

# Scaling Impact

Blueprint for collective action to scale  
impact investment in and from Australia



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# Scaling Impact

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Blueprint for collective action to scale impact investment in and from Australia

NOVEMBER 2018

AUSTRALIAN ADVISORY BOARD  
ON **IMPACT** INVESTING

Member of  **GSG**  
Driving real impact

Powered by  **IMPACT  
INVESTING**  
AUSTRALIA

*'Each time a person stands up for an idea or acts to improve the lot of others or strikes out against injustice, they send forth tiny ripples of hope, and crossing each other from a million centres of energy and daring, those ripples build a current that can sweep down the mightiest walls of oppression and resistance'*

Robert F Kennedy





Imagine being part of an Australia where more of your money can be invested into...

...revitalising communities and growing decent jobs

...delivering quality health care

...providing affordable housing

...re-thinking the way services are delivered to be more reliable and cost-effective

...preparing for a low-carbon economy that conserves our planet

Imagine being part of an Australian leadership role in our region that contributes to...

...ending poverty

...more people having good health and a 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.

# From the Field: what we need is...

*'More people are talking about impact investing.'*

*'Early movers and innovators are demonstrating the potential of impact investment.' 'The market is growing.' 'Different people are getting involved.'*

*'Better impact measurement frameworks.'*

*The continuation of market building activities ... and more stakeholders playing a role to invest in growing the market.'*

*'[To] increase mainstream awareness of the concept of Impact Investing.'*

*'[To] educate investors of all types to the opportunities in this space'*

*'Active participation by Federal and State Government to facilitate and enable the sector.'*

*'[An] expanded suite of impact investment products suitable for wholesale and retail investors.' 'A scalable platform/clearinghouse for impact investment opportunities.' "Access to early stage/speculative investment to support innovation.'*

*'Greater investment in investment readiness work to create the pipeline.'*

*'[To] deepen engagement with institutional investors' and get more 'impact investments of scale with the required risk/return characteristics.'*

*'[A] deeper field of financial intermediaries capable of bringing together and preparing service providers for potential involvement in impact investments.' '[To] encourage and support the development of the advisory and intermediary market on both the investee and investor sides.' 'Financial intermediaries with access to a comprehensive field of skills and expertise - ranging from social outcomes through to commercial/financial.'*

*'[To] enable/unlock government and philanthropic funding early stage for purpose for profit ventures to build the pipeline of investor ready opportunities.'*

*'Collaboration across all sectors is required to build the [impact investing] market.'*

# From the Australian Advisory Board on Impact Investing

The Australian Advisory Board on Impact Investing maintain our collective impatience and optimism that impact investment can be a powerful driver of meaningful change that improves people's lives and conserves the planet. Working with national advisory boards across more than 20 countries illuminates how Australia can elevate systemic change on the agenda, show leadership and learn from what is being done elsewhere to accelerate our progress.

In September 2014, we launched an ambitious, dynamic strategy for leadership, action and policy: Delivering on Impact. Four years on, impact investments – that are designed for impact and measure its achievement - have grown fourfold. We can say this with confidence because we have good data to compare the first Australian benchmarking in 2016 and the second in 2018.<sup>1</sup>

Organisations delivering services in communities and solving problems for people and the planet are raising capital to grow for greater reach and impact. We have seen them be successful. Funding from the Impact Investment Ready Growth Grants has enabled them to access capital for growth working with talented intermediaries.<sup>2</sup>

The message has reverberated beyond the individual actors and transactions to put impact on the agenda. The 2017 Field Scan<sup>3</sup> clearly told us track record is building, more and different organisations are getting involved, a field of practice is taking shape and there is much more potential if challenges are addressed. We continue to be inspired and humbled by pioneers and leaders who have already taken up the call to action.

Now is the time for many more to join them and play their part: entrepreneurial leaders, experimentation and prototyping; intrapreneurial leaders working within their organisations and leadership for field building. For this movement to become a significant force for change authentically connected to what matters for people and the planet, impact must not only be on the agenda; it must be a priority.

Australia has an enviable track record of 27 consecutive years of economic growth. Yet, we have dropped from 4th to 16th on the Social Progress Index, rank 37th on the SDG index and have not moved the dial on entrenched disadvantage in 3 decades.

It is time for breakthroughs that make sure change happens. A broader range of voices and activity will widen participation, deepen practice and drive towards a dynamic field at scale that is capable of transforming outcomes for people and the planet.

**Rosemary Addis**  
**Chair, Australian Advisory Board on Impact Investing**

<sup>1</sup> Castellás, E, Findlay, S and Addis, R, *Benchmarking Impact: Australian Impact Investment Activity and Performance Report*, 2016 and Castellás, E and Findlay, S *Benchmarking Impact, 2nd Edition*, 2018

<sup>2</sup> [www.impactinvestmentready.com](http://www.impactinvestmentready.com) and Zeigler, J, McCutchan, S and Hu, J *Paving Pathways: A Review of the Impact Investment Ready Growth Grant*, 2018, Impact Investing Australia

<sup>3</sup> Hill, R and Addis, R, *Views from the impact investing playing field in Australia on what's happening and what's needed next*, 2017



*'Development is about transforming the lives of people,  
not just transforming economies'*

Joseph Stiglitz, Economist and Nobel Laureate

*'Much of what appears to be reform in our time is in fact defence  
of stasis. When we see through the myths that foster this  
misperception, the path to genuine change will come into view.'*

Anand Giriharadas, Winners Take All

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*'Achieving impact at scale demands that we turn our thinking and our methods upside down. From the very start, the question is: How can I reach the community?'*

Michael Little, How to Achieve Lasting Impact at Scale



# TOWARDS IMPACT AT SCALE

Impact is on the agenda. This comes through clearly from the field. Grass roots demand is growing among people who have lost trust in public and private institutions and want choices aligned with their values. Community sector organisations facing significant model disruption are actively seeking options that serve their clients more sustainably. Corporates and financial institutions are starting to rethink their licence to operate and how the capital system can better serve all members of society. Institutional investors are grappling with universal ownership and how to integrate impact into risk and opportunity assessment.

How impact manifests depends on context. The conversation in the community centre is different from the one in the boardroom: Communities and innovators are demanding more sustainable choices and products that are restorative and regenerative by design – shifting away from extractive models to a more circular economy.<sup>4</sup> Larry Fink, CEO of global asset manager BlackRock with US\$6.2 trillion under management, put CEOs on notice: *Society is demanding that companies, both public and private, serve a social purpose*. Dutch pension fund PGGM, with over US\$220 billion in assets reported: *We are convinced financial and social returns go hand in hand*.<sup>5</sup> 93% of C-suite respondents to a 2018 survey conducted in association with the Association of International Certified Professional Accountants endorsed the need for a wider view of value creation.<sup>6</sup> There is a generational shift: over 60% of millennials surveyed rate a *sense of purpose* as a major factor in working for their employer, 87% think corporate success should be measured by more than money and 86% report interest in sustainable investment.<sup>7</sup>

A common principle has come to light through the emerging picture: growing understanding that everything has an impact – positive or negative depending on the choices people make.

The practice and data behind this principle are growing. Over 2000 practitioners have participated in the Impact Management Project<sup>8</sup> to agree on shared norms for how we understand, manage and report on impact.<sup>9</sup> Impact investment is putting more capital to work in service of solutions that deliver better outcomes for people and the planet. The Global Impact Investment Network's (GIIN) 8th annual survey shows a diverse and growing global market in which the most active 229 asset owners and managers have US\$228 billion under management, and 5-year trend data reflects a 13% compound annual growth rate.<sup>10</sup>

4 For example, Circular Economy Australia <http://circulareconomyaustralia.com/>

5 PGGM, Annual Responsible Investment Report 2017

6 Association of Certified Professional Accountants and Black Sun Plc in association with the IIRC, *Purpose Beyond Profit: The value of value – Board level insights*, 2018

7 Millennials, the Global Guardians of Capital, 2017, UBS; The Deloitte Millennial 2016 Survey, 2016 Deloitte; Morgan Stanley Sustainable Investing Surveys 2015 and 2017

8 [www.impactmanagementproject.com](http://www.impactmanagementproject.com)

9 See Appendix B for further information on the shared norms and field definition for impact investment

10 <https://thegiin.org/research/publication/annualsurvey2018>

The UN Sustainable Development Goals (SDGs) have come into this picture and provided an organising framework that people and organisations can get behind. Industry leaders are explicitly committing to investment strategies aligned with the SDGs. Over 60% of respondents to the 2018 GIIN Survey indicated they are already tracking investments to the UN Sustainable Development Goals or plan to do so. More than 80% of institutional investors indicated they plan to engage investee companies on the SDGs and allocate capital to investments that support the goals.<sup>11</sup>

The shifts are reflected in Australia. 81% of the largest pension funds reported having embedded some formal commitment to responsible investment, up from 70% in 2016.<sup>12</sup> Australians are following global trends in demanding that financial markets play a socially constructive role in the economy.<sup>13</sup>

Momentum is encouraging and achievements in shifting mindsets and markets should be celebrated. The milestone markers also reinforce that this is a long-haul journey with much work and discovery ahead to realise the vision for impact investment to drive dramatically better outcomes for people and the planet.

The US\$228 billion under management in impact assets and the US\$2.3 trillion in sustainable investment<sup>14</sup> is a fraction of global assets under management. Despite progress in recent decades, no country is yet on track to meet the SDGs. Australia ranks 16th among G20 countries on SDG implementation and coordination mechanisms and ranked 37th in the 2018 SDG Index overall.<sup>15</sup> Results for Australians living in circumstances of disadvantage have not improved in 3 decades<sup>16</sup> and Australia ranks in the bottom 3 wealthy nations on environmental policy.<sup>17</sup>

Impact at the scale required to bring real change to people's lives and conserve the planet will only be delivered through bold action to drive solutions and the investment to resource them. Models that respond to the deficit of trust in institutions and the crisis in sustainability for service delivery need to be encouraged and developed and matured to create a future that delivers better outcomes.

Decisive, proactive leadership can push through limits of ambition and imagination to drive breakthrough change. There is boundless potential to be realised from the foundations of economic stability, wealth, capacity for world leading research and development and deep pools of institutional capital. Building on Australia's early and competitive leadership position will realise promising opportunities to attract talent, capital and innovation. The benefits will be shared by a broad range of stakeholders – first and foremost, Australian families and communities.

This paper reinforces the ambitious, achievable vision for impact investment as a driver of positive impact at scale that has been articulated from the field with increasing clarity over the last 5 years. It steps through the objectives, enablers and themes for priority action that, if embraced and actively pursued, will accelerate progress (Table 1), then focuses on the roles different actors can play and illustrates the transformative potential of impact investment in three key areas.

11 UN Principles for Responsible Investment, *A Blueprint for Responsible Investment*, 2017

12 Responsible Investment Association of Australasia, *Super Fund Responsible Investment Benchmark Report 2018*, 2018

13 Responsible Investment Association of Australasia, *From Values to Riches: Charting consumer attitudes and demand for responsible investing in Australia*, 2017

14 Morgan Stanley *Sustainable Signals*, 2018 and C-Change analysis for GSG Working Groups, 2018.

15 Sustainable Development Solutions Network and Bertelsmann Stiftung, *2018 SDG Index and Dashboards*, 2018

16 Australian Productivity Commission, *Rising Inequality? A stocktake of the evidence*, 2018

17 Centre for Global Development, *Commitment to Development Index 2018* <https://www.cgdev.org/commitment-development-index-2018>

**Part I: *Activating Impact at Scale*** echoes the calls from the field to ensure that potential is realised, bringing into relief a vision for an ecosystem where impact is integrated into decision making for the benefit of people and the planet, and key objectives, enablers and themes for what can drive the transformation required.

**Part II: *Agenda for Distributed Leadership*** identifies concrete ways in which different actors can get started and show leadership and highlights areas for collective action to accelerate progress.

**Part III: *Scaling Impact with Investment in and from Australia*** illustrates the concrete potential for solution-oriented approaches and where investment will have transformative effect, focusing on three areas of significant need and opportunity: transition of the disability service system; investing in place to create opportunity and reduce persistent disadvantage; and investing from Australia to spread opportunity through the region.



**Table 1: An ambitious achievable vision and the enablers and actions to drive it**

PART I – 1. VISION FOR GROWING IMPACT				
A vibrant, dynamic, informed and accountable field contributing demonstrable impact at scale for people and the planet				
PART I - KEY OBJECTIVE				
Widening participation and deepening impact practice as a driver of impact at scale in and from Australia				
PART I - 3. KEY ENABLERS FOR IMPACT AT SCALE				
▶ Part I - 3.1 Social and financial innovation through solution-focused collaborations and integrative approaches	▶ Part I - 3.2 Flexible capital to unlock investment (market capital) and create a multiplier effect	▶ Part I - 3.3 Increased intermediation to build expertise, design solutions and products, advise and connect	▶ Part I - 3.4 Distributed leadership to raise awareness, amplify and connect calls to action	▶ Part I - 3.4 Collective and coordinated action to drive efficient and effective market development, including enabling infrastructure
PARTS I – 2. KEY THEMES TO PRIORITISE ACTION and PART II				
PART I - 2.1 Scaling impact and investment	PART I - 2.2 Building the field		PART I - 2.3 Making it easier to participate	
<ul style="list-style-type: none"> <li>▶ Strengthening and deepening intermediaries to design solutions, unlock capital and direct it on appropriate terms and generate a pipeline of quality deals</li> <li>▶ Designing for scale so, where appropriate, solutions can scale and investment can be aggregated</li> <li>▶ Designing for impact by taking a solution-focused approach</li> </ul>	<ul style="list-style-type: none"> <li>▶ Developing industry-based principles and standards consistent with global benchmarks to set expectations and drive consistency, comparability and impact integrity</li> <li>▶ Adopting impact management and measurement tools and standards, including integration of impact and financial goals to enable impact management to be embedded</li> <li>▶ Building enabling infrastructure that addresses barriers to scale and promote development of impact-oriented industries</li> <li>▶ Securing constructive engagement of governments and policy makers to further enable impact investment</li> </ul>		<ul style="list-style-type: none"> <li>▶ Raising awareness and educating to grow demand for more impactful choices and build capability</li> <li>▶ Growing and strengthening impact networks and platforms to develop capacity and leadership, connect people and data and facilitate information sharing and collaborations</li> <li>▶ Widening the opportunity set of products and solutions</li> <li>▶ Increasing transparency and disclosure of impact goals and performance</li> <li>▶ Removing regulatory barriers and creating incentives (e.g. tax treatment)</li> </ul>	

Sources: Hill, R and Addis, R, *Views from the impact investing playing field in Australia on what's happening and what's needed next*, 2017; AAB stakeholder convenings 2018; the GIIN, *Roadmap for the Future of Impact Investing: Reshaping Financial Markets*, 2018; UK NAB, *The Rise of Impact*, 2017; UK Government Advisory Group, *Creating a Culture of Social Impact Investment*, 2018; GSG Working Group Report, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018

# ▶ PART I – ACTIVATING IMPACT AT SCALE

*This is an evolution in thought and a revolution in means. If we are successful, it will change the whole nature of our system.*

Sir Ronald Cohen, Chair, GSG





# 1. A Vision for Growing Impact

Practitioners and stakeholders already active and interested in impact investment in and from Australia say the potential prize for getting things right is substantial. In the 2017 Field Scan, they clearly painted a picture of significant untapped potential and consistently said that they want to see that realised.

This Part I examines how prioritising action across the key themes and bringing focus to key enablers (see Table 1: *An ambitious achievable vision and the enablers and actions to drive it*) and objectives of widening participation and deepening impact can deliver on that promise and drive towards the vision for a dynamic impact ecosystem at scale.

It is helpful to establish some key concepts to explain progress from vision through action to a future where significantly more capital flows to solutions delivering impact at scale.

The vision for growing impact investment is to resource an **impact ecosystem** capable of delivering genuine change by enabling impact at scale (Figure I.1).<sup>18</sup>

*What you see in the figure is a representation of an ecosystem that supports and encourages integration of impact. The orientation is outcomes for people and planet. Everything flows from and is directed to that as represented by the dark blue box and reinforcing feedback loop. The green box shows that capital needs to flow to a range of actors and activities to deliver choice and impact. The blue box illustrates a range of impact activities that deliver via service providers, products and services and delivery models and different actors who act and interact. The actors represented at the intersection span and connect across the boundary of impact delivery and investment. The grey box shows the critical enabling role for governments, multi-laterals and policy.*

The cumulative effect of more opportunities for positive impact drives social progress, environmental sustainability and economic growth, which in combination deliver the SDGs and increasingly positive outcomes for people and the planet.

Experience from the field and a growing global base of practice, literature and research have informed a **theory of change** (Figure I.2) that maps out how to move **from** the world today where the dominant systems driving local and global economies overemphasise financial return **to** a future where significantly more capital flows to solutions delivering impact at scale.

*What you see in this figure is a map of the theory for how impact investment can drive a future where most capital flows purposefully to solutions delivering positive impact that meets the needs and aspiration of people and sustains the planet. The mapping focuses on what will enable positive reinforcing patterns that reduce the stock of undesirable effects and increase the stock of more impactful solutions and choices.*<sup>19</sup>

The map illustrates the potential for change from dominant systems that overemphasise financial return to a system that fully values and integrates social and environmental factors. It shows that this will require moving away from things that avoid harm, doing more to benefit stakeholders and contributing solutions that can scale.

*The theory brings into relief the objective of creating two positive, reinforcing effects: widening participation and deepening practice to drive towards achievement of impact at scale.*

<sup>18</sup> The current state of global consensus on impact investment is outlined in Appendix B

<sup>19</sup> Systems mapping for theory of change, Hsueh, J and Blankinship, B, Omplexity in collaboration with Addis, R and Barbosa-Vargas, E and design by Murphy, R for and as set out in GSG Working Group Reports 2018, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018

Widening participation brings focus to:

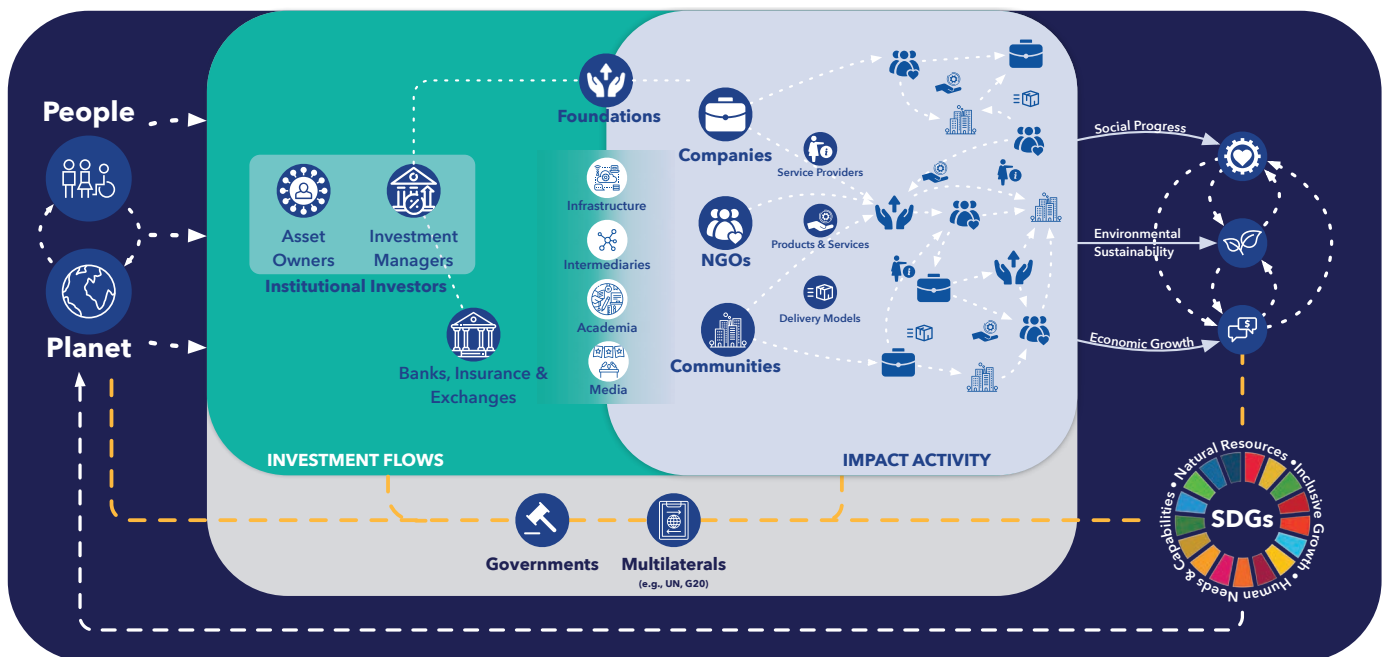
- ▶ mobilising more and different people and organisations (actors) to become active and grow their participation; and
- ▶ catalysing impact through collaboration and design of more effective responses; and brings into relief the lynchpin enabling role of design for impact at scale, flexible capital and intermediation.

Deepening of impact practice brings focus to:

- ▶ embedding impact management and measurement; and
- ▶ impact integrity through commitment to principles and standards; and brings into relief the enabling role for collective action to drive enabling infrastructure, frameworks and benchmarks that build confidence and trust and enable more informed choices about impact.

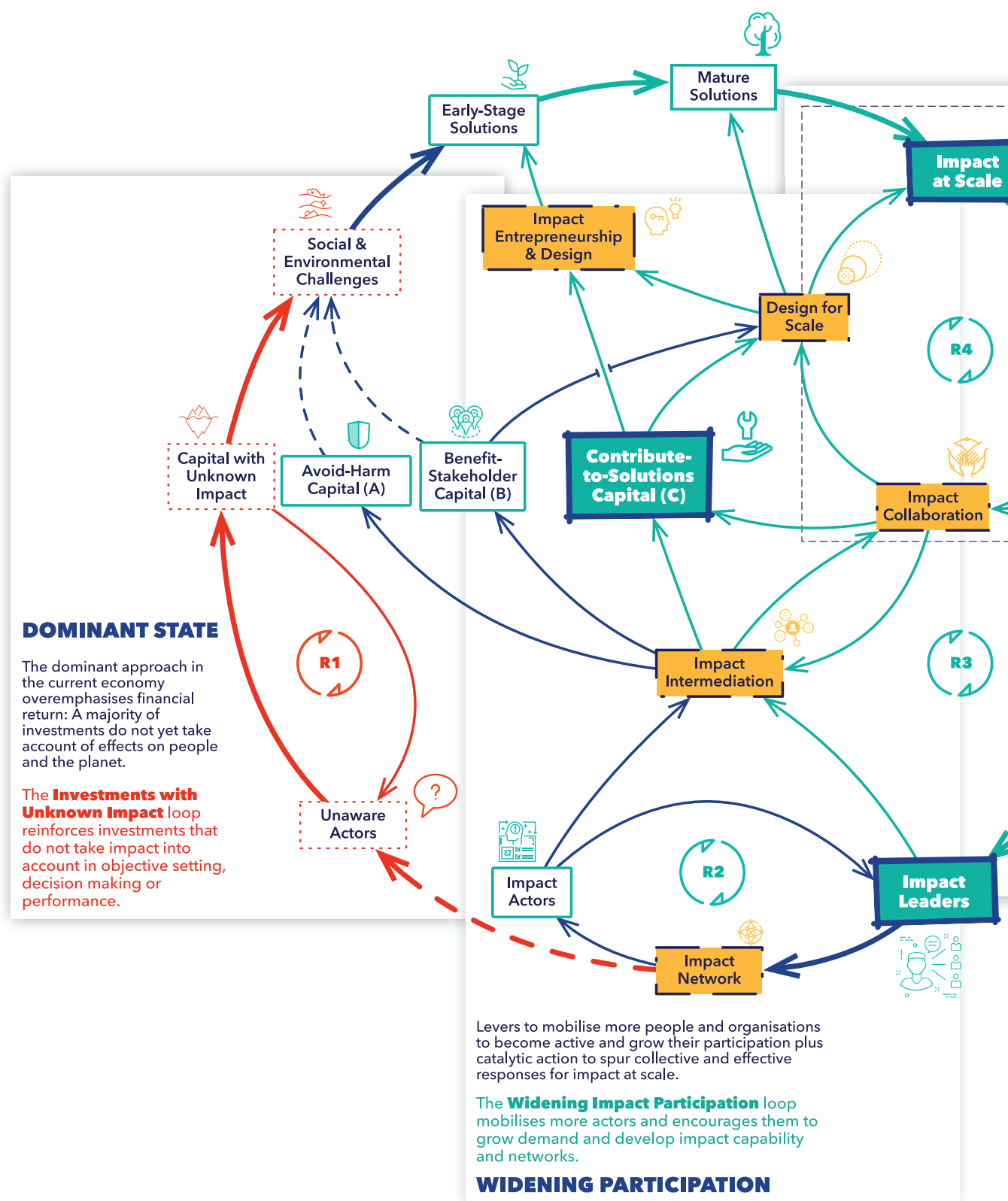
Three central themes – distilled from stakeholder insights and global practice, literature and research – frame the context for how the enablers, levers and actions of impact investment can drive transformation towards an impact ecosystem: scaling impact and investment; building the field and making it easier to participate.

**Figure I.1: Vision for a dynamic impact-driven ecosystem**

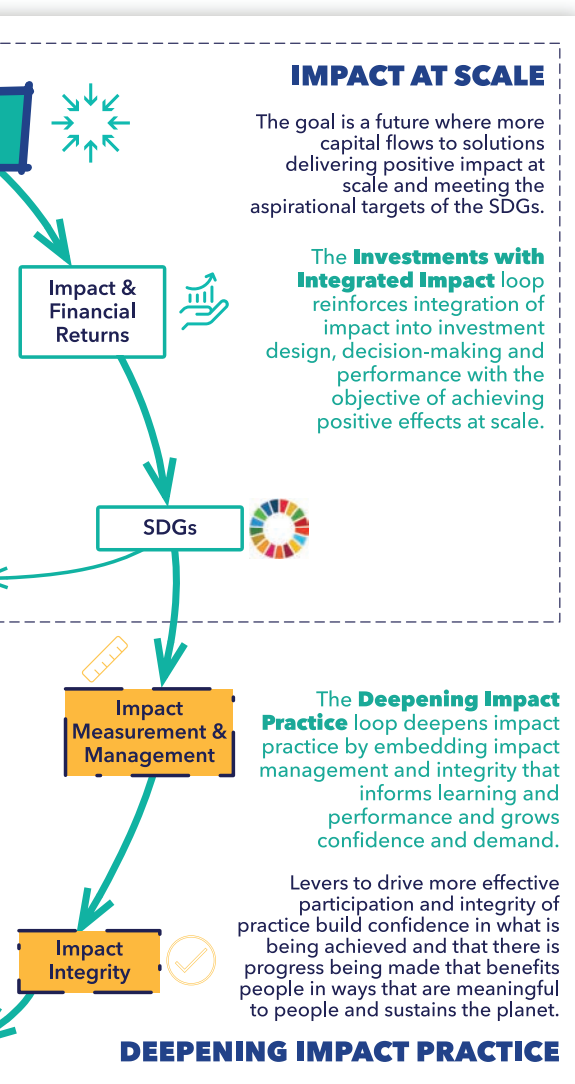


Source: GSG Working Group Papers 2018, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018, Global Steering Group for Impact Investment

Figure I.2: Theory of change mapping the course towards impact at scale



Source: Systems mapping for theory of change, Hsueh, J and Blankinship, B Omplexity in collaboration with Addis, R and Barbosa-Vargas, E and design by Murphy, R for GSG Working Group Papers 2018, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018, Global Steering Group for Impact Investment.



## LEGEND

### Elements

Things to grow

Breakthrough Levers

Vision

### Connections

#### Adding effects

Cause → Effect  
Strengthening/increase of the cause leads to strengthening/increase of the effect

#### Subtracting effects

Cause - - -> Effect  
Strengthening of the cause leads to weakening of the effect

#### Today's dominant reinforcing feedback loop

Cause → Effect

#### Priority causes and effects to deliver impact at scale

Cause → Effect

### Loops



#### Reinforcing loop

These loops reinforce behaviours and actions and have a multiplier effect.

## GLOSSARY

**Impact Actors** are all actors entering the impact investment ecosystem and growing practice

**Impact Leaders** are those impact actors who are pioneers or develop deep specialisation and capacity for impact

**Impact Network** refers to the range of developing communities of practice and industry for impact

**Impact Intermediaries** refer to the range of roles and organisations that intermediate solutions, capital and connect, aggregate, advise on, measure and evaluate them

**Avoiding Harm Capital, Benefit Stakeholder Capital and Contribute to Solutions Capital** refer to the ABC of the impact management project

**Design for Scale** means design of capital or solutions or both for scaling effects, direct or indirect, including replication and dissemination to increase reach, driving changes in mindset, behaviours and networks and changes that increase capacity for reach and impact invading policy and regulation

**Impact Collaboration** means collaboration to drive greater scale and positive impact, including between non-traditional partners, with a focus on catalytic action and flexible capital to enable effects unlikely to occur otherwise

**Impact Integrity** means commitment to impact management and accountable impact practice and governance, including applicable principles and standards

## 2. Key themes to prioritise action

Three themes set the context for and link the objectives, enablers and actions that will drive change towards an impact ecosystem.

- ▶ **Scaling impact and investment** – reflects that achieving lasting impact at scale will require change. That involves: moving away from models that cause harm and are not working; towards solutions that work and can scale; and ensuring capital flows away from models that create harm into ones that deliver benefit and contribute solutions.
- ▶ **Building the field** – brings focus to the infrastructure, tools, standards and policy that can enable the field. The focus is to remove structural barriers and provide supportive structures, so things can be built more quickly and effectively.
- ▶ **Making it easier to participate** – reflects that people will make more choices for positive impact when it is easier to do so. There are a range of ways in which this can be facilitated, by individual actors and at a more systemic level.



### 2.1 Scaling impact and investment

#### AT A GLANCE

- ▶ *The goal is lasting impact at scale, improving outcomes for people and the planet.*
- ▶ *Scale has several dimensions and they all matter.*
- ▶ *Design for scale is essential.*
- ▶ *Some things need to start with the problem and then look to what type of capital can play a role.*
- ▶ *Collaboration and intermediation are critical lynchpins to accelerate financial and social innovation.*
- ▶ *Targeted, decisive engagement by governments will drive step-change and enable the field.*

The objective of impact investment is to drive impact at scale, delivering better outcomes for people and the planet that are sustainable and endure. Given the magnitude and complexity of the change involved in reaching that ambition, it is not surprising that scale comes up again and again.

The focus on how to reach scale reflects both immense potential and optimism for the vision that impact investment can contribute, and real frustration with barriers people encounter in their efforts to engage and move forward. Large scale investors want to find more recognisable investment products available more readily; community sector leaders want to see finance connect more with innovative solutions originating on the ground; field builders want to see priority for the enablers that will open up the playing field.

A sense from the field that impact investment has primarily been investment-led highlights concerns that the current models and dynamics that emphasise financial return may become embedded in impact investment, when what is needed is a more fundamental change that clearly has impact as the goal.

For impact to scale, solutions and the investment into them both need to grow. That requires an environment that facilitates scale in all its dimensions (Box I.1).

Achieving solutions that can mature and grow calls for innovation and a design that plans for scale. Meeting the needs that Australians have identified for quality, accessible health care and aged care and stable, affordable housing and reliable essential services<sup>20</sup> will require models that no longer serve people well to be re-imagined and re-invented. Serving growing populations, including across Asia and the Indo-Pacific, with food, water, energy and shelter, health and other services, will require design of solutions that can be replicated and extended to meet the needs of more people and communities.

At least some of that work needs to start with the people affected and the issues they face and take a solution-focused approach to find what works for them, then consider the role different types of capital can play to resource implementation. Shifting the dial on entrenched disadvantage, including for those groups of older Australians, young people living in households where no-one works, Aboriginal Australians and people with a disability for whom the dial has not shifted in decades, will require innovation that takes into account deeper and interconnected causes and obstacles to achieve a different result.<sup>21</sup>

Collaborative design and platforms that drive innovation, development and dissemination of solutions will accelerate progress. Outcomes platforms are one approach that aggregate experience and data, encourage innovation and streamline execution and dissemination developing with relevance for Australia and the region, for example education focused initiatives in Africa and India.<sup>22</sup> For investment, this includes creative approaches to packaging and aggregating opportunities, including collaborations between non-traditional partners with different types of capital.

Strengthening and deepening intermediaries is critical to build the expertise to design solutions, unlock capital and direct it on appropriate terms and generate a pipeline of quality opportunities into which capital can flow. Decisive government action will send signals that build confidence and enable the field. Governments are such a significant stakeholder that scale is unlikely to be achieved without their constructive and active engagement.

Driving social and financial innovation, flexible capital, leadership and collaboration are all vital to realising the goal for impact investment to drive impact at scale.



20 Committee for Economic Development Australia, Community Pulse: The Economic Disconnect, 2018, Committee for Economic Development Australia

21 Committee for Economic Development Australia, Community Pulse: The Economic Disconnect, 2018, Committee for Economic Development Australia; Australian Productivity Commission, Deep and Persistent Disadvantage in Australia, 2013; Australian Productivity Commission, Rising Inequality: A Stocktake of the Evidence, 2018

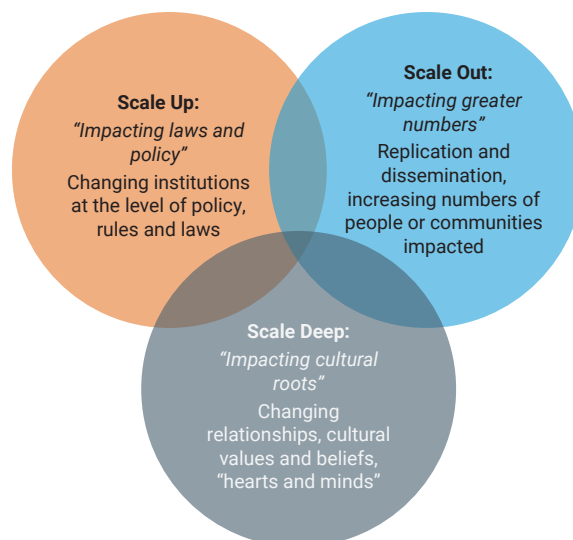
22 For example, <http://gsgii.org/2018/05/india-education-outcomes-fund-business-plan/>

## Box I.1: The Dimensions of Scale

*The dimensions of scale frame a series of questions: What can we do? How can we make this happen? What will be needed for success?*

### **Scaling what? Scale to what end?**

*The dimensions of scale are interrelated and may need to work together. For example, scaling out an initiative or an investment vehicle, may require scaling up through policy advocacy to see barriers removed. Scaling deep to change the mindsets of people in a community about technology or medical treatments or to dispel preconceptions of investors may open direct pathways to do more and have significant indirect cultural effects that open the gateway for more to happen. Scaling effects may be direct, or indirect like throwing a stone into a pond and creating a ripple effect.*



***The dimensions of scale can be illustrated by how they are experienced by different actors:***

***for individuals and families*** scale means greater choice and better experience of what matters to them

***for social innovators*** scale means finding the pathways to ensure new ideas become accepted and healthy behaviours are more widely adopted

***for impact-driven businesses*** scale means success and solving problems go hand in hand as they grow their business model

***for service delivery organisations*** scale means some combination of being able to reach more people, target those in need more effectively or stay longer so change is durable

***for intermediaries*** scale means being valued and having revenue streams to be able to explore more opportunities, have a sustainable base to operate from and grow

***for investors*** scale means building a stronger pipeline of investments and increasing the size of transactions to be more sustainable and more accessible to different investors

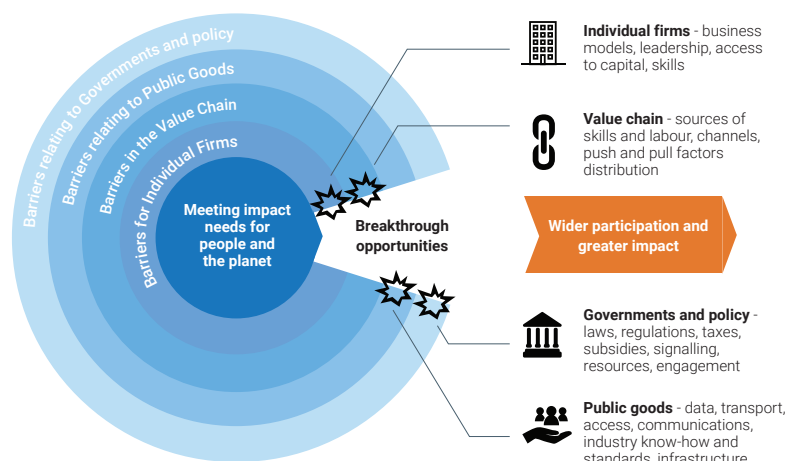
***for governments*** scale means reaching more issues for people that improve their lives for longer, reduce costs to the budget and increase public goods and public value

***Impact investment at scale is all these things working in combination.***

Source: Riddell, D and Moore, M, *Scaling Out, Scaling Up, Scaling Deep: Advancing Systemic Social Innovation and the Learning Processes to Support it*, 2015, JW McConnell Family Foundation and Tamarak Institute

## Box 1.2: Priorities for field building to drive scale for impact and investment

**Scaling barriers are often not at the level of the firm itself, but in the industry ecosystem around it.** These barriers constrain growth at four distinct but related levels: the firm itself, the industry value chain of which the firm is a part, public goods relevant to the industry, and governmental laws, policies and actions. **Barriers also point to opportunities for breakthrough; removing barriers can open the field for wider and more effective participation.**



**Removing scaling barriers and building enabling infrastructure is an opportunity for different actors for different reasons**

**For philanthropic foundations, aid donor agencies and multilateral development institutions** an opportunity to create greater impact on issues, by directing and modulating their resources most effectively to accelerate solutions to scale

**For service delivery and other mission-driven intermediaries** working locally, to enhance effectiveness and understand wider context of what will influence capacity for scale

**For investors**, to enhance the way they select and manage investments to deliver desired financial returns and social impact

**For governments**, to understand how laws, policies and actions can influence the development of solutions and capacity for impact at scale, for better or for worse

**For corporates**, both large and small, to improve their chances of success at scaling innovative solutions to benefit people and the planet

**Impact investment will scale when the scaling barriers are removed, encouraging current and potential future actors to participate with capacity to achieve scale.**

Source: Adapted from Koh, H, Hegde, N and Karamchandani, A, *Beyond the Pioneer: Getting Inclusive Industries to Scale*, 2014



## 2.2 Building the field

### AT A GLANCE

- ▶ Field building infrastructure is essential and can be transformational.
- ▶ Tools and frameworks build practice and enable people to see how they can play a part.
- ▶ Industry-based principles and standards set expectations and drive consistency and integrity.
- ▶ Constructive policy will further enable the field.

A significant amount has been achieved in the decade since the term impact investment was coined and a concerted focus on global market development commenced (Figure I.3).<sup>23</sup> Field building remains a work in progress and the focus on development needs to be maintained, indeed strengthened to create the environment in which scale can be achieved.

Without ongoing focus on what is needed next and proactive leadership to ensure the infrastructure and enablers are being put in place to grow participation and make it more effective, impact investment could remain an interesting niche and fail to reach its potential as a driver of transformative change.

Field building for impact investment has much in common with the experience from other fields of market-based endeavour. The evidence base that has developed from effective action to address market failures and accelerate development in fields such as venture capital, infrastructure investment, the corporate bond market, community finance and microfinance provide valuable lessons. These need to be adapted for the complexities that arise from the focus on integrating social, environmental and financial effects.

Industry-level infrastructure is critical to break down barriers. Well targeted, this provides the equivalent of scaffolding which defines the shape of opportunities and makes it easier for different actors to see where they can contribute. Executed well, this can accelerate progress of impact investment more efficiently and effectively than focus on individual firms and transactions because it tackles barriers that impede the progress of a range of actors (Box I.2).

The Australian Advisory Board on Impact Investing concluded in 2014: *There is enough capital and talent to make a significant difference to social issues; they need to be deployed differently to achieve a better result.*<sup>24</sup> Experience across the globe has been that targeted infrastructure that facilitates development of key enablers including design, intermediation and collaboration accelerates progress. Without such measures: *It is as if impact investors are lined up around the proverbial water pump waiting for the flood of deals, while no one is priming the pump.*<sup>25</sup>

How quickly and the way in which this infrastructure is introduced in Australia will either limit or accelerate growth of impact investing. In an environment of low trust in institutions, including governments and the finance sector, field building infrastructure also provides a unique opportunity to demonstrate positive and collaborative action for the benefit of communities.

<sup>23</sup> Freireich, J and Fulton, K, *Investment for social and environmental impact*, 2009

<sup>24</sup> Addis, R, Bowden, A and Simpson, D, *Delivering on Impact: the Australian Advisory Board Strategy to Catalyse Impact Investment*, 2014

<sup>25</sup> Bannick, M and Goldman, P, *Priming the Pump: The Case for a Sector Based Approach to Impact Investment*, 2012

Figure I.3: Examples of progress made in marketplace building since 2009

	Uncoordinated innovation	Marketplace building	Capturing the value of marketplace	Maturity
Challenge	Lack of efficient intermediation	Lack of enabling infrastructure	Lack of sufficient absorptive capacity	
Platform	Unlock latent supply of capital by building efficient intermediation	Build enabling infrastructure for the industry	Develop the absorptive capacity for investment capital	
Initiatives	<ul style="list-style-type: none"> <li>▶ Create industry-defining funds that can serve as beacons for how to address social and environmental issues <ul style="list-style-type: none"> <li>▶ Wholesale impact funds entering the market</li> </ul> </li> <li>▶ Place substantial, risk taking capital into catalytic finance structures <ul style="list-style-type: none"> <li>▶ Demonstrations of solutions and blended finance initiatives</li> </ul> </li> <li>▶ Launch and grow dedicated impact investment banking capabilities <ul style="list-style-type: none"> <li>▶ Global Alliance for Banking on Values; more banks active</li> </ul> </li> <li>▶ “Pull” existing intermediaries into impact investing by making business commitments <ul style="list-style-type: none"> <li>▶ Process starting e.g. TPG RISE, Bain Double Impact, UBS, Goldman Sachs, BNP Paribas</li> </ul> </li> <li>▶ Create investment clubs focused on specific themes <ul style="list-style-type: none"> <li>▶ TONIIC and other impact clubs; SDGs providing more theme focus</li> </ul> </li> <li>▶ Support the development of backable fund managers <ul style="list-style-type: none"> <li>▶ wholesale impact funds; selected initiatives e.g. Global Health Investment Fund, Encourage Capital</li> </ul> </li> <li>▶ Create financial products to increase accessibility <ul style="list-style-type: none"> <li>▶ innovation and uptake of SDG bonds; retail charity bonds</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Set industry standards for social measurement <ul style="list-style-type: none"> <li>▶ Impact Management Project, and GIIN Roadmap initiatives</li> </ul> </li> <li>▶ Lobby for specific policy/regulatory change <ul style="list-style-type: none"> <li>▶ Policy developments across 20+ countries</li> </ul> </li> <li>▶ Develop an impact investing network to accelerate the industry <ul style="list-style-type: none"> <li>▶ GIIN, GSG</li> </ul> </li> <li>▶ Develop risk assessment tools <ul style="list-style-type: none"> <li>▶ Impact Management Project</li> </ul> </li> <li>▶ Coordinate development of a common language platform <ul style="list-style-type: none"> <li>▶ Impact Management Project and GIIN Roadmap initiatives</li> </ul> </li> <li>▶ Create publicly available comprehensive benchmarking data <ul style="list-style-type: none"> <li>▶ GIIN &amp; Cambridge Associates and Wharton reviews of fund performance; some early country level benchmarking e.g. Australia</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Support effective and scalable management capacity development approaches for entrepreneurs <ul style="list-style-type: none"> <li>▶ Early capability initiatives including government support for impact entrepreneurs</li> </ul> </li> <li>▶ Provide tools to support research and development for innovative scalable models <ul style="list-style-type: none"> <li>▶ Platforms developing including at academic institutions e.g. CSI Amplify</li> </ul> </li> </ul>	

Source: Adapted from Freireich, J and Fulton, K, *Investment for Social and Environmental Impact*, 2009, Monitor Institute

In 2014, the Social Impact Investment Taskforce brought this lens to identifying infrastructure that could drive impact investment forward in each country and, cumulatively, catalyse the global market.<sup>26</sup> The recommendations made by the Taskforce have been stress-tested further in participating countries and through collective effort to sharpen the focuses on high value field building: wholesale impact funds to drive intermediation and prove up new models, impact management and measurement tools, standards and principles, and government engagement to drive constructive policy.

National wholesalers are gaining global recognition as game-changing infrastructure for impact. These institutions provide support and grow intermediaries and act as market champions; they combine capital and capacity to mobilise solutions and capital. Without this kind of institution to prime the pump, impact investment may not reach critical mass for some time, limiting self-sufficiency and inhibiting the capacity for scale. Experience from development of related fields including the Global Energy Efficiency and Renewable Energy Fund underscore the breakthrough effect of institutions with a catalytic mandate and appropriate capital.<sup>27</sup> The results delivered by Big Society Capital and the European Investment Bank Social Impact Accelerator provided proof of concept that wholesalers also have a catalytic effect on intermediary development and market growth for impact investment. (Box 1.3)

Countries as diverse as Japan, Portugal, India, South Korea, Canada, and across Latin America have wholesale impact funds at various stages of development. A co-design process informed by local and global experience and evidence has delivered a blueprint for a uniquely Australian adaptation.<sup>28</sup>



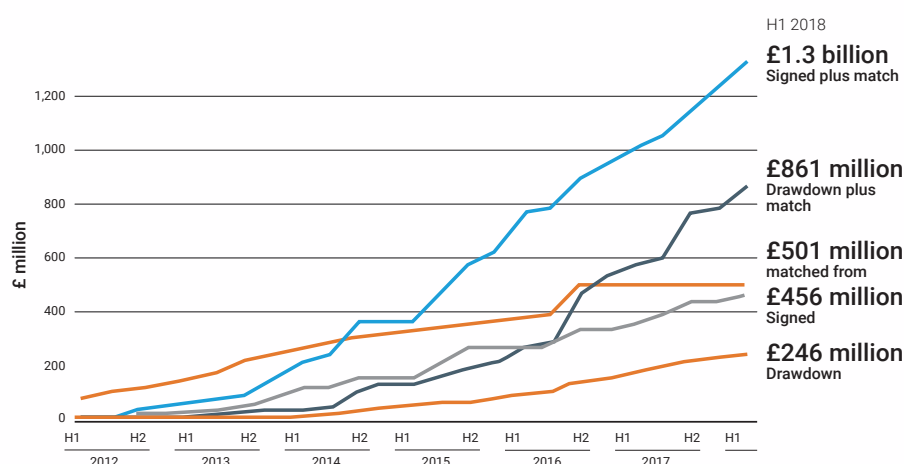
<sup>26</sup> Social Impact Investment Taskforce, *The Invisible Heart of Markets*, 2014

<sup>27</sup> The Global Energy Efficiency and Renewable Energy Fund demonstrates the leverage of the wholesaler model. In 2016 its €154m of committed capital, through a fund of fund model, helped to unlock €2.4bn of private sector funds for energy projects. This created 5,000 jobs and brought energy to 308,000 developing market household.

<sup>28</sup> See Addis, R, McCutchan, S and Munro, P, *Blueprint to Market: Impact Capital Australia*, 2015 and Australian Advisory Board on Impact Investing, Pre-budget submission: Impact Capital Australia, 2017

**Box I.3: Big Society Capital is an example of national impact wholesale institutions as critical enabling infrastructure**

**Big Society Capital, the UK wholesale impact fund established in 2012, works with investors, intermediaries, charities and social enterprises to help improve people's lives.** Its mission is to promote and develop the social investment marketplace in the United Kingdom. Its track record provides evidence of positive impact and catalysing effects that can be achieved. BSC created what McKinsey called a decisive shift in the UK, unlocking over £1.3 billion of capital directed to organisations and services making a difference for people and communities.



**BSC's impact on people** spans 9 outcome areas and concrete results include: 30,000 people accessing online mental health support; education, training and employment including 26,000 jobs and training opportunities; family, friends and relationships including 5,000 children accessing affordable childcare; income and financial inclusion, housing and local facilities, arts, heritage, sport and faith and conservation of the natural environment. Over £860 million has been drawn down by charities and social enterprises.

Employment, training and education	Housing and local facilities	Citizenship and community
Income and financial inclusion	Physical health	Mental health and well-being
Family, friends and relationships	Arts, heritage, sports and faith	Conservation of the natural environment

**BSC has created significant market development effects** including growing awareness, increasing the number of intermediaries operating at sustainable scale (>£50 million under management) from 1 to 7; 84% of social sector leaders report that they understand social investment, investing in market infrastructure, including ClearlySo which helps social organisations raise capital for growth; supporting mass market participation through successful advocacy for social investment tax relief and a cornerstone investment in the Threadneedle Social Bond Fund, which is the first retail bond product that includes social investments. BSC has attracted co-investment from a broad range of investors including social bank depositors, charities and foundations, government agencies, banks and pension funds.

Sources: <https://www.bigsocietycapital.com>; Big Society Capital Annual Reviews; Big Society Capital Impact Report, 2017; GSG Working Group Report, *Building Impact Investment Wholesalers*, 2018; Godsall, J and Sanghvi, A, *How Impact Investing can reach the mainstream*, 2016, McKinsey and Company

Widespread adoption of good impact management practice is another critical element of field building. It puts focus on: common language and tools for setting and communicating impact objectives; and progress to their achievement enables more connection and understanding across the value chain. Impact management is a process of goal setting, measurement, and management that guides practice and provides information to inform decision-making. The practice applies to impact-driven enterprises and activity and to investors. Skilled intermediaries accelerate this process by translating between and across different actors and initiatives.

The Impact Management Project<sup>29</sup> (Case I.1) has driven a critical first wave of convergence in common language and data to align goals and assess performance, including between different actors in the impact ecosystem. Developments such as integrated measurement and reporting of a more holistic view of what make up organisational performance and value<sup>30</sup> and ratings for impact-driven organisations and products (Case I.2) are providing tools for this practice.

The combined effect of tools and practice is beginning to shape a basis for informed decision making and set expectations for transparency of impact goals and performance. That effect will be enhanced with consistency and reliability of industry-based principles and standards for what good impact practice looks like. That process has started: the GIIN is following up their 2017-18 Roadmap with principles for impact investors.<sup>31</sup> UN PRI has working groups focused on institutional investor contribution to meeting the SDGs; the International Finance Corporation will shortly release impact principles. These organisations together with others including the GSG and UNDP are getting behind a networked approach to the next phase of development of the Impact Management Project as a platform for industry standards.

Australia is connected to global developments through the AAB and work of practitioners who have opted in. Collective and coordinated action is underway to establish critical infrastructure, drive practice and develop standards and principles for this market. Now is the time to take targeted action to ensure Australia is connected and adapting to be globally aligned and competitive.

That will be more effective if governments are engaged. They are clear beneficiaries of impact investment and it can be a powerful tool for policy. Strong signalling and decisive leadership can position Australia as a hub for investment into the region and attract new sources of talent and capital, research and development with significant social, environmental and cultural benefit.

Policy announcements in the 2017 and 2018 Budgets, release of the Social Impact Investment Principles and action at State-level are welcome developments. There is more to do for governments to take up the Financial System Inquiry and Innovation and Science Australia recommendations for a catalytic role *both in facilitating the functioning of the ecosystem and targeting actions to trigger its further development*.<sup>32</sup>

Stakeholders from community sector to institutional investors, pioneering intermediaries and policy influencers, have all expressed concern that without constructive action from governments, interest and momentum around impact investing will start to wane and an important source of resources and innovation may never reach its potential. A proactive stance by governments can tip the balance towards action and direct capital to areas of policy priority.

State action and the Australian Government announcement of its intention to partner with the sector to drive scale are welcome beginnings.<sup>33</sup> Practitioners are already active and look to government as partners in scaling impact. Collective and coordinated action now to establish critical infrastructure, drive practice and develop standards and principles will help ensure Australia realises the benefits of impact investment locally and becomes globally competitive.

29 [www.impactmanagementproject.com](http://www.impactmanagementproject.com); see Appendix B

30 <http://integratedreporting.org/>: the 6 capitals are: financial, manufactured, intellectual, human, social and relationship, natural

31 The GIIN, *Roadmap for the Future of Impact Investing: Reshaping Financial Markets*, 2017

32 Innovation and Science Australia, *Australia 2030, Prosperity through Innovation*, 2018; Financial System Inquiry Report, 2014

33 Australian Government, *Budget Paper #1*, 2018, p 27

## Case I.1: Developing consensus on impact management and measurement

### The Impact Management Project

The Impact Management Project (IMP) convention sets out how to communicate, analyse, and assess impact across five key dimensions – (1) **WHAT**: what outcome(s) does the effect relate to, and how important are they to the people (or planet) experiencing it? (2) **HOW MUCH**: how significant is the effect that occurs in the time period? (3) **WHO**: who experiences the effect and how underserved are they in relation to the outcome(s)? (4) **CONTRIBUTION**: how does the effect compare and contribute to what is likely to occur anyway? (5) **RISK**: which risk factors are material and how likely is the effect different from the expectation?

The IMP has also developed the Investor's Impact Matrix (Appendix B) that brings together the impact goals of the businesses being invested in (x-axis) using the ABCs of impact ('A' – avoid harm, 'B' – benefit stakeholders, and 'C' – contribute to solutions) and the strategies that investors use to contribute to impact (y-axis) – (signal that impact matters, engage actively, grow new or under-supplied capital markets, provide flexible capital).

In 2017, the IMP, together with The Netherlands' second largest pension fund, PGGM released *The Investor's Perspective: How an asset manager can map its portfolio by the effects it has on people and planet* – and what we can learn from this in which PGGM used SDIs to map its entire €222 billion portfolio to more accurately understand and communicate what impact its investments are making. Along with PGGM, KLF Foundation and 40 members from the GIIN Investors' Council have mapped their investments using the matrix and 50+ products have self-mapped within the matrix with this expected to reach several hundred by the end of 2018.

Model	Market development impact	Catalytic capital
The IMP network of leading organisations including the GIIN, GSG, UNPRI, IFC, GRI, UNDP, OECD, World Benchmarking Alliance and Social Value International, facilitated by Bridges Impact+, is a collaborative effort that has engaged with over 2,000 practitioners across disciplines and different geographies (to understand how impact is experienced in different countries and contexts), to agree on shared fundamentals for how we talk about, measure and manage impact.	Building market infrastructure, tools and capacity through participation and sharing of learnings; driving convergence through collaboration.  Expanding the impact economy by creating a global convention and common language to talk about, measure and manage impact; demonstrating how impact can be applied in a mainstream, large scale context.	This multi-stakeholder effort is being enabled by a consortium of funders including investors, philanthropy, government and multinational companies.

Source: Impact Management Project and PGGM, *The Investor's Perspective: How an asset manager can map its portfolio by the effects it has on people and planet – and what we can learn from this*, 2017; <http://www.impactmanagementproject.com>

## Case I.2: Aeris Ratings

### Aeris Ratings

Aeris is a social enterprise non-profit organisation. It was founded as a project of Opportunity Finance Network (the national network of Community Development Finance Institutions) in 2004 and spun off as an independent entity in 2012.

Aeris' mission is to increase investment and knowledge that benefit underserved markets. It fulfils its mission by providing information services (including impact and financial strength ratings) on US Community Development Financial Institutions<sup>34</sup> (CDFIs) for impact investors (including large financial institutions with Community Reinvestment Act obligations, foundations, government, private wealth managers, pension funds and insurance companies).

An Aeris rating comprises two primary components – a rating for impact performance and a rating on the financial institution (or fund) for financial strength and risk within the context of the community finance sector. An additional descriptor denotes CDFIs that have demonstrated policy leadership.

Aeris Impact Reports describe and evaluate the CDFI's alignment of strategy and operations with mission, effective use of resources in pursuit of that mission, tracking outputs that show effectiveness and tracking of outcomes or impacts that indicate the organisation is making progress achieving the impact it seeks to create.

Aeris' network of rated and reporting CDFIs includes some of the US's leading loan funds spanning asset sizes (tens to hundreds of millions of dollars under management), impact areas (economic security, education, environmental sustainability, health and food access, and housing) and geographies (local organisations in 48 states to national lenders).

Disability Opportunity Fund and the Nonprofit Finance Fund that feature in other parts of this report are US CDFI's rated by Aeris.

Business Model	Market development impact	Catalytic capital
Aeris' business model comprises a blend of subscription fees paid by investors, relatively modest issuer rating fees (US\$3,000-US\$7,500 p.a.), consulting fees from investors, and philanthropic and corporate grants.	Aeris is building market infrastructure and tools that provide benchmarks and increase transparency and standardisation (comparability) across the US CDFI sector. Ratings are made accessible (affordable and relevant) to issuers and make it easier for investors to source, underwrite and monitor investments that meet their risk parameters and impact goals. Aeris has issued more than 500 CDFI ratings since 2004.	In 2017, Aeris received a 2-year grant from the W.K. Kellogg Foundation to expand and improve Aeris' tools for impact investors. The grant will support a tripling in Aeris' rating volume as it transitions to annual ratings and the introduction of standardised social and environmental impact data in 2018.

Source: [www.aerisinsight.com/about-aeris-ratings.com](http://www.aerisinsight.com/about-aeris-ratings.com)

<sup>34</sup> US CDFIs are non-government financial institutions that have a primary mission of community development through provision of responsible, affordable lending to low income, low wealth, and other people and communities experiencing disadvantage that may be excluded from the mainstream provision of financial services.



## 2.3 Making it easier to participate

### AT A GLANCE

- ▶ Impact investment will grow as it becomes easier to participate.
- ▶ Awareness raising and education are critical.
- ▶ Credible, reliable information on impact goals and performance will inform decision-making.
- ▶ Networks and platforms grow movements for change by connecting actors and information.
- ▶ A wider opportunity set of products and solutions will make choices more accessible.
- ▶ Constructive policy will remove barriers to and create incentives for participation.

Participation in impact investment will become easier as awareness grows, and more people have information and skills that inform choice and drive demand. Experience reinforces that people will gravitate to opportunities for impact investment if they are available because it provides compelling potential to combine their core skills and experience with a sense of purpose. Interest from individuals can move organisations; enough organisations mobilising can move industry bodies and sectors; growing interest contributes a pipeline of capable talent.

Awareness and education need to run the gamut: from raising in forums and through stories that bring solutions and impact to life in a compelling way; to more structured education to build and translate interest to action. Education helps institutional investors find ways to engage for financial return and impact; philanthropic foundations can discover options to use the different types of capital (investments and grants) available to them; community leaders and impact-driven entrepreneurs can explore a range of funding and financing options; directors can gain understanding of the relevance of impact in the boardroom; and advisers gain insight about choices and performance to share with their clients.

The process is only starting in Australia. Accelerating and broadening quality content offerings and channels will generate industry guidance, improve skills and accelerate development of a generation of leaders schooled in impact practice. Expertise from around the globe can be adapted for the Australian context by governments, the financial services industry, professional bodies, social sector and regulators. Examples from jurisdictions with similar market dynamics can be adapted, for example, Worthstone's program to educate advisers (Case I.3).

Greater accountability and transparency about objectives and performance will respond to and drive demand. This applies to impact-driven initiatives and to investments. Recent years have seen significantly more activity to measure impact, including development of reporting standards such as the Global Reporting Initiative and Integrated Reporting Initiative. The question remains whether voluntary regimes will go far enough.

Some jurisdictions have already started regulating standards for accountable practices. From Japan to the Netherlands to South Africa, governance codes and regulation focus on a longer term, more integrated view of value. For example, in South African listings requirements of the Johannesburg Stock Exchange<sup>35</sup> require listed companies to prepare an integrated report or explain why they are not doing so. The Malaysian central bank, Bank Negara Malaysia, has adopted the scorecard of the Global Alliance for Banking on Values to underpin expectations of the banking sector.<sup>36</sup> The Australian Prudential Regulatory Authority has recently indicated that climate risk is not separate from financial risk as it is foreseeable, material and actionable now.<sup>37</sup>

<sup>35</sup> King Code of Governance for South Africa 2009 (King III); see <https://www.cpajournal.com/2017/07/28/integrated-reporting-south-african-experience/>

<sup>36</sup> Bank Negara Malaysia, *Value-based Intermediation: Strengthening the Roles and Impact of Islamic Finance*, 2018

<sup>37</sup> Geoff Summerhayes, speech to the Insurance Council of Australia, February 2017

### Case I.3: Inspiring intermediaries driving scale, building the field and making it easier to participate

#### Worthstone

Worthstone is an independent provider of social impact investment resources for financial advisers via its Impact Portal that includes detailed profiles, analysis and access to a database of the UK retail impact investing fund universe across asset classes (201 funds in 2017) to help advisers identify the most impactful funds.

Worthstone's vision is to see social impact investment established as an integral part of the mainstream retail financial planning process for individual investors in the UK. It seeks to achieve that goal by helping financial advisers (private banks, wealth managers, financial planners and advisers) enable their clients to generate more positive social impact from their investments.

Worthstone also runs the Social Investment Academy, a forum that brings together advisers and impact investors, and provides adviser competency training through a learning tool accredited by the CISI for 18 hours of Structured CPD.

#### Local application

Feedback from the Field Scan and Market Convenings indicates a product such as this could help to fill a key gap in the Australian impact investing ecosystem.

Business Model	Market development impact
Worthstone is a limited company social business that generates income through subscriptions from financial advisers who pay annual subscription fees according to a three-tiered pricing model (free, £25 and £170 per month).	Building market infrastructure and capacity in the UK financial planning and wealth management sector through provision of an affordable and accessible platform providing data, analysis, training and networking opportunities. This is making it easier for financial advisers to recommend social impact investments to their clients, thus making it easier for people to invest in line with their values.

Source: <https://www.worthstone.co.uk>; Worthstone, *Mapping the UK impact investment retail market*, 2017

Networks and collaborative activity enhance practice building and reporting by connecting a critical mass of skilled, enthusiastic practitioners, creating and collating experience within a knowledge-building agenda and growing impact leaders. Strengthening and connecting across networks can accelerate the process of connecting people and with information to drive interest and demand. There are over 150 specialist networks and platforms already contributing momentum for impact investment. Existing industry bodies such as the Chartered Financial Analysts, International Federation of Accountants and UN Global Compact are also engaging with the field in more structured ways. Strengthening and connecting across networks will help to engage people in what is possible and illuminate opportunities for collaboration and efficiency.

Broadening the opportunity set of impact investment products will make it easier for capital to flow to impact. There is an important role for financial services and funds management organisations already active in capital markets to start to integrate impact. This includes examining existing portfolios for product that already finances activity in segments of significance for impact including health and education to which impact management practice could be applied and opportunities grouped to make it easier for clients to invest. For example,

BNP Paribas offers targeted products that make it easier for retail and institutional customers to contribute to the SDGs through their savings.

These organisations already in the market have infrastructure to mobilise more quickly by adding impact capability and designing new offerings. Some in the Australian market are already doing this. Examples include JB Were's sustainability platform, Koda Capital partnership with Australian Impact Investments to extend impact opportunities to their clients, 8iP's listed impact funds and green and sustainable bond offerings from major banks. Global experience offers further inspiration; in the US private equity firms have played an important role with impact funds such as TPG Rise and Bain Capital Double Impact.<sup>38</sup>

Fit-for-purpose structures that meet the needs of organisations delivering impact on the ground are also needed and make it easier for them to access capital on appropriate terms. Innovations from other countries could be adapted for Australia with powerful effect, for example retail Charity Bonds (Case I.4) and purpose driven funding and capacity development focused on non-profit delivery such as the Non-Profit Finance Fund (Case I.5).

#### Case I.4: Retail Charity Bonds

##### Retail Charity Bonds

Retail Charity Bonds is a bond issuing platform that provides efficiencies through uniformity of structuring and the on-lending process for UK charitable organisations.

Retail Charity Bonds issues retail bonds listed on the London Stock Exchange (initial minimum subscription of £500) and then on-lends the proceeds to charitable organisations on an unsecured basis. £150 million has been raised through the platform since inception in 2014.

Model	Market development impact
A special purpose issuer created and managed by Allia, an independent not for profit with a social mission to help charitable organisations access finance.	7 bond issues to wholesale and retail investors; minimum subscription £500.

Source: <https://propertyfundsworld.com/2017/11/02/257861/retail-charity-bonds-launches-39-cent-golden-lane-housing-retail-charity-bond>

Financial innovations that build on structures and platforms with which investors are already familiar are already making impact more accessible to large scale investors. For example, early SDG bonds issued by the World Bank and HSBC<sup>39</sup> are adapting the experience of green bonds to a broader range of impact areas. Immunisation bonds have adapted lessons from structured finance and securitisation to accelerate delivery of vaccination against preventable disease to millions of children.<sup>40</sup>

<sup>38</sup> <http://therisefund.com/>; <https://www.baincapitaldoubleimpact.com/>

<sup>39</sup> <https://www.worldbank.org/en/news/press-release/2018/07/11/scaling-up-capital-market-innovations-for-impact-world-bank-treasury-year-in-review>; <https://www.hsbc.com/news-and-insight/media-resources/media-releases/2017/hsbc-issues-worlds-first-corporate-sustainable-development>

<sup>40</sup> See International Finance Fund for Immunisation <https://www.iffim.org/>

## Case I.5: Non-profit finance fit for purpose to unlock potential of mission driven organisations

### Non-Profit Finance Fund

Nonprofit Finance Fund (NFF) was established in 1980 with a vision to create a world where capital and expertise come together to create a more just and vibrant society. Its mission is to unlock the potential of mission-driven organisations and advocating for fundamental improvement in how money is given and used in the sector. It focuses on the needs of low-income communities and the organisations that serve them.

NFF is a key financial resource for social sector organisations and their funders in the US. NFF helps nonprofits improve their capacity to serve their communities and do what they do best by helping them be financially stable and nimble so they can successfully adapt to changing financial circumstances (both good and bad), gain access to capital, make use of data and ideas, explore opportunities and grow and innovate when they are ready.

NFF customises its services to meet the unique financial needs of each organisation.

For nonprofits, in addition to loans and lines of credit for a variety of purposes, NFF provides financial training workshops, and performs business analyses.

For funders, NFF provides support with structuring of philanthropic capital and program-related investments, manages capital for guided investment in programs, and provides advice and research to help maximise the impact of grants.

Model	Market development impact	Catalytic capital
<p>NFF is a US community sector and solution-led community development financial institution<sup>41</sup> (CDFI).</p> <p>NFF uses a blended finance model, combining affordable loans from banks, insurance companies and foundations (which as at 31 December, 2016 had a weighted average interest rate of 2.17%), earned income, philanthropic grants, and tax credits.</p>	<p>NFF manages over US\$315 million in investments. Since its inception, NFF has provided almost US\$700 million in financing and access to additional capital supporting over US\$2.3 billion in projects for thousands of organisations in the US.</p>	<p>NFF was awarded US\$65 million in New Markets Tax Credits (NMT) in Feb 2018 by the US Department of the Treasury CDFI Fund to incentivise private investment and spur economic growth in underserved markets.</p>

Source: <http://www.pcgloanfund.org/profile/nonprofit-finance-fund-0>; <https://nff.org>; <https://www.prnewswire.com/news-releases/nonprofit-finance-fund-head-clara-miller-to-leave-post-will-lead-fb-heron-foundation-114485409.html>; NFF financial statements for the year ending Dec 31, 2016

<sup>41</sup> U.S. CDFIs are non-government financial institutions that have a primary mission of community development through provision of responsible, affordable lending to low income, low wealth, and other people and communities experiencing disadvantage that may be excluded from the mainstream provision of financial services.

Themed approaches provide focus for stakeholders to collaborate to achieve shared goals. For example, education outcome platforms for Africa and India, healthcare funds and gender-lens investment aimed at reducing violence and increasing opportunities for women and girls<sup>42</sup> are already developing. More of these initiatives will make it easier for different actors to get behind social and financial innovation.

Constructive policy is critical to making it easier; targeted policy removes barriers, clarifies boundaries and creates incentives to participate. Policy mechanisms from other areas of innovation and new markets such as venture capital and property provide lessons. Other jurisdictions have introduced measures to grow impact investment. Australia has a significant opportunity to adapt the lessons to unlock capital and ensure Australia is competitive in the global context.<sup>43</sup>

The UK Government in particular has made clear its intention to align policy to attract impact-seeking capital to its markets.<sup>44</sup> Recent initiatives responding to public sentiment include regulating for pension fund trustees to produce and provide members policies assessing the sustainability of their investment decisions.<sup>45</sup> Australian governments often find useful points of comparison have mobilised for impact, for example the recent Canadian initiatives to drive inclusive innovation.<sup>46</sup>



42 See <https://www.educationoutcomesfund.org/>; <http://socialfinance.org.in/>; <https://investinginwomen.asia/>; <https://criterioninstitute.org/our-work/gbv>

43 See Addis, R, *The Role of Governments and Policy in Social Finance*, in Nicholls, A, Emerson, J and Paton, R (eds), *Social Finance*, 2015; Australian Advisory Board on Impact Investing submissions at <http://www.australianadvisoryboard.com/submissions>

44 <https://golab.bsg.ox.ac.uk/knowledge/resources/government-response-advisory-group-social-impact-investing/>

45 <https://www.gov.uk/government/news/billions-invested-by-pension-schemes-to-be-used-for-social-good-under-new-regulations>

46 <https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/steering-group.html>

## 3. Enabling Impact At Scale

Social and financial innovation through solution-focused collaborations and integrative approaches	Flexible capital to unlock investment (market capital) and create a multiplier effect	Increased intermediation to build expertise, design solutions and products, advise and connect	Distributed leadership to raise awareness, amplify and connect calls to action	Collective and coordinated action to drive efficient and effective market development, including enabling infrastructure
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Realising impact at scale will require proactive effort and focused attention to key areas of activities that will make progress more possible and faster.

These enabling activities weave through the three themes and highlight areas where progress will be anchored in collective effort as well as areas where the focus is on activating and connecting different actors.

### 3.1 Driving social and financial innovation

Social and financial innovation occur every day, but much less space has been dedicated to really understanding them than is the case for science and other areas of research and development. Some financial innovation that is oriented to financial results alone has obscured the value. Social innovation can be stifled by programmatic approaches to funding and activity that make it more difficult for promising ideas to get traction. So, it is not surprising that innovation that brings these two fields together in impact investment has had limited attention or development funding.

Where social and financial innovation meet, it inspires commitment and action, provides significant lessons and has an amplifying effect. It indicates significantly more appetite to explore and identify different ways to achieve better outcomes. Examples in Box I.4 and Case I.6 illustrate the potential.

More concerted and collective action to prioritise innovation with clear impact goals, design for scale and forge creative connections, including across institutional and sectoral boundaries will be required to achieve objectives for impact at scale. The kind of change that requires a range of actors to create space to work differently can be accelerated through a combination of:

- Leadership to champion, prioritise and resource innovation.
- Design, incubation and acceleration of promising models to advance innovation targeted to greatest need and greatest potential.
- Development of tools and methods and incentives, for developing ideas that work and enabling them to mature, attract funding and finance and measure progress.<sup>47</sup>

<sup>47</sup> See for example, Mulgan, G et al, *Social Innovation: what it is, why it matters and how it can be accelerated*, 2012

#### Box I.4: Examples where social and financial innovation meet highlight the opportunity

**Social Impact Bonds and related payment for outcomes have been a significant development in the landscape in the past decade.** This innovation created an investment product that linked improvement in societal outcomes and financial returns for the first time. The rapid uptake across jurisdictions highlights the need and opportunity for different models.

Since the first social impact bond in the UK in 2010, impact bonds have been launched across 22 countries from the Congo and Switzerland and in most Australian States. The statistics 8 years later:

**120**  
impact bonds

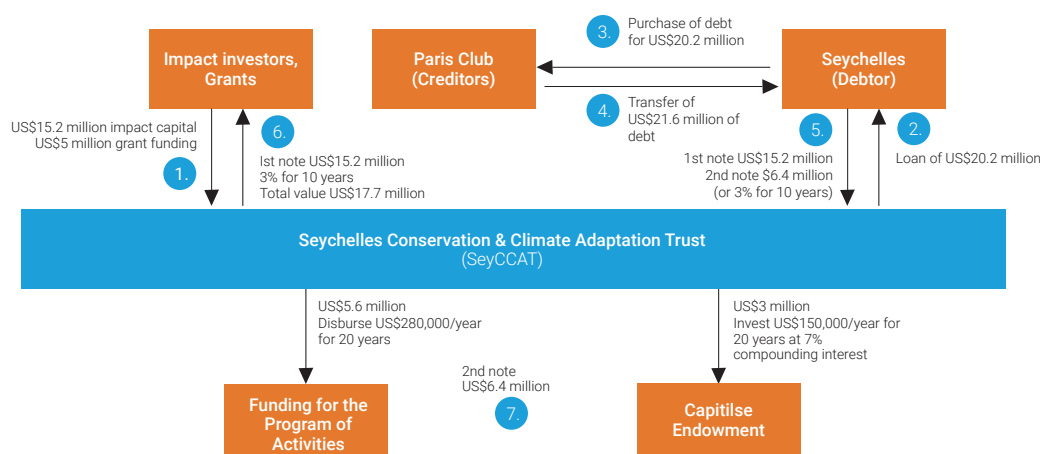
**\$413M**  
Capital raised

**1,059,054**  
Lives touched

Social Finance UK, which pioneered the social impact bonds has a network of sister organisations that spans the US, Israel, India and the Netherlands. There are many early lessons from the early impact bonds. The next evolution is scalable platforms to promote social and financial innovation, with outcomes platforms focused on education in development for India and Africa and the Middle East.

#### **The Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) has combined innovative financing and marine conservation and fisheries reform in the Seychelles.**

SeyCCAT is a partnership between investors and the Seychelles government brokered by the Nature Conservancy's NatureVest unit and JP Morgan Chase and Co which enabled conversion of a portion of national debt to investment in expanded marine conservation and a commitment to increase the Exclusive Economic Zone. The initial 2016 structure combined US\$15.2 million in 10-year debt capital and US\$5 million in grant funding. SeyCCAT will manage an endowment for 20 years to fund marine conservation activities.



Building on this foundation, SeyCCAT became the first entity to have a blue bond approved by the World Bank, which will provide additional capital for the transition to sustainable fisheries. The blue bond will be issued by the Government of the Seychelles, alongside a US\$5 million World Bank partial credit guarantee and a US\$5 million Global Environment Facility loan.

Sources: <https://sibdatabase.socialfinance.org.uk/>; <https://www.educationoutcomesfund.org/>; <https://www.worldbank.org/en/news/press-release/2017/09/29/board-approves-over-20-million-for-seychelles-sustainablefisheries-and-marine-resources-conservation>; <https://seyccat.org/about-us/>; Virdin, J, et al, *Financing Fisheries Reform: Blended capital approaches in support of sustainable wild-capture fisheries*, 2018

## Case I.6: Rockefeller Foundation using flexible capital to develop and scale innovative solutions

### Rockefeller Zero Gap

The Rockefeller Foundation Zero Gap initiative is using Rockefeller's philanthropic risk capital to develop and scale the next generation of innovative finance solutions needed to close the gap between global development funding needs (SDGs) and currently available resources.

#### Rockefeller Foundation's philosophy and rationale:

The Rockefeller Foundation's view is that in many ways, the SDGs are more about financing than giving, and philanthropic organisations must use their uniquely flexible risk capital to broaden the appeal of investing in sustainable development while driving impact.

First, foundations can directly expand the pipeline of investable, risk-appropriate, and SDG-linked deals for investors by de-risking high-impact capital structures. By seeking below-market returns, philanthropic funding lowers risk and enhances returns for institutional co-investors. This type of blended capital model directly catalyses investment in high-impact transactions while facilitating institutional investors' participation in impact-oriented deals.

Second, foundations can ensure their limited resources catalyse investment only in those transactions that meet a high threshold for impact, aligned with SDG and other philanthropic targets. Foundations should not only be selective about deal participation but should also leverage their risk capital to structure meaningful impact measurement and evaluation metrics within transactions. This approach offers a dual mandate for achieving maximum impact with philanthropic dollars, measured by both investment dollars catalysed and impact differential achieved through participation.

Third, foundations can indirectly expand the pipeline of investable and SDG-aligned deals by demonstrating the financial viability of high-risk, innovative financial structures—particularly in underserved regions of the world. Through its Zero Gap portfolio, the Rockefeller Foundation supports a diverse array of new financial vehicles designed to generate market returns while addressing societal needs. While the first iterations of such innovative financial structures are inherently higher risk, their potential to catalyse future commercial investment towards SDGs makes them an ideal investment for philanthropic capital.

Impact	Market development	Catalytic capital
<p>To leverage philanthropic capital to attract more private capital and tap into the over US\$200 trillion in private sector capital to help close the US\$2.5 trillion funding gap needed to achieve the SDGs. It aims to do this by:</p> <p>Creating the next generation of innovative finance vehicles capable of mobilising capital from the private sector to fund the SDGs. Rockefeller aim to do this by providing early-stage support for the research and development and testing of these innovative finance mechanisms using grant and Program Related Investment funds.</p> <p>Creating large-scale blended finance funds to accelerate investment towards the SDGs and the impact they seek to achieve. Rockefeller plan to accomplish this objective by seeding blended capital vehicles using Program Related Investment funds.</p>	<p>Working at the intersection of finance and international development, Zero Gap provides one model for how the development community can support and de-risk new and innovative financing mechanisms—including financial products and public-private partnerships—to mobilise large pools of private capital that have the potential to create out-sized impact.</p>	<p>The Rockefeller Foundation is using both grant and PRI funds to invest in Zero Gap.</p> <p>The Rockefeller Foundation has invested US\$50 million to build the impact investing field.</p>

Source: <https://www.rockefellerfoundation.org/blog/new-role-foundations-financing-global-goals/>; <https://www.rockefellerfoundation.org/our-work/initiatives/innovative-finance/>; <https://assets.rockefellerfoundation.org/app/uploads/20180522150402/Zero-Gap-Overview-Web-Version.pdf>

## 3.2 Flexible capital to create a multiplier effect

A critical area of financial innovation involves combining public or philanthropic capital (that might otherwise be used as grants or at lower return) and private capital. Flexible capital has been a pivotal tool for solutions in social and affordable housing, health and sustainable agriculture, energy security and job creation across high, medium and low-income settings.

Government and impact-driven investors can achieve highly leveraged social returns by bringing the scale of capital markets to bear. Designed and executed well, approaches that utilise and leverage different forms of capital across the risk-return-impact spectrum enable more and deeper impact than would otherwise occur.

Most commonly, this involves using flexible capital to reduce actual or perceived risk to unlock capital because mainstream investors can achieve competitive risk-adjusted, market-based returns. This addresses a key barrier that a clear majority of mainstream capital will not engage if competitive risk-adjusted market-based returns are not attainable. This may currently be the case for a range of reasons, including: models not yet proven; or the fair risk adjusted return not yet understood; or the impact (positive or negative) not yet priced into the risk-return weightings.

Flexible capital is a powerful tool to incentivise innovation and prevention. In addition to reducing risk to encourage investment, it may be used alongside investment capital to fund research and development, fund development work for a solution-focus, support intermediaries while models develop or fund other capacity building to facilitate better outcomes or greater scale.

Grants play a critical role as flexible capital. Some actors also have flexibility about how they use different forms of capital in their portfolio to achieve their impact and investment goals; catalytic investors are prepared to accept different types of financial return to prove up new models and drive market development effects.

Flexible capital is a powerful tool to drive collaboration to solve problems and create solutions; actors will come together because the capital is available to do the design work and there is flexibility to overcome challenges that would otherwise be encountered. So far, more has been done in the international development context<sup>48</sup> than some domestic markets, although the principles apply in both (for example, Case I.7).

With some notable examples, including the 2010-11 Australian Government initiative that seeded the Social Enterprise Development and Investment Funds and more recent development initiatives,<sup>49</sup> Australia has so far lagged other markets in making use of this critical enabler. There is significantly more scope for a range of actors to utilise flexible capital to move impact investment forward in and from Australia.



<sup>48</sup> See for example, Business and Sustainable Development Commission and SYSTEMIQ, *Better Finance, Better World: The Blended Finance Taskforce*, 2017, Blended Finance Taskforce

<sup>49</sup> Barraket, J, *Social Enterprise Development and Investment Funds Evaluation*, 2016; DFAT Investing In Women and Emerging Markets Impact Investment Funds initiatives

## Case I.7: Living Cities – leveraging grant funding with investment for thriving communities

### Living Cities

Living Cities is a fund manager established in 1991 that has demonstrated how combining different types of capital can deliver leverage for social change and community infrastructure.

Innovative capital is one of its key tools, and it is used with other innovations, research, networks and convenings to accelerate the uptake of promising solutions to social problems.

Its Catalyst Fund is ranked as one of the top 50 Impact Funds in the ImpactAssets50. Its portfolio of investments ranges from affordable housing to social impact bonds.

Living Cities publishes its values and commitment to mission and accountability through evaluating effectiveness and setting up management and reflective processes to improve impact and inform future directions. Living Cities also provides and enables data and tools as a resource for others to manage and measure impact.

### Lessons from Practice

Living Cities is an example of collective effort that combines financial innovation, public sector innovation, and data. This collaborative initiative responds to a need to put people first in their communities and drive social change. A track record over >25 years demonstrates a capacity to target finance to communities and combine different types of capital to do more and better.

Impact	Investment	Investors
Intentional design across Living Cities' initiatives targets issues relevant to its specific cities, including schools, affordable housing, clinics, childcare and job training facilities, among others. Specific screening criteria are developed for new financial instruments, such as pay for success.	Through a portfolio of different funds, Living Cities has deployed approximately US\$57 million over 29 investments, leveraging over US\$1.13 billion in additional funding.	The fund is a partnership involving 22 of the world's largest foundations and financial institutions. They pool different types of capital to enable fit-for-purpose finance on behalf of low-income individuals in cities across the US.

Source: <https://www.livingcities.org/>; GSG Working Group Report, The Impact Principle: Widening participation and deepening practice for impact investment at scale, 2018

*Based on our experience, we are certain that today's impact investment market cannot reach its full potential by focusing on commercial forms of investment capital alone. Catalytic capital [patient, flexible, risk tolerant financing] must be part of the mix. By cultivating innovation, scale and impact, it can be a powerful force that improves the lives of millions of people and protects the planet for generations to come.*

Debra Schwartz, Managing Director, Impact Investments, MacArthur Foundation

### 3.3 Intermediating Impact

The lynchpin for achieving solutions and investment at scale and bringing them together is intermediation. Much commentary about impact investment and scale quickly devolves to a chicken-and-egg style debate about supply and demand. This overlooks the critical role of expertise that brings together pieces already available into more efficient and accessible structures, and offerings that make it easier to connect impact and investment.

Lack of skilled intermediaries is a familiar issue across markets and fields of practice. Priming the pump for more and more sustainable intermediaries is one of the most impactful ways to accelerate direct and indirect effects that will grow impact.

Intermediaries activate different actors, drive pipeline development, product development and channels, design, origination, structuring, diffusion, platforms and measurement. Intermediaries can work on designing solutions in place or package opportunities to match investor preferences or both. Effective intermediation influences the broader system. Expertise developed by intermediaries working on multiple initiatives can be applied more rapidly across and between different actors, circumstances and transactions.

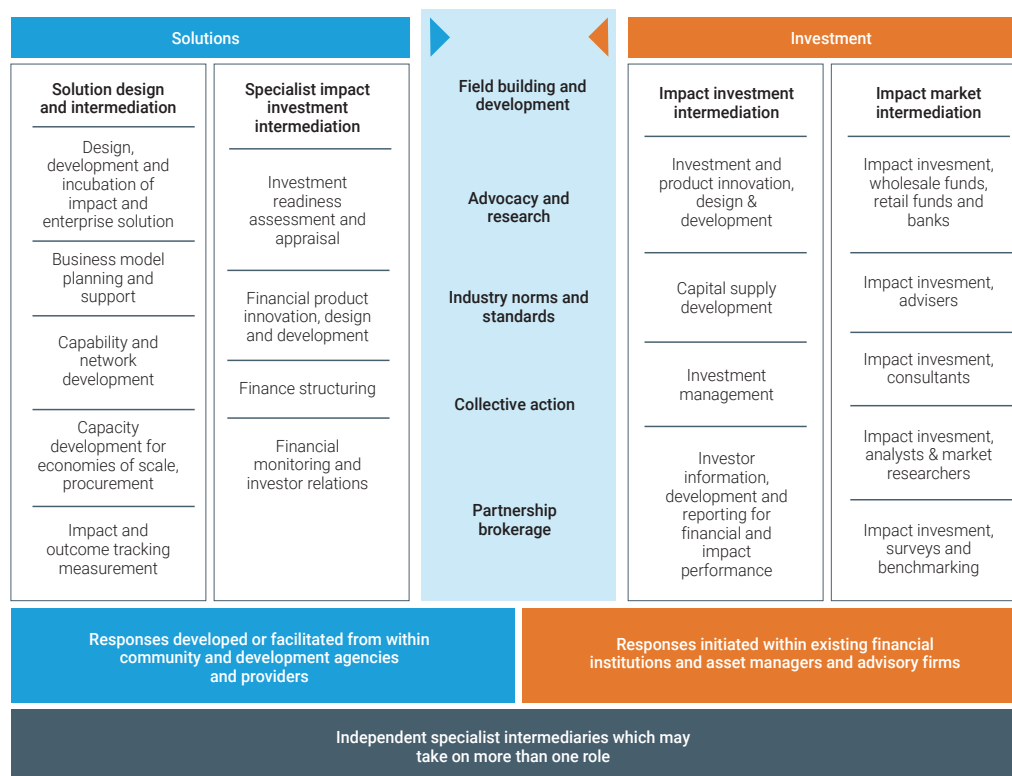
The deceptively homogenous description of intermediaries encompasses a dynamic range of organisations of different shapes and sizes doing the vital work of incubating, designing, accelerating, strategising, catalysing, building, structuring, advising, measuring and connecting that brings shape to opportunities and engages the right actors around the right opportunities (Figure I.4). The examples (Cases I.8 – I.11) bring the potential to life.

Deepening and diversifying the pool of intermediaries working across the value chain for impact in a sustainable way is critical to a dynamic and functional system at scale. Existing actors from incubators to community organisations, foundations, governments, banks, funds and consultants can play a role. New specialisations and models are also developing and need to be encouraged and supported.

There are still critical gaps and many of the intermediaries lack the scale needed to enable them to be more proactive in the design and development of either impact opportunities or investment product that makes it easier to participate in impact investment and to connect promising innovations to resources.



**Figure I.4: A dynamic range of intermediaries play critical roles across and connecting parts of the impact ecosystem**



Source: GSG Working Group Report, *The Impact Principle: widening participation and deepening practice for impact investment at scale*, 2018; adapted from Burkett, I, *The Role of Specialist Intermediaries in Reaching Underserved Markets*, 2013



### Case I.8: Cambridge Institute for Sustainable Leadership driving collective action among institutions

#### Cambridge Institute for Sustainable Leadership

The Investment Leaders Group (ILG) is a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment with US\$12 trillion under management. Members include Aon, State Street, Aegon, Pimco, Zurich, Nuveen, Nordea, HSBC, First State Investments, UBP, and LBP. It is a voluntary initiative, driven by its members, facilitated by the Cambridge Institute for Sustainability Leadership (CISL), and supported by academics in the University of Cambridge. The ILG's vision is an investment chain in which economic, social and environmental sustainability are delivered as an outcome of the investment process as investors go about generating robust, long-term returns.

Business model	Market development impact
Hosted by The Cambridge Institute this model provides structure for collective action by leading actors to develop impact frameworks and principles to raise client awareness and confidence in impact.	The ILG and its institutional investor members have developed an outcome-based framework for reporting investment impact that communicates impact to retail clients and pension plan beneficiaries.

Source: <https://www.cisl.cam.ac.uk/>

### Case I.9: The ImPact inspiring families to use all of their capital for impact

#### The ImPact

The ImPact is a non-profit member network comprising families, joined together by a shared Pact to implement simple yet powerful actions to improve the impact of their investments. Its mission is to inspire families to make more impact investments more effectively.

It provides members with: **Educational services** – content and experiences that provide families with strategic and actionable guidance to expand their impact investing activities; **Data driven insights** – industry-leading data platform offering members the quantitative and qualitative insights they need to make more informed impact investment decisions; and **A global community** – a curated community of families committed to growing the impact investing marketplace.

Market development	Catalytic capital
Providing a community of interest and shared knowledge hub to enable family offices to make more impact investments more effectively.	Supported by James Lee Sorenson Center for Global Impact Investing, The CASE Foundation and Omidyar Network.

Source: [www.theimpact.org/](http://www.theimpact.org/)

## Case I.10: Big Issue Rental Exchange creating credit histories for housing tenants

### Big Issue Rental Exchange

Millions of low-income people in the UK are excluded from affordable credit because they don't have a credit history. The Rental Exchange is an initiative between Big Issue Invest and Experian partnering with UK social housing providers to close this information gap by adding social housing rent-payment data to mainstream credit scoring models in the UK. Their aim is to bring tenants into mainstream credit markets and help tackle problems of social, financial and digital exclusion by accepting regular payments of rent as evidence of a good credit history, in the same way mortgage payments build credit history for homeowners.

Social housing tenants (including those who reliably pay their rent) are more likely to be financially excluded – including being more likely to be declined credit or paying a higher price for credit that contributes to keeping them in the poverty trap. Those on low incomes pay a 'poverty premium' of £1,300 for necessities – paying more for utilities, mobile phones and for purchasing white goods and furniture. Up to 5.2 million people living in 4.3 million social housing properties could be affected by improvements in credit decisions if social housing rent-payment data were shared (and a further 3.5 million people if private tenants' rent-payment data were included).

#### Lessons from practice

The underlying assumption to the problem was the credit history information gap that exists between tenants and homeowners. However, closing this information gap has not necessarily changed lender behaviour. This has led to advocating for a legislative response via the Creditworthiness Assessment Bill that, if passed, will make it compulsory for lenders to take rental and council tax payments into account when assessing potential borrowers.

#### Australian context

Recent moves in Australia to have public/social housing rents paid directly to landlords from welfare payments impede the ability of social housing tenants to create a positive credit history that may improve accessibility and affordability of mainstream credit and pathways out of public/social housing.

Impact	Market development	Catalytic capital
<p>Over 150 UK registered housing providers have signed up to join the Rental Exchange, representing 1.5 million tenants across the UK with 1 million tenants already activated. This has the potential to:</p> <p>Improve credit decisions for 30 per cent of social tenants, or 1.56 million people.</p> <p>Make mainstream credit more accessible and affordable to a significant number of social housing tenants.</p> <p>Reduce lending to those that cannot support more credit and so reduce over-indebtedness, supporting more responsible borrowing.</p> <p>Improve tenants' ability to create an on-line proof of identity and pass electronic authentication tests, giving tenants easier access to full banking services as well as a range of non-financial public and private services impacting up to 40 per cent of tenants, or 2 million people.</p> <p>For lenders, reduce bad debt losses of about £20 million per year, and increase annual new lending by about 6 per cent.</p> <p>Enable tenants to more readily move along the housing continuum to access mortgages and shared equity schemes.</p>	<p>Provides a systematic market wide solution.</p>	<p>Big Issue Invest and Experian have committed significant resources to this initiative which was also supported by Friends Provident Foundation.</p>

Source: Forster, S and Wilkinson, G, *The Impact of Social Housing Rent-Payment Data on Credit Scoring*, Big Issue Invest, 2010; Big Issue Invest and The Big Issue, *The Rental Exchange, Helping social tenants build a positive credit history to gain equal access to financial services*, 2017; <https://www.bigissue.com/latest/experts-backs-rental-exchange-call-data-boost-credit-scores/>

## Case I.11: Inspiring Impact driving practice for high quality impact measurement

### Inspiring Impact Programme

Inspiring Impact is a UK collaborative effort established in 2012 with a vision that high quality impact measurement is the norm in the charity sector by 2022. Inspiring Impact is designed to enable a world where: (1) charities and social enterprises routinely plan, measure, assess, and improve their work on the basis of their impact, (2) funders seek to increase their impact by using impact data to allocate resources and improve practice (3) evidence about effective interventions is widely available and regularly used to inform policy and practice, and (4) effective interventions lead to significant and sustainable improvements in the lives of the hundreds of thousands of people who benefit from charity and social enterprise services.

Inspiring Impact's programme is centred around five strands of work, each led by different partners: **Impact leadership**: – what does good practice look like? (*Code of Good Impact Practice, Are you leading for impact?*); **Coordinating support**: - How do we know what we need to measure? (*Measuring Up!*); **Data, tools and systems**: - How do we find the right tools to measure our impact? (*Impact Hub*); **Shared measurement**: - How can we compare with and learn from others? (*Blueprint for shared measurement, The Journey to Employment (JET) framework, Future of shared measurement guide*); **Funders, commissioners and investors**: - How can funders promote impact? How can they measure their own impact? (*Funders' principles and drivers of good impact practice*).

Such an initiative could help to fill key gaps in the Australian impact investing ecosystem.

Model	Market development impact	Catalytic capital
Inspiring Impact is managed and developed by a consortium of seven organisations comprising membership bodies representing the charity sector and funders (to ensure its owned by the sector) and impact measurement specialists to reflect best practice.	Inspiring Impact's website receives about 2,000 unique visitors each month and has a growing social media presence and total global visitors of >180,000 per Google Analytics.  A 2015 evaluation found users found the tools and resources useful, improved their knowledge about impact practice, and took positive actions as a result.	Barrow Cadbury Trust, Big Lottery Fund, and the City of London. Foundations, Deutsche Bank and Northern Rock have supported the programme in the past.

Source: <https://www.inspiringimpact.org/>; Handley, S, Weston, A and Kazimirski, A, *Inspiring Impact – Building a movement: Review of the Inspiring Impact program at the end of year three*, 2015

## 3.4 Distributed leadership and collective action

It is up to all Australians who share the vision for what impact investing can and should be in and from Australia to communicate that to others and work together to build the future where that potential is realised.

Distributed leadership reflecting commitment from many people and organisations will be needed to raise awareness and inspire others to join. Leaders will need to come together to amplify and connect calls to action to raise the urgency and priority of action.

The legitimacy and potential for rigour and performance from impact investing has already been demonstrated. The foundations are in place to drive scale in impact, investment and understanding. Collective and coordinated action will be needed to drive efficient and effective development to take the field forward.

Practitioners, entrepreneurs and investors locally have called for focused attention and leadership to drive momentum and scale for some time now.<sup>50</sup> Impact will rise up the agenda when governments and other stakeholders see people join in common cause and feel compelled to respond to growing demand. Increasing the collective drive for action will involve:

- ▶ Bringing focused attention to the field and its potential;
- ▶ Finding ways to stitch together disparate activities and sector participants towards greater impact and market maturity;
- ▶ Engaging people with skills and experience to drive market growth;
- ▶ Providing a clear narrative in which participants can recognise their current and potential contributions for impact;
- ▶ Collective and collaborative effort to realise critical market infrastructure; and
- ▶ Outreach and communications to build awareness and educate.

Where people and organisations connect calls to action, the shared purpose to contribute to a more sustainable and prosperous future will come into clearer relief to engage others. Where they work together to design and deliver key initiatives, others will see the potential to contribute solutions and extend positive benefit to more people. Where people get behind action is designed to facilitate this process, highlight areas for action and provide concrete opportunities for people to progress field building initiatives and infrastructure, alongside pursuit of their own endeavours, that will build confidence, mobilise others and make it easier for them to participate.

This is critical to honour the aspirations and contributions of pioneers, practitioners, entrepreneurs and stakeholders who are active or would like to be. It is critical to realise the promise inherent in the thought leadership and quality impact transactions that have already originated in this market and the early leadership Australia has achieved with so much promise for the contribution that could be made to communities here, across the region and globally.

The stories that demonstrate the power of the change that is happening and why it matters will demonstrate the rise of impact and create a virtuous cycle that inspires those already active to push forward, invites others in, and builds confidence in the credibility and global momentum.

<sup>50</sup> Senate Economics References Committee, *Investing for Good*, 2011; Addis, R, Raine, A and Macleod, J, *IM-PACT-Australia: investment for social and economic progress*, 2013; Australian Advisory Board on Impact Investing Sector Consultations 2014, 2017, 2018; Hill, R and Addis, R, *Views from the impact investing playing field in Australia on what's happening and what's needed next*, 2017



## PART II – AGENDA FOR DISTRIBUTED LEADERSHIP

*What is needed now is bold enlightened leadership to...  
catalyse a dynamic global social impact investment  
movement...*

G8 Social Impact Investment Taskforce

## Leadership and action for growing impact

Australia has much to gain from proactively seeking to deliver impact and investment at scale. The vision for what a dynamic, vibrant and informed market for impact investment can contribute in and beyond Australia is, and should remain ambitious, audacious – and achievable.

The scale required to realise the vision will only come through attracting greater numbers of informed entrants to the field and developing meaningful practice. Decisive leadership is needed. Willing involvement from different people and organisations prepared to step forward with commitment, tenacity and passion to seize the opportunity will move the field forward. When those actors include governments, progress will be much faster and more impactful.

Entrepreneurial leaders, employing a creative blend of tenacity and flexibility, need to continue to play a vital role in experimentation and prototyping impact investing. Intrapreneurial leaders need to continue to generate and encourage capacity within their organisations to engage.

Beyond this endeavour, leadership for field building is required. Collective and coordinated effort will amplify calls to action, build the field and establish practice (Figure II.1). This more connected approach could accelerate the next wave of transactions and encourage new people and capital into the field. That will require leadership to create structured opportunities for like-minded people to come together, stimulate the generation of ideas, make sense of developments and problem-solve.

Part II starts with the vision then focuses on opportunities for leadership and action. It has two key components:

- Key priorities for collective action that can accelerate progress.
- Concrete ways in which different actors can mobilise and contribute, illustrated with examples of what local and global leaders are already doing to demonstrate what is possible and inspire action.

**Figure II.1: Collective and coordinated effort will amplify calls to action, build the field and establish practice**



Source: Impact Investing Australia, 2018

## Collective Action

**Table II.1: Collective action to amplify and connect calls to action, build the field and establish practice**

COLLECTIVE ACTION Amplify and connect calls to action, build the field and establish practice		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Structured collaboration between and within actor groups around overarching impact goals to focus product innovation</li> <li>▶ Facilitation of coordinated awareness raising and capacity building and direct investment to areas of need</li> <li>▶ Support for the development of sustainable models that value specialist impact intermediation</li> <li>▶ Industry facilitation that enables impact at scale (e.g. collaboration around establishing an in-market impact wholesaler)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Participate in development of global principles and industry standards around impact measurement and reporting and agree on adoption within Australia</li> <li>▶ Encourage adoption of international principles and standards e.g. International Finance Corporation principles</li> <li>▶ Consider adopting approved accreditation or rating system to enable larger scale investment</li> <li>▶ Advocacy for policies to reduce disincentives and potentially increase incentives in target geographies and industries/asset classes</li> <li>▶ Proactive support for origination and intermediation and the market builders driving the creation of structures and transactions that are both investible and solution-oriented</li> </ul>	<ul style="list-style-type: none"> <li>▶ Development of a system of strategic communication facilitating knowledge, deal and data exchange for impact investors</li> <li>▶ Proactive engagement leading to focused effort to remove barriers to participation, including removing regulatory barriers and creating a broader opportunity set of impact product</li> <li>▶ Convenings that bring together cross section of actors to tackle specific issues and align around impact themes which develop into communities of practice that share knowledge, learnings, skills and expertise to drive innovation, problem solving and solutions</li> </ul>

*Pluralism is wonderful. But the traffic on this road is a nightmare. [We need] a high occupancy vehicle ... [with] incentives for at least some of the drivers to collaborate, to get in the same vehicle and drive in the same direction towards the same goals together ... [leading to] a purposeful blending of resources toward a common purpose with common definitions of success.*

Susan Raymond, Executive Vice-President, Changing Our World Inc

## Case II.1: National Advisory Boards: The Power of Cross-Sector Collaboration

### The Power of Cross-Sector Collaboration: National Advisory Boards

National Advisory Boards (NABs) came into view in 2014 to inform the work of the G8 Social Impact Investment Taskforce and connect its work with local market development that could take forward the Taskforce recommendations. They undertake multi-sector field building that is not typically part of the work of any other organisation.

NABs have become the go-to resource for promoting impact investment in their countries and are powerful change agents for developing impact economies that benefit people and planet.

A review by the Initiative for Responsible Investment at Harvard found NABs have played a powerful role in legitimising the field, outreach and education, engaging governments, policy development and driving collective action for field building infrastructure:

- *The NABs stand out as a different kind of institution in the field of impact investing. The NABs are tasked in principle with goals of educating specific places about impact investing, promoting the field, and helping to develop public policy environments that support it. That they originated in a Taskforce associated with the G8 highlighted their role both in engaging in policy discussions and helping to legitimise the field.*
- *Later NABs have adopted this model of multi-sector participation with a secretariat, although the fact that they were not part of the initial Taskforce process is reflected in their institutional form and their work plans - in part because they were not driven by the specific report-writing mandates which guided the Taskforce's original work.*

These leadership bodies now operate in 21 countries connected through the Global Steering Group for Impact Investment (GSG) and have a critical role to play in developing a truly global field and a more-inclusive world view.

GSG Chair, Sir Ronald Cohen, said NABs are leading radical system change across the world; and have demonstrated their potential to unlock new sources of impact capital and develop national impact infrastructure and policies.

Model	Market development impact
<p>Comprising leaders from across sectors committed to see impact investment grow, NABs have a catalytic mission to drive impact investment to scale as part of a global movement. They are agents of cross-sector collaboration, awareness raising and field development.</p> <p>So far, these leadership bodies have generally been supported by host organisations (e.g. Ford Foundation in the US; SITRA in Finland) or developed independent operating entities that support their work and field development (e.g. Social Impact Investment Foundation Japan; Impact Investing Australia).</p> <p>The IRI research found: <i>In every case, the Secretariats drive the work of the NABs, ...As a consequence, the work of the Secretariats is focused on collective action driven by a small number of core organisations.</i></p>	<p>NABs have led and influenced significant market development since 2013. These include awareness raising, contributions to policy development and government engagement and incubating field building infrastructure. They have encouraged and assisted other countries to develop their own NAB, increasing the number of countries from G7 plus Australia and the EU to 21 across 6 continents. Another 10+ countries have NABs or related initiatives in development, e.g. the National Taskforce on Social Impact Investment, Thailand.</p>

Source: [www.gsgii.org](http://www.gsgii.org); GSG Working Group Report: Evidence-based Policy & Advocacy, 2018; Wood, D and Grace, K, *National Advisory Boards and Impact Investing: The Power of Cross-Sector Collaboration*, 2018; Addis, R and Wood, D, *Handbook for National Advisory Boards*, 2018 publication pending; UN ESCAP, *Innovative Financing for Development in the Asia Pacific*, 2017

## Opportunities for leadership and action - by actor

The first, and natural, point of entry for individuals and organisations is to consider how they can contribute. Increasing the actors participating in impact investing, bringing others with them and altering the investment landscape as they do so is vital to ensure interest translates to activity, and activity develops practice.<sup>51</sup>

The following pages provide guidance for broad groups of actors across the impact investment ecosystem:

- ▶ Individuals
- ▶ Impact-driven Enterprises
- ▶ Community Sector and Non-Government Organisations
- ▶ Institutional Investors
- ▶ Banks
- ▶ Corporations
- ▶ Family Offices and Foundations
- ▶ Governments
- ▶ Academic Institutions

All these groups, and segments within them, have critical roles to play for impact investment to reach scale. Concrete examples are included highlighting what is already happening, in Australia and further afield, as examples to inspire and inform.

These are by no means the only examples of inspiring practice and leadership. There is a dynamic range of activity already occurring here and across the region and the globe. However, many are small and face barriers to sustainability and scale. The examples presented are intended to enliven ambition for what's possible, encourage translation of promising innovations for the local context and illuminate the way forward.



<sup>51</sup> Adapted from Emerson, J and Bugg-Levine, A, *Impact Investing: Transforming how we make money while making a difference*, 2011, pp. 253-256

# Individuals

**Table II.2: Opportunities for individuals to lead and act**

<b>INDIVIDUALS</b> Opportunities to invest more aligned with values and signal impact matters through demand and choice		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Clarify which social and environmental outcomes are of interest and build understanding in these areas around what drives impact</li> <li>▶ Review and analyse how current investments, donations and selection of products and services are aligned with impact objectives</li> <li>▶ More actively investigate and invest in products and service providers that are aligned with values and impact goals</li> </ul>	<ul style="list-style-type: none"> <li>▶ Engage actively to communicate expectations that others in the value chain avoid harm and benefit people and planet</li> <li>▶ Push service providers (e.g. wealth managers and superannuation funds) to report and describe impact alongside financial returns and risks</li> </ul>	<ul style="list-style-type: none"> <li>▶ Exercise consumer choice and share information to drive demand including for banking and superannuation fund activities</li> <li>▶ Actively choose product and service offerings that disclose impact through accreditation systems (e.g. Fair trade) or high levels of impact disclosure in reporting</li> <li>▶ Break the investment taboo; talk with friends in a social context about making impact investments</li> <li>▶ Identify opportunities for learning more about impact and building capacity</li> </ul>

## Box II.1: Millennials seeking choices for impact



Relative to the total individual investor population, millennials are 2 x more likely to invest in companies targeting social and environmental goals



Relative to the total individual investor population, millennials are 2 x more likely to buy from sustainable brands



87% of millennials believe corporate success should include non-financial measures and are 3 x more likely to seek employment with sustainable-oriented employers

Source: *The Deloitte Millennial 2016 Survey*, 2016; *Morgan Stanley Millennial Surveys* 2015 and 2017; *UBS, Millennials - the Global Guardians of Capital*, 2017

# Impact-driven Enterprises

**Table II.3: Opportunities for impact-driven enterprises to lead and act**

IMPACT-DRIVEN ENTERPRISES		
Reach market with more and diverse opportunities and attract capital to grow impact		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Embed impact into organisational mission and values and set clear goals to sustain and grow impact</li> <li>▶ Design strategy and objectives that embed impact goals into business operations</li> <li>▶ Leverage flexible capital around a solution-oriented approach that does not compromise impact goals</li> <li>▶ Leverage technology to drive new solutions and impact management and measurement</li> </ul>	<ul style="list-style-type: none"> <li>▶ Open new market opportunities through ambitious and creative approaches to existing issues</li> <li>▶ Go to market with new and more diverse models for delivery</li> <li>▶ Contribute lessons from development journey, barriers and past failures</li> <li>▶ Use available impact management frameworks and share metrics and performance data</li> </ul>	<ul style="list-style-type: none"> <li>▶ Raise awareness and tell stories of impact and business success and lessons learned</li> <li>▶ Attract and retain high quality employees who are aligned around values and impact goals</li> <li>▶ Focus on high standards of transparency and disclosure of financial and non-financial performance</li> <li>▶ Consider and track potential supplementary benefits of operations and core impact objectives e.g. local job creation</li> </ul>

*Solving social problems [becomes] a multidisciplinary exercise that challenges businesses, governments, philanthropists, and social enterprises to think holistically about their role and their relation to others—not as competitors fighting over an ever-shrinking pie, but as potential collaborators looking to bake something fresh that serves as many stakeholders as possible.*

W D Eggers, The Solutions Revolution, Deloitte

## Case II.2: Hackney Community Transport: enabling community impact

### Hackney Community Transport

HCT Group is a social enterprise owned by a UK charity that provides transport services to communities in the UK. HCT's philosophy is that commercial success enables its community impact and the better it does commercially, the more it can do socially.

HCT runs a financially sustainable, investable cross-subsidised business model. It runs commercial bus routes and reinvests profits to fund transport services for not-for-profit community groups and those unable to access conventional public transport. It also delivers training services for people who are long-term unemployed and creates employment opportunities for people in the community and contributes to local economies making communities better places to live and work.

HCT was established in 1982, providing low cost minibuses for local communities. In 1993, HCT realised that for it to be able to continue to provide community transport, it needed to become more sustainable and less reliant on traditional grants. HCT started competing for commercial contracts in the marketplace.

This approach saw HCT Group grow from a handful of volunteers and a couple of minibuses, with a turnover of £202,000 in 1993 – to a large scale social enterprise with 1,500 employees, more than a dozen depots spread across London, Yorkshire, the Southwest, the Northwest, Derbyshire and the Channel Islands, a fleet of 730 vehicles delivering over 30 million passenger trips on its buses every year and turnover of £62.9 million in 2017/18.

Impact	Catalytic capital	Investors
<p>In 2017/18:</p> <p>346,597 passenger trips for community groups or individuals experiencing disadvantage.</p> <p>Individual transport users reported improved access to local facilities (61%), greater independence (60%), being less lonely (51%), more connected to others (50%), able to get out more (53%), feeling healthier (53%), feeling more a part of their community (51%), and more active in the community (24%).</p> <p>379 unemployed people gained qualifications and 178 gained jobs after training and education with HCT Group.</p> <p>£3.6 million of HCT Group's total annual spend on suppliers or subcontractors was in areas of disadvantage and 56% of HCT Group's 1,514 employees lived in areas of disadvantage.</p>	<p>Innovative structuring for the sector; 2010 capital raising included £4 million split 50/50 between a straight five-year loan and a quasi-equity instrument with returns tied to HCT's revenue growth and social impact. HCT's most recent capital raise £10 million was structured to include asset backed facilities, cash flow loans and quasi-equity.</p>	<p>HCT has attracted a range of investors. Its 2010 capital raise involved a combination of institutional social investors (led by Bridges Ventures through its Social Entrepreneurs Fund) and individual investors organised via Rathbone Greenbank.</p> <p>Its most recent capital raising facilitated by ClearlySo included Big Issue Invest, Triodos, FSE Group, Social and Sustainable Capital, City of London Corporation, Esmée Fairbairn Foundation, The Phone Co-op and HSBC.</p>

Source: <http://hctgroup.org/>; Bridges Impact+, Bridges Impact Report, A Spotlight on our Methodology, 2013; Salamon, L (ed), *New Frontiers of Philanthropy: A Guide to the New Tools and Actors Reshaping Global Philanthropy and Social Investing 2014*, Oxford University Press. start Early Learning: impact enterprise at national scale

### Case II.3: Goodstart Early Learning: impact enterprise at national scale

#### Goodstart

Goodstart is Australia's largest provider of early learning and care. Created as a not-for-profit social enterprise, its mission is providing quality early education and learning. Its vision is for Australia's children to have the best possible start in life.

Goodstart is an example of impact focused delivery at scale. It has a national footprint of 649 centres in communities across the socio-economic spectrum.

Inclusion to enhance outcomes for children in vulnerable circumstances and evidence-based practice are core principles. Goodstart invests in communities where there is entrenched disadvantage, including providing capability building; e.g. hosting programs to train Aboriginal and Torres Strait Islander students in early childhood in partnership with Mission Australia. It funds research and thought leadership in early childhood learning and education.

- *Improving access to quality early learning for children facing disadvantage is a core part of Goodstart's Purpose. As Goodstart matures as an organisation, our investment in social inclusion continues to grow, rising 62 per cent to \$6.2 million in 2016-17. Supporting educators to strengthen their skills and knowledge to achieve better outcomes for vulnerable children and their families remains a key priority.*

Goodstart partners with organisations and service providers in local communities to deliver speech pathology, occupational therapy and child and family support services as part of an integrated service model.

Impact	Investment	Investors
<p>13,500 Goodstart staff support almost 60,000 families and 70,500 children. High quality education and care in a safe environment is its core principle. Goodstart funds additional support for more than 40 centres in disadvantaged areas to help educators and families enhance child outcomes. 1,300 children with special needs have been supported by Goodstart.</p> <p>92% of centres met and 43% exceeded national quality standards in 2017.</p>	<p>Goodstart is primarily funded from own-source revenue and one of its 6 principles is to achieve financial sustainability that includes capacity to re-invest surplus generated into purpose, people and network. In 2016/17 it had gross revenue of \$964 million. Profit is reinvested in improving outcomes.</p>	<p>Goodstart was created with financing from a syndicate across public, private and community sectors. The initial funding package included senior debt financing from the National Australia Bank and \$45 million in subordinated funding made up of 3 tranches: \$15 million medium-term loan from the Australian Government, \$30 million in social investment notes taken up by private ancillary funds and other investors and deeply subordinated cornerstone capital from the founding partners.</p>

Source: <https://www.goodstart.org.au/>; <https://www.socialventures.com.au/work/goodstart/>; Goodstart Early Learning, Annual Report 2017, 2018

# Community Sector and Non-Government Organisations

**Table II.4: Opportunities for community sector organisations and NGOs to lead and act**

COMMUNITY SECTOR AND NON-GOVERNMENT ORGANISATIONS Enhance sustainability and capacity to deliver outcomes and mission		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Approach impact investing as a tool to increase impact</li> <li>▶ Design for scale and sustainability in operations, utilising the full range of sector capability and capacity – including promoting shared value</li> <li>▶ Seek expert advice from specialist intermediaries to identify and measure value created and how it can generate revenue, assist with deal structuring, stakeholder negotiations and bringing the right blend of capital to the table</li> <li>▶ Proactively drive sector-led incubation including funding and capacity for scalable solution-led approaches</li> <li>▶ Explore feasibility for industry-owned investment funds</li> <li>▶ Bring focus to broader opportunities for procurement that embeds social value</li> <li>▶ Become an impact investor in other NFPs social impact initiatives as a means to better achieve purpose and leverage assets for impact</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sector leadership and stewardship to actively shape the way impact investing affects the sector's future and its work with communities</li> <li>▶ Develop rigorous impact management frameworks and appropriate measures which allow (but is not driven by) reporting to funders and investors</li> <li>▶ Convene other sector actors to enable better and more consistent and comparable management and reporting of impact</li> <li>▶ Develop future focused models informed by clear theories of change for delivering impact objectives</li> <li>▶ Work with others to encourage funders to resource field building and collaboration</li> <li>▶ Work with others at industry level and in sub-sectors to influence supply chains, pool capital and develop skilled workforce and technology</li> <li>▶ Leverage philanthropy to grow impact readiness and access to capital</li> </ul>	<ul style="list-style-type: none"> <li>▶ Continue to create and develop community sector industry research and development capability</li> <li>▶ Share data and frameworks as appropriate</li> <li>▶ Know your impact, measure what matters, and back the organisation e.g. through payment by outcomes contracts that can facilitate a better way of working with communities, clients and government</li> <li>▶ Build fluency and capability to utilise the full range of capital (including under-utilised assets) in funding and financing sustainable operations</li> <li>▶ Work with others to encourage funders to resource solution-led approaches</li> <li>▶ Share successes and knowledge more broadly to encourage industry participation in impact investing</li> <li>▶ Identify priorities for regulatory and policy clarity (e.g. NDIS) to reduce uncertainty and risk</li> </ul>

*Commissioning for outcomes is a holistic way that government and the community services industry can work alongside service users to create lasting change*

Belinda Drew, CEO, Community Sector Industry Alliance

#### Case II.4: Community Sector Leadership in Commissioning and Procurement

Commissioning and Procurement are ideal areas for action because of the mix of real focus on the change achieved for people where they live and work, strategic investment in innovation and improvement, government interest, focus on evidence, data and measurement.

The Community Sector Industry Alliance (CSIA) and The Australian Centre for Social Innovation (TACSI) in collaboration with community leaders are putting the focus on demonstrating the power of leadership in outcomes-based commissioning. Their work has identified areas for focused and collective action

that will enable the community services industry to influence and shape a commissioning approach focused on achieving better outcomes.

CSIA has been applying an industry readiness approach to bringing this work into practice in place. The first demonstration has been commissioned by the Queensland Department of Communities, Disability Services and Seniors to explore realignment of investment in an early-years network in the Logan City suburb of Eagleby. CSIA worked with providers to explore how current funding could be transitioned to outcomes-focused interventions to deliver better results for pre-school children and their families. The project surfaced a high level of existing effort toward re-organisation of activities and growing appetite for realignment and/or recommissioning of investment. CSIA is planning further work with industry partners in Logan to test these approaches in other service delivery contexts.

Sector-led initiatives putting a spotlight on procurement that embeds social value and helps develop more sustainable revenue streams and growth pathways for impact-driven organisations include Social Traders' work with the Victorian Government to secure support for procurement from social enterprises. Social Ventures Australia is investing in capability development for impact-driven enterprises to become procurement-ready.

Source: Community Sector Industry Alliance and The Australian Centre for Social Innovation, *Commissioning for Outcomes: an industry led approach*, 2018; materials provided by Drew, B, Community Sector Industry Alliance, 2018; [www.socialtraders.com.au](http://www.socialtraders.com.au); [www.socialventures.com.au](http://www.socialventures.com.au)

## Case II.5: Golden Lane Housing: housing that improves people's lives

### Golden Lane Housing

Golden Lane Housing (GLH) was established by the Royal Mencap Society (Mencap) in 1998 to provide homes in the community that “each of us would be happy to live in” to people in the UK with learning disabilities.

GLH now owns or leases nearly 880 homes providing housing for more than 1,850 tenants and increasing housing outcomes for more than 100 people each year.

Its properties are mainly individual houses and of a high quality – more than meeting the Decent Homes Standard and typically located in attractive residential areas. Its owned portfolio of more than 400 properties is building a legacy for the future.

GLH also provides specialist services to tenants in partnership with other care providers, including making property adaptations to meet tenants’ needs.

GLH’s income is mostly rental income including housing benefits that are paid directly to GLH as landlord by the local authorities, creating a stable, Government-backed income stream to pay interest to investors and cover management and maintenance costs.

Impact	Investment	Investors
GLH measures and publicly reports three dimensions of impact: the quality of service and life experience of each person against their own personal goals using Mencap’s “What Matters to Me” <sup>52</sup> self-report tool; <sup>53</sup> the impact of the move on tenant’s families; and the financial savings for government.	<p>2003 – First UK national charity to raise capital via a £1.8 million 10-year Social Investment Bond.</p> <p>In 2013, GLH raised a second £10 million 10-year unlisted Social Investment Bond. Two further 10-year Retail Charity Bonds were raised in 2014 (£11 million; 4.375%) and 2017 (£10 million 3.9%) and both closed early due to over subscription.</p> <p>GLH also has loans including with Nationwide Building Society and Triodos Bank NV and a 25-year low interest loan from Mencap.</p>	Over 700 individual investors and a range of charitable trusts, foundations.

Source: <https://www.glh.org.uk/>; <https://propertyfundsworld.com/2017/11/02/257861/retail-charity-bonds-launches-39-cent-golden-lane-housing-retail-charity-bond>; Golden Lane Housing, *Social Impact Report 2017*, 2017

<sup>52</sup> The key elements of Mencap’s “What Matters to Me” framework relate to individual experience: you knowing your rights and exercising them, you choosing how you live your life, you doing things that help you learn and grow, you having the confidence to try new things because you feel safe, you getting the services you need to be healthy and well, you doing the things that you enjoy and that make you happy; you having the money you need and using it to help you to make the most of life, you keeping in touch with people who are important to you and meeting new people, and you knowing your community and feeling part of it.

<sup>53</sup> From interviews, themes that emerged about what people value include opportunity to do things for themselves, importance of friendships, independence, and the quality of the accommodation.

# Institutional Investors

**Table II.5: Opportunities for institutional investors to lead and act**

<b>INSTITUTIONAL INVESTORS</b> Mitigate systemic risk and realise opportunities that can affect financial performance and align investment goals with stakeholder values and future growth, including alignment with SDGs		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Embed impact into the broader strategic objectives of the organisation particularly focusing on client/member engagement strategy and related investment product and service development</li> <li>▶ Assess management frameworks, measurement mechanisms and investments to ensure alignment with strategic impact objectives</li> <li>▶ Make additional allocations to impact, including alignment with the SDGs and ensure strategic asset allocation is clear about objectives for impact at scale</li> <li>▶ Explore co-design and other opportunities to target specific impact areas and/or participate in blended financing models for impact</li> <li>▶ Use Requests for Proposals (RfPs) and other mechanisms for engaging the market to solicit ideas and develop partnerships</li> </ul>	<ul style="list-style-type: none"> <li>▶ Design an organisational strategy that integrates impact into goals for long term value creation, diversification, managing systemic risk and customer and employee attraction and retention</li> <li>▶ Develop a rigorous and transparent impact framework that is embedded into the investment decision making process</li> <li>▶ Commit to accountability through rigorous measurement and integrated reporting</li> <li>▶ Engage actively with the field to drive consistency in reporting and measurement</li> <li>▶ Proactive engagement with governments on policy priorities to build the field</li> </ul>	<ul style="list-style-type: none"> <li>▶ Signal impact matters by making public statements and commitments potentially collectively and through investment decisions</li> <li>▶ Embed impact into organisational capability and culture through capacity building and capability to assess impact risk and KPI alignment</li> <li>▶ Engage actively as an investor and stakeholder, individually and collectively to advocate for impact and related disclosures</li> <li>▶ Run communications campaigns to build acceptance of new models and specialised solutions both organisationally and to potential and existing clients, external product providers and asset consultants (as applicable)</li> <li>▶ Engage members on how they want their values reflected in their investments, and develop more savings, pension and investment products utilising ESG and impact investment options to reflect those preferences</li> <li>▶ Use technology to enable access to impact reporting and facilitate client choice</li> <li>▶ Adopt impact reporting and disclosure guidelines with a commitment to transparency</li> </ul>

## Case II.6: PGGM taking a holistic view to investment and retirement

### PGGM

PGGM is a Dutch not-for-profit cooperative pension fund service provider “at the heart of society”. It has a total of €215 billion in assets under management with deep roots in the healthcare sector in the Netherlands. It views financial performance, living conditions, the healthcare sector and opportunities to be able to work longer as important to its members and clients - and all Dutch people. PGGM's mission is to contribute to a valuable future for the pension participants of their clients and as a cooperative, it wants to add value to society in a sustainable manner. Its vision is that in five to ten years it will be standard practice to characterise all of its investments by their effects on society.

PGGM believes pensions are about more than money and that a good pension is worth more in a better world. Convinced that financial and social returns go hand-in-hand, its investment philosophy is to achieve good returns through responsible investment and at the same time have a tangible impact on creating a sustainable world. PGGM uses direct exclusions, exclusions after (unsuccessful) engagement, ESG integration (including applying their own ESG index), engagement, voting, legal proceedings and investing in solutions (i.e. impact themes) as its primary instruments for responsible investment. Its impact investment strategy was introduced in 2014 and has a mandate to invest at least €20 billion in solutions by 2020. While PGGM's universal ownership view is applied globally, it has an additional home country overlay. It believes every dollar of pension is worth more to its members if their home country is more sustainable and that a strong and sustainable Dutch economy contributes to a valuable future for its beneficiaries.

PGGM has selected four priority impact themes (climate and pollution, water, food, and health) according to three criteria: (1) Fiduciary duty. How does the impact area contribute to PGGM's fiduciary responsibilities; (2) Capacity. Does PGGM have some comparative advantage in the impact area, such as through expertise or track-record; and (3) Identity. Does PGGM want to be known for its contributions to the impact objective?

Impact	Market Development	Investors
Using the framework created by the Impact Management Project, PGGM has mapped its entire portfolio in terms of effect on people and planet and shared its learnings in a report – The Investor's Perspective: How an asset manager can map its portfolio by the effects it has on people and the planet – and what we can learn from this, 2017.	<p>In 2016, PGGM and APG (managers of the two largest Dutch pension funds) developed a standard to contribute to the SDGs, called Sustainable Development Investing (SDI) in a step towards creating a global standard for impact investment which can be used to compare the efforts and societal contributions of investors and companies. Several international investors have signed the SDI statement.</p> <p>In 2018, PGGM partnered with UBS Asset Management in a research collaboration with Wageningen University and Research in the Netherlands and Harvard University to build an impact measurement framework for food security – addressing one of the SDGs and a PGGM priority area for investment in solutions with real world impact.</p> <p>PGGM owns 13% of Sustainalytics.</p>	3 million Dutch pension scheme members.

Source: <https://www.pggm.nl/english/what-we-think/Pages/Allocating-impact-why-and-how.aspx>; PGGM and Impact Management Project, *The Investor's Perspective: How an asset manager can map its portfolio by the effects it has on people and the planet – and what we can learn from this, 2017*; The GIIN, *Achieving the Sustainable Development Goals: The Role of Impact Investing*, 2016; Drexler, M and Noble, A, *From the Margins to the Mainstream Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors*, 2013; PGGM Annual Responsible Investment Report, 2015; [www.pggm.nl](http://www.pggm.nl).

# Banks

**Table II.6: Opportunities for banks to lead and act**

<b>BANKS</b> Unlock opportunities that enhance licence to operate, align core business, stakeholder values and future growth and attract and retain customers and talent		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Create dedicated units and carve outs to facilitate the bank's commitment to raising and deploying impact capital and build capacity</li> <li>▶ Engage new and existing partners and advisors in the effort to create impact solutions</li> <li>▶ Dedicate resources and leverage expertise from diverse partnerships to develop product in nascent and under-served markets</li> <li>▶ Provide additional institutional flexibility to product developers</li> <li>▶ Engage other parts of the bank (e.g. CSR; investor relations) in impact delivery and to embed impact across the bank</li> </ul>	<ul style="list-style-type: none"> <li>▶ Join and lead field building initiatives including support for impact investing wholesalers with capital and capacity and other intermediation and origination activities</li> <li>▶ Engage with other industry participants to establish consistency in impact reporting and disclosure and alignment with global standards (if available)</li> <li>▶ Define and understand impact goals at the organisational level and revise corporate strategy to integrate impact</li> <li>▶ Implement policies and practices for impact that align with agreed practice</li> <li>▶ Adopt rigorous impact management and reporting systems</li> <li>▶ Establish clear governance and KPIs around impact goals</li> </ul>	<ul style="list-style-type: none"> <li>▶ Develop public facing educational capabilities and resources for clients</li> <li>▶ Operationalise impact through business strategies and products and service offerings permeating all facets of client and market engagement</li> <li>▶ Embed impact into organisational capability and culture through capacity building and capability to assess impact risk</li> <li>▶ Tie staff KPIs to both financial and impact outcomes of the organisation and its products and services</li> <li>▶ Integrate impact assessment into client acceptance and risk management processes</li> <li>▶ Provide transparent impact reporting to clients on products and services</li> <li>▶ Implement integrated reporting; report on the bank's impact against KPIs and impact goals and industry standards of impact metrics</li> <li>▶ Sign on to Global Alliance for Banking on Values</li> </ul>

## Case II.7: Bank Australia, first Australian member of Global Alliance for Banking on Values

### Bank Australia Ltd. and the Global Alliance for Banking on Values (GABV)

Bank Australia is a mutually owned, unlisted public company – 100% owned by its customers with total assets of over \$5 billion. The organisation was initially established as a credit union in 1957 and has grown through amalgamations, becoming the first Australian customer-owned bank in 2011. Its goal is to create mutual prosperity for its customers through its values-based approach to banking, and in the form of positive social, economic, environmental and cultural outcomes. It uses the tools of banking to create positive social change, and to act on social issues that its customers and staff care about.

Bank Australia was the first customer-owned bank to implement a Reconciliation Plan in 2011 and in 2016 published a Disability Action Plan. Both plans recognise access to appropriate banking services as an important area of focus. Bank Australia also has a Financial Inclusion Action Plan, which it developed in partnership with the Financial Inclusion Action Plan (FIAP) Partnership Group supported by the Australian Government Department of Social Services, Good Shepherd Microfinance, EY, and the Centre for Social Impact.

### Global Alliance for Banking on Values (GABV)

Bank Australia was the first Australian bank (and is still one of only two) to become a member of the GABV. The GABV comprises 48 financial institutions and seven strategic partners operating across Asia, Africa, Australia, Latin America, and Europe. Collectively the alliance serves more than 41 million customers, holds US\$127 billion of combined assets under management, and employs 48,000 people. The GABV's principles are: (1) **a triple bottom line approach** of people, planet and prosperity being at the heart of the business model; (2) being grounded in communities, serving the **real economy** and enabling new business models to meet the needs of both; (3) **transparent** and inclusive governance; (4) self-sustaining organisations with a long term outlook, **resilient to outside disruptions**; (5) **Long-term relationships with clients** and a direct understanding of their economic activities and the risks involved; and all these principles being embedded in the bank's **culture**.

Impact	Investment	Investors
<p>Providing value for money and responsible financial services to its customers, including to underserved communities – recognising that the organisation was initially established out of a need to help people who had been excluded from accessing banking services through the mainstream banks.</p> <p>Investing in social and environmental initiatives important to its customers through the Bank Australia Impact Fund.</p> <p>Bank Australia became carbon neutral in 2011 and does not lend to the fossil fuels industry.</p> <p>Creating jobs in Australia – with a focus on regional Australia.</p>	<p>Each year Bank Australia commits 4% of after-tax profits to the Bank Australia Impact fund which invests in a range of social and environmental issues informed by its customers. This amounted to nearly \$850,000 in 2017.</p> <p>As a member of the GABV, Bank Australia tracks the share of its portfolio that particularly benefits people and the community. This share includes loans to the community housing sector, and loans for environmental reasons such as solar panels or energy efficiency upgrades. In 2017, 4.1% or \$178.2 million of Bank Australia's loans were directly attributable to benefiting people and the community.</p>	<p>Over 140,000 customers of the bank.</p>

Source: Bank Australia Corporate Report 2017; <https://bankaust.com.au>; <http://www.gabv.org>; Bank Australia Financial Inclusion Action Plan, Foundation Plan 2016/17, November 2016

## Case II.8: BNP Paribas taking a bank-wide strategic approach to impact

### BNP Paribas

BNP Paribas Group (BNP) takes a bank-wide strategic approach to impact, developed over two decades. It is designed to position the group as a leader in sustainable banking.

Its 12 commitments under 4 pillars on social and environmental responsibility include: investment and financing with a positive impact; systematic integration of ESG risks; products and services that are widely accessible; and partnering with clients in transition to a low carbon economy.

Since 2015, the bank's approach puts a focus on the SDGs and includes products and services designed to: avoid harm through integrated socially responsible investment offerings and climate change abatement; benefit stakeholders through targeting business sectors with positive contributions including education, health, agriculture and renewable energy and segments including microfinance and social enterprise; and contribute solutions through focus in areas including renewable energy and structuring social impact bonds.

30 Funds certified in 2017 focused on best of class engaged issuers and thematic funds targeting environmental protection or social well-being and 16 ethical indices targeting impact. The Finansol label was also granted to 5 funds investing in the solidarity economy and microfinance.

Targeted products make it easier for retail and institutional customers to contribute to the SDGs through their savings. These include positive incentive loans, green loans, and social impact bonds.

### Impact Design

Tracking funds intermediated towards the UN SDGs, targeting specific issues, financing for renewables and emissions reductions. BNP uses measures linked to GRI, UNEP Fi, ISO 26000, the Global Compact and SDGs.

Impact governance at the Executive Committee of all group entities to steward integration of the principles. 20% of Group Incentive Scheme is allocated against social and environmental objectives decided by EXCO with CSR, road map over 3 years.

BNP disseminates knowledge and best practice to customers and employees on SDGs and environmental best practice.

BNP provides incentives for clients to improve their ESG performance by linking improvements to reduced cost of finance, e.g. debt facilities to BPost and Barry Callebaut.

Measures include innovation in BNP's own processes e.g. testing an internal carbon price to evaluate customer resilience to energy transition and manage risk.

### Key Lessons

Embedding impact into the core and culture of an organisation takes time and done well requires a multi-pronged approach.

Banks that reactively respond to pent up client demand will not be as well positioned as those that proactively educate clients and direct it.

New products and services development is done best by creating a positive cycle of change through proactive engagement with employees and customers holding impact integrity at the core. Clear goals and incentives need to be set.

Source: BNP Paribas Reports on Activity and Corporate Responsibility <https://invest.bnpparibas.com/en/annual-reports>; adapted from GSG Working Group Report, *The Impact Principle: widening participation and deepening practice for impact investment at scale*, 2018

# Corporations

**Table II.7: Opportunities for corporations to lead and act**

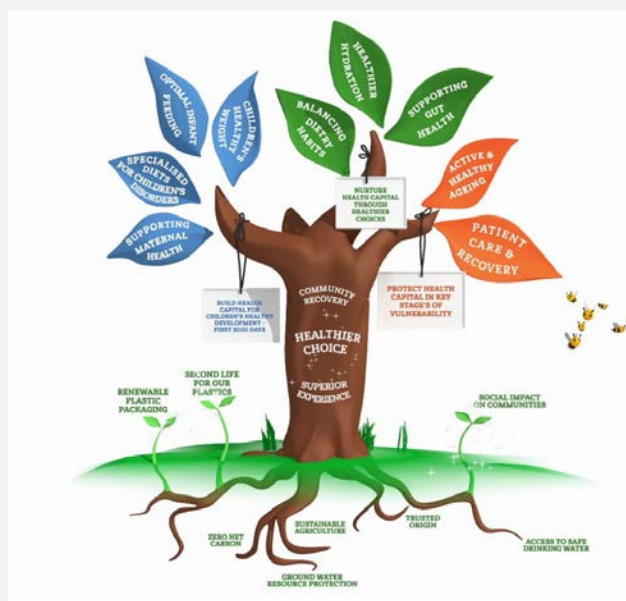
<b>CORPORATES</b> Unlock new growth opportunities aligned with core business and stakeholder values, secure licence to operate, open new markets and attract and retain talent		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Ensure high-level executive sponsorship and buy-in on impact initiatives</li> <li>▶ Embed impact into corporate strategy in a holistic and integrated way that promotes net impact and develops cross-departmental collaboration to operationalise</li> <li>▶ Evaluate market entry opportunities (new segments/ under-supplied markets)</li> <li>▶ Develop strategies for engaging with and supporting suppliers to avoid harm and increase impact</li> <li>▶ Leverage the corporation's unique expertise and networks in the service of new types of partnerships (e.g. with development agencies or philanthropic foundations)</li> <li>▶ Proactively explore opportunities to use investments to advance internal and external stakeholder interests. Where thematic alignment is strong, play an anchor role</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consider collaborating with competitors on thematic areas of interest</li> <li>▶ Adapt product and service offerings including new product development in line with impact objectives</li> <li>▶ Build a rigorous impact framework into governance and business strategy</li> <li>▶ Align with global standards, if available, or partner with other industry players to develop a consistent impact reporting approach</li> <li>▶ Support development of intermediaries and impact-driven enterprise capacity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Join impact investing networks and peer groups to share and leverage knowledge and capacity</li> <li>▶ Develop and contribute to thought leadership by sharing lessons</li> <li>▶ Set minimum impact benchmarks for suppliers (including financiers).</li> <li>▶ Embed impact into organisational capability and culture through capacity building and capability to assess impact risk</li> <li>▶ Tie staff KPIs to both financial and impact outcomes of the organisation and its products and services</li> <li>▶ Consider and track all impact including supplementary risks and benefits of operations</li> <li>▶ Take accountability for reporting on impact in a transparent and rigorous manner; implement integrated reporting; consider BCorp certification</li> </ul>

*Companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment? Are we working to create a diverse workforce? . . . Today, our clients – who are your company's owners – are asking you to demonstrate the leadership and clarity that will drive not only their own investment returns, but also the prosperity and security of their fellow citizens.*

Larry Fink, Chairman and CEO, Blackrock

## Case II.9: Danone Group driving positive social and environmental impact

### Danone



Danone's strategy to drive positive social and environmental impact is expressed in its strategy: the Alimentation Revolution, which is illustrated through the symbol of a tree.

Danone has utilised a combination of tools and models for impact including social business in partnership with Grameen, impact investment funds and products, supply chain measures, and commitment to B Corp certification. This is all part of its long-term commitment to sustainable business and pursuing social progress and economic success.

Danone has different impact funds investing in solutions to issues affecting its supply chain, strengthening its partners in supply chain, and contributing research and development to open new markets, for example, strengthening local skills and ecosystems, access to safe clean water and sustainability of small-hold farmers: Danone Communities; Danone Ecosystem Fund; Livelihoods Carbon Fund and Livelihoods Fund.

Impact	Investment – Danone social impact funds	Investors
In 2016, the Danone Communities Fund had 1 million beneficiaries in total, providing access to clean water for 100,000 and helping 300,000 beneficiaries in the fight against malnutrition and poverty.	<p>Its impact focus has seen Danone offer and obtain impact finance.</p> <p>Danone negotiated a €2 billion Syndicated Credit Facility under which borrowing costs reduce as it increases its positive social and environmental impact against a set of objective criteria.</p>	Danone's shareholder and employees have contributed research and development funds to enable Danone Communities. The social innovation funds are joint ventures with corporate and financial partners including Mars, Credit Agricole, Caisse des Dépôts Group, Hermes, La Poste, Firmenich, Michelin, SAP, Schneider Electric, Voyageurs Du Monde, Veolia.

Source: <https://www.nutriciaresearch.com/nutrition-for-life/the-alimentation-revolution-working-towards-healthier-eating-and-drinking-habits/>; <http://iar2017.danone.com/performance-in-2017/social-innovations/?L=>

## Case II.10: Lendlease: Treviso Hospital and Milan Expo site redevelopment

### LendLease – Treviso Hospital

The financing of the €250 million, 1,000 bed hospital in Treviso, Italy embeds the values and ideas of social impact investing within the financing of a major infrastructure project, which could be used as a model for future infrastructure projects to create intentional social value.

In 2017, Lendlease successfully closed the financing of the public private partnership (PPP) for the redevelopment and subsequent management of a hospital in Treviso. Lendlease was advised by consulting firm PlusValue Advisory Ltd. on the project's impact strategy, and how to embed it within the financial structure of the project.

The hospital is of vital importance to the entire Treviso province of 1 million people, including being made a provincial hub under a new public health policy. Due to the fundamental importance of the hospital to the province, Lendlease was able to access financing from the European Investment Bank at below market rates. The interest cost savings generated will be passed on to a locally based impact investing vehicle, concentrating on innovative start-ups and SMEs in the healthcare sector and sectors related to the effective functioning of the hospital system within the Treviso region.

Impact	Investment	Investors
Creation of a health and employment focused impact fund targeting the Treviso community and local entrepreneurs.	€1.8 million catalytic capital in an impact equity fund with the intention that the initial capitalisation of the fund will lead to a virtuous cycle of further investment leading to improving health outcomes across Treviso province.	Intended investors are European promotional banks and corporations.

### Milan Expo site redevelopment

In November 2017 Lendlease won the public tender to develop the 100-hectare area in the north west of Milan that hosted the 2015 World Expo in partnership with Arexpo, a company established by the Italian Ministry of Economy together with the Lombardy Region and Municipality of Milan.

MIND (Milano Innovation District) is a €2 billion development to transform the site into a science and technology park focused on life sciences and create a new urban district and dynamic community experimenting with new solutions for sustainable urban living (e.g. testing and implementing future services such as driverless public transport, carbon neutral energy systems and electronic local currency). An estimated 70,000 people will be living in, working or visiting the park each day.

Three anchor institutions (Human Technopole for life sciences and human wellbeing, Milano Statale University and the Geleazzi hospital) will be the core tenants of the MIND development. Other private companies will be selected based on their innovation capacity, positive impact and desire to form part of the collaborative knowledge hub as a living lab environment.

The social impact of the site (for its residents and tenants, the city of Milan and the wider region) is of key strategic importance to the project and will form a fundamental part of the masterplan design. In order to govern this process Lendlease will develop a strategy and design an impact assessment framework to allow the project to monitor its impact and adapt in response to its successes and failures. Lendlease is being advised on its impact strategy by London based social impact consultancy PlusValue Advisory Ltd.

Source: Addarii, F, and Shapiro, A <https://theurbandeveloper.com/articles/lendlease-transform-italian-expo-siten-100-hectare-future-park>, 2018; Ashurst, 2018; EIB 2017;

## Family Offices and Foundations

**Table II.8: Opportunities for family offices to lead and act**

<b>FAMILY OFFICES</b> Utilise full range of capital to enhance mission, align impact and financial goals, open new partnerships and enhance influence		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Clarify and communicate to partners the family primary, actionable areas of interest</li> <li>▶ Work closely with partners to develop robust impact theses in thematic areas</li> <li>▶ Put all tools on the table if needed (i.e. grants, DAFs, PRIs, endowment or investment capital)</li> <li>▶ Invest in and through intermediaries and support capacity to get established and grow</li> </ul>	<ul style="list-style-type: none"> <li>▶ Actively seek opportunities with field building effect</li> <li>▶ Be prepared to invest in developing early-stage markets, including investing to prove up new models, help field building activity get off the ground and sustain effort, support market enabling intermediaries get established</li> <li>▶ Use flexible capital to de-risk investments and mobilise others</li> <li>▶ Require high levels of accountability and transparency around the impact created</li> <li>▶ Establish rigorous impact measurement and management requirements of partners</li> </ul>	<ul style="list-style-type: none"> <li>▶ Commit to learning about impact management practice</li> <li>▶ Demand wealth advisors/managers provide advice on impact</li> <li>▶ Engage partners in conversations about what they do, and what the family principals might need</li> <li>▶ Be open to partnering with specialists on client education and discovery</li> <li>▶ Join and contribute to peer groups and communities of practice</li> </ul>

*Just your philanthropic dollars are not enough to solve big world problems. We have a responsibility to use everything we have to make an impact.*

Liesel Pritzker Simmons, Co-founder of The ImPact

*By pursuing investments that have a wide range of return and impact profiles, flexible impact investors can help to reduce or eliminate the risks associated with new markets. In that way, they can also create opportunities for strictly commercial investors to scale up promising innovations.*

Omidyar Network

## Case II.11: Skopos Impact Fund and KL Felicitas Foundation: leading on impact management

### Skopos Impact Fund and KL Felicitas Foundation: Radical Transparency

Skopos Impact Fund which has roots in philanthropic activity of the Netherlands based Brenninkmeijer family back to 1841 and KL Felicitas Foundation founded by Charly and Lisa Kleissner in 2000 are leading examples of impact integrity from the old and new philanthropy and family offices.

Both have been pioneers in impact management helping to develop tools and frameworks that have inspired the next wave of initiatives, including the Impact Management Project which followed on from Skopos' More than Measurement work and TONIIC and Sonen Capital out of the Kleissner's work.

Impact Approach	Key lessons
Both foundations have designed impact management frameworks and been transparent about their approach, including the development of impact goals and how the framework translates into its investment portfolio. Both have worked with industry leaders including Bridges Impact+ and NPC to demonstrate what is possible, push practice and encourage others to follow.	Both exemplify how transparency and impact management can pave the way for a much broader and deeper participation. KL Felicitas and Skopos have each shared the logic behind development of its impact management and measurement frameworks to inform and inspire others.

Source: <http://klfelicitasfoundation.org/> and <http://dev.bridgesfundmanagement.com/wp-content/uploads/2017/02/Bridges-Skopos-More-than-Measurement-screen-view.pdf>

## Case II.12: Omidyar Network: Investing Across the Returns Continuum

### Omidyar Network: Investing Across the Returns Continuum

The Omidyar Network (ON) has evolved its practice utilising grant and investment capital across a returns continuum from grant capital through to fully risk adjusted market rate returns.

ON utilises its expertise and knowledge in different geographies and industry sectors to design strategies that enable it to make informed decisions about taking risk.

Impact Approach	Key lessons
ON designs its approach across 5 impact areas: education, emerging technologies, governance and citizen engagement, financial inclusion and property rights. Its impact management and measurement are also informed by reference to key impact effects it seeks to generate or amplify at market as well as enterprise level. These include: pioneering new models, building market infrastructure and enabling policy influence.	<p>Designing a clear strategy to achieve a range of impact investing options, taking into consideration the kinds of risk, returns, and impact different opportunities offer, and how using different types of capital and strategies can serve different objectives to expand and strengthen the impact investing market.</p> <p>In addition to strategy design for market-rate impact, ON has shared its lessons through 2012 work on Priming the Pump, 2017 work Across the returns Continuum and will publish new work in 2018 with FSG on further synthesis of the lessons from their work and other impact investors operating across the continuum, from philanthropy to pension funds.</p>

Source: Bannick, M, Goldman, P, Kubansky, M and Saltuk, Y, *Across the Returns Continuum*, 2016; consultations for case study with FSG, 2018

**Table II.9: Opportunities for foundations to lead and act**

<b>FOUNDATIONS*</b> Drive significant change, innovation and impact, utilise full range of capital to enhance mission, align impact and financial goals, open new partnerships and enhance influence		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Partner closely with program teams and external partners to amplify thematic impacts (e.g. grantees, service providers and peers)</li> <li>▶ Listen to people about their need, value experience in innovation and delivery and enable leaders</li> <li>▶ Demonstrate and promote capacity and role to de-risk impact investment and mobilise others</li> <li>▶ Drive solution-focused approaches, including convening key stakeholders around aligned impact goals to solve key issues</li> <li>▶ Take more risks in a catalytic role than has historically been the case for some foundations</li> <li>▶ Design for direct and indirect impacts including new models, infrastructure and policy change</li> <li>▶ Build impact goals into investment thesis at market level</li> <li>▶ Increase emphasis on driving market-level change</li> </ul>	<ul style="list-style-type: none"> <li>▶ Lead by example and utilise the range of tools for funding, finance, convening and capacity development</li> <li>▶ Fund and advocate for field building e.g. support for field building and intermediaries, development of standards, data sources and dissemination of models</li> <li>▶ Value and support field-level advocacy</li> <li>▶ Target investments building and shaping new markets</li> <li>▶ Engage with peers and key stakeholders around consistency in impact reporting and disclosure requirements</li> <li>▶ Be active and visible in development of indices and benchmarks</li> <li>▶ Seek out models that deliver solutions and involve new stakeholders at the margins</li> <li>▶ Take longer term view on value creation and returns</li> </ul>	<ul style="list-style-type: none"> <li>▶ Promote communications function to raise awareness and support education initiatives</li> <li>▶ Drive demand through terms of engagement with investment professionals and fund managers</li> <li>▶ Document and share cases, lessons and data to drive market development</li> <li>▶ Community and public funds listen to donors and share their experience</li> <li>▶ Design investment strategies that signal impact matters and provide examples of engagement and new market models</li> <li>▶ Create and report against measures for additionality including related market development effects</li> <li>▶ Be explicit and monitor the impact risks and market-level impact</li> <li>▶ Actively align and engage with stakeholders including mainstream investors</li> </ul>

\*In addition to the actions identified for family offices

## Case II.13: Lord Mayor's Charitable Foundation

### Lord Mayor's Charitable Foundation

Lord Mayor's Charitable Foundation (LMCF) is Australia's oldest and largest community foundation established in 1923 and with a corpus of approximately \$240 million. LMCF's vision is inspiring philanthropy and sustained social impact.

As a community foundation, LMCF exists to connect people, ideas and funding to meet the challenges and needs of the people of Melbourne now and into the future. It works in partnership with its stakeholders to lead positive social change through innovative and inspired philanthropy, using its philanthropy toolkit: **grants** (supporting charitable organisations and innovative projects); **Initiatives** (designing what works with partners); **strategic communications** (engaging the community in our work, sharing knowledge); **research** (finding and organising relevant facts and figures to inform its impact areas); **impact investment** (maximising impact through mission aligned investments); **collaboration** (collaborating with grant partners, subject matter experts and other funders); and **influencing policy** (making the case with grant partners, collaborations and directly to decision makers).

LMCF has a strong focus on fostering innovation to drive social change, capacity building and collaboration – which is reflected in its grant types and granting principles (see below). It has a particular interest in supporting social enterprises to help charities achieve their missions and growing another revenue stream, funding them at different stages of their development (e.g. start up and then scaling up later) but also using their services quite regularly.

LMCF recently started making impact investments from its corpus, including investing in the digital platforms Hireup and Yume and launching the Affordable Housing Loan Fund in partnership with Social Enterprise Finance Australia (SEFA). LMCF invested \$3 million in SEFA, which is disbursed to selected affordable housing development projects throughout Victoria. The idea for the fund was generated out of the LMCF's Affordable Housing Think Tank held in 2012, and further investigation into the need for intermediaries and alternative financial models to address the housing shortage. Financing opportunities are also expected to be leveraged from other philanthropic, government and commercial partners.

Impact areas	Approach	Key lessons
<ul style="list-style-type: none"> <li>▶ Education and employment</li> <li>▶ Environment and sustainability</li> <li>▶ Healthy and resilient communities</li> <li>▶ Homelessness and affordable housing</li> </ul>	<p>LMCF applies the following granting principles: equality and equity, evidence-based, promote social inclusion and cohesion, community engagement, engage beyond grants, knowledge creation and dissemination, sustainability, long-term change, balanced giving, scalability and replicability, and partnerships and collaboration.</p> <p>LMCF's responsive grants program has two key grant types: thrive grants and innovation grants. It can also make signature and proactive grants from time to time to respond to specific issues of focus or concern to LMCF which form part of its Catalytic Grants Program.</p> <p>LMCF has recently started making impact investments using its corpus. 2.5% has been allocated to impact investment within LMCF's strategic asset allocation. Its social impact investment policy aligns with its grant impact areas. This allows LMCF to unlock a different source of funding to help achieve its social purpose.</p>	<p>It's not enough for management to be involved with impact investment; it must involve the Investment Committee and the Board.</p>

Source: <https://www.lmcf.org.au> LMCF Annual Report 2017; <https://sefa.com.au/sefa-and-lmcf-to-combat-victorias-affordable-housing-crisis/>; <https://impactinvestingaustralia.com/impact-profiles/impact-profile-catherine-brown/>

## Case II.14: Heron Foundation: net impact

### F B Heron Foundation

Heron Foundation was established in 1992 and has a corpus of approximately US\$300 million. Its mission is to help people and communities in the US help themselves out of poverty.

In 1996, Heron recognised the scope of social problems it was trying to address required more significant resources than its mandated 5% payout ratio. Heron started exploring ways to engage more of its assets through a combination of grant-making and MRI strategies and by 2010, 40% of its corpus was invested in enterprises consistent with its mission.

In 2012, Heron determined its dominant strategy of helping people gain access to assets (e.g. access to credit, investing in education) was insufficient to counter un- and underemployment against a backdrop of long-term structural trends including disintermediation and the pace of technological change. Heron's approach to achieving its mission shifted to focus on investing capital in ways that expand reliable employment and economic opportunity for those on the margins and deploying 100% of its capitals (financial – including corpus, social and human etc.) for mission by the end of 2017.

On its way to 100% Heron learned: (1) To look beyond traditional asset allocations to take an enterprise view; (2) That the legal form of an investee is relevant but not determinative – performance trumps intention every time; (3) Anxiety about risks of financial transparency is excessive and gets in the way. In an increasingly transparent world, we don't control our data; (4) Indirect investments through funds or intermediaries can have more impact than direct investments; (5) Taking a 'net contribution' approach to evaluate how investments contribute to or detract from mission aids comparability and recognises no organisation is wholly good or bad; (6) One team - removing the barriers between investing and giving in staffing and operations to mobilise all resources towards mission – and building systems to support this way of working; and (7) In staffing, flexibility, comfort with a bit of ambiguity, a willingness to 'stumble forward', and intellectual curiosity is more important than skill sets or subject matter expertise alone.

Impact areas	Approach	Key lessons
Investing capital in a way that expands reliable employment and economic opportunity for those on the margins.	<p>1992-1996, traditional philanthropic '<b>Docket Model</b>' – bright line between investing and grant making.</p> <p>1996-2012, Engaging more of its assets for mission through a combination of grant-making and corpus MRIs.</p> <p>2012-2018, Streamlined, market-facing '<b>Pipeline Model</b>'. Business model transformed (one integrated team), investing for broader influence of others, actively engaging with whole of economy approaching all enterprises with social benefit in mind and seeking out opportunities to invest in intermediaries.</p> <p>2018-, '<b>Platform Model</b>' connective investing systemic approach to broaden reach and influence to achieve goals.</p>	<p>Need more intermediation, done well to provide high quality options to investors and put integrity at the core of impact investment models. It's not about financial capital – more reliable, repeatable revenue is needed.</p> <p>Better financial practices are needed to support impact investing and need to avoid importing poor practices (e.g. bespoke metrics, unrealistic restrictions on use of funds on operations).</p>

Source: <http://www.heron.org/enterprise>; Miller, C, *Building a Foundation for the 21st Century*, 2016; [https://ssir.org/articles/entry/arriving\\_at\\_100\\_percent\\_for\\_mission\\_now\\_what](https://ssir.org/articles/entry/arriving_at_100_percent_for_mission_now_what); <https://www.insidephilanthropy.com/home/2015/11/11/everything-on-the-table-how-the-heiron-foundation-does-impact.html>;

# Governments

**Table II.10: Opportunities for governments to lead and act**

GOVERNMENTS		
Expand policy toolbox and grow private capital for public goods to deliver better outcomes		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Invest in infrastructure such as investment readiness funds and an impact investing wholesaler to scale the Australian market and support intermediary development</li> <li>▶ Increase the “spill over” effects of economic growth and explicitly design for and measure targeted impact outcomes</li> <li>▶ Design and implement a government commissioning and procurement framework with impact and outcomes as key components</li> <li>▶ Strengthen the culture of measurement and evaluation and results-based policymaking</li> <li>▶ Call for EOIs which leverage the multiplier effect of impact investing for priority areas of government spending</li> <li>▶ Provide flexible capital in co-investment models to crowd in market capital</li> </ul>	<ul style="list-style-type: none"> <li>▶ Expand the policy toolbox and build public sector capacity for the future</li> <li>▶ Support key actors, such as social enterprises, to provide more diverse and effective means of meeting citizen needs and delivering a more resilient social sector</li> <li>▶ Create robust rules and standards requiring disciplined impact measurement and management by partners</li> <li>▶ Open up data accessibility and linking across government departments and layers of government (subject to privacy) and analyse and clarify the costs in key areas of social service provision</li> <li>▶ Convene key stakeholders around areas of policy priorities aligned with impact</li> </ul>	<ul style="list-style-type: none"> <li>▶ Establish a dedicated unit as a ‘go to’ place for other impact investment actors</li> <li>▶ Increase measurement and transparency of outcomes for people and the planet from public funds</li> <li>▶ Develop authentic pathways for soliciting citizen input</li> <li>▶ Explore effective mechanisms for putting a price on outcomes (e.g. rate cards)</li> <li>▶ Act on regulatory impediments to impact investing with a flexible view to amendment</li> <li>▶ Consider strengthening regulations around impact disclosure requirements for corporations (e.g. potential adoption of integrated reporting, mandatory disclosure of impact for superannuation funds, Global Alliance for Banking on Values)</li> </ul>

*We are ambitious that delivering social impact should be a widely held concern . . . In addition to the primary social benefits of this investment approach, we believe it can give the UK a competitive advantage – better for investors, better for companies and better for our citizens.*

Ministerial Foreword to UK Government Response to Advisory Group  
Report on *Growing a Culture of Social Impact Investing in the UK*

## Case II.15: UK Government - Competitive positioning and creating a culture of impact investment

### UK Creating a Culture of Social Impact Investment

The UK Government was an early mover in impact investment. The first Social Impact Investment Taskforce was established 2000 – 2010.

Over nearly two decades, the UK Government has been developing different approaches to using impact investment as part of the policy toolbox, domestically and internationally, including using policy levers to mobilise other actors. This support for impact investment has crossed party lines across successive UK administrations.

The UK was the first Government to have an impact investment strategy and in 2016 it launched an international strategy to position the UK as a destination for impact capital. In 2013, the then Prime Minister used the UK presidency of the G8 to launch the first international Social Impact Investment Taskforce.

- *Both the UK Government and industry are keen to cement the UK's position as a global centre for the social economy. Capitalising on international interest and harnessing a percentage of the global market share would contribute to UK economic growth, help to tackle some of society's most deep-rooted issues, improve public services and increase innovation in the UK.*

In 2016, the UK Government established an independent advisory group with a mandate to consider: How can the providers of savings, pensions and investments engage with individuals to enable them to support more easily the things they care about through their savings and investment choices? The Government response to the Advisory Group's recommendations strengthened its commitment to grow impact investment as a means of bringing capital to opportunities for social progress and achieving financial innovation to spread wealth and economic opportunity.

### Policy Measures

UK Government policies have utilised a range of policy levers. They include:

- Support for social enterprise development
- Investment and contract readiness support
- Credit enhancement for social and affordable housing
- Established Big Society Capital, the UK impact wholesale fund
- Established Access Foundation to support earlier stage investment in impact-driven enterprises
- Social impact bonds across a range of policy and outcome domains
- Social Impact Investment Tax Relief
- Clarification of fiduciary duties of Trustees
- Requirements for pension funds to prepare and disclose policies assessing the sustainability of their investment decisions so it is easier for members to assess efforts to manage risks from climate change, poor corporate governance and socially harmful practices
- UK trade and investment campaigns and trade missions
- Department for International Development initiatives, including the Impact Programme
- CDC (UK Government development finance institution) Impact Accelerator to develop impact investing in Africa and South Asia
- British Council initiatives to encourage and enable social enterprise and impact investment

Source: UK Social Investment Taskforce, *Wealth Beyond Welfare: Report of the Social Investment Taskforce*, 2000; UK Government Independent Advisory Group, *Growing the Social Investment Market*, 2012; Social investment: UK Government, UK as a global hub - international strategy, 2016; UK Government Independent Advisory Group, *Growing a Culture of Social Impact Investing in the UK*, 2018; UK Government, *Government Response to Advisory Group Report on 'Growing a Culture of Social Impact Investing in the UK'*, 2018; <https://www.gov.uk/government/news/billions-invested-by-pension-schemes-to-be-used-for-social-good-under-new-regulations>; <http://www.theimpactprogramme.org.uk/>; <http://www.theimpactprogramme.org.uk/investments-dfid-impact-acceleration-facility/>

## Case II.16: Ministry of Justice Data Lab

### Ministry of Justice Data Lab

The Justice Data Lab (JDL) is an analytical service run by the UK Ministry of Justice (MoJ) for England and Wales. It makes valuable administrative data available to those outside government and who do not necessarily have the skills, or capacity to transform the data into meaningful information.

To use the JDL, an organisation submits information on a minimum of 60 individuals who were provided their service, and details of the program. A team of statisticians calculate the reoffending statistics of this group and use statistical matching techniques to create a comparison group who share similar characteristics. The JDL staff then perform comparative analysis of the reoffending rates of the two groups which is written into a 'plain English' report that is published on the MoJ's website. This helps organisations assess the impact of their work on reducing re-offending, provides evidence to funders and clients, and helps develop the evidence base of effective rehabilitation.

An evaluation of JDL was conducted in 2016 that concluded that there was positive evidence that JDL had made a solid start to its operations, but as yet trends are hard to discern given the relatively limited uptake of the service and challenges faced in aggregating the published data. The study found that JDL had generally been well received by those who have used it and that many positive outcomes had been demonstrated across interventions and sectors (particularly for educational interventions and some positive findings from employability/employment initiatives). However, owing to issues of statistical significance, most findings have been labelled as inconclusive even when positive changes are observed, leading to some uncertainty by JDL clients about how to use findings. The study made a series of recommendations to address these findings and make it easier for JDL clients to interpret and use the information more effectively.

#### Local application

Access to linked administrative data was a key constraint identified in the Field Scan and Market Convenings. JDL provides an example of how the community, philanthropic and government sectors can collaborate to develop 'public good' resources and solutions..

Model	Market development impact	Catalytic capital
<p>The JDL started with two full time statisticians, moving to four in 2014. It was launched as a pilot in 2013 and confirmed as a permanent service in 2015.</p> <p>The JDL's data sources are The Police National Computer (the administrative data system used by all police forces in England and Wales), Employment and benefit history from the Department for Works and Pension (DWP) and HM Revenue and Customs, Offender risk and needs data from Offender Assessment System (OASys). This data is highly personal and sensitive, so the JDL model ensures that personally identifiable data is only queried through internal JDL staff to ensure that privacy is safeguarded.</p>	<p>Between April 2013 and October 2017, 167 analyses for social enterprise, public and private sector organisations in England and Wales were produced. It has won high profile awards due to its customer focused service and use of statistics.</p> <p>Provides an accessible alternative to randomised control trials, which can be expensive, time consuming and not appropriate nor feasible in all settings.</p>	<p>The JDL service is fully funded by the UK MoJ. The case for the JDL was put to the MoJ in 2012 by New Philanthropy Capital who had surveyed criminal justice charities to understand the difficulties in evaluating reoffending.</p>

Source: <https://medium.com/data-labs/ministry-of-justice-data-lab-8d8b0779c295>; Adler, J and Coulson, M, The Justice Data Lab: Synthesis and Review of Findings, 2016

## Box II.2: Examples of what other governments are doing

Governments across the world are taking action to grow impact investing in their markets and contribute to global market development. The following are examples from the international landscape that could be adapted for Australia.



**Japan:** In December 2016, Japan passed the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities, estimated to release ¥50 billion to ¥60 billion (approximately US\$440 million to US\$525 million) in available finance for non-profit organisations. Initial target areas are: children and young adults, and people facing severe financial constraints or programmes that contribute to the revitalisation of local communities.



**France:** Has made it easier for people to invest in social enterprises through three avenues: solidarity bank savings accounts, solidarity shareholding (direct investment in social enterprises) and (so-called) 90/10 solidarity funds. Companies with more than 50 employees are obliged to offer their staff, an optional solidarity savings funding which allocates 5-10% of its assets to social enterprises. By the end of 2015, over a million people had chosen to place their savings via one or more of these channels, which saw solidarity retail funds grow from €1.6 billion in 2008 to €8.4 billion.



**New Zealand:** The NZ Government announced a living standards framework integrated into its budget framework. By 2019, New Zealand aims to be the first country to assess bids for budget spending against new measures that determine how spending will impact on natural, social, human, and possibly cultural capital as well as GDP.



**Canada:** The Canadian Government committed to delivering a Social Innovation and Social Finance Strategy for Canada and appointed a 16-member co-creation Steering Group, which reported with a series of recommendations in 2018. The recommendations focus on policy commitment across skills and capability, funding and capital, evidence and knowledge sharing, awareness raising and mobilisation and market access and include a Canadian wholesale impact fund, support for enterprise and social procurement and removing regulatory barriers. The strategy is intended to provide better support for community organisations working to achieve positive solutions to persistent social problems, including those facing vulnerable populations.



**NSW:** The first Australian government to engage actively with impact investment, launching Australia's first social benefit (impact) bonds initiative in 2010 and an impact investment strategy in 2015. The Office of Social Impact Investment operates under a joint umbrella of the Premier's Department and Treasury, providing a go to place for stakeholders, developing capability and expertise within government and providing government with clearer line of sight of the opportunity set. Other initiatives include piloting the first rate card as a part of its request for proposals for homelessness social impact investments, responding to stakeholder feedback on the need to streamline transaction processes, provide more data upfront and reduce the complexity of measurement frameworks.

Sources: [http://www5.cao.go.jp/kyumin\\_yokin/english/index-en.html](http://www5.cao.go.jp/kyumin_yokin/english/index-en.html); Deposit Insurance Corporation of Japan referenced in UNESCAP, *Innovative Finance for Development in Asia and the Pacific*, 2017; Dupuy, G and Langendorff, C, *Bringing Retail to Impact Investing The French '90/10' Solidarity Investment Funds*, in IIPC, *Impact Investing Policy in 2014: A Snapshot of Global Activity*, 2014; EVPA, *The 90/10 Solidarity Funds*, 2017 <https://evpa.eu.com/uploads/documents/FR-Nugget-90-10-Funds.pdf>; Big Society Capital, *Pensions with Purpose*, 2017; Canadian Government Co-creation Steering Group, *Inclusive Innovation: New Ideas and New Partnerships for Stronger Communities*, 2018; <https://treasury.govt.nz/information-and-services/nz-economy/living-standards>; NSW Treasury, *Social Impact Investment Policy*, 2015; <https://www.osii.nsw.gov.au/>; GSG Working Group Report, *Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit*, 2018

## Academic Institutions<sup>54</sup>

**Table II.11: Opportunities for academic institutions to lead and act**

<b>ACADEMIC INSTITUTIONS</b> Respond to increasing student demand, accelerate practitioner insights and practical application for social research, gain policy traction, drive new areas of innovation, value and partnerships		
Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> <li>▶ Ensure support from university administration and faculty</li> <li>▶ Take an ecosystem approach to market-building activities</li> <li>▶ Design for scale and sustainability in operations, utilising the full range of capability including research capacity</li> <li>▶ Support innovators and initiatives towards social impact</li> <li>▶ Explore policy implications and new products, document and distribute best practice</li> <li>▶ Provide an incubating platform bringing together multi-disciplinary research, social innovators and other partners on key societal challenges</li> </ul>	<ul style="list-style-type: none"> <li>▶ Lead by example as large-scale issuers or investors e.g. green and sustainable bonds and other impact focused investments</li> <li>▶ Conduct actionable research on innovative financing in Australia and globally to create a knowledge base</li> <li>▶ As neutral convenors and facilitators, bring together cross sector actors for collaboration and partnership</li> <li>▶ Build capacity, and influence the current and next generation of actors and leaders e.g. impact incubators and accelerators and executive education</li> <li>▶ Propose alternatives to traditional theory of risk and return, updating fundamental investment theory to integrate impact alongside risk and return</li> </ul>	<ul style="list-style-type: none"> <li>▶ Lower real and perceived barriers to investment by educating and building capability and capacity in private and public actors</li> <li>▶ Increase the availability and access to information on impact investing</li> <li>▶ Develop courses on social innovation that have broad, mainstream appeal</li> <li>▶ Providing incubation space and incubator programs</li> <li>▶ Partner with industry players to create investment and funding opportunities</li> <li>▶ Use the fundraising and development capability of university to lead on funding for inclusive and collaborative impact</li> <li>▶ Take accountability for reporting on impact in a transparent and rigorous manner; implement integrated reporting</li> </ul>

*A decade ago, only a handful of schools invested in this work; today, almost 50 percent of the top 50 business schools in the world host a social impact programme, initiative, or centre... The headline is that social impact has entered the mainstream, often led by tremendous demand from students (and increasingly, alumni) for more robust programming and solutions*

The Bridgespan Group

<sup>54</sup> Adapted from Bonnici, F, *The Role of Universities in Creating Impact Investing Ecosystems: the Case of the University of Cape Town, in From Ideas to Practice, Pilots to Strategy II: Practical Solutions and Actionable Insights on How to Do Impact Investing*, 2014'

## Case II.17: The Bertha Centre for Social Innovation: a catalytic centre for change

### Bertha Centre at University of Cape Town

The Bertha Centre for Social Innovation and Entrepreneurship is the first academic centre in Africa dedicated to advancing social innovation and entrepreneurship. It was established in 2011 at the University of Cape Town (UCT) Graduate School of Business (GSB), in partnership with the Bertha Foundation, a family foundation that works with inspiring leaders who are catalysts for social and economic change, and human rights. The Bertha Centre is now a leading academic centre in Africa and globally.

Its mission is to build-capacity and pioneer practices in Africa - with partners, practitioners and students - to advance the discourse and systemic impact of social innovation. The Centre was presented with UCT's Social Responsiveness Award in 2015 and was benchmarked in the top five globally for social impact in 2017.

### Market Development

Awarded over R7 million in Bertha Scholarships to African students. Uncovered and documented over 300 innovative models and solutions and convened over 7,000 people in support of its mission. Elevated Social Innovation and Entrepreneurship to one of three new strategic themes of the GSB. In collaboration with the GSB, integrated social innovation into the business school core curriculum. Established a wide community of practitioners.

Source: <http://www.gsb.uct.ac.za/berthacentre>; Bridgespan Group, Skoll Foundation and Skoll Centre for Social Entrepreneurship, Said Business School, Oxford, *Onward: Accelerating the Impact of Social Impact Education*, 2017

## Case II.18: Centre for Social Impact: Amplify impact by connecting people and evidence

### Amplify Social Impact™ (Amplify)

The Centre for Social Impact (CSI) launched project Amplify in April 2018 to help the social sector in Australia measure, understand, and achieve social change and impact on a national scale. The project will connect evidence, people, technology, and data.

The project comprises three pillars – (1) a research agenda to produce a rigorous evidence base for five social issue areas (housing, education, work, social inclusion and financial wellbeing); (2) engaging cross-sector industry partners in a series of **Connect and Convene for Systems Change** cross-sectoral events to create a shared purpose and pursue innovative solutions; and (3) developing an online platform for understanding if, where, and for whom social problems exist comprising: **AUSTRALIA'S SOCIAL PULSE™** (how Australia is tracking in key social issue areas over time, across the country, and across cohorts), **INDICATOR ENGINE™** (tools organisations can use to measure outcomes and impact with validity and reliability) and **YARDSTICK™** (a database of programs, strategies, and initiatives across the country that are achieving outcomes and impact and opportunities for their replication and improvement).

Model	Market development impact	Catalytic capital
Largely funded by academic institutions and donations, with outputs and tools to be made available to the social sector.	Building a public good to address sector wide need for benchmarks and tools.  Create a platform for a national and holistic view on key social issue areas to overcome fragmentation and connect data across silos.	\$12 million project: \$5 million from UNSW in stage-gated funding received; partnerships and fundraising model in development to raise the remaining \$7 million capital to fully realise the project.

Source: [www.csi.edu.au](http://www.csi.edu.au)

## Taking up the call for leadership and action

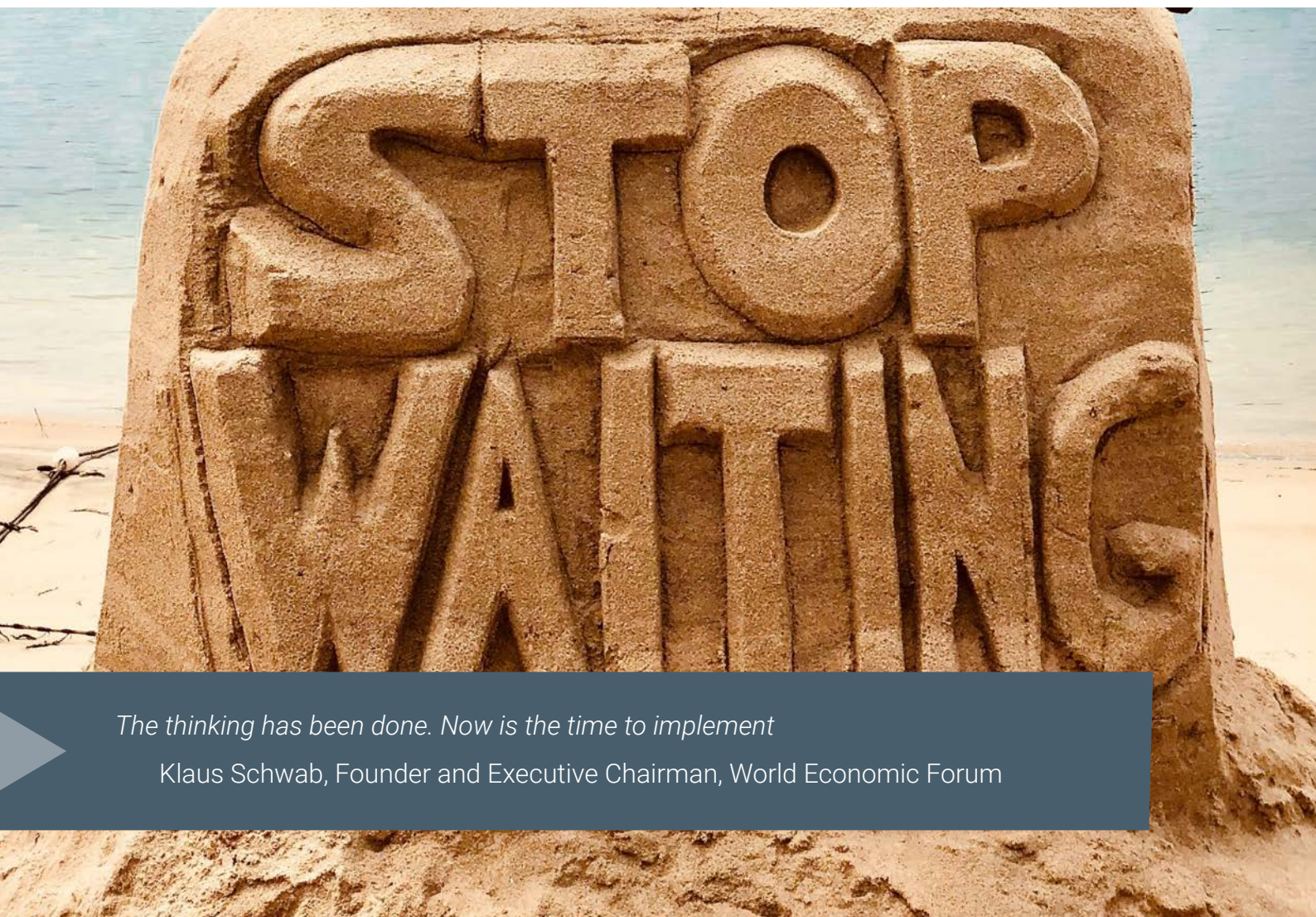
The journey so far has seen many travellers take to the path and light the way for others to join. The process has been collaborative with contributions from many already participating in impact investment or interested in becoming involved, first through the 2017 Field Scan, and then in the strategy development process.

Scaling impact and investment will require many actors, and a clearer, more united voice to show the strength of demand for a different deal and give courage to governments and policy makers and institutions to act now.

The vision is to drive towards an impact ecosystem that puts people and the planet at the centre. The theory of change maps a path with clear objectives to widen participation and deepen practice and highlights levers to accelerate progress.

Challenges of delivery and sustaining the effort cannot be allowed to daunt the ambition for what can and should be achieved. That would unfairly limit the opportunities for people and communities, to sustain our environmental and cultural heritage and be part of creating a more prosperous future here and across the region.

The Australian Advisory Board will continue to encourage, complement and amplify action in and to develop the field. The bar of ambition has been set high by the shared aspirations across countries in the global effort led by the Global Steering Group for Impact Investment and the UN Sustainable Development Goals. There is no doubt that across innovators, entrepreneurs, community sector leaders, policy makers, businesses of all sizes, finance professionals, advisers, politicians and philanthropists, Australia has outstanding talent and a wealth of resources to draw upon.



*The thinking has been done. Now is the time to implement*

Klaus Schwab, Founder and Executive Chairman, World Economic Forum



## PART III – SCALING IMPACT WITH INVESTMENT

*Successful systems innovation requires adequate resourcing and calls for new forms of capital allocation across the multiple stages of design and implementation. In many cases, systems innovation models mature from needing philanthropic dollars to developing solid business models that would allow them to partner with large mainstream investors. However, as we know, market and social system inefficiencies continue to prevent taking innovative models to scale to fulfill their full potential.*

The JW McConnell Family Foundation, Towards Solutions Finance

## About a solution-led approach

This Part III illustrates the potential for a solution-led approach in three areas of clear need and opportunity for transformational change: outcomes for people with a disability, placed based investment and leadership in regional development.

These solutions are not fully formed, but a window into possibility, illustrating how understanding of the dimensions of the issue can be developed and inform a thesis for where investment can drive resources and talent as part of the toolbox to achieve a different future. Case studies show what is already happening, here and elsewhere, as inspiration and to underscore that there is already experience upon which to draw and concrete opportunities to design for solutions at scale.

Applying a lens of how new framing, models and investment can contribute solutions amplifies the call to leadership and action with clear and concrete potential in the Australian and regional context today. Each of the three issue briefs have in common features that respond to the input and insights from the field. They showcase areas where work with people and communities to improve choice and outcomes and drive more investment will translate potential to reality.

For impact investment to be successful, impact-driven solutions and investment both need to scale. A fully-fledged impact ecosystem will include new ways of providing products and services that meet people's needs, build real things and address more issues where they arise. Investment is one enabler of solutions; a critical one as it drives other resources such as talent. But it is not enough; change that delivers impact at scale requires more solution-focused opportunities to be incubated, cultivated and pushed into the system.

A solution-led approach illuminates potential to inspire, collaborate and innovate and reframe with clear ambition and a mindset that looks beyond redistribution to spread opportunity. The starting point is the issues for which people need solutions based on understanding of the needs and dynamics, what a better future could look like and key drivers that are ripe for innovation, engagement, enterprise and investment.

Some solutions will need to, and should be better positioned to, attract investment; some will create structures that facilitate the catalytic effect of flexible capital. Others will need to be supported with grant and other funding, alone or in combination with finance to invest in collaboration and scalable design, develop execution capability and ensure the solutions are fit for purpose for the people and planet. Examples in Box III.1 illustrate the approach to starting with the problem to design solutions, then design appropriate structures and resourcing.

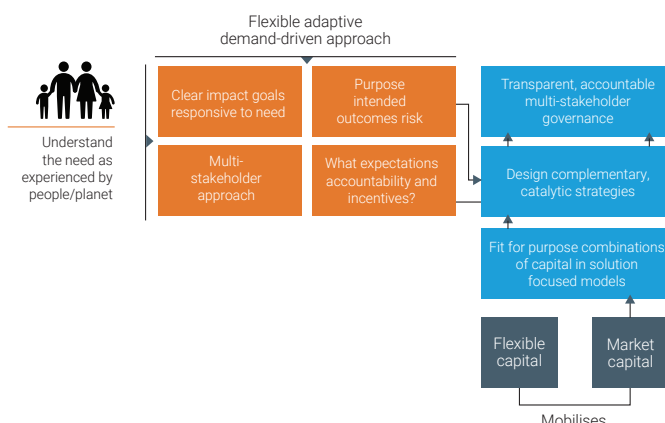
To achieve a solution-led approach will also require re-imagining models for delivery and operating. The transition to an impact ecosystem will continue to challenge opposing notions of impact based on for-profit, not-for-profit, public and private. Limitations of current models are evident in constraints on flow of government funding, crises in aged care, poor outcomes for children in care and many aboriginal Australians. A solution-led approach can enable new thinking to come to be trialled, interventions to be targeted earlier in a cycle, and positive disruptions to gain traction where existing models are in crisis or no longer capable of delivering outcomes (Box III.2).

The approach can be replicated and developed for areas where there is clear policy interest, a need for innovation and the nature of the prospective investment opportunity could attract scalable investment. There are already opportunity areas which meet these criteria that have been identified through precedents here or in other countries and there is some consensus in the Australian market already. These include affordable housing, housing and services for people with a disability, regional infrastructure, early childhood, aged care, renewable energy and conservation.<sup>55</sup>

<sup>55</sup> Hill, R and Addis, R, *Views from the impact investing playing field in Australia on what's happening and what's needed next*, 2017, Impact Investing Australia

### Box III.1: Taking a solution-oriented approach: examples from Canada and Australia

Taking a solution focused approach and examples of solutions focused financial innovation



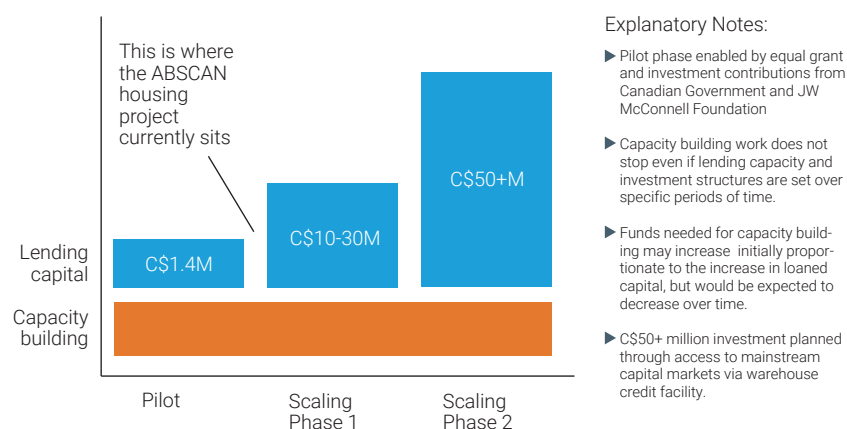
#### ***A new solution in housing for aboriginal housing in Canada emerged from a partnership between the JW McConnell Family Foundation and the Aboriginal Savings Corporation of Canada (ABSCAN).***

There was a clear need including 60% of houses on reserves in need of repair and a projected shortfall of 80,000 units over 10 years. Defining what a successful outcome would look like for residents on the reserves and understanding barriers hindering the natural emergence of local housing markets helped find a solution.

The solution enables residents to build and own their own houses, and to rent, buy or sell them. This is generating quality jobs in the communities for carpenters, plumbers and electricians, and the community has established a school to train young men and women to fill them.

The Foundation utilised different types of capital to provide a mix of grants and investments to create a revolving loan fund operated by ABSCAN and enable related capacity building. There have been minimal defaults (<2%). Flexibility with investment terms through program related investment reduced the risk for a commercial financial institution (Royal Bank of Canada) to provide a larger portion of the loan capital.

#### **ABSCAN'S Expected Development**



Designed for scale from the outset, a broader partnership is set to extend the program towards the 80,000 units needed across Canada having established a track record and market readiness with minimal default (<2%).

Source: GSG Working Group Report, The Impact Principle: widening participation and deepening practice for impact at scale, 2018 adapted from Mechin, S and Barbosa, E, Models for Solutions Finance, 2018; JW McConnell Family Foundation, Beyond Impact Investing, Towards Solutions Finance, Issue #1, 2016

## Box III.2: A solution-led approach to place-based disadvantage in Australia

### TACSI – Addressing Place-based Disadvantage in Southern Melbourne

#### The situation

The Southern Melbourne region has one of the highest unemployment rates in Victoria:

- ▶ In some pockets of the region, the unemployment rate exceeds 20%
- ▶ Over a quarter of families with children under 15 are jobless
- ▶ 40% of people have no post-school qualifications

.....despite having around 180 programs to address disadvantage in the region, and paradoxically, a known range of entry-level vacancies that employers can't fill.

#### The Vision

Addressing disadvantage in Southern Melbourne needs different approaches to create real outcomes:

1. Access to transport – and transport that connects jobseekers to employers
2. Understanding manufacturing as a key current and future employment engine
3. Responding to the diverse reasons why people are unemployed
4. Recognising the importance of networks for employers and jobseekers
5. Addressing the fragmentation and difficulties with navigation in the current service system
6. Focusing funding on transformative outcomes rather than short-term outputs

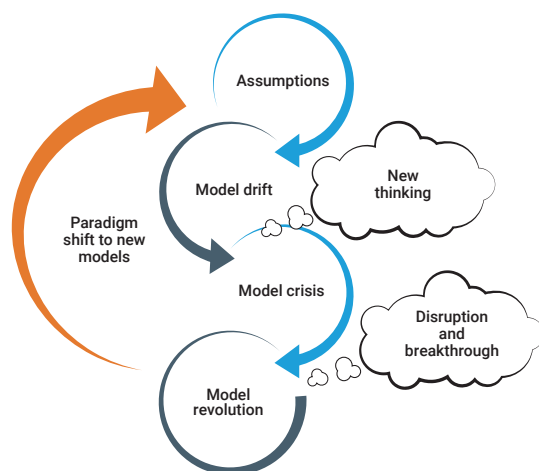
#### TACSI's approach

Mixing statistical data analysis with insights from employers, service providers and service users, TACSI identified and tested key action points that could shift outcomes in addressing disadvantage in the region from which six prototypes were developed:

1. An **employment focused community transport initiative**, developed by and with employers to connect local people to local jobs
2. A **campaign to promote a thriving local future for manufacturing** and showcase employment pathways with local manufacturers
3. A **platform to connect employers and jobseekers** – bridging the gap between employers who are filling vacancies via their extended networks, and unemployed jobseekers, who often have fewer networks that stretch to employers
4. A **local 'career support' model** that is demand-driven, person-centred, not school specific and that has direct links to employers
5. An **innovative impact-focused hiring process** that assists local employers to fill vacancies and links local people disadvantaged in the labour market to quality jobs
6. A local commissioning framework that **joins up services** for outcomes

Source: The Australian Centre for Social Innovation (TACSI), *Addressing Place-based Disadvantage in Southern Melbourne*, 2018

### Box III.3: From model drift and model crisis to model re-invention and a new business as usual



Delivery models have potential to entrench or breakthrough on issues. The systems are complex, involving many assumptions and established ways of doing things ranging from how funding flows to power dynamics and the policy environment. What works today, may not work tomorrow as the context changes. Research shows that organisations and models that successfully reinvent themselves broaden their focus to tracking the basis of competition in their industry, renewing their capabilities, and nurturing supply of talent.

Paradigms gain their status because they are more successful than their competitors in solving a few problems that the group of practitioners has come to recognise as acute...

*The [current democratic and global] model was good enough to navigate through the Industrial Revolution, two world wars, the Great Depression, the Cold War, and other problems. The model shows no sign of being able to solve the global sustainability problem.*

Finding and Solving the Root Causes of the Sustainability Problem

Similar patterns have been identified in science and in evolutionary theory: a process whereby new questions arise that the current models cannot answer. New models arise in pre-science, where people have begun to focus on a problem area even if not yet capable of solving it or making major advances.

As models in areas of need such as disability and aged care and international development express signs of mission drift and crisis, leadership focused on key domains and success imperatives can shape the future shape of service delivery: Outcomes focus - Research and development - Digital disruption - Funding and financing - Productivity – Collaboration and cooperation - Policy and regulation.

***The Community Services Industry Alliance (CSIA) is taking up the challenge in disability in collaboration with National Disability Services Queensland.*** They have commissioned a study into the feasibility of an investment fund to support disability service providers to access capital as they transition to the new funding model of the National Disability Insurance Scheme. The core concept is a fund by the sector for the sector in which organisations invest underutilised capital for a financial return and the fund lends it to the industry for development and growth.

The work focuses on the potential use of capital, particularly in the context of business growth for business development, property and business infrastructure. A series of in-depth interviews to test the fund idea with senior executives of organisations found interest in the concept from both a supply and demand perspective. The interviews also describe the barriers to the fund's success including the conservative nature of governance across this sector and the need to balance risk and return.

Sources: Adapted from Community Sector Industry Alliance materials; Deloitte Access Economics, *Forecasting the Future: Community Services in Queensland 2025*, 2016; notes on Kuhn, T, *The Structure of Scientific Revolutions*, 1962; Nunes, P and Breene, T, *Reinvent your business before it's too late*, January-February 2011, Harvard Business Review; <http://www.thwink.org/sustain/glossary/KuhnCycle.htm>



*'If you can't access education you're not likely to access employment. If you don't have transport, you can't access education, health, work or social participation. And if you don't address negative community attitudes you might not access any rights on an equal basis with others.'*

Willing To Work: National Inquiry into Employment Discrimination  
Against Older Australians and Australians with a Disability (2016)

# Transforming delivery: investing in better outcomes for people with a disability

## Fast facts<sup>i</sup> – The picture for people with disabilities in Australia

- ▶ **1 in 5** or 4.2 million Australians has a disability
- ▶ **45%** of people with disability in Australia live near or below the poverty line (OECD average 22%).
- ▶ **Australia is the lowest ranked** OECD country for relative income of people with disability
- ▶ Customer needs of **1 in 3** Australians with disability are unmet
- ▶ **1.2 million** Australians with disability has difficulty using public transport



### Housing and Disability

- ▶ More than **6,000** young Australians live in nursing homes because better options are currently not available to them
- ▶ Home ownership rate for Australians with disability is **13% vs 70%** compared to total population
- ▶ **36%** of Australia's 8.9 million homes includes a person with disability
- ▶ More than **\$5 billion in investment in 5 years** is needed to start to address the critical shortage of fit for purpose housing to meet growing demand
- ▶ **9 in 10** women with an intellectual disability has been sexually abused



### Employment and Disability

- ▶ Workers with disability have **higher retention rates, better attendance and fewer occupational health and safety incidents** than those without a disability – yet find it difficult to access meaningful work
- ▶ **54%** of Australians with disability participate in the labour force (83% for others)
- ▶ Australia ranked **21 of 29** OECD countries for labour force participation of people with disability
- ▶ **2 in 3** of Australia's 856,100 primary carers are female. The labour force participation rate for primary carers is 56%
- ▶ Only **1 in 7** unemployed people with disability will need supports or special arrangements at work

# NDIS is catalysing disruption and change across the Australian disability services sector

**The National Disability Insurance Scheme (NDIS) is the most significant social services policy change in Australia since the introduction of Medicare in 1984....**

**FROM** a system the Productivity Commission described in 2011 as inequitable, underfunded, fragmented, and inefficient, and giving people with disability little choice and no certainty of access to appropriate supports<sup>ii</sup>

**TO** a system intended to put people with disabilities at the centre with genuine choice, control and certainty of access to the support they need to be included and participate fully in society

**....so that people with disability and their carers can have the same choices, access and opportunities as everyone else in Australia to lead an ordinary life – including:**

- ▶ access to innovative and high-quality products and services that provides choice and meets their needs on their own terms;
- ▶ genuine choice, control and access to appropriate and affordable housing that lets them decide where they live, who they live with and how they are supported;
- ▶ the ability to be socially connected and have access to purposeful work; and
- ▶ financial inclusion and access to credit.

**.....but is not without its implementation challenges.**

---

*NDIS will directly support 11% (475,000) of the 4.3 million Australians living with disability and will have profound implications for how the whole service system works.*

---

*Customer choice and control is at the heart of a shift from a largely government block-funded (welfare) model to a fee-for-service market based (entitlement) model.*

---

*NDIS will allocate \$22 billion (up from \$8 billion) in annual funding in its first full year of operation (2019/2020).*

---

*NDIS funding includes \$700 million in recurrent funding for specialist disability accommodation (SDA) to support 6% of NDIS participants, or about 28,000 Australians with high/complex needs.<sup>iii</sup>*

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*\$50 billion could be added to Australia's GDP by 2050 and demands on the welfare system reduced if Australia increased its ranking to among the top 8 OECD countries for income and labour force participation of people with disabilities<sup>iv</sup>*

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**Impact investing can help accelerate transition, growth and innovation, drive focus on outcomes, and deliver value to investors.**

**A focus on trends and opportunities informed by key areas (e.g. housing and employment opportunities in particular, new service delivery models) that will improve consumer choice and control and capacity for people with disability to participate fully in society – can help investors, service providers, entrepreneurs and community think differently about the possibilities, and identify opportunities to act now to invest in that future.**

*People often experience these deficiencies over their whole lives. Disability exacerbates disadvantage. People with a disability and their carers often also experience low levels of income, educational attainment, employment, superannuation, health and wellbeing.*

Productivity Commission 2011

*We saw our adult children reach their late twenties and thirties with no hope of achieving the independence that moving out of home brings. We saw ourselves caring until we die, with no hope of humanely and gradually transitioning our people into a new residential setting.*

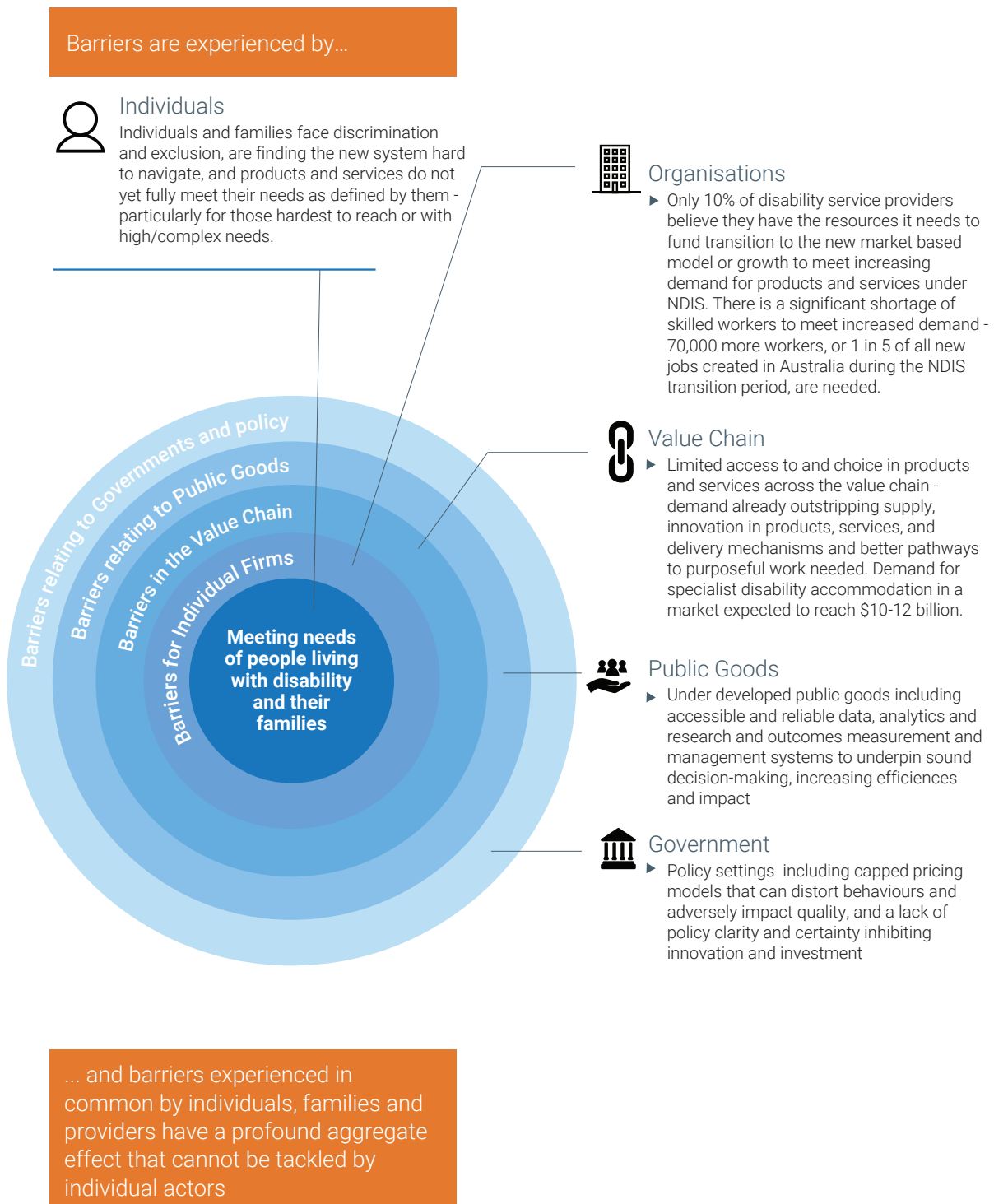
Submission to Productivity Commission, 2011

*The greatest incentive for people to work is intrinsic. It is a sense of worth, of self-respect and self-esteem. Work offers independence and dignity.*

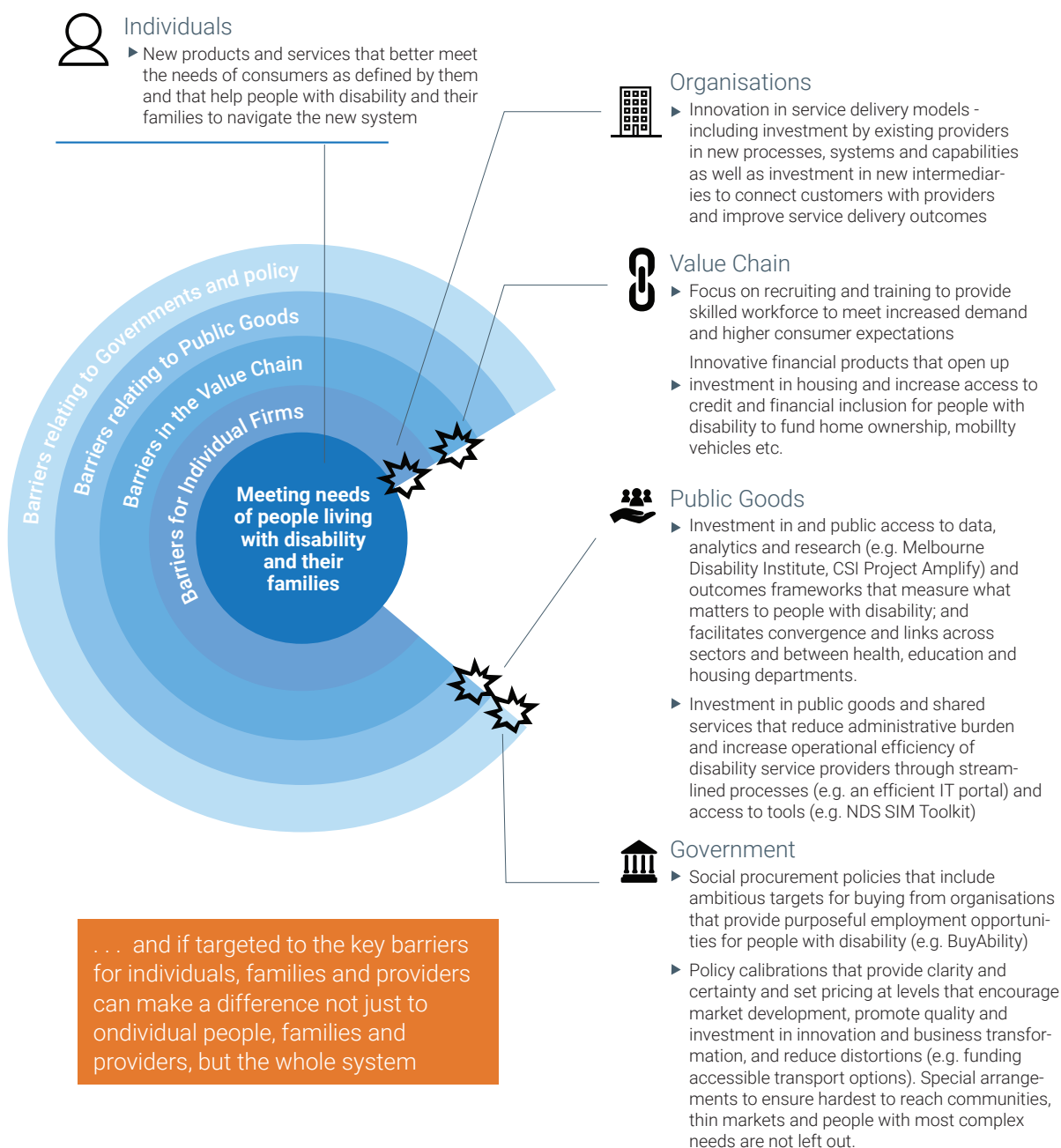
Willing To Work: National Inquiry into Employment Discrimination  
Against Older Australians and Australians with a Disability (2016)



Figure III.1: Barriers experienced in the transition also point to breakthrough opportunities<sup>v</sup>



Actions can be targeted to break through at every level



## An investment thesis for transforming lives<sup>vi</sup>

The NDIS is catalysing market disruption and significantly altering the disability services landscape – highlighting key needs and opportunities for the future...  
...the clear and compelling need and increasing demand for growth and innovation points to investment opportunities that would capture value in that future....  
...delivering housing, employment outcomes and other products and services that put people with disabilities and their families at the centre to meet their needs can really change lives... and demonstrate how to service others including the elderly and veterans better too

Figure III.2: Investment thesis for transforming lives



There are concrete investment opportunities today that can contribute to the break throughs needed and deliver value for the future. Investing in these opportunities to improve the choices and experience of people with disabilities and their families can capture value for a more inclusive and connected future for the broader community and our economy

## Case III.1: Summer Housing

### Summer Housing

Summer Housing was established in 2017 with a vision to increase the scale of accessible and affordable housing options designed for people with disability. Building on the success of Summer Foundation's demonstration housing projects, Summer Housing will demonstrate leading practice in housing design and use of smart technology to promote independence, choice and control, and community inclusion for people living with disability.

Summer Housing will commission at least 300 SDA dwellings (it already has more than 120 in the pipeline across 4 states) for people with disability partnering with government, private developers, community housing providers (CHPs) and other stakeholders. It will utilise its charitable trust status to reduce costs (i.e. no GST or stamp duty on purchases), the 10 plus 1 model pioneered by Summer Foundation comprising 10 SDA High Physical Support dwellings and 1 x 1 bedroom apartment as a support workers hub/onsite accommodation, procurement guidelines developed by it taking into account SDA demand, resident amenity, social inclusion and property investment considerations, and leverage effective capital sources backed by SDA payment streams.

Summer's aspiration is that beyond the 300 dwellings, it will no longer be needed as a provider of SDA homes.

#### Further observations for the field

The Summer model could be well suited to playing a longer term intermediary role akin to becoming the 'Nightingale Housing' <sup>viii</sup> for disability housing – connecting SDA recipients, housing providers and investors and coordinating a deliberative co-design process with them using the Summer model.

CHPs may be uniquely placed to leverage the Summer Housing model combining SDA payment streams with their strong existing asset base as additional security to fund disability housing at long term cost effective rates through the new National Housing Finance and Investment Corporation (CHPs are generally constrained by cash flow not LVR). Added benefits would include returns being used to amortise the debt or otherwise being recycled into additional social housing outcomes.

Impact	Investment	Investors
<p>Using the introduction of NDIS and SDA payments as a catalyst for change, drive and positively influence the development of a new market - showing what is possible, and being aspirational in terms of quality, accessible design and outcomes for people with disability.</p> <p>Deep impact by building broader sector-wide capability through learning and continuous improvement philosophy and an open-source approach to intellectual property.</p>	<p>SDA dwellings 100% debt financed on a limited recourse basis using a social infrastructure model that focuses on the 'utility like' SDA cash flow stream.</p> <p>Investment return expectation is an income return of CPI plus 300-600bps/15 year IRR 9% plus.</p> <p>Initial term 5 years (with expectation of roll-over), and triggers in place if NDIA changes SDA terms. Debt is repaid at end of facility either through refinance or sale of property (most likely to a CHP or related entity).</p>	<p>Summer Housing has agreed funding terms with two institutional investors to date with capacity to fund \$250 million.</p>

Source: [www.summerfoundation.org.au](http://www.summerfoundation.org.au); [www.summerhousing.org.au](http://www.summerhousing.org.au); McLennan, D, CEO, Summer Housing



## Dom's story

**Dom lived in a nursing home for three years, which could have been avoided if suitable housing was available after his hospital stay. He now lives in shared accommodation.**

"I'm an artist, photographer, music lover and fitness fanatic. I'm a mosaic made up of many different parts that all come together. I want people to know I'm just a regular nice guy. Although my appearance may be confronting at first, I want people to treat me the same as everyone else. I want to do all the things that other young guys my age want to do. Self-expression is an important part of my life. Photography and art are my passions. They help me to escape, express myself, and take me to a calming place. It is a way of expressing myself so that others can understand me more easily. They give me a way to connect. Tattoos are another way to express myself. My motto is "Never ever give up". This is the way I view the world and express my individuality. I'm a Facebook addict. It is a way for me to communicate easily and keep in touch with friends. And people who I've met along my journey so far. I choose to see the world as a glass half full, and I don't focus on the past, I'm looking forward to the future. Early on when I was in a nursing home, I had to fight for my independence. Now freedom comes more easily. I work with young offenders and share my story to encourage them to make different choices. If I can help one young person, then I'll have made a difference. My dream for the future is to live in my own place with room for a dog. I'd like support from carers to help me do the things I want to do. I dream of a place where I can play my music as loud as I want. Maybe I'll move to Sydney, a place where there is more to do. Where I'll have plenty of friends to spend time with. A place where I could go to gigs and festivals. I'd love to have a job, something where I can socialise with people. Having an acquired brain injury doesn't define who I am, it's just part of the rich mosaic. Just one part of who I am."

Source: Coates, D, <https://www.summerfoundation.org.au/people-category/more-from-our-story-tellers>

*"I am not a specialist, but I know my brother. He is a young man living in aged care. He is strong and could live for many years. We have to make the best for him. He is a young man and he deserves a young life."<sup>viii</sup>*

Edris Abdolahpouri, Summer Foundation Annual Report 2016-17

## Case III.2: HireUp

## Hireup

Hireup is an innovative Australian online platform founded in 2014 enabling people with disability and their families to directly find, engage, manage and pay for support workers. As well as screening support workers, Hireup takes care of the necessary tax and superannuation payments, insurance, payroll and workplace health and safety requirements.

Hireup ran a minimum viable product in late 2014 and early 2015. After proving the need and applicability of the model, Hireup raised \$2.5 million via an impact investment in late 2015. As a two-sided marketplace, the funds raised are helping Hireup to scale quickly and in lockstep with the national rollout of the NDIS.

Impact	Investment	Investors
<ul style="list-style-type: none"> <li>▶ 10,800+ support connections made</li> <li>▶ 900,000+ hours of support provided</li> <li>▶ \$7.4 million saved by Hireup users</li> </ul>	\$2.5 million direct private equity raised in 2015 enabled by an Impact Investment Ready Growth Grant in 2015 of \$75,000.	Private equity impact investors.

Source: [www.hireup.com.au](http://www.hireup.com.au); [www.impactinvestingaustralia.com/case-studies/hireup](http://www.impactinvestingaustralia.com/case-studies/hireup)

## Case III.3: AbilityMate

## AbilityMate

AbilityMate is an innovative Australian for-purpose enterprise with the vision to co-create a global commons of open-source designs and set up localised factories where custom-made medical devices and assistive products can be produced quickly and affordably with technologies like 3D printing. While the model can be applied to many different custom-made products, AbilityMate is focusing in the first instance on custom-made Foot Orthoses (AFOs) for children.

AbilityMate initially raised \$400,000 through crowdfunding and philanthropic donations.

Impact	Investment	Investors
Fast, affordable delivery of custom-made medical devices and assistive products, open source designs.	A seed round of \$500,000 in March 2018 enabled by an Impact Investment Ready Growth Grant in 2017 of \$76,000.	Private equity impact investors.

Source: [www.abilitymate.com.au](http://www.abilitymate.com.au); [www.pangaeaimpact.com](http://www.pangaeaimpact.com)

### Case III.4: Disability Opportunity Fund - Financing creative, scalable solutions

Creating  
blended  
finance  
models to  
serve hardest  
to reach

#### Disability Opportunity Fund

Disability Opportunity Fund (DOF) was founded in 2007 and was the first community development financial institution (CDFI) in the U.S. to focus on providing loan financing specifically for the development of affordable housing and other services for people with disabilities. DOF seeks to catalyse systems change and attract additional investments by demonstrating that the market providing these services can be efficient, coordinated, and profitable.

DOF started with one US\$100,000 loan to a group of families building a home in 2009. From less than US\$400,000 in assets in 2008, DOF now has US\$33 million in total assets and US\$7.6 million in net assets and has progressively expanded its focus from supported housing and related services to include schools, vocational training centres, community centres, health facilities and mission-related businesses, closing its first business loan to Rising Tide Car Wash – a company employing young people with autism – in 2016. DOF has experienced no losses or write-downs on its loan portfolio.

DOF blends finance from a range of philanthropic and commercial sources to offer affordable financial products. It received its first grants and funding in 2008, and received catalytic grants of US\$600,000 in 2012, US\$1.25 million in 2014, and US\$1.8 million in 2016 from CDFI Fund, U.S. Treasury Department, US\$250,000 from Bank of America in 2015, and won US\$100,000 from Wells Fargo NEXT Seed Capital Award for Innovation in Opportunity Finance in 2015.

Impact	Investment	Investors
<p>Since inception, DOF has benefited 19,500 people with disability in 17 US states, including financing dozens of facilities to enhance services to people with disability and helping to create 3,500 jobs.</p> <p>73 loans extended totalling more than US\$50 million, helping to fund 2,242 units of new or renovated housing.</p>	<p>Debt facilities. US\$55 million has been leveraged by DOF from other sources.</p>	<p>Rockefeller Foundation, Bank of America, and Prudential were early investors in 2011; Wells Fargo and Capital One added as investors in 2013, Added Program Related Investments of US\$4.125 million in 2016 and US\$12.55 million in 2017.</p>

Source: [www.thedof.org](http://www.thedof.org); DOF 2018 5-Year Strategic Plan and Initiatives; Disability Opportunity Fund Aeris Impact Rating Report 30 Sep 2017; DOF Investor Update Jan 18, 2018

A close-up portrait of Michelle Newland, a woman with long brown hair and bangs, smiling gently at the camera. She is wearing large hoop earrings. The background is a soft, out-of-focus grey.

## Michelle's story

**At 19, Michelle suffered a near-fatal asthma attack. Her brain injury was catastrophic. On her road to recovery, she spent 16 months in a nursing home. Her journey to living independently again.....**

Michelle was on track to fulfil her dreams of becoming a teacher, marrying and living in a suburban home with several children. But then an asthma attack changed her life for ever. Michelle's journey of recovery has been long and strenuous. She has had to relearn everything – the only sense unaffected by her brain injury was her ability to hear.

Despite her gruelling rehabilitation, Michelle continues to struggle with both short-term memory loss and amnesia. In the years following her brain injury, Michelle was frequently unable to recognise those closest to her – including her own parents. Michelle's family still regards her amnesia as a blessing on many levels. The purposeless days Michelle spent in a nursing home surrounded by people significantly older than her is something the family all want to forget and the progress that she made during rehabilitation prior to the nursing home dramatically lost momentum after moving into the nursing home. They knew they had to bring their daughter home – whatever it took. Michelle's family fought the system that gave up so quickly on her. They reflect that the journey and shock was already hard enough without having to fight a system stacked up against you.

Today Michelle continues her rehabilitation and has established a name for herself in her local community. She has a business making greeting cards and special occasion cards. She also volunteers by sharing her story in schools, workplaces and to allied health professionals. Michelle's devotion to educating others has also led to paid employment as an inspirational guest speaker. After 14 years of one small step after another, Michelle has just taken a giant step toward independence. She has transitioned to her own home with the help of a new support program. It is because of Michelle's persistence and the love of her family that she is now able to have a place she can call her own.

Source: Michelle Newland, <https://www.summerfoundation.org.au/wp-content/uploads/2016/11/Ambassador-Profile-Michelle-Newland.pdf>

### Case III.5: Motability

#### Motability- aggregating buying power for mobility

The Motability scheme was launched in 1978 and enables people with disability to enjoy the 'road to freedom' by exchanging their mobility allowance to lease a new car, scooter or powered wheelchair every 3-5 years. The scheme is operated by Motability Operations, which is owned by the major UK banks (Barclays, Lloyds, HSBC, and RBS). Any profits made are held for the benefit of the scheme. The scheme is complemented by the Motability charity that last year awarded more than 8,000 grants for wheelchair accessible vehicles, driving lessons for people with disability, and advance payments for lease vehicles and adaptations.

Consumers can choose from over 2,000 models from 30 leading manufacturers, who employ 18,000 Motability Scheme Specialists at their UK dealerships.

Impact	Investment	Investors
4.5 million vehicles provided in the UK since 1977; 600,000 current customers.	Bonds issued in Sterling and European Debt Capital Markets; term finance and credit facilities from the major UK banks.	Institutional investors, impact investors and major UK banks.

Source: [www.motability.org.uk](http://www.motability.org.uk); [www.motability.co.uk](http://www.motability.co.uk)



*It is hoped that with greater understanding, stakeholders will feel empowered to generate new and innovative accessible housing solutions that provide the best outcomes in unique and individual ways.*

Summer Housing, Designing for Inclusion and Independence



*Our mission is to provide a quality home around which individuals with a learning disability can build their lives.*

Golden Lane Housing Mission Statement





*There is no power for change greater than a community discovering what it cares about.*

Margaret J. Wheatley

# Enlivening Australian communities: place-based impact investment

## Fast facts<sup>i</sup> – Entrenched disadvantage in Australia

- ▶ Disadvantage in Australia is **concentrated** by location<sup>i</sup> and by groups - 5% of Australian communities and groups including indigenous Australians, people with disability, lone parents and older people experience marked disadvantage.
- ▶ Disadvantage in Australia is **persistent**: the most disadvantaged communities have remained in the bottom 10th percentile for three decades.
- ▶ Disadvantage in Australia is **intergenerational**: On average, it takes 4 generations to move from disadvantage to median income levels and young people are 1.8 times more likely to need social assistance if their parents did.



### Access to quality jobs & education

- ▶ Students from disadvantaged communities are **5 x more likely** to achieve poor educational outcomes than a student from higher income areas.
- ▶ Australia ranks highest in the OECD for inequity in the allocation of educational staff and is **ranked 4th highest for social segregation** in schools.
- ▶ Disadvantaged communities, including an over-representation of regional and rural communities, **have higher rates of unemployment, including long-term and youth unemployment**.
- ▶ **Persistent joblessness** is a key indicator that communities are at risk and may be entering a spiral of under-investment and disadvantage.
- ▶ Disadvantaged communities have **proportionately lower numbers of small and medium enterprises** and commercial investment.



### Access to services

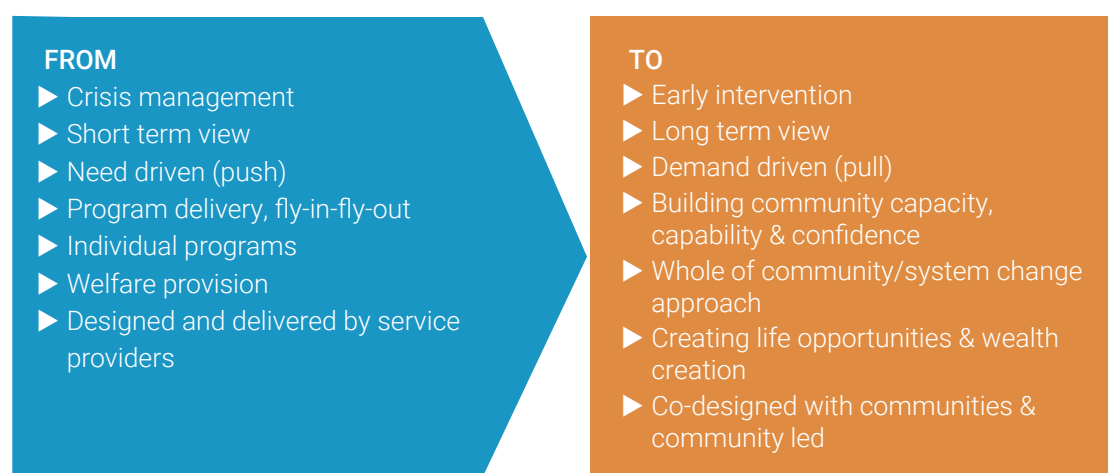
- ▶ Housing: A high proportion of households in the lowest two income quintiles are experiencing **housing stress** due to insufficient supply of suitable and affordable housing options.
- ▶ Health: Disadvantage is often linked with **poorer health outcomes**, including shorter life expectancy, and have less access to and use of health services.
- ▶ Financial services: As many as **15% of Australians are excluded from mainstream financial services** and are over-served by predatory and fringe financial services.
- ▶ Transport: **Limited access** to suitable transport in outer urban, rural and remote areas **exacerbates disadvantage** and limits access to services and jobs.

## New models can transform outcomes for communities<sup>ii</sup>

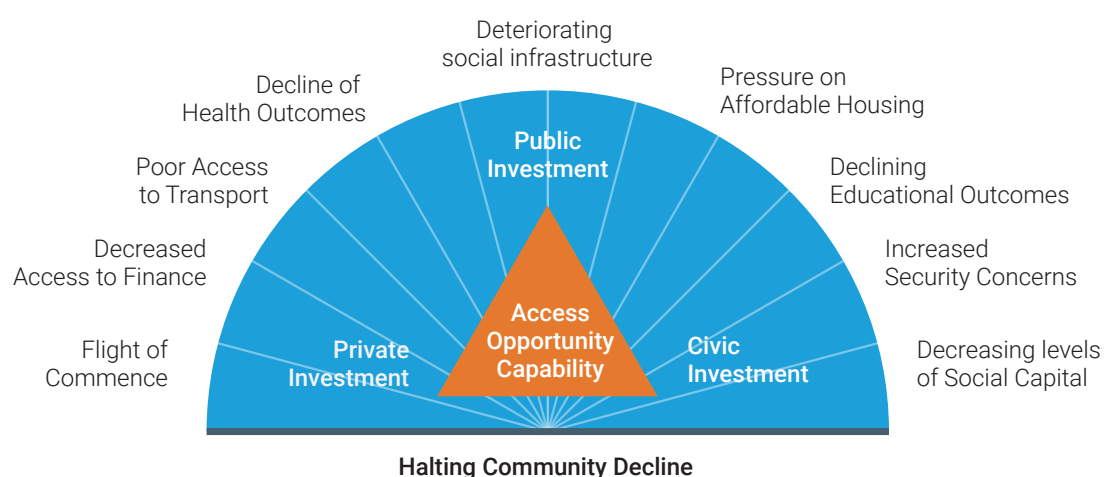
**Learning from successful place-based approaches in Australia and globally provides opportunities to reverse the cycle of disinvestment in Australia's underserved communities...**

- ▶ creating quality jobs in place (especially through supporting the creation, development and growth of local SMEs),
- ▶ connecting local people with local opportunities,
- ▶ co-designing solutions with local communities

**...building community capacity, capability and confidence to enable people and communities to create a better future for themselves.**



**Figure III.3: Halting Community Decline**



Source: Place-based Impact Investment in Australia, Ingrid Burkett, 2012

**Place-based impact investing can help..... by breaking the cycle of under-investment in target communities to create positive social impact (job and wealth creation) in those communities currently or at risk of declining labour-market, economic opportunities, capital access and market development whilst also opening new market opportunities for investors.**



*"Inadequate, insecure or inappropriate housing, or at its most extreme, homelessness, is a major factor both underpinning and entrenching the cycle of disadvantage. Having a place to call home is almost undoubtedly the most important factor in people's daily lives; with this in place it becomes possible to develop other aspects of life. Conversely, without a home, or while in insecure or marginal housing situations, it is difficult for these other aspects to be attended to."*

Australian Social Inclusion Board, 2011, quoted in Australian Productivity Commission, *Deep and Persistent Disadvantage in Australia*, Staff Working Paper, 2013

*Education is a foundation capability. It improves a person's employment prospects and earning capacity, and the evidence points to a relationship between education and better health and raised civic and social engagement."*

Australian Productivity Commission, *Deep and Persistent Disadvantage in Australia*, Staff Working Paper, 2013

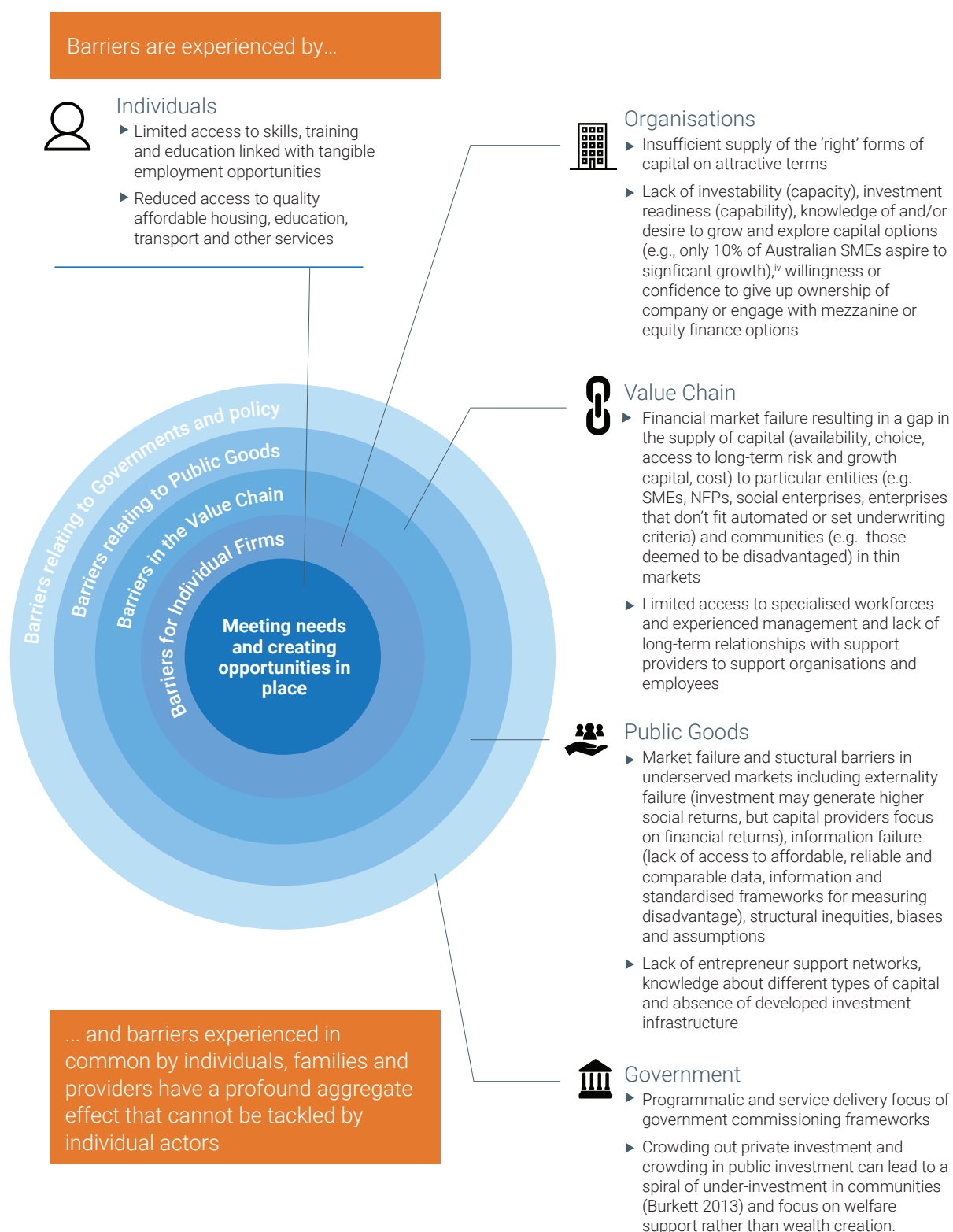
*"When poverty rates exceed thirty percent (i.e. thirty percent of the population of an area living in households below the poverty line), neighbourhoods have great difficulty sustaining the economic and civic institutions essential for a healthy community. Poor education, joblessness, teen parenthood, discrimination, and crime all reinforce one another in these high poverty neighbourhoods, creating a vicious cycle of distress."*

Carter, T and Polevychok, C, *Comprehensive Neighbourhood Studies: Characterising Decline*, 2006

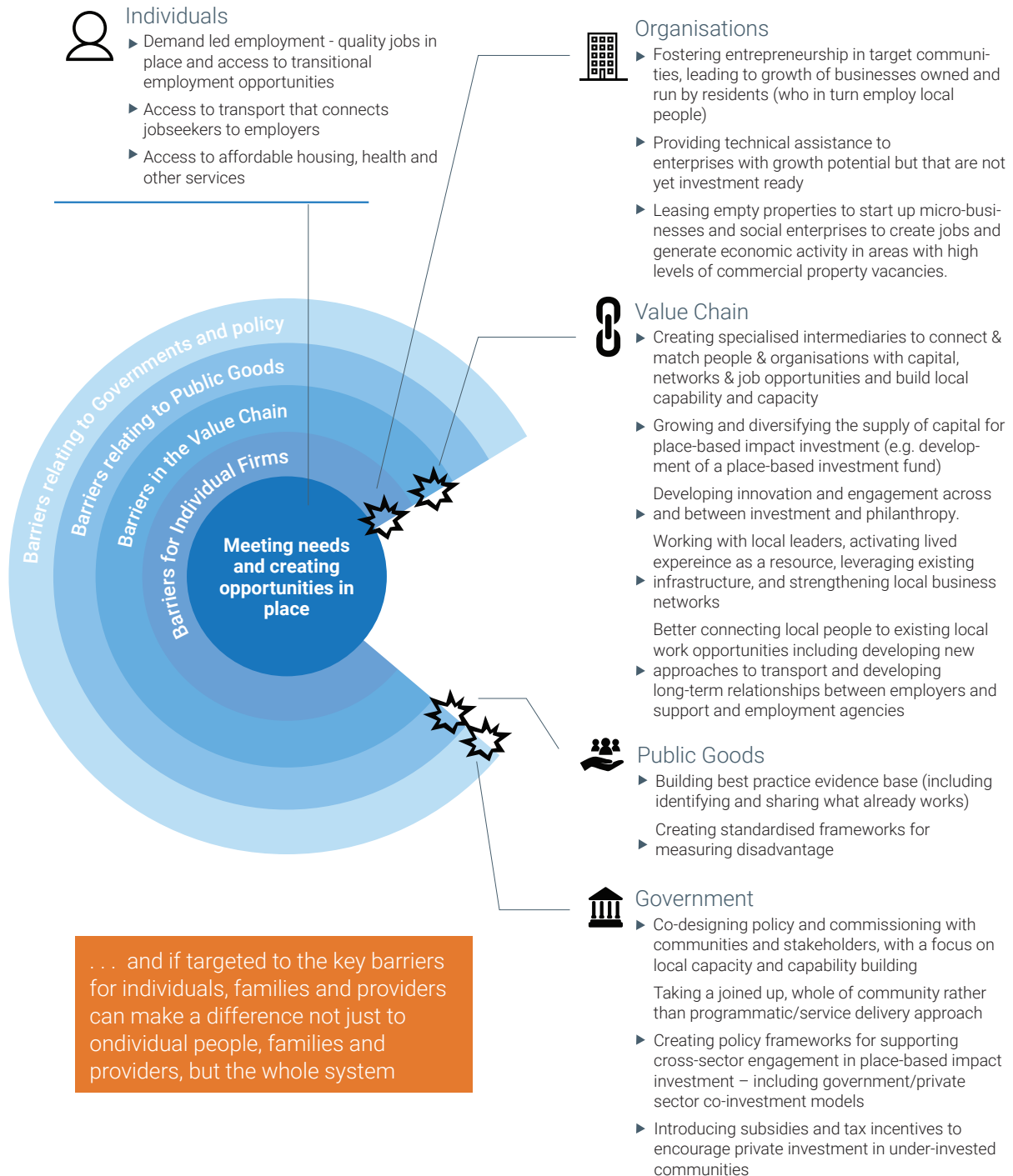
*"Over nearly three decades of economic growth, living standards have improved for Australians across the board. This is good news. But inequality has also risen significantly, which is bad news. Inequality creates unfair advantage for wealthier households and is deeply damaging for the social fabric, democratic stability and economic drive of our society. A key contributor to this has been "the polarising impact of the housing boom...increasing housing costs [have] undermined income gains for less affluent households [while at the same time] house price growth [has] increased wealth gains for more affluent households..... Income inequality between the highest and lowest deciles nearly doubled [between 1988 and 2015] once housing costs are taken into account. These costs hardly affected rising incomes for the top decile. For the bottom decile, housing costs nearly halved any gains in income over the same period."*

Wiesel, I, Ralston, L, Stone, W, *How the housing boom has driven rising inequality*, The Conversation, September 8, 2018

Figure III.4: Barriers and Opportunities for Reversing Cycles of Disadvantage<sup>iii</sup>



Actions can be targeted to break through at every level



## An investment thesis for transforming lives and communities<sup>v</sup>

Breaking the cycle of disinvestment and building more resilient communities by growing dynamic local businesses and quality jobs in place and increasing amenity, services and infrastructure that improves access, engagement, connection and culture will create social and economic opportunities in underserved communities so people and communities can develop pathways out of poverty and disadvantage.

As these underserved communities have often been overlooked or undervalued by investors, they may represent value and potential opportunity for those investors willing to overcome structural, information, and/or other obstacles or biases that may have prevented investment in the past.

Investing in these opportunities can help break the cycle of entrenched disadvantage and revitalise some of Australia's most underserved communities, improving lives, social cohesion and economic outcomes for the nation.

Figure III.5: Investment thesis for transforming lives and communities



*Under-invested communities suffer from a spiral of multiple disadvantage. Industries that were previously major employers have collapsed, leading to loss of employment, incomes, wealth and purchasing power. In such circumstances, it is often the case that private sector investment dries up and that even those financial resources available within a community are spent outside it. Confidence collapses and, with it, the climate for enterprise. In some poor communities....as much as 75 per cent of the cash in circulation may come from....Government. The result can be an intransigent form of welfare dependence, where the state confines its contributions to providing a minimum level of income and social services, but ignores wealth creation.*

Wealth Beyond Welfare, UK Social Impact Investment Taskforce 2000

# CASE STUDIES AND STORIES

## Case III.6: Bridges Fund Management - capital that makes a difference

Investing in high quality enterprises and services across the life course from early childhood to ageing

### Bridges Fund Management (Bridges)

Established in 2002, Bridges is a multi-award winning specialist impact fund manager with over £900 million under management across a multi-fund platform that includes Sustainable Growth Funds, Property Funds and Social Sector Funds, including the first social impact bond funds, and Bridges Evergreen Holdings an innovative structure providing patient capital and support for social sector organisations. It has operations in the UK and US and an affiliate in Israel.

Bridges' strategy is to focus on growth opportunities where investments can generate attractive financial returns through focus across four impact themes –underserved markets and issue areas of health & well-being, education and skills and sustainable living, which act as value drivers and, more recently, also align with the SDGs.

The portfolio includes businesses that generate jobs in areas of high unemployment, building environmentally-friendly care homes for the elderly to sustain an ageing population, or providing flexible financing for innovative youth employment programmes.

Bridges Impact+ is an investor led advisory function combining practical tools for the market informed by applied investment experience and has led global development of impact management tools. The Bridges Impact+ division has contributed leading methodologies and tools, including as the facilitator of the Impact Management Project leading on global standards for impact management.

80% of portfolio companies are operating in underserved UK locations, with over a third located in the most deprived 10%. £55 million of value has been delivered to the UK Government via outcomes contracts (at September 2017) in its Social Sector Funds.

Impact	Investment	Investors
<p><b>Health &amp; wellbeing:</b> 2 million hours of quality care delivered; 28,000 hospital bed days freed up; 700 young homeless people helped into accommodation; 500,000 first-time gym users; 3000 patients received social prescriptions to help manage long-term health conditions.</p> <p><b>Education &amp; skills:</b> &gt;4,800 at risk of NEET students enrolled in professional training colleges; 10,600 young students engaged in educational support backed by outcomes contracts; &gt;20,800 qualifications achieved by UK students; &gt;500 young homeless people helped into education or training.</p> <p><b>Sustainable living:</b> &gt;10,000 MWh green energy supplied to property portfolio; 740,000 of CO2 averted; &gt;1m tonnes of waste diverted from landfill.</p> <p><b>Underserved markets:</b> &gt;6,000 previously unemployed people helped back into employment; &gt;1,500 or 35% of employees in portfolio companies from underserved areas; 2.1 million passenger trips for elderly &amp; disadvantaged.</p>	<p>£900 million under management across 12 funds (debt and private equity) Bridges targeted an initial IRR on its Sustainable Growth Funds funds of 15%+. It indicated an IRR of +20% on property funds in May 2014.</p>	<p>A spectrum of investors, including institutional investors.</p>

Source: <http://hctgroup.org/>; Bridges Impact+, A Spotlight on our Methodology, 2013; Salamon, L (ed), *New Frontiers of Philanthropy: A Guide to the New Tools and Actors Reshaping Global Philanthropy and Social Investing*, 2014

### Case III.7: Reinvestment Fund: restoring markets and re-imagining possibilities

Crowding in private investment to build necessary health, social and transport infrastructure

#### Reinvestment Fund

Founded in 1985, Reinvestment Fund is a social enterprise lending organisation and community development financial institution (CDFI) that puts 'Capital at the Point of Impact'.

Integrating data, policy and strategic investments, Reinvestment Fund acts as a catalyst for change in low-income communities, helping to improve the quality of life in low-income neighbourhoods throughout the US by putting capital where it's needed most and can have the greatest impact.

Reinvestment Fund finances housing, community facilities such as early childhood education centres, K-12 private and charter schools, colleges, community health centres, healthy food access, commercial real estate, business development and clean energy projects to communities that need better access – creating anchors that attract investment over the long term and helping families lead healthier, more productive lives.

Over the past 33 years it has put \$2 billion to work for US communities. It makes long-term commitments to the cities and towns it works with—getting to know business owners, mayors, community organisers and residents—and together, creating thriving neighbourhoods that families are proud to call home.

Reinvestment Fund has a 'AA-' issuer credit rating from S&P Global Ratings, a 'AAA' Aerie Rating and was selected as the 2017 Global Impact Asset Manager by The Global Steering Group for Impact Investment.

Impact	Investment	Investors
<p>US\$2 billion in total investments, 2,680 loans and investments, and 2 million people positively impacted.</p> <p>22,550 homes, 27,270 permanent jobs, 19.2 million square feet of commercial and community facility space, 1.8 million MWh of energy conserved and created annually, 68,180 educational opportunities for students, 179 grocery stores and other healthy food outlets, 177 minority or women owned/controlled businesses and 1.8 million annual patient visits.</p>	<p>Promissory Notes in a US\$1 billion diversified, direct loan fund that over a 30 year history has achieved 100% repayment rate to investors with underlying portfolio performance (as measured by charge offs) achieving well below the average of commercial banks.</p>	<p>More than 865 investors, including individuals, banks, government officials, private foundations and faith-based and community organisations. In addition to their financial support, investors are valued for the diverse civic network they represent.</p>

Source: <https://www.reinvestment.com>

Case III.8: Habitat for Humanity: innovation mobilising capital for housing

Stimulating development of high quality, well located affordable housing designed to promote health outcomes, inclusive communities & life opportunities

Habitat for Humanity MicroBuild Fund

Habitat for Humanity is a global non-profit with a mission to solve the issue of affordable housing and shelter. It works in partnership with future homeowners, volunteers, donors and partner organisations across 70 countries.

In 2013, the organisation’s Terwilliger Centre for Innovation launched the MicroBuild Fund, the first impact investing fund dedicated to housing microfinance. The Fund ensures low-income families around the world have access to the resources necessary to build safe and durable homes that meet their needs.

The fund is designed to drive innovation and scale housing finance for low-income households. In its sixth year of operation, it builds on existing models while innovating to expand the variety of financing instruments and the geographic range it serves.

Lessons from Practice

The fund fills a key gap in financial inclusion, the gap between housing finance and microfinance institutions. It does this by innovating to meet the needs of the people it serves. The fund tracks its progress to understand and scale the success of its practices and identify more problems it can address within its target sector.

Impact	Investment	Investors
<p>In its first five years, the Fund has provided access to better housing to &gt;415,000 people in 28 countries and approved US\$90 million in loans.</p> <p>Various practices deriving from a solutions-focused approach has allowed the MicroBuild Fund to maximise the benefit to the families it seeks to help, including reaching clients through local currency loans which prevent exchange-rate losses and providing a technical assistance program to understand and improve property rights.</p>	US\$100 million fund.	49 institutions in 28 countries.

Source: GSG Working Group Reports, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018 <https://www.habitat.org/impact/our-work/terwilliger-center-innovation-in-shelter/microbuild>

### Case III.9: Nightingale Housing: urban housing for well-being, community and livability

Stimulating development of high quality, well located affordable housing designed to promote health outcomes, inclusive communities & life opportunities

#### Nightingale Housing

Nightingale Housing is a deliberative co-design model along the lines of the German 'Baugruppen Model'<sup>vi</sup> that is used by licensed architects to deliver high quality, affordable, urban, medium density housing that is environmentally sustainable and community focused. Future residents are included in the design process, and a strong community of interest is established long before owners become neighbours. Sustainability is a key element of design – with many projects having shared laundry facilities, limited or no car-parking, passive design elements and their own heat pumps to reduce emissions and costs for residents.

Properties are delivered at cost and below equivalent market value (with some of that benefit locked into perpetuity). Standard Nightingale properties aim to deliver between 15% and 20% less than market value and Nightingale Baugruppen<sup>xvi</sup> projects aim to deliver between 25% and 30% less than market value. Limited marketing costs (Nightingale has over 5,000 people on its waiting list) and entering into construction rather than development contracts (as apartments are pre-sold) helps reduce costs.

To date, individual Nightingale projects have attracted equity impact investors. Expected rates of return on that equity have been lower than for standard development finance, however Nightingale argue that some of the risks of residential property development are mitigated through their model e.g. consumer engagement and inclusion of preferences mitigates settlement risk, and demand for Nightingale properties and Nightingale's waiting list ensures a replacement buyer should settlement failure occur and keeps marketing costs low.

Nightingale has started working with Brightlight, a specialist impact intermediary on strategic options to scale, replicate and further reduce financing costs of the Nightingale model.

Impact	Investment	Investors
<p>Additional supply of high quality, affordable housing for purchase by residents (not investors) challenging existing assumptions and delivering triple bottom line results. To date, one project has been fully delivered (Nightingale 1) with a further 12 Melbourne and 1 Fremantle developments in process with interest in Brisbane and Sydney to replicate the model.</p> <p>Nightingale is working with community housing providers to include a significant proportion of social /community housing in its Nightingale Village development of seven apartment blocks in the one precinct in Brunswick in Melbourne).</p>	<p>A \$300 million fund has been announced that could enable the Nightingale model to move from demonstration project mode to self-funding and sustaining.</p>	<p>Social Enterprise Finance Australia (SEFA), Christian Super, Brightlight and National Australia Bank. Anticipated investors in the Brightlight crafted fund include super funds, private equity and banks.</p>

Source: <http://nightingalehousing.org>; <https://www.thefifthestate.com.au/innovation/residential-2/nightingale-growth-set-to-explode-with-300-million-finance-fund>; <https://theconversation.com/affordable-sustainable-high-quality-urban-housing-its-not-an-impossible-dream-57958>

### Case III.10: University Ventures: innovation connecting education with quality jobs

Investing in educational opportunities, skills development, training and transitional employment linked to tangible employment pathways and quality, stable jobs in place

#### University Ventures

University Ventures (UV) is focused on closing the gaps between education and employment. They invest in solutions for global higher education partnering with higher-education institutions and deploying private capital to develop innovative programs that assist targeted solutions to get off the ground. UV investments range from established universities to higher education service companies that seek to revolutionise student experiences and pioneer new approaches to learning and talent search. Examples include:

- ▶ Vemo Education, the first company to help universities develop, launch, and implement income share agreements;
- ▶ St George's University of London's medical programme in Cyprus, the first British-accredited medical programme outside the UK;
- ▶ Revature, an intermediary/career accelerator providing pathways for college students into the IT industry.

UV works with stakeholders to coordinate and align human capital development with the needs of our changing economy. Its team combines expertise in investment and higher education.

#### Lessons from Practice

Constant engagement with relevant stakeholders has kept UV well informed on their target impact sector's greatest challenges and the roles of different stakeholders. UV's diversity of investments has catalysed multiple interventions that tackle issues in human development in ways that have remained true to the missions of the higher education institutions.

Impact	Investment	Investors
<p>UV mobilises the broader higher education sector and stakeholders with an approach to 'innovate from within' to encourage and facilitate more extensive innovation activities. Through nine pooled investment vehicles, UV manages ~US\$330 million in assets.</p> <p>UV shares its analyses on key issues with the higher education community. UV's frequent publications further highlight lessons learned and trends in the industry.</p>	<p>Since 2011, UV has raised ~US\$250 million through two private equity funds dedicated to advancing the development of the next generation of colleges and universities.</p> <p>UV's investment thesis allows for a diversity in investments, from seed start-ups to growth stage companies and investments in a variety of interventions targeted to place and need.</p>	<p>Private equity investors.</p>

Source: GSG Working Group Report, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018; <http://universityventures.com/>

### Case III.11: Vanguard Laundry Services creating jobs that work for people with mental illness

Finance for SMEs and micro-enterprises to stimulate entrepreneurship & quality jobs

#### Vanguard Laundry Services

Vanguard Laundry Services (VLS) is a social enterprise commercial laundry creating employment opportunities for people previously excluded from the workforce, predominately due to mental health conditions. VLS is Australia's largest mental health focused social enterprise.

The laundry also has an in-house Career Development Centre to support disadvantaged jobseekers into sustainable career opportunities with local employers, and provide training and career development.

VLS was launched by the Toowoomba Clubhouse based in Toowoomba, Queensland. It builds on the success of Ability Enterprises, one of Social Ventures Australia (SVA) Social Impact Fund's most successful investments where employees received skilled training and qualifications, entered stable employment, and reported improved mental health.

The laundry business is underpinned by a long-term contract with St Vincent's Health and contracts with other Toowoomba businesses. The capacity building grant from SVA enabled VLS to employ a laundry consultant who worked closely alongside SVA to take the laundry from an idea to a reality. SVA has also provided strategic and commercial advice, brokered pro-bono legal support, recruitment assistance and support.

SVA is working to help VLS to grow from an idea to a financially sustainable, high impact social enterprise within 10 years, with 500 FTE (1,000 jobs) and 5,000 lives positively affected.

Impact	Investment
<p>As at 30 June, 2018 employed 54 staff including 42 target group staff (79%).</p> <p>Achieved 95% retention rate at 52 weeks vs 14% retention rate at 13 weeks achieved by Department of Employment Services programs. An average of two staff are transitioning every month to other main stream employers.</p> <p>81 days saved in the Toowoomba Mental Health Ward for staff compared to the previous 12 months (a \$243,000 benefit to the health system in the first seven months of trade).</p> <p>Wellbeing index showed Vanguard staff 10% happier than the national average.</p> <p>Median fortnightly income increased by \$392 for workers, with nearly 39 per cent of employees reporting less housing affordability stress.</p>	<p>\$7 million blended capital including grants from SVA, Paul Ramsay Foundation, Ian Potter, AMP, Westpac and an Impact Investment Ready Growth Grant, sub 5% loans totalling more than \$2.8 million (including \$1.5 million from Westpac and \$1.3 million patient capital (at 1-5%) from local investors.</p>

Source: <https://www.socialventures.com.au/work/vanguard-laundry-services/>; Ziegner, J, McCutchan, S and Hu, J, *Paving Pathways A Review of the Impact Investment Ready Growth Grant*, 2018; <https://www.thechronicle.com.au/news/how-vanguard-laundry-is-changing-lives-with-every-3340544/>;



**James\* had applied for numerous jobs, but nobody would hire him. At one point he spent an entire year trying to get hired. When he finally did get a job, it didn't work out because of the workplace's perceptions around mental illness.**

Today James has steady employment with Vanguard Laundry. It has improved his sense of self. Working in an environment that feels safe has made life just that little bit easier. He's particularly pleased to be following in the footsteps of his father, who also used to work in a laundry. "I'm proud of Dad for doing what he did, I'm very proud to be able to work in a laundry too," he says.

Steady employment has made a real, positive impact on James' life. He was able to save enough money to make a special trip to Sydney to see his daughter for the first time. While he was nervous, it turned out to be a great weekend and his daughter said it was everything she wanted. 'Working in the laundry suits me down to a tee!' he says.

Source: <https://www.socialventures.com.au/work/vanguard-laundry-services/>

\*The name of the employee has been changed to respect his privacy.

*'People with mental illness that have not worked for five years or more and rely on government services like Disability Support Pension and Advanced Health Services spend more time in the mental health ward, have more contact with justice and are more reliant on support like pharmaceuticals and psychological services. Our theory of change is that employment improves their mental health, provides a sense of contribution and allows them to develop new skills. This, in turn, leads to significantly less reliance on government services.'*

Luke Terry, Founder and Managing Director, Vanguard Laundry Services



‘The Asia-Pacific region has for several decades witnessed extraordinary development. This includes the reduction in the number of people living in extreme poverty, and significant improvements in food security, access to health care, education, water and sanitation, and energy along with other basic services fundamental for overall socio-economic development.

Unfortunately, these noticeable improvements in basic services often benefitted the already privileged rather than the poor, marginalized and vulnerable.’

UN ESCAP Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development

# Investing in the future of Asia and the Pacific

## Fast facts<sup>i</sup> – unmet needs and unequal opportunity

- ▶ **4.4 billion people, or ~60% of the world's population lives in Asia and the Pacific** which includes 5 of the 10 most populous economies, of which **10.3% or 400 million people live in extreme poverty**.
- ▶ Life has been improving overall but there are wide disparities and the real numbers of people living in poverty and whose basic needs are unmet are large and concentrated, pointing to work ahead to meet the SDGs.



### Unequal Futures

- ▶ **Income inequality** is rising in countries representing 70% of the region's population.
- ▶ Per capita Government spending on health is as low as **US\$4 per year**
- ▶ **12% of people are undernourished**; rates of reduction have slowed since 2015; Stunting due to malnutrition affected **>96 million children**.
- ▶ **18.2 million children** are not enrolled in primary school and learning outcomes in many have stagnated.
- ▶ **20-25% of women** had married before they were 18 and female to-male labour participation ratios fell from 0.67 to 0.61 (1990-2015).
- ▶ The vulnerable employment rate is **54% or 1 billion people**. Young people are 3.8x more likely to be unemployed.



### Development Impacts

- ▶ **~440 million people, or ~26.9%** of the total urban population, live in slums or informal settlements.
- ▶ 70 of 100 most polluted cities are in Asia. **7 million deaths** annually are primarily attributable to air pollution.
- ▶ **1 in 10 rural** residents has no access to safe drinking water; **80-90%** of wastewater in developing countries is discharged into water bodies without treatment.
- ▶ **1.5 billion people** cannot access improved sanitation and ~50% of the rural population have no access to sanitation.
- ▶ **80% of people** affected by natural disasters live in the region.
- ▶ Urban areas in the region generate **~1.21 million tonnes** of solid waste per day; expected to double by 2050.

# The UN SDGs frame an ambitious agenda to improve lives

The UN Sustainable Development Goals (SDGs) provide an ambitious, universal development agenda for 2030 designed to integrate social progress, environmental sustainability and economic opportunity and growth to move ....

**FROM** a region where too many people live in poverty without access to basic services of health, education, housing; where opportunity is unequal; and where people and the planet face significant challenges from climate change, natural disasters, energy and food insecurity and contamination of land and ocean resources.

**TO** a region that breaks from business as usual to hear and respond to the voices of people, leave no one behind, manage natural resources sustainably and build mitigation strategies and resilience to shocks and disasters.

... and transform thinking and action about what is possible through clear focus on the SDG targets and integrated approaches that make effective use of financing for development, trade, innovation, data, enterprise and infrastructure as enablers to boost implementation of the SDGs

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*The Asia-Pacific region represents a diversity of cultures and circumstances; economic activity and growth is concentrated on those areas where development is already advanced – developed economies and in lower-income countries, cities and urban development.*

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*A regional focus highlights necessity and potential to complement national action with regional cooperation. ICT, telecommunications, clean energy, agriculture, aquaculture, financial inclusion, employment, healthcare, education are areas of common, interrelated, need and opportunity.*

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*Donor governments and agencies, development finance institutions, multi-lateral banks and other sources of public and philanthropic capital can and need to be used to greater effect to maximise impact or leverage private capital. For example, private sector activities account for only ~ 30% of multi-lateral banking activities and mobilisation ratios are less than 2:1.<sup>ii</sup>*

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Impact investing has a powerful role to play in driving inclusive growth. It can match the diversity of the region and be adaptable to the spectrum of circumstances.

Impact investment can mobilise private resources to complement donor, public and philanthropic funds to meet the additional requirements under the SDGs, accelerate the pace of change and reverse negative trends in several areas.

Impact investment can support innovative delivery of products and services that meet peoples' needs and enable sustainable infrastructure (e.g. cleaner, more climate resilient energy, roads, water, buildings), sustainable land use and social infrastructure (e.g. for health and education) in developing countries.

*What's the most pressing issue of our time? It really is ending poverty in the world, and that's what these SDGs are focused on.*

Melinda Gates, co-chair of Bill & Melinda Gates Foundation

*Right across the Association of Southeast Asian Nations (ASEAN) region, social entrepreneurship is being recognised as an approach to reduce widening income inequality, address environmental degradation and empower women and girls.*

Thomson Reuters Foundation, British Council, Tilleke & Gibbins and United Nations ESCAP, Asean Social Enterprise Structuring Guide, 2018



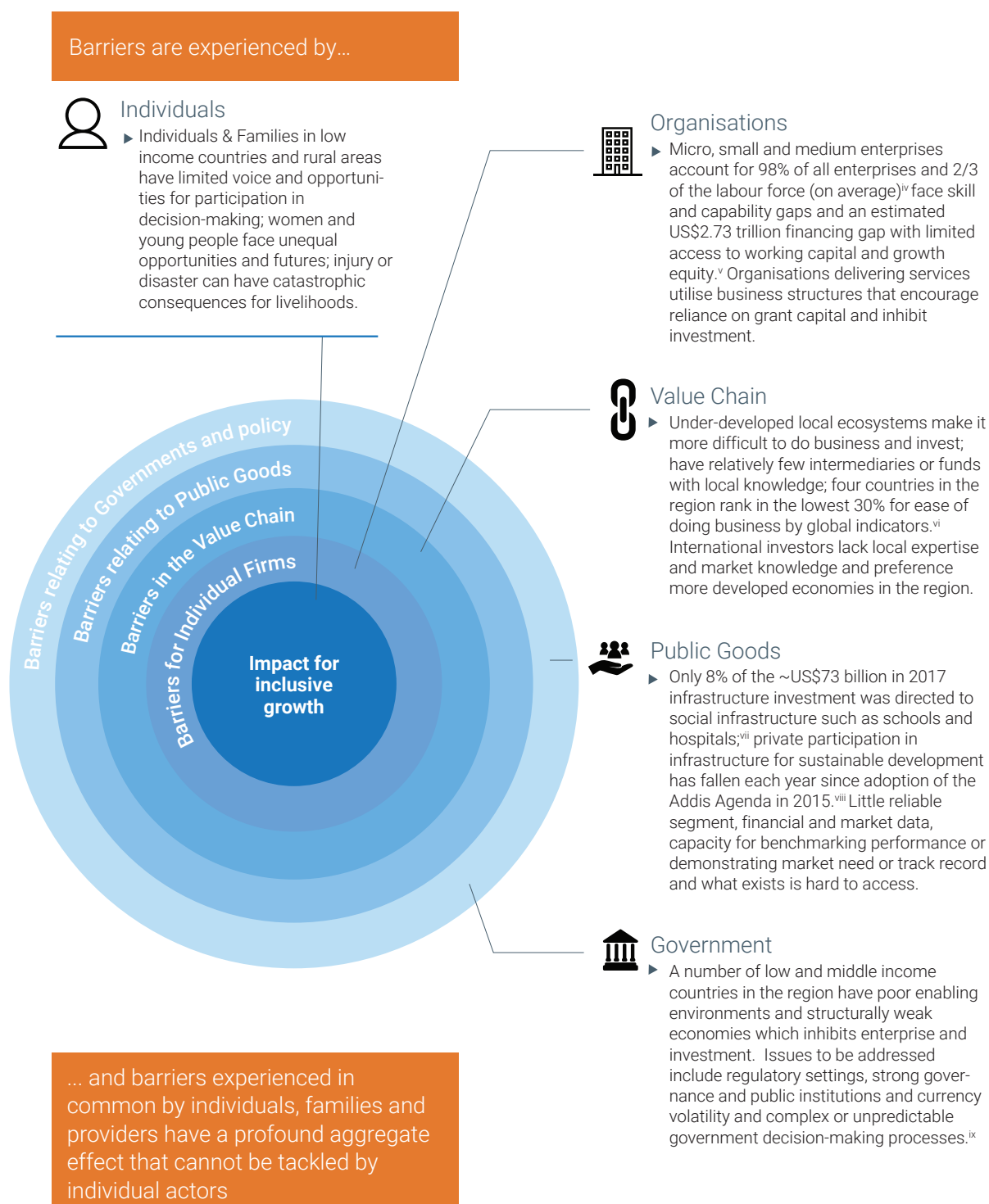
*Regional cooperation can support and complement the effectiveness of national mechanisms upon which the ultimate success of the global 2030 Agenda rests. Transboundary challenges such as climate change and natural disasters, energy security, ecosystem degradation, and contamination of oceans, seas and marine resources require regional actions.*

UN ESCAP Regional Roadmap for Implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific

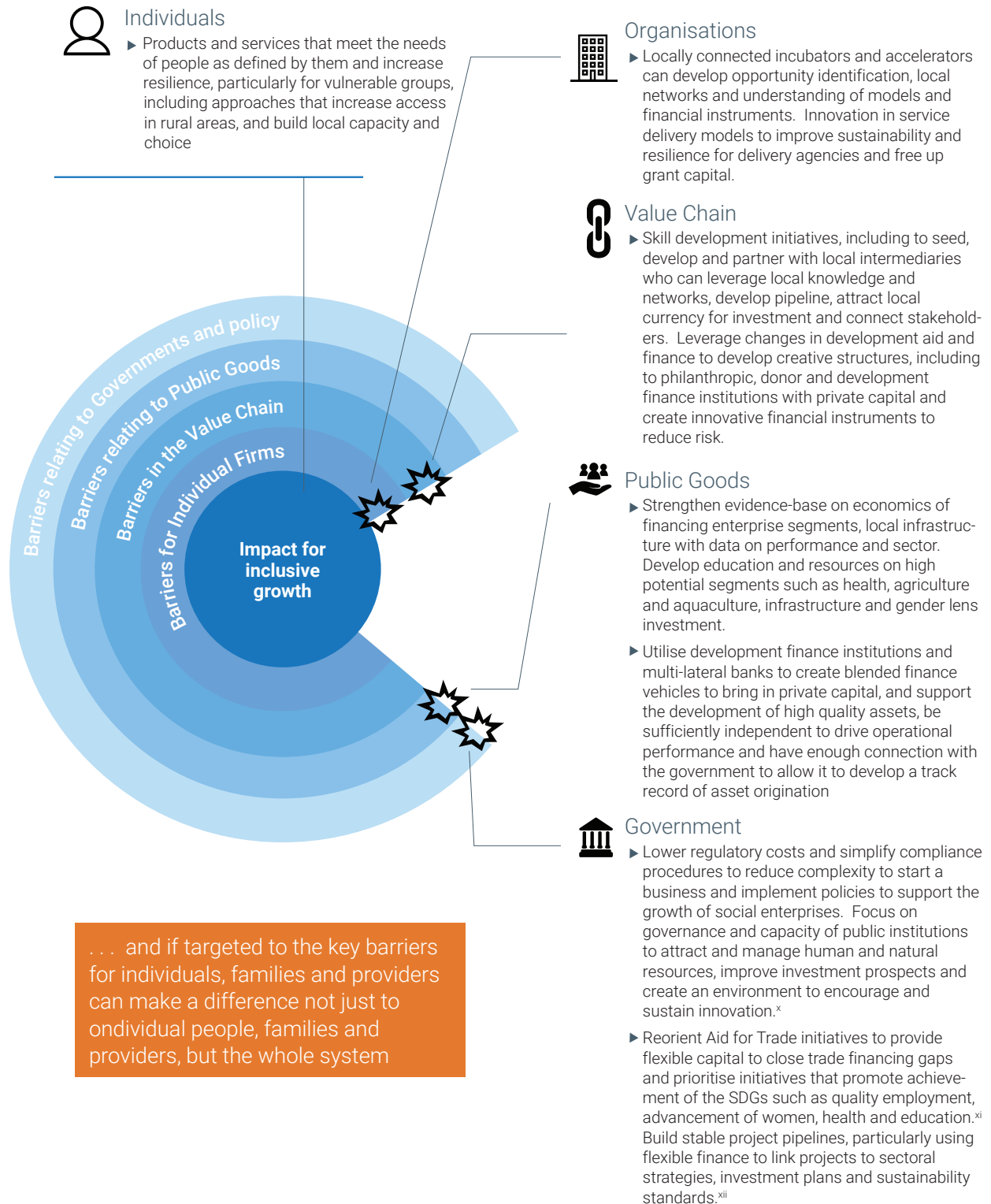
*Private sector financing will be critical to reaching the 2030 goals... We also welcome the OECD's efforts to bring donors and other stakeholders together around policy principles for blended finance. These initiatives will help us make the best use of scarce development finance resources, having more development impact and mobilising more than would otherwise be possible, without getting in the way of the private market.*

Nanno Kleiterp, Chair European Development Finance Institutions

**Figure III.6: Barriers and Opportunities to investment in impactful enterprise and infrastructure in Asia and the Pacific<sup>iii</sup>**



Actions can be targeted to break through at every level



# An investment thesis for inclusive and sustainable development<sup>xiii</sup>

The SDGs are focusing attention on clear goals for social progress, environmental sustainability and economic prosperity ...

...the clear and compelling need across the region for innovation to meet the needs of people and the planet points to opportunities for investment that deliver solutions

An active role for Australia in regional cooperation to meet the SDGs and build an ecosystem for innovation and investment will have benefits across the region and for Australia, including through trade with strategic markets, new investment opportunities, and long term, sustainable development to address transboundary challenges.

Investing in these opportunities can help break the cycle of entrenched disadvantage and revitalise some of the region's most underserved communities, improving lives, social cohesion and economic outcomes across the region.

Figure III.7: Investment thesis for inclusive and sustainable development



*The 2030 Agenda compels us to look beyond national boundaries and short-term interests and act in solidarity for the long-term. - They are a to-do list for people and planet, and a blueprint for success.*

Former ahead of UN BAN KI-MOON, U.N. Secretary-General

### Case III.12: Pacific RISE - Enabling local capacity to build opportunity

#### Pacific Readiness for Investment in Social Enterprise (Pacific RISE)

Established in 2016, Pacific RISE is a pilot innovation of the Australian Government Department of Foreign Affairs and Trade (DFAT) to pioneer and facilitate a catalytic impact investment market in the Pacific.

Pacific RISE funds private sector partnerships that include investors, intermediaries, women's organisations and Pacific businesses. These connections link finance and ideas to achieve better social and economic outcomes, particularly for women and girls.

It incorporates the practice of gender lens investing, recognising the significant contributions women make to communities and economies, and growing recognition that investing in women and girls has a powerful effect on productivity, efficiency and economic growth. The strategy is to encourage investment in: female entrepreneurs; products and services that benefit women and; approaches that empower women.

As part of working with stakeholders to understand and communicate more about the Pacific, its social impact needs and investment opportunities, Pacific RISE is working with existing organisations to create scale and building new initiatives at scale around specific social issues. They have also developed an investment thesis to articulate concrete opportunities to invest today in areas that will contribute to inclusive and sustainable growth for the future.

In addition, Pacific RISE are:

- Identifying, assessing and improving the impact investing network using gender lens investing principles.
- Funding business scoping opportunities to help build relationships with investors and intermediary networks and build investors understanding of Pacific businesses, risks and opportunities.
- Undertake investment readiness and support the businesses to attract and manage investment.

Impact	Investment	Investors
<ul style="list-style-type: none"> <li>► Increasing access to income-earning opportunities and improving services for Pacific communities through impact investment.</li> <li>► Building the capacity for intermediaries and investors to develop gender lens investing practices.</li> <li>► Increasing long-term investment in Pacific businesses by investors.</li> <li>► Catalysing impact investing in the region.</li> </ul>	<p>The goal is to introduce at least \$5 million of new private investment capital into the Pacific over 3-5 years and promote greater investment into impact driven enterprises that deliver women's economic empowerment.</p> <p>Size of investments to date have ranged from \$100,000-\$1 million and are primarily debt and some equity. There is an \$3-4 million investment in the pipeline for 2019.</p>	<p>The Investment Readiness Facility of Pacific RISE is funded by DFAT and managed by Coffey and has had a strategic collaboration with the Criterion Institute. Pacific RISE works with a range of Pacific and global investors to fund investments in the Pacific.</p>

Source: <http://www.pacificrise.org/>

### Case III.13: Alina Vision - Evolving business models for sustainable NGOs

#### Alina Vision: Eyecare for everyone

Alina Vision (Alina) was co-founded by the Fred Hollows Foundation an INGO, which is also an anchor donor and investor. Alina's purpose is aligned with the mission of the foundation to end avoidable blindness. Alina will oversee and provide financing to a local network of more than 60 affordable eye care hospitals over the next 10 years providing:

- ▶ 400,000 additional sight-saving surgeries/year
- ▶ 1.1 million cataract surgeries (40,000 free) over 10 years
- ▶ 2.2 million cataract surgeries and pairs of glasses in remote and low-income communities over 10 years

The initiative targets a global issue that affects >2 billion people. The first eye care centre is due to open in Vietnam in late 2018, with another 9 centres planned over 3 years including in Indonesia, India and China.

The Alina holding company will be the investment vehicle for the network of subsidiary hospitals. It will initially be capitalised with grants and equity until management fees from the subsidiary hospitals are sufficient to bring it to profitability. It will deploy capital (grants, equity, debt) to the hospitals to support different stages of growth.

To set-up a new hospital, grants will be used for initial market adaptation and start-up expenses. As the hospital begins operations, equity will support early operations and capital expenditures, to reach cashflow positive. Once a track record of profitability is established, long-term debt financing will be arranged to scale-up the hospital's operations. By blending capital over time, this replicable strategy leverages public and philanthropic funds to de-risk start-up hospitals to attract socially-minded investors, and eventually private capital, while maintaining Alina's social mission.

Impact	Investment
<p>Alina Vision aims to significantly increase the growth rate of affordable eye-care globally by expanding services in underserved communities, identifying challenges inhibiting industry growth and developing sustainable solutions in partnerships with healthcare providers and funders. Targeting the issues and different circumstances of place and the accumulated expertise of low-cost, high-quality eye-care; the model is designed for replication and scale.</p> <p>Tiered pricing models provide cross-subsidisation and make services sustainable and more accessible to low income communities.</p>	<p>A small proof of concept grant was awarded to Alina by Convergence in Q1 2017.</p> <p>In late 2017, initial equity and grant funding of US\$12 million, facilitated through Convergence, was secured from The Fred Hollows Foundation and major Japanese pharmaceuticals company, ROHTO (first private commercial investor).</p> <p>Alina will target ~US\$300 million over 10 years from a range of investors consistent with its hospital roll out financing plan.</p>

Sources : [www.alinavision.com](http://www.alinavision.com) <http://www.eyelliance.org/>; <https://www.convergence.financepressdetail/2nBBwyjibecSiYEcoMuMcm>

*Lack of access to eye care prevents billions of people around the world from achieving their potential and is a major barrier to economic and human progress.*

Madeleine K. Albright, former US Secretary of State

**In rural communities across Asia and the Pacific, small children are among millions to receive vaccination against preventable diseases being financed through bonds issued by the GAVI Alliance.** Set up in 2000, the alliance is dedicated to increasing access to immunisation in developing countries. The program is partly financed through the International Finance Facility for Immunisation (IFFIm). The IFFIm 'vaccine bonds' have raised over US\$5.7 billion, and are supported by long term government pledges, including from the Australian Government. They have helped prevent more than 9 million deaths, and protect 640 million more children. They are cited by institutions like EuroWeek as among the most influential transactions—'helping set a trend for ethically themed bonds' which 'build a financial lifeline from the world's investors to its poorest children'.

Source: Adapted from <https://www.iffim.org/>



**In Papua New Guinea, Vanuatu and Fiji, families living off-grid save money, and reduce bad health outcomes from kerosene fumes and small business owners create new service lines with solar powered lighting and electronic appliances provided by an Australian-based company.** Barefoot Power manufactures and distributes solar electronic and lighting products to people in countries where incomes are low and there is little or no electricity. Customers gauge prices against the cost of kerosene, so affordability is critical. Barefoot Power has featured in the Global Cleantech 100 and won multiple awards including the G-20 SME Finance Challenge Award 2010. Capital raised from investors has helped finance work to diversify its range of affordable renewable energy and efficient products and reach people and communities across the globe.

Source: Adapted from <https://www.barefootpower.com/>

### Case III.14: Patamar Capital – increasing small and medium enterprise access to capital and investible products

Provide access to capital for early stage impact driven enterprises

#### Patamar Capital (formerly Unitus Impact Partners)

Patamar Capital invests in scalable businesses aimed at improving the livelihoods of the working poor. It primarily targets opportunities in Indonesia, India, Vietnam and the Philippines which have strong growth prospects and significant market inefficiencies. Using a gender lens approach it focuses on businesses which:

- ▶ Build Distribution Platforms to Better Serve Low-income Communities;
- ▶ Develop Life Enhancing Products and Services for Low-Income Communities
- ▶ Reconfigure Supply Chains to Better Serve Low-income Producers

Impact Sectors of focus:

Patamar was selected in May 2017 by DFAT led Investing in Women program to manage a US\$3 million gender-lens impact investing initiative. 6-8 investments are targeted to women-led companies; a further 24 will receive acceleration services through the Indonesia Impact Accelerator. Promising traction has already been gained with this program and a number of exciting women-led investment opportunities have been identified.

Impact	Investment	Investors
Patamar creates impact through its portfolio of investments in impact driven enterprises, e.g. the exit of Mapan, a technology based financial inclusion and literacy platform yielded a ~2.5x return and an IRR of ~45% for investors. It had also positively impacted 70,000 low income entrepreneurs and 700,000 customers. 85% of users are women.	<p>Concept Portfolio launched in 2010 with a total fund size of US\$4.5 million invested in 5 companies and a multiplier effect of 3.2x. This proof of concept enabled further funds to be raised:</p> <ul style="list-style-type: none"> <li>▶ Patamar I (Livelihood Impact Fund) launched 2014 with a total fund size of US\$45 million invested in 14 companies and a multiplier effect of 1.2x</li> <li>▶ Patamar II launched 2017 with a total fund size of US\$150 million, portfolio composition of 20-25 companies (equity and convertible debt).</li> </ul>	Institutional investors, endowments, development banks and family offices.

Source: Patamar Capital Annual Report 2017 and Patamar II presentation materials

### Case III.15: International Finance Corporation (IFC) working with multi-lateral banks to develop intermediation and investible products

Strengthen intermediaries and grow products to attract capital, including for infrastructure

#### The IFC Asset Management Company Catalyst Fund

Formed in 2009, the IFC Asset Management Company has raised US\$9.8 billion across 13 funds to invest in IFC transactions in developing markets, including the Catalyst Fund, a fund of funds established in 2012.

The Catalyst Fund invests in private equity funds and co-investments focused on providing capital for companies that enable resource efficiency and develop low carbon products across global emerging markets. It seeks to mobilise 3rd party commercial capital and demonstrate the financial attractiveness of climate investing.

The model is designed to build capacity in private equity and venture capital funds with expertise to back innovative projects, support early stage companies, and help such companies develop technical and operating capacity in climate related activities and investment.

Broadly, the Catalyst Fund invests in two buckets:

- ▶ Asset Development: renewable energy assets, green real estate /industrial infrastructure.
- ▶ Operating Companies: growth equity investments and VC in Cleantech, resource efficiency and logistics.
- ▶ Example of the investments supported include:
  - ▶ Asia Environmental Partners II Fund managed by Olympus Capital Asia to invest in resource efficient enterprises and initiatives
  - ▶ Managed by Genesis – a disruptive online logistics platform in China which increases profitability for individual truck drivers/owners while also improving air quality and reducing greenhouse gas emissions.

Impact	Investment	Investors
Key areas of impact targeted include clean energy metrics (MW installed, MWh generated, MWh avoided, MT of CO2 avoided); equity mobilisation; and social development impact (investment in small and medium enterprises, first time investee fund managers, total employment, new employment). Through its investments in a range of private equity funds the Catalyst Fund has supported the development of market intermediation across South East Asia and China as well as Latin America and Africa. It has backed projects and companies that are making positive contributions to climate and environmental issues.	<ul style="list-style-type: none"> <li>▶ In June 2014, the Catalyst Fund closed with ~ US\$418 million from eight investors.</li> <li>▶ As of April 2018, the Catalyst Fund had invested ~US\$360 million (86% of committed capital) in 13 funds.</li> </ul>	Meaningful initial commitments from public sector investors enabled successful fundraising from commercial sources. Breakdown is: Governments (41%); Pension & Sovereign Wealth Funds (29%); IFC (18%) and DFIs (12%).

Sources: IFC Annual Report 2017, IFC Catalyst Fund Case Study, May 2018

**Figure III.8 Highlights from the findings of the Blended Finance Taskforce: Better Finance, Better World**



Momentum is building in the US\$50+ billion blended finance market. The market could double in the next few years as investors look to take advantage of risk mitigation tools and more development capital is made available for blending. To achieve this growth, we need to mainstream blended finance with more multi-billion dollar vehicles.



As institutional investors chase returns in a low-interest rate environment, they have a window of opportunity to use blended finance to de-risk investment in emerging markets infrastructure, where infra equity has performed well relative to other asset classes and infra debt has seen historically low default rates.



MOBs/DFIs play a central role in scaling up the blended finance market. They need to increase mobilisation ratios significantly: for every dollar, they mobilise less than \$1 of project capital; DFIs are only marginally better. MDBs also need to increase their share of private sector activities. Setting ambitious targets will improve how the development banks do business.



Strong pipelines can be developed and private investment will flow if developing countries get policy and institutional mechanisms right. Developing countries should develop blended finance institutions which can link policies to sectoral strategies, investment plans and sustainability standards.



Scaling the blended finance market can increase the global rate of growth, deliver the Sustainable Development Goals (including on climate) and strengthen long-term returns for savers. For this to happen, leaders across the whole investment system will need to take collective action.

Source: Blended Finance Taskforce, Better Finance, Better World: Consultation Paper of the Blended Finance Taskforce, 2018, Business and Sustainable Development Commission

#### **Box III.4 Australia's contribution through the Asian Development Bank Trade Finance Program**

Through the Asian Development Bank's (ADB's) Trade Finance Program, Australia is:

- ▶ supporting stronger prudential and governance processes for banks in the region;
- ▶ helping banks to develop new products that can be accessed by their customers to finance their trade transactions; and
- ▶ providing guarantees and co-insurance to support transactions.

The outcome is improved access to trade finance in developing countries, especially for small businesses. In 2017–18, Australia's support helped catalyse more than 3500 trade finance transactions worth \$4.5 billion in developing countries in our region. This involved more than 240 banks and benefited more than 2800 small and medium enterprises. With Australia's support, this work is also expanding into the Pacific region for the first time. Following a rigorous due diligence process and training, banks in Fiji, PNG, Samoa and Vanuatu are now being supported to deliver loans and guarantees to prospective traders. The first transaction supported was for \$30,000 in pre-export finance to ship 8 tonnes of cocoa beans from Samoa to Japan.

Source: (<https://dfat.gov.au/aid/topics/development-issues/aid-for-trade/Pages/australias-aid-for-trade-investments.aspx> Accessed 16/10/2018)

### Case III.16: A multi-faceted multi-lateral development bank approach to social infrastructure development

Develop solutions orientated approaches to addressing key issues

#### European Bank for Reconstruction & Development [EBRD] – Turkish Hospital Facilities

Turkey's health sector needed a major transformation. Hospital infrastructure needed modernisation to meet international standards and service fragmentation, inefficiency and patchy access required redress.

The Health Transformation Program (HTP), implemented in 2003 by the Turkish Ministry of Health [MoH] with World Bank Group support, has been a gamechanger for the health sector in Turkey. Along with regulatory and policy reforms, the HTP identified the need to better align health services with population needs and to upgrade the infrastructure and technology in a large share of public hospitals. Initial efforts were on universal health insurance coverage and defragmentation.

In 2013, Turkey's MoH made a major policy decision to deliver new hospitals through a facilities management public-private partnership (PPP) program. At this time, only 20% of the beds managed by the MoH were deemed qualified beds according to international standards.<sup>xiv</sup> The PPP program sought to replace old and obsolete facilities and beds with modern facilities offering qualified beds. Construction, management and maintenance is by private concessionaires under the PPPs. Clinical service responsibility rests with the MoH.

In Sept 2014, the EBRD approved a framework of €600 million (extended by €350 million in Jan 2017), debt or equity for EBRD's own account for up to 10 sub-projects.

The PPP was enabled by the work (2003-13) of the World Bank Group through loans and technical assistance which helped the MoH lay the foundation for a restructuring effort that could attract further investment. A World Bank Group sovereign loan to Turkey in Aug 2015 with a component for technical support to the MoH in the management of the PPP projects together with Political Risk Insurance guarantees from MIGA and financing from International Finance Corporation, Islamic Development Bank, Black Sea Trade and Development Bank and European Investment Bank to enable the initiative.

Impact	Investment	Investors
29 new hospitals with ~42,000 high quality beds are planned as part of the PPP with 9 hospitals financed to date delivering 13,462 beds.	As at June 2018, the EBRD has closed financing for 9 PPPs for €722 million with total financing of €5.4 billion. Assuming a consistent average hospital size and cost for the remaining 20 hospitals an additional €7.1 billion for a total to €7.9 billion. Viewed from EBRD's role the leverage ratio of its catalytic effect is 10:1; when taking all multi-lateral development banks in account [inc EBRD] this is 4:1.	48% of funding came from the private sector: commercial banks (22%); Sponsor equity (22%) and institutional bondholders (4%). The remaining 52% was provided by: EBRD (13%); Other International Finance Institutions (19%); Development Finance Institutions aligning behind specific sponsors in their roles as Export Credit Agencies (20%).

Source: Collaboration of MDBs June 2018; *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions*, 2017

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### Transforming Delivery: Investing in Better Outcomes for People with Disability

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- xiii Acknowledgement and thanks to Pacific RISE investment thesis for the inspiration that informed this approach; see [www.pacificrise.org/our-investment-thesis](http://www.pacificrise.org/our-investment-thesis)
- xiv A key metric for the design of qualified beds is hospital space per bed. This was just 55sqm per bed on average versus international standards of ~175sqm per bed.

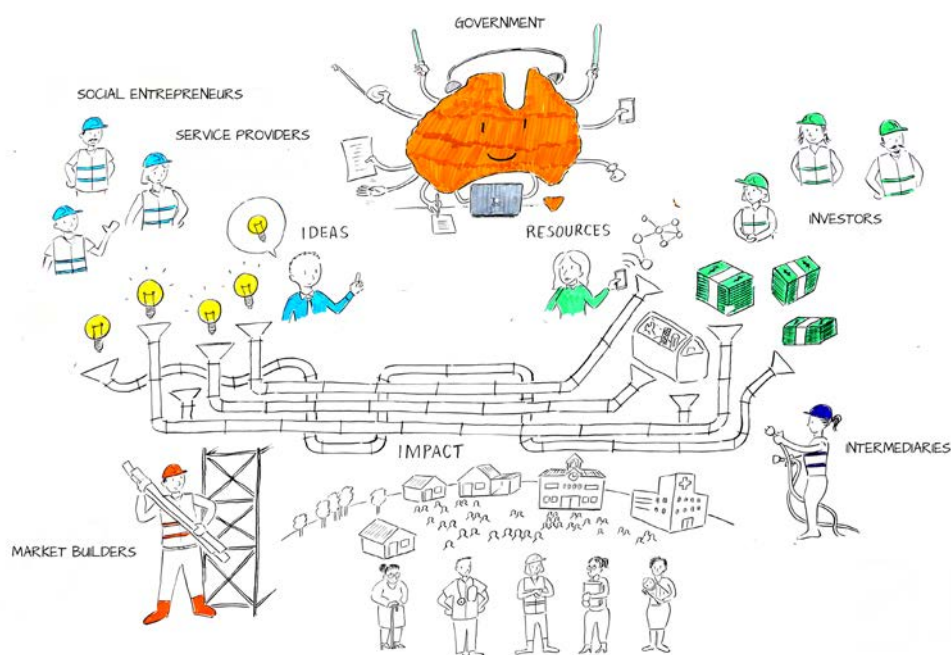
# APPENDICES

## Appendix A: What's happening and what's needed as seen from the impact investing playing field<sup>56</sup>

Since 2014, the AAB has been bringing together people, ideas and resources to help tackle big issues affecting Australia and our region. The AAB's work has consistently been informed by practitioner and participant experience and voices from across the impact investing ecosystem. The AAB's 2014 strategy to help catalyse impact investing in Australia, *Delivering on Impact*, was informed by market soundings conducted in early 2014 which, in turn, were informed by field work conducted for the earlier *IMPACT-Australia: Investment for Social and Economic Benefit* report in 2012.

The good news is that almost everyone we spoke with told us that the field has developed over the last few years. There is a sense that we are starting to build a track record of investments and, for most people, that we are moving from early stage exploration, where activity was happening in a more ad hoc or uncoordinated way, into the early stages of market building. People can see a field of practice taking shape.

### The impact investment ecosystem in Australia



While there has been movement right across the ecosystem, when we spoke to them, people clearly said there is potential to do more, to support more activity and mobilise more capital for investment, both in Australia and overseas. Perceptions about how big the impact investing market might be varied depending largely on the views people had on:

- ▶ How effectively mainstream service providers can be drawn into impact investing and encouraged to coordinate and innovate to achieve change at scale;
- ▶ Whether institutional investors can be engaged more effectively, particularly superannuation funds;

<sup>56</sup> Extracted from Hill, R and Addis, R, *Views from the Australian Playing Field on what's happening and what's needed next*, 2018, Impact Investing Australia

- ▶ How strongly corporate investors can be engaged in relation to both their business and investment activity;
- ▶ How consumer power can be harnessed to help drive that; and
- ▶ How broadly governments will start to take up outcome based contracting models, not just through Social Impact Bonds but also through the application of impact investing principles to day-to-day commissioning and procurement activity.

The potential prize for getting things right is substantial. People told us that impact investing is developing as a field in Australia, that there is significant untapped potential and that they want to see that realised.

It was also clear that people think that there is still work to be done and some significant challenges and gaps to be overcome to realise that potential. In particular:

- ▶ Scaling impact and investment;
- ▶ Developing a broader, more specialist intermediary market;
- ▶ Designing creative and more recognisable investment products and approaches to draw in investors;
- ▶ Taking catalytic action to mobilise activity and unlock capital;
- ▶ Increase Government engagement and proactive policy to enable the field;
- ▶ Strengthen data and monitoring systems and maintain accountability for impact; and
- ▶ Harness interest in the UN SDGs to drive action.

Some people highlighted concrete opportunities in the short term to accelerate progress. Those opportunities tended to focus on activity targeting 'sweet spots' for innovation and on unlocking untapped capital, particularly from the superannuation funds. Other levers for growth that were identified included:

- ▶ Designing for scale and to replicate good ideas;
- ▶ Deepening and skilling up the intermediary market in a sustainable way;
- ▶ Packaging opportunities differently to make them more attractive to investors, including pooling and aggregation options;
- ▶ Attracting sources of (catalytic) capital that can unlock both activity and capital;
- ▶ Encouraging governments to broaden and deepen their engagement and be more proactive in helping to guide and support market growth;
- ▶ Strengthening impact management and measurement;
- ▶ Discouraging impact washing;
- ▶ Building on growing interest in the UN SDGs to engage and mobilise institutional investors, superannuation funds and corporates;
- ▶ Marketing impact investing more broadly and activating consumer demand to incentivise action;
- ▶ Taking up global opportunities and harnessing impact investment to support development in our region; and
- ▶ Investing time, resources, effort and money in market building.

The work ahead includes digging deeper into who can – or should – do what to action these things, and where the greatest need and scope lies for collaboration. It will also include identifying and prioritising the actions that can deliver the most benefit and achieve breakthroughs for growth. Everyone we talked to was keen to see the impact investing field in Australia continue to grow and develop, to support more activity, to foster innovation and to unlock capital.

The message from the field is clear: there is an opportunity to super charge the impact investing ecosystem in Australia by working proactively together on the areas for focus that have been identified.

## Appendix B: About impact investment and the impact economy: the global consensus view<sup>57</sup>

We can achieve a future where no one lives in poverty and the planet thrives. We must adopt a simple unifying principle: it is the collective responsibility of all actors in the society to be aware of their effects on people and the planet, to prevent the negative externalities and increase the positive impact. This impact management principle<sup>58</sup> underlies the impact economy we envision. *An impact economy necessitates that measurement of social and environmental impact is integrated in all economic activity; and central to government policy, business operations, investor behaviour, and consumer consumption.* How far different enterprises<sup>59</sup> - and their investors - go in their impact management practice depends on their intentions, constraints and capabilities:

- A. At a minimum, enterprises can **act to avoid harm** for their stakeholders, for example decreasing their carbon footprint or paying an appropriate wage; such 'responsible' enterprises can also mitigate reputational or operational risk (often referred to as ESG<sup>60</sup> risk management), as well as respect the personal values of their asset owners.
- B. In addition to acting to avoid harm, enterprises can also actively **benefit stakeholders**, for example proactively upskilling their employees, or selling products that support good health or educational outcomes; these 'sustainable' enterprises are doing so in pursuit of long-term financial outperformance (often referred to as pursuing ESG opportunities)<sup>61</sup>.
- C. Many enterprises can go further: they can also use their capabilities to contribute to solutions to pressing social or environmental problems, for example enabling an otherwise underserved population to achieve good health or educational outcomes, financial inclusion or hiring and skilling formerly unemployed individuals<sup>62</sup>.

In an impact economy, enterprises use their capabilities to optimise both their positive impact on the world and their financial performance. Likewise impact investors bring their own resources to bear in optimising enterprises' impact, within the context of their constraints and capabilities, above and beyond what the capital markets will enable otherwise. Investors use various strategies to contribute to impact, often in combination:

- *Signal that measurable impact matters:* Investors can choose not to invest in, or to favour, certain investments such that, if all investors did the same, it would ultimately lead to a 'pricing in' of social and environmental effects by the capital markets. Often referred to as values alignment, this strategy expresses the investors' values and is an important baseline. But alone, it is not likely to advance progress on societal issues when compared to other forms of contribution.
- *Engage actively:* Investors can use expertise, networks and influence to improve the environmental and societal performance of businesses. Engagement can include a wide spectrum of approaches - dialogue with companies, creation of industry standards, taking board seats or creating board-level committees, using their own team or consultants to provide hands-on management support (as often seen in private equity). The 'engage actively' strategy involves, at a minimum, significant proactive efforts to improve businesses' impact on people and the planet.

<sup>57</sup> This material was developed by the Impact Management Project for GSG Working Group Reports 2018.

<sup>58</sup> This principle is based on consensus achieved through collaboration with over 2000 practitioners globally in The Impact Management Project <https://impactmanagementproject.com/>

<sup>59</sup> The term 'enterprise' is used to cover a wide range of delivery models, including multinational corporations, small to medium sized enterprises, infrastructure projects, social enterprises and charities

<sup>60</sup> Environmental, Social and Governance; also referred to as Responsible Investing

<sup>61</sup> Also referred to as Sustainable Investing which includes ESG Integration, Sustainability Themed Investing and Positive/Best-in-Class ESG Performance

<sup>62</sup> Enterprises can also 'contribute to solutions' by selling products that enable others to act to avoid harm (for example, an off-grid lighting company)

- *Grow new or undersupplied capital markets*, by anchoring or participating in new or previously overlooked opportunities. This may involve investment into sectors where there is a little information or transparency, or those where there are investment teams with no or little experience in the space therefore requiring investors and investees to build their understanding of how investment can work for the context. This may involve more complex or less liquid investments, or investments in which some perceive risk to be disproportionate to return.
- Provide flexible capital, by recognising that certain types of enterprises do require capital which may be considered less likely to provide market rate return, less liquid, more risky, or in smaller sizes than would traditionally be invested to generate certain kinds of impact.

Hence, *Impact investments optimise risk, return and impact*.

The matrix below helps investors to understand and describe the impact performance (or, if a new product, the impact goals) of an investment, or portfolio of investments. Much like financial asset classes are a helpful heuristic for quickly conveying whether the characteristics of an investment opportunity match an investor's financial intentions, the boxes on this matrix are an equivalent shorthand for conveying whether the impact characteristics of an investment opportunity match an investor's impact intentions.

### The Impact Investor Matrix

		Impact of underlying assets/enterprises			
		A	B	C	
		Act to avoid harm Prevent or reduce significant effects on important negative outcomes for people and the planet	Benefit stakeholders Have various effects on important positive outcomes for people and the planet	Contribute to solutions Have a significant effect on specific important positive outcomes(s) for underserved people or the planet	
Investors' contribution	1	<b>Signal that impact matters</b> ► Engage actively ► Grow new/undersupplied capital markets ► Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened/best in class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects
	2	<b>Signal that impact matters</b> ► Engage actively ► Grow new/undersupplied capital markets ► Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened/best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have significant effect on education and health for underserved people
	3	<b>Signal that impact matters</b> ► Engage actively ► Grow new/undersupplied capital markets ► Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in frontier market	E.g. Positively-screened infrastructure fund in frontier market	E.g. Bond fund anchoring primary issuances by businesses that have significant effect on environmental sustainability, access to plain water and sanitation
	4	Signal that impact matters ► Engage actively ► Grow new/undersupplied capital markets ► Provide flexible capital	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Private equity fund making anchor investments in businesses that have significant effect on income and employment for underserved people
	5	Signal that impact matters ► Engage actively ► Grow new/undersupplied capital markets ► Provide flexible capital	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
	6	<b>Signal that impact matters</b> ► Engage actively ► Grow new/undersupplied capital markets ► Provide flexible capital	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Patient VC fund providing anchor investment and active engagement to businesses that have significant effect on energy access for underserved people

Source: The Impact Management Project, 2018

Impact investors therefore typically spend their energy in the righthand column of the matrix above, supporting and scaling enterprises that contribute to solutions and using their capabilities as investors to go beyond signalling. Such investors often find it beneficial to accumulate deep knowledge and understanding of the social or environmental problem they are looking to solve and the system within which it exists, and to build capacity within investee organisations. By doing so, impact investors play a catalytic role in the evolution of the impact economy. In the near-term, since impact management practice is nascent, investors can also contribute to positive impact in enabling large companies to avoid significant harm – for example, providing capital for environmental retro-fitting of carbon-intensive factories, or using shareholder activism to address poverty in a multinational corporation's supply-chain.

As we set our sight on a fully-fledged global impact economy by 2030, we can expect significant growth in impact investments, which enable enterprises to contribute to solutions, optimising their risk, return and impact. Given the rise of impact entrepreneurship and the encouraging response of enterprises and investors to the SDGs, it is becoming realistic to think that every asset class can include a percentage of impact investments which, taken together, would unlock capital at scale to address the world's most pressing social and environmental challenges.

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Particular thanks to collaborating partners who co-hosted convenings and gave active input into the priorities for leadership and action you see reflected on these pages:

B Corp Australia and New Zealand	Lord Mayor's Charitable Foundation	Social Outcomes
Community Council of Australia	Shared Value Project	EY
Community Sector Industry Alliance	UN PRI	Deloitte
Philanthropy Australia	Responsible Investment Association of Australasia	NSW Government OSII
JB Were	Impact Investment Group	Australian Treasury
Social Ventures Australia	Social Impact Hub	The Australian Centre for Social Innovation
Brightlight Impact Advisory		

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# ABOUT THE AUSTRALIAN ADVISORY BOARD ON IMPACT INVESTING

The Australian Advisory Board on Impact Investing (AAB) provides leadership and strategy for accelerating the growth of the impact investment market in Australia. It is Australia's national advisory board to the Global Steering Group for Impact Investment (successor to the G8 Social Impact Investment Taskforce).

The GSG has 21 member jurisdictions with plans to build to 30+ member countries and an ambitious agenda to take impact investment to tipping point by 2020.

The AAB led strategy to catalyse the market in and from Australia, Delivering on Impact, has seen a program of leadership, action and policy delivered. Experienced leaders spanning the finance, business, not for profit, philanthropic and community sectors committed to growing the opportunities for impact investment contribute to the AAB and its work.

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Simon Longstaff AO	The Ethics Centre
Simon McKeon AO	Monash University; Macquarie

## About Impact Investing Australia

Impact Investing Australia was established in 2014 in response to an industry-identified need for dedicated leadership, facilitation and capacity building. Its primary role has been to provide strategy development and execution support for the Australian Advisory Board on Impact Investing.

It is the operative entity responsible for driving the implementation of the Australian Advisory Board on Impact Investing's strategy to catalyse the market for impact investing. Impact Investing Australia provides a focal point for market development in Australia, as well as participating in international efforts to grow the market globally.

## Partners and supporters in field building

Impact Investing Australia's work is made possible through generous support from our partners and supporters and contributions of time and experience of a dynamic group of skilled volunteers.

**AUSTRALIAN ADVISORY BOARD  
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Market Building and impact has been made possible with collective action and resources. We thank our partners and supporters and welcome others who would like to contribute to realising the potential of impact investing in and from Australia.



G&S Consulting



*Local as well as global leaders will need to continue their work and inspire many more to join the movement and take up practice. We need to engage social innovators and entrepreneurs, the social sector, philanthropists and foundations, businesses of all sizes, financial institutions, intermediaries and advisers, policy makers and politicians and governments across the political spectrum.*

Australian Advisory Board on Impact Investing



*... the precision most needed in the years ahead requires confronting a paradox: impact investing is both one thing, and many things... This moment of transition requires leaders to build the collective will that can only come from seeing the common whole that is emerging from diverse elements in this emerging industry. But at the same time, what is needed to accelerate progress is the ability to separate and make distinctions, so that action is meaningful on the ground.*

Monitor Institute (now Monitor Deloitte)

