, raising capital and managing performance.

Market Rate Impact Investing: investments that target social or environmental outcomes and deliver market rate financial returns.

Outcome payer: A foundation or a government agency which enters into a contract to pay for specific, measurable social outputs and outcomes. The outcome payer is responsible for providing repayment with interest to the investors that provided the upfront capital.

Rate Cards: A pay-for-service financing method, where the government applies 'rates' to outcome measurements for social and health needs. The government will only provide payment once the outcome has been achieved.

Results-based financing: A finance model that allocates financial resources to social programs that are known to be effective, with payment contingent on the verification of previously agreed-upon results.

Small and medium-sized enterprises (SMEs): non-subsidiary, independent firms which employ fewer than a given number of employees. This number can vary depending on definitions across countries.

Social Impact Bond: a results-oriented funding mechanism whereby governments enter into a contract with service providers and investors to pay for the delivery of pre-defined outcomes.

Traditional Investment: capital investment with limited or no regard for social, environmental and governance factors.

Upfront capital: Initial investment paid in advance.

17 Retrieved from: <https://www.cambridgeassociates.com/research/gender-lens-investing-impact-opportunities-through-gender-equity/>

Australian Market for Impact Investing

The Department of Foreign Affairs and Trade (DFAT) has been pursuing alternative financing methods to traditional aid funding models, engaging in the impact investing market.

DFAT has invested in organisations and funds in the Asia-Pacific region, particularly those pushing a gender empowerment agenda.¹⁸ Their primary focus is facilitating female led small and medium enterprises with developing their business models and creating financial sustainability. By shifting from traditional donor-based aid funding, the aim is to create sustainable, empowering investments which boost local economies and create independence.¹⁹

Under the Morrison Government, the Department of Prime Minister and Cabinet have launched a \$5 million taskforce for social impact investing.²⁰ Their responsibility is to develop a strategy for the Commonwealth's role in the impact investing market, and to collaborate with private, non-for-profit and philanthropic sectors to further develop the market for impact investing. Hence, this is an exciting time for impact investing, with increased governmental support and initiatives that are growing the market.

The Australian government has identified six principles which the impact market needs to consider:²¹

1. **Government as a market enabler and developer** – work with stakeholders to overcome regulatory barriers
2. **Value for money** – projects need to show net benefit, and be a cost-effective delivery method for the Australian Government
3. **Robust outcomes-based measurement and evaluation** – transparency in determining impact and efficacy against pre-set targets
4. **Fair sharing of risk and return** – between government, investors and service providers
5. **Outcomes that align with the Australian Government's policy priorities** – social and environmental alignment through well-developed cases
6. **Co-design** – a collaborative effort between experts, communities and service deliverers.

18 Australian Government Department of Foreign Affairs and Trade. Gender equality and female empowerment strategy. 2016

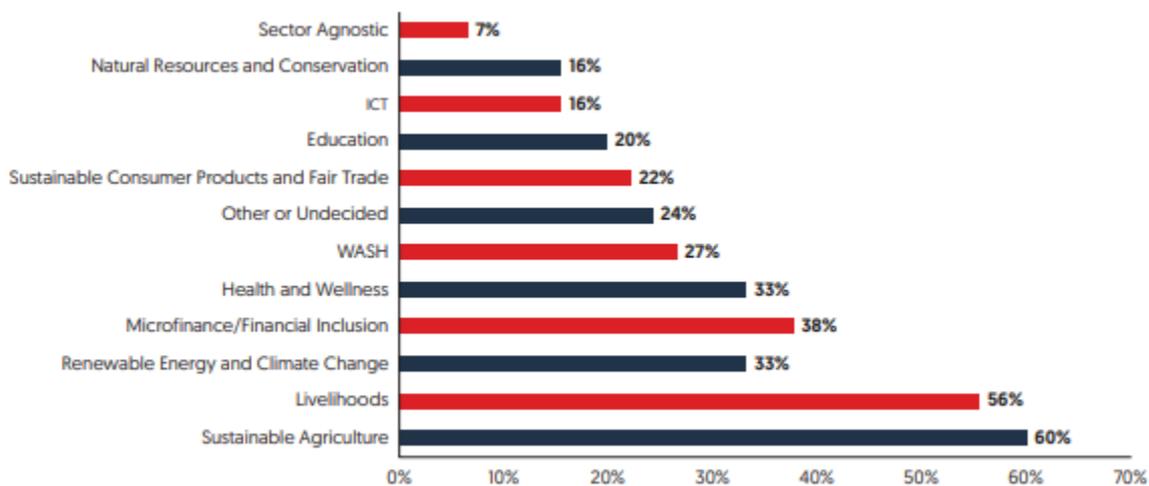
19 Australian Government Department of Foreign Affairs and Trade. Investing in Regional Prosperity: Positioning the Aid Program to Support Australia's Economic Partnerships in Asia. 2018

20 Department of Prime Minister and Cabinet. Social Impact Investing Taskforce. Retrieved from: <https://www.pmc.gov.au/domestic-policy/social-impact-investing-taskforce>

21 The Treasury – Australian Government. Australian Government principles for social impact investing.

Current sectors of impact for impact investing in Australia and globally

Australia ²²	Globally ²³
<ul style="list-style-type: none"> • avoiding CO2 emissions • education • housing solutions • employment pathways • health and wellbeing services • environmental (including water) solutions 	<ul style="list-style-type: none"> • sustainable agriculture • improving livelihoods • microfinance and financial inclusion • renewable energy and climate change • health and wellness



²⁴ INGO Impact Investing Network

²² Responsible Impact Investment association. Australian Impact Investment. Market Activity and performance report. 2018

²³ INGO Impact Investing Network. Amplify the next mile of impact investing for INGOs. 2018

²⁴ INGO Impact Investing Network. Amplify the next mile of impact investing for INGOs. 2018 pp. 10

DFAT Impact Investment Projects

What they do	Location	Project examples
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Supporting market building organisations

Initiative: Aspen Network of Development Entrepreneurs (ANDE)²⁵

DFAT is both an ANDE member and provides funding for the East and South East Asia Chapter.

ANDE is a global network of organisations that propel entrepreneurship in emerging markets. The network's members provide critical financing and business support services to small and growing businesses (SGBs) that create positive economic, environmental and social impacts in developing countries.

DFAT invests in this organisation for region specific initiatives.

DFAT's involvement is primarily in East and Southeast Asia

Global Accelerator Learning Initiative - a collaboration between ANDE and Emory University undertaking research on accelerator programs to determine their effectiveness and identify areas for improvement.

ANDE's Ecosystem Snapshots provide data about financial and non-financial support available for small and growing businesses in a specific city or country. Myanmar's snapshot is the most recently released in 2019.

Initiative: Global Impact Investing Network

DFAT is a GIIN member and has a partnership with the GIIN to build the impact investing ecosystem in Southeast Asia. We work with them to deliver on three core objectives to be delivered through a Southeast Asia Liaison (currently being established):

- Advance local market development through generating greater awareness of impact investing and strengthening its practice;
- Elevate the impact measurement and management practice of impact investors focused on Southeast Asia; and
- Educate and engage institutional asset owners in the Asia-Pacific.

DFAT's involvement is primarily in the Indo-Pacific but use the GIIN to draw on global knowledge products and networks

The GIIN convenes impact investors to facilitate knowledge exchange, builds the evidence base for impact investing and produces tools and resources to accelerate the development of the impact investing industry. For example the IRIS+ system supports investors to integrate social and environmental factors into investment decision making by providing tools and guidance.

Supporting businesses to become 'investment ready'

Initiative: Pacific RISE – Pacific Readiness for Investment in Social Enterprise²⁶

Pacific RISE seeks to facilitate a social impact investment market in the Pacific by connecting impact investors to Pacific social enterprises.

It aims to leverage AUD10 million of private capital in the Pacific by 2021, strengthen relationships between Pacific enterprises and investors and improve outcomes, especially for women.

Women's economic empowerment and gender lens investing is central to Pacific RISE.

Pacific Island countries.

Commercial laundry in Fiji: investment is being sought to establish a high quality commercial laundry to improve hygiene and water sanitation outcomes in Fiji. The laundry is intended to help manage the spread of diseases originating from, and being shared through, laundry facilities.

Coconut oil production in Vanuatu: investment is being sought to expand production of virgin coconut oil supplied by local farming families in Vanuatu. The first tranche of investment of around AUD250,000 has been made following support under Pacific RISE. The project is currently being supported to raise future tranches of investment. The investment is intended to open up new markets for farmers and provide additional income for local suppliers and their families, many of whom are women.

25 Retrieved from: <https://www.andeglobal.org/page/AboutANDE>

26 Australian Aid. Pacific Readiness for Investment in Social Enterprise Annual Report. 2018 Retrieved from: <http://www.pacificrise.org/wp-content/uploads/2016/12/Pacific-RISE-Annual-Report-2018-Cleared-20190507.pdf>

What they do	Location	Project examples
<p>Initiative: Private Finance Advisory Network²⁷</p> <p>This is a multi-donor initiative that DFAT provides core funding to, other donors include Sweden, Norway, USA and Japan.</p> <p>PFAN provides coaching for climate and clean energy businesses, providing advice on business development and economic sustainability</p> <p>Links SMEs to private investment.</p> <p>Investments are measured against greenhouse gas emission reduction, and private finance leveraged.</p>	<p>Global however some of DFAT's funding earmarked for the Indo-Pacific</p>	<p>ATEC Biodigesters International-Cambodia, provide low income families with biogas for cooking and organic fertilizer. Reached financial close with mentoring support from PFAN and connections to investors. \$700,000 of equity invested for program scale-up.</p> <p>Peer-to-Peer Electricity Sharing with Microgrids – SOLshare - Bangladesh. Access to low-income communities in rural areas using solar-powered decentralised peer-to peer microgrid system. With PFAN's assistance, AOLshare has been able to raise an investment amount of US\$2,000,000 to scale up their business.</p>
<p>Initiative: Scaling Frontier Innovation²⁸</p> <p>A DFAT initiative that works with social entrepreneurs; the intermediaries that support them; and capital providers; with the aim of better connecting these segments and catalysing more appropriate capital for SMEs to grow their businesses and their development impact.</p>	<p>Asia-Pacific Region</p>	<p>Frontier Innovators supports, through grants and customised technical assistance, 14 high potential social enterprises</p> <p>Frontier Incubators supports impact-focused incubators and accelerators by building their capabilities through partnerships with global leaders in the field.</p> <p>Frontier Brokers test new ways of meeting the capital needs of social enterprises and use gender lens in doing so. By leveraging philanthropic, institutional capital, debt and equity investments, Brokers stimulate more appropriate forms of capital.</p>

Catalysing investment into key sectors or markets

<p>Initiative: Investing in Women</p> <p>Investing in Women, an initiative of the Australian Government, catalyses inclusive economic growth through women's economic empowerment.</p> <p>Investing in Women uses innovative approaches to improve women's economic participation as employees and as entrepreneurs and to influence the enabling environment to promote women's economic empowerment.</p>	<p>Philippines, Indonesia, Vietnam and Myanmar</p>	<p>Supports Business Coalitions who work with influential businesses on shifting workplace cultures, practices and policy barriers to achieve workplace gender equality.</p> <p>Impact Investment for Women's SMEs – partners with Impact Investors and ecosystem builders to expand market opportunities for women, with a view to incentivising and catalysing access to capital for small and medium enterprises (SMEs).</p> <p>Influencing Gender Norms – works with partners to positively shift attitudes and practices to support women in the world of work.</p>
<p>Initiative: Emerging Markets Impact Investment Fund</p> <p>A proposed fund of funds which would invest into impact investment funds that have portfolios of small and medium enterprises improving the lives of the poor through their supply chains, employment practices or their products and services.</p>	<p>Asia-Pacific Region</p>	<p>Not yet operational</p>

27 Private Financing Advisory Network. Retrieved from: <https://pfan.net/about-us/>

28 Retrieved from: <https://www.scalingfrontierinnovation.org/>

Case Studies



**The Fred Hollows
Foundation**

Organisation:

The Fred Hollows Foundation

Project:

Cameroon Cataract Bond

Overview

The Cameroon Cataract bond aims to address the critical shortage of cataract surgery services in Cameroon by funding the operation of The Magrabi ICO Cameroon Eye Institute (MICEI), an eye care hospital and training institute.²⁹ Through a development impact bond (DIB), \$2 million (USD) of private capital was unlocked for the development of MICEI. The Conrad N. Hilton Foundation serves as the bond's primary outcome funder (over 80%) with The Fred Hollows Foundation and Sightsavers roughly covering 10% each. Thus, previously unavailable capital has been invested into this developing market, of which, return of investment is contingent on pre specified outcome targets. The hospital has also sourced additional funding from a range of NGOs, international investors, and technology companies, using a dual financing mechanism of traditional philanthropy and impact investment. The volume, quality, financial sustainability and equity of cataract surgery services are evaluated by an external evaluator, and if they deem the program unsuccessful, the outcome funders are not required to pay back the investors. These predetermined outcomes are:

1. **18000 cataract surgeries** over 5 years (quantity);
2. **At least 50% of surgeries** have a pre-defined 'good outcome' (quality), as defined by WHO guidelines for visual acuity of cataract patient's post-surgery;
3. **The hospital records a positive EBITDA** within 5 years of opening (financial sustainability);
4. **40% of cataract surgery patients** are in the bottom two wealth quintiles in Cameroon (equity).

29 Oroxom, Glassman and McDonald. Structuring and Funding Development Impact Bonds for Health: Nine Lessons from Cameroon and Beyond. Centre for Global Development. 2018

30 Ravilla & Ramasamy. Efficient high-volume cataract services: the Aravind Model. 2014

31 The Hilton Foundation. Cameroon Cataract Bond: A Case Study Produces as part of the Cameroon Cataract Bond Evaluation. 2019

32 Oroxom, Glassman and McDonald. Structuring and Funding Development Impact Bonds for Health: Nine Lessons from Cameroon and Beyond. Centre for Global Development. 2018

33 The Overseas Private Investment Corporation. Cameroon Cataract Bond Records Successful First Year. 2019

The aim is to have the hospital reach self-sufficiency using the Aravind eye care system,³⁰ a social enterprise model first popularised in India. This system uses high service volume, cross subsidization and revenue diversification strategies to provide quality cataract treatment services to the poor at low or no cost. Through the DIB structure the hospital itself doesn't pay back its loans, allowing it to achieve economies of scale by increasing its reach and number of cataract surgeries while keeping operating costs low.³¹ The secondary goal is to leave a financially sustainable hospital in place after five years, that can also serve as a regional training institute in Central Africa. Hence, if successful this could be a replicable model for a growing number of social enterprises in Africa.

Why are cataract surgeries suited to impact investing?³²

- proven, cost effective, evidence-based interventions that can be implemented to address the issue
- preventative rather than reactive
- easily measurable outcomes where attribution can be determined
- baseline figures are available and can be easily generated

A first-year analysis

An analysis of the project in the first year suggests that results have been extremely positive, with quality, volume and financial stability out-performing targets.³³ Further investigations are ongoing to overcoming barriers for the most underserved populations, making the program more equitable. The following challenges, lessons and recommendations have been outlined by various project stakeholders from this analysis.



Image courtesy The Fred Hollows Foundation

Challenges identified³⁴

Understanding the investors – initial investors perceived a large risk when investing in a developing context on the terms proposed, creating the challenge of finding investors before program implementation

Marketing the bond and the partners – organisations needed to highlight their reputation as well as the proven success of the Aravind model to show stability of a program to investors. Instead of trying to market a new project structure to investors, the new financing mechanism became the product which needs to be marketed.

Financing the development of the bond – as a result of the above there were large costs needed to set up the bond, as several rounds of negotiations were needed around the bond's payment structure.

Lessons Learned

1. The resources needed to launch an impact bond are substantial
2. The partners involved are as important to the program's success as the project design
3. It is important to clarify the priorities and roles of all organisations involved
4. Consider engaging potential outcome funders & investors simultaneously
5. The sector is reluctant to pivot to projects based on outcomes and results, such as DIBs. For this reason, within-sector champions are critical to evolve the impact bond space
6. The data needed to develop new DIB proposals are either not available or can be of poor quality.

Recommendations:

For aid agencies and philanthropic organisations

- Feasibility studies, learning documents and templates should be made publicly available, preferably through a centralised database. Existing networks such as the Centre for Social Impact Bonds, or the Pay for Success Learning Hub could be expanded and used as models for future bonds.
- Internal workshops on the DIB model should be hosted to increase organisational awareness of the approach. This could provide opportunities for financing departments to speak with specific departments or target board members for relevant issues.

For Implementing Organisations

- Performance management systems should be introduced before the intervention begins to give employees enough time to get acquainted with the system.
- Your organisation should provide evidence that it is interested in being assessed and rewarded based on performance.

³⁴ Oroxom, Glassman and McDonald. Structuring and Funding Development Impact Bonds for Health: Nine Lessons from Cameroon and Beyond. Centre for Global Development. 2018

Case Studies (cont.)

Alina Vision

Organisation:

Fred Hollows and ROHTO Pharmaceuticals

Project:

Alina Vision

Overview

“Deliver high-quality, accessible and sustainable eye care for people of all income levels, actively reaching out to those excluded from mainstream healthcare systems, particularly low-income people and women.”³⁵

Alina Vision is a company founded as a collaboration among The Fred Hollows Foundation, social entrepreneurs and ROHTO Pharmaceuticals, which uses a blended financing, social enterprise model to improve eye care globally.³⁶ The project arises as Fred Hollows is expanding its role as a grant funder to that of a strategic impact investor,³⁷ whilst ROHTO Pharmaceuticals has expanded from being a provider of eye products, to a company which wants to make lasting impact in the region.³⁸

The first eye care centre was built in Vietnam last year, with plans to also open further centres in Indonesia, China and India, aiming to deliver eye care to 400,000 people per year. This 10-year project (2018-2027) has been created to meet the growing rate of blindness and improve access to eye care, including subsidised or free treatment to those in need. These centres will be self-sufficient, even profitable whilst still being patient centred, using tiered payments to provide high quality, high quantity at a low cost.



The social enterprise model's aim is to provide investments rather than purely donations, which facilitate the company's development, and inform a sustainable business model. It is expected that the Alina Vision hospitals will be opened in the next three years, which will then rapidly expand over the next ten.³⁹

Alina Vision is currently set up as a holding company in Singapore with a 10-year commitment to service, particularly in the SE Asia region. Through impact investing, private investors are used to fund hard start-up costs of social enterprise eye hospitals such as building refurbishments and construction. Hence, it is possible to invest larger amounts of capital when compared to traditional grants, allowing for faster service expansion.

35 The Fred Hollows Foundation. Alina Vision: Taking aim at improving global eye health equality. 2018. Retrieved from: <https://www.hollows.org/au/latest/eye-health-social-enterprise-alina-vision-launched>

36 Alembakis. The Fred Hollows Foundation Invests in Eye care focused social enterprise. The Constant Investor. 2018. Retrieved from: <https://theconstantinvestor.com/fred-hollows-foundation-invests-eye-care-centre-social-enterprise/>

37 The Fred Hollows Foundation. The Power of Impact Investment to Improve Vision. 2015

38 The Fred Hollows Foundation. Alina Vision: Taking aim at improving global eye health equality. 2018. Retrieved from: <https://www.hollows.org/au/latest/eye-health-social-enterprise-alina-vision-launched>

39 Alina Vision. New Social Enterprise Alina Vision set to advance global eye care equality. 2018. Retrieved from: <https://www.alinavision.com/single-post/2018/02/22/New-social-enterprise-Alina-Vision-set-to-advance-global-eye-health-equality>



Organisation:
DFAT

Project:
Pacific RISE – Pacific Readiness for Investment in Social Enterprise

Overview

Established in 2016, Pacific RISE is a DFAT funded initiative that seeks to facilitate a social impact investment market in the Pacific. Pacific RISE works with investors, funds and intermediaries to support Pacific social enterprises to access investment, build investor interest and relationships in the Pacific, identify investment opportunities and apply a gender lens on investment to expand opportunities for Pacific women.

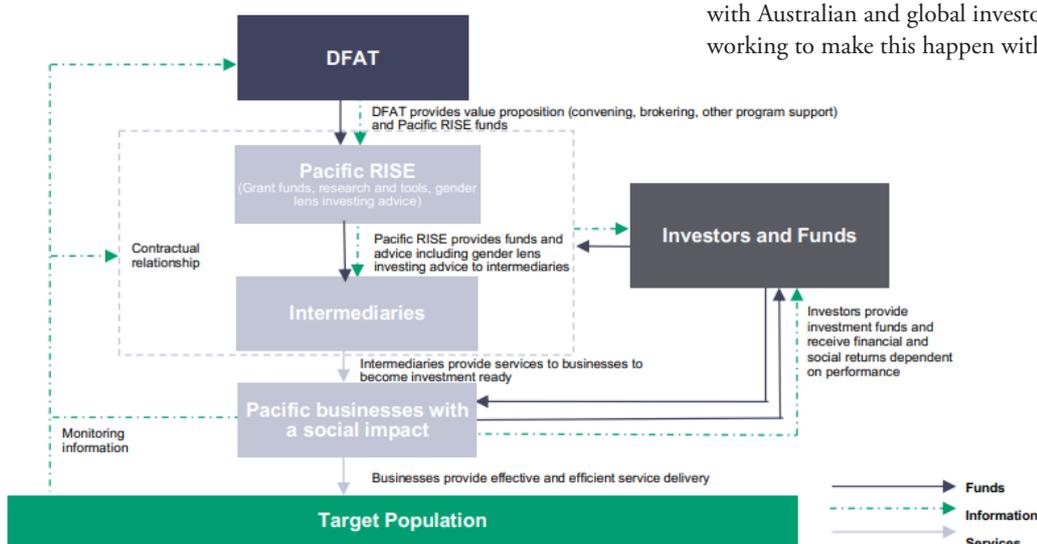
Intermediaries have been provided with financial and technical support to help develop Pacific social enterprises to a point where they are ready to take on investment. The initiative has supported 20 scoping missions to the Pacific and seven investment readiness projects, which has led to a pipeline of up to AUD9 million of investment opportunities.⁴⁰ These opportunities span multiple sectors countries, including creative arts, agriculture and health in Papua New Guinea, Fiji, Tonga, Samoa and the Solomon Islands.

Some key lessons learned from the first three years of implementation include the need to:

- identify a variety of capital types, including domestic sources and innovative models to support smaller and/or multiple investments in the Pacific;
- provide Pacific enterprises access to small and flexible finance, typically less than AUD250,000; and
- provide investment readiness support which was missing in the Pacific market.

Women’s economic empowerment and gender lens investing are central to Pacific RISE—the Australian Government is committed to having 80% of all aid investments addressing gender issues, and the empowerment of women.⁴¹ Pacific RISE uses a gender lens on investment and supports intermediaries and investors to use gender analysis alongside financial analysis when investing through technical assistance and training. For example, Pacific RISE has been working with investors and social enterprises in the Pacific to better understand undervalued and informal markets where women dominate, such as in menstrual health.

Globally there have been few attempts to explore the use of innovative financing to improve the scalability and viability of menstrual health enterprises and other enterprises in informal markets. Investment in a trade financing vehicle was identified as a way to make it easier for Pacific importers and exporters to transact in this ecosystem, and help consolidate the supply chain and reduce material costs. This initiative has been tested with Australian and global investors. Those investors are now working to make this happen with Pacific RISE support.



40 Pacific RISE Annual Report 2018. Retrieved from:

<http://www.pacificrise.org/wp-content/uploads/2016/12/Pacific-RISE-Annual-Report-2018-Cleared-20190507.pdf>

41 Australian Government. Department of Foreign Affairs and Trade. Gender Initiatives. Retrieved from: <https://dfat.gov.au/aid/topics/investment-priorities/gender-equality-empowering-women-girls/gender-equality/Pages/gender-initiatives.aspx>



Australian Government
Department of Foreign Affairs and Trade

Organisation:

DFAT - A Gender Lens Investing Initiative

Project:

Investing in Women – Asia

Overview

“The credit gap for women-owned SMEs does not just affect women — it affects entrepreneurship, investment and economic growth across nations and economies... Closing the credit gap will help businesses and economies grow, while allowing impact investors to capitalise on this significant market opportunity.”⁴²

Investing in Women, an initiative of the Australian Government established 2016, aims to catalyse inclusive economic growth through women’s empowerment in Indonesia, Vietnam, Philippines and Myanmar.⁴³ Building women’s economic empowerment enhances business competitiveness, facilitates inclusive economic growth, builds equitable societies.⁴⁴

Investing in Women uses innovative approaches to improve women’s economic participation as employees and as entrepreneurs and to influence the enabling environment to promote women’s economic empowerment through:

1. Workplace Gender Equality – Supporting Business Coalitions to shift workplace cultures, practices and policy barriers to achieve workplace gender equality
2. Impact Investment for Women’s Small to Medium Enterprises (SMEs) – Partnering with Impact Investors and ecosystem builders to expand market opportunities for women.
3. Influencing Gender Norms – Working with partners to positively shift attitudes and practices to support women in the world of work.

Investing in Women is working with impact investors on:

- Investment financing. Unlocking finance through funds that incentivise higher levels of investment in women’s SMEs.
- Operational Support. Strengthening the regional footprint of global impact investors so they can better tap into women SME investment opportunities in the region.
- Knowledge Building. Producing evidence that investing in women’s SMEs can deliver good financial and social returns.
- Gender Lens Ecosystem. Help impact investors customise their products to the needs of women’s SMEs, so that supply and demand for capital are better aligned⁴⁵.

⁴² Investing in Women. Impact Investing. Retrieved from: <https://investinginwomen.asia/our-work/impact-investing/>

⁴³ Investing in Women. Retrieved from: <https://investinginwomen.asia/about/#who-we-are>

⁴⁴ Kabir. Women’s economic empowerment and inclusive economic growth: labour markets and enterprise development. Department for International Development. 2012.

⁴⁵ Investing in Women. Impact Investing. Retrieved from: <https://investinginwomen.asia/our-work/impact-investing/>

Lessons and challenges: findings from the sector

Following two impact investment roundtables with industry professionals held in 2019, and an evaluation of the current market, the following areas of consideration have been identified as essential for those organisations considering impact investment.

Organisational culture: Utilising market-based approaches in the non-for-profit sector may be foreign to some organisations and may require shifts in programmatic approaches.⁴⁶

Organisations should consider the structural changes which may be required when exploring this alternative financing mechanism. Shifting to a business model that is conducive to measuring impact is crucial for securing funding this way. Some organisations have questioned whether they are large enough to enter the space, and whether collaborative partnerships are possible. Forming new partnerships to enhance an organisations reputation is one strategy to secure funding, which has proven to be effective.⁴⁷ It is also understood that impact investing can improve an organisation's overall standard of operation, by shifting its focus to efficiency and producing robust results. Organisations should understand that structural changes may be required to reflect this shift in focus and organisations which can embrace this change are more suited to this mechanism.

Stakeholder communications and engagement: The partners involved are as important to a project's success as its design.

A commonality from existing literature and industry insight emphasises the importance of effective communication among all partners and collaborators in the project. Public-private partnerships require an additional level of openness and understanding to align all stakeholders on the project vision, impact and investing strategy.⁴⁸ Having a clear communication strategy for external stakeholders, as well as internal staff and partners, is a necessity for effective collaboration. A challenge often faced by organisations is inexperience in communicating with private investors. The use of an intermediary, who is experienced in liaising with private investors and the government, is emphasised as a requirement of impact investing, to facilitate effective partnerships and align all stakeholders.⁴⁹

Internal capacities of organisations: A level of within-organisation expertise is needed to facilitate this structure.

The importance of having an 'internal champion' to pioneer the innovative structure was emphasised by the industry, as a staff member who can advocate for the alternative financing mechanism. Organisations may have limited financial knowledge and skills needed, therefore upskilling or restructuring may be necessary, to gain expertise in the area and adapt to the capacity needed for impact investing.⁵⁰ A core team that has experience in structuring and managing funds or developing new investment products and a well-defined training strategy to build staff capacity is recommended.

46 INGO Impact Investing Network. Amplify the next mile of impact investing for INGOs. 2018

47 Clark, Chalkidou, & Nemzoff. Development Impact Bonds Targeting Health Outcomes. Centre for Global Development. 2019.

48 KPMG. NGOs and the challenge of impact investing: creating value and doing good. 2018

49 Population Services International and Zurich Insurance Group. Using private investor capital to increase NGO impact: a framework to facilitate engagement. 2014

50 Impacting Investing Australia. Scaling Impact Blueprint for collective action to scale impact investment in and from Australia. 2018

Impact measurement: Monitoring and evaluation practices must be carefully considered from the program outset.

Given that return of investment for these projects is contingent on outcome measurement, it is understood that thorough and rigorous evaluation measurements are an integral element for impact investing.⁵¹ Monitoring and evaluation practices must be carefully considered from the program outset, establishing predefined targets with translatable investment returns far before the program is implemented. Impact evaluation is a rapidly evolving space, with new frameworks and toolkits frequently being created and adapted to suit the growing demand. Investors, investees and intermediaries all contribute to the estimation, planning, monitoring and evaluation of impact.⁵²

For an implementing organisation, the following are focus areas for measuring impact:⁵³

1. Estimating impact for due diligence to enable prioritisation of resources to create intended impact
2. Planning impact through strategy to allow alignment of metrics and data collection to organisations key outputs
3. Monitoring impact to improve the program. This includes selecting metrics to provide tangible insights to managers and investors, create the ability to identify when impact is poor, explore causes of good and poor performance. Necessary conversations can be initiated with stakeholders in order to improve the program.

Strategies on how to measure impact differ in approach depending on an organisation's monitoring and evaluation capacity. These include:

1. Do it yourself – for organisations with strong M&E systems with strong metric and benchmark measuring;
2. Measuring through a fund manager – mainly used by investors to evaluate the potential of a project to deliver results;
3. Third party evaluators – to provide an unbiased evaluation of impact from a contracted intermediary when an organisation doesn't have thorough M&E mechanisms.⁵⁴

Whilst rigorous evaluation may seem like a challenge to some organisations, there are several support mechanisms already in place to facilitate the evaluation of impact investment projects. These include models and frameworks, metrics and measurement guidelines and third-party sources, developed globally and made available to organisations in the sector. The Global Impact Investing Network and Initiative for Global Development have resources specific to evaluation in a development setting.^{55,56}

Current industry pioneers have stressed the importance of introducing performance management systems as early as possible, to familiarise staff with this new system. Additionally, investors are attracted to programs which have proven success and measurable outcomes, therefore developing strong M&E procedures is necessary to gain investor interest. For example, fund managers will prioritise programs which have strong links to impact measurement and cost savings.

51 Reisman & Olazabal. Situating the Next Generation of Impact Measurement and Evaluation for Impact Investing. The Rockefeller Foundation. 2016

52 Reisman, Olazabal & Hoffman. Putting the "Impact" in Impact Investing: The Rising Demand for Data and Evidence of Social Outcomes. 2018

53 Retrieved from: <https://www.impactinvestinghub.com.au/about-impact-investing/measuring-impact/>

54 Retrieved from: <https://www.impactinvestinghub.com.au/about-impact-investing/measuring-impact/>

55 The Global Impact Investing Network. IRIS+. 2019. Retrieved from <https://iris.thegiin.org/>

56 Initiative for Global Development. Advisory IGD Impact. Retrieved from: <https://www.igdleaders.org/advisory/igd-impact/>



Legal and financial environments

There are various legal and financial challenges involved with impact investing which differ geographically. This includes limitations on capital flow and business licencing.⁵⁷ When navigating international complexities, financial and legal intermediaries are encouraged to assist in this process. However, these intermediaries require additional costs which need to be considered in the project design. This can become a challenge, as large costs can then diminish other revenue negotiations of the project.⁵⁸

Sector considerations

Impact Investing is not being proposed as a panacea for financing all projects, however is proving to be an alternative way to gain previously unattainable capital. Organisations can consider whether previously existing donor-funded programs have the potential to be converted into market-based businesses.⁵⁹ Whilst interested organisations have questioned whether impact investing reduces grant funding and philanthropy, impact investing doesn't negate these funding options. Dual funding mechanisms are possible in the international development space, with projects being structured as a combination of philanthropy and private investment, such as the Cameroon Cataract Bond.⁶⁰ Therefore, it is possible for organisations to continue traditional mechanisms, whilst also shifting to a market-driven, innovative approach.

57 Impact Investing from Australia. Tackling the SDGs in the Asia Pacific. 2017

58 Oroxom, Glassman and McDonald. Structuring and Funding Development Impact Bonds for Health: Nine Lessons from Cameroon and Beyond. Centre for Global Development. 2018

59 INGO Impact Investing Network. Organisational Readiness Toolkit. Taken from: Amplify the next mile of impact investing for INGOs. 2018

60 Oroxom, Glassman and McDonald. Structuring and Funding Development Impact Bonds for Health: Nine Lessons from Cameroon and Beyond. Centre for Global Development. 2018

Issues and Ethical Considerations

Impact investing is not being proposed as a panacea for all international development projects, with specific ethical concerns that need to be considered by organisations seeking engagement in the sector.

Several critiques regarding the morality of private organisations reaping monetary benefits from international development and the selection of investable products have raised serious concern over the appropriateness of the mechanism.

Cream skimming and cherry picking – the danger

The concern exists that impact investing, and indeed all outcome-based funding models may lead to ‘cream skimming,’ whereby only high impact projects and easy to measure participants are selected. Thus, populations most in need of services may miss out on funding in this mechanism. The danger is real, as projects which may create the most impact, are not favoured by investors who desire easily measurable outcomes from simpler projects. A suggestion to counter this could be using equitable incentives, such as increased funding if a program can deliver specifically to the most underserved populations. Additionally, the increased focus on evaluation may prompt organisations to ‘cherry pick’ high performing participants, overestimating the success of a program.

Too capitalistic?

Critics have expressed caution over the capitalistic nature of impact investing, specifically development impact bonds attempt to ‘moralise capitalism without questioning the process itself.’⁶¹ Meaning, the investors who are often corporate, western institutions, are reaping benefits from the international development sector. So long as real impact is being achieved in international development, is this really a concern?

When considering the additionality of the investment, (the benefit would not have occurred without this investment),⁶² this concern is realised. For example, if the project could have acquired funding from another source and still achieved impact, did the impact investment create an additional impact?⁶³ If not, then the mechanism sits in a dangerous place where the benefit is greater for the investors, rather than the populations the projects are focussing on.

Excluding local governments/authorities

Another potential pitfall for impact investing is the exclusion of local governments and authorities from these structured deals. Impact investing can fall into a private-private partnership between investors and NGOs, without integrating local structures. International NGOs can deliver top-down approaches, which can be problematic if target populations are not viewed as partners when structuring the investment deals.⁶⁴ Thus, caution must be applied when structuring investments to ensure that target populations are actively involved. Local governments can provide support to these investments and can contribute to the longevity of projects and businesses.

Intermediary and start-up costs too high

Several organisations have expressed concern regarding the high set up and third-party transaction costs involved in impact investing, and whether these costs would have been better spent directly on the project.⁶⁵ External cost of initiating the Cameroon Cataract Bond were (approx.) \$800,000⁶⁶ thus it can be argued that this capital would have been better invested into the project directly. Financial and legal costs of impact investing are significant, thus for smaller projects, impact investing may not be appropriate. The Australian Government’s continued investment in impact intermediaries in development settings could mediate some of these costs, making it easier for NGOs to pursue impact investing in the future.

61 Alenda-Demoutiez. A fictitious commodification of local development through development impact bonds? 2019.

62 International Finance Corporation. Additionality Primer. 2013

63 Brest & Born. Unpacking the Impact in Impact Investing. Stanford Social Innovative Review. 2013.

64 Alenda-Demoutiez. A fictitious commodification of local development through development impact bonds? 2019.

65 Australian Government. Social Impact Investing Discussion Paper. 2016

66 Oroxom, Glassman and McDonald. Structuring and Funding Development Impact Bonds for Health: Nine Lessons from Cameroon and Beyond. Centre for Global Development. 2018

External Resources/Market Stakeholders

Centre for Social Impact: has undertaken more than 30 research projects with government, business and not-for-profit partners and provides the nation's most comprehensive post-graduate program in social impact. They help catalyse positive social change, to help enable others to achieve social impact through transformational research and education that is rigorous and purpose-driven.

<https://www.csi.edu.au/>

Impact Investing Australia: an independent organisation dedicated to growing the opportunities for investments that deliver positive social and environmental impact alongside a financial return. Their vision is for a healthy, equitable and prosperous Australia, supported by a dynamic market for impact investing that expands opportunities and creates innovative solutions to pressing societal challenges.

<https://impactinvestingaustralia.com>

Impact Investment Group: work to shift capital towards investments that blend financial returns with deep social and environmental impact. They provide investment opportunities in renewable energy infrastructure and venture capital. The opportunities are available to wholesale clients only, and target market-rate financial returns in combination with significant environmental and social benefits. The company has also established a foundation, funded through its management fees and profits, to deploy capital for impact-first investments, traditional philanthropy and venture philanthropy.

<https://www.impact-group.com.au/>

Responsible Investment Association Australasia (RIAA): champions responsible investing and a sustainable financial system in Australia and New Zealand.

RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. Their membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

<https://responsibleinvestment.org/>

Social Ventures Australia (SVA): is a not-for-profit organisation that works with partners to alleviate disadvantage, moving towards an Australia where all people and communities thrive. They influence systems to deliver better social outcomes for people by learning about what works in communities, helping organisations be more effective, sharing their perspectives and advocating for change.

<https://www.socialventures.com.au/>

The INGO Impact Investing Network: is a consortium of more than 55 INGOs working together to gather and share knowledge about how INGOs are using private investment capital to advance their work in solving pressing global development challenges. They have published global reports on impact investing market and tools for INGOs to enter the market and are based in the United States.

<https://www.humentum.org/impact-investing>

Global Health Alliance Australia



**GLOBAL HEALTH
ALLIANCE
AUSTRALIA**

This scoping review has been prepared by the Global Health Alliance Australia, in partnership with the Fred Hollows Foundation and the School of Population and Global Health at the University of Melbourne.

The Global Health Alliance Australia, based in Melbourne, was established by global health leaders to coordinate and create partnerships between organisations that work towards achieving health equity. The Alliance currently has 48 member organisations and fosters partnerships between these members which universities, medical research institutes, WHO Collaborating Centres and international non-government organisations (INGOs). Through partnerships and collaboration, our member organisations encourage and support health equity and health security in our region, utilising and promoting the institutional and disciplinary expertise of their members and sponsors

The Alliance drives change through:

1. Specialist advice and expertise
2. Influence and advocacy
3. Connections and networking
4. Collaboration and investment

We currently work across 12 wicked global health challenges (www.glham.org) including alternative health financing, which this report aligns with.

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a leader in teaching and learning in not only traditional public health sciences, but an exciting range of inter-disciplinary areas such as global health, social sciences, ethics and medical humanities, and molecular and genetic epidemiology.

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