



Social Benefit Bonds and Impact Investing - opportunities for my organisation

March 2017



Outline of session

1) Trends impacting on social services

2) Introduction to impact investing globally

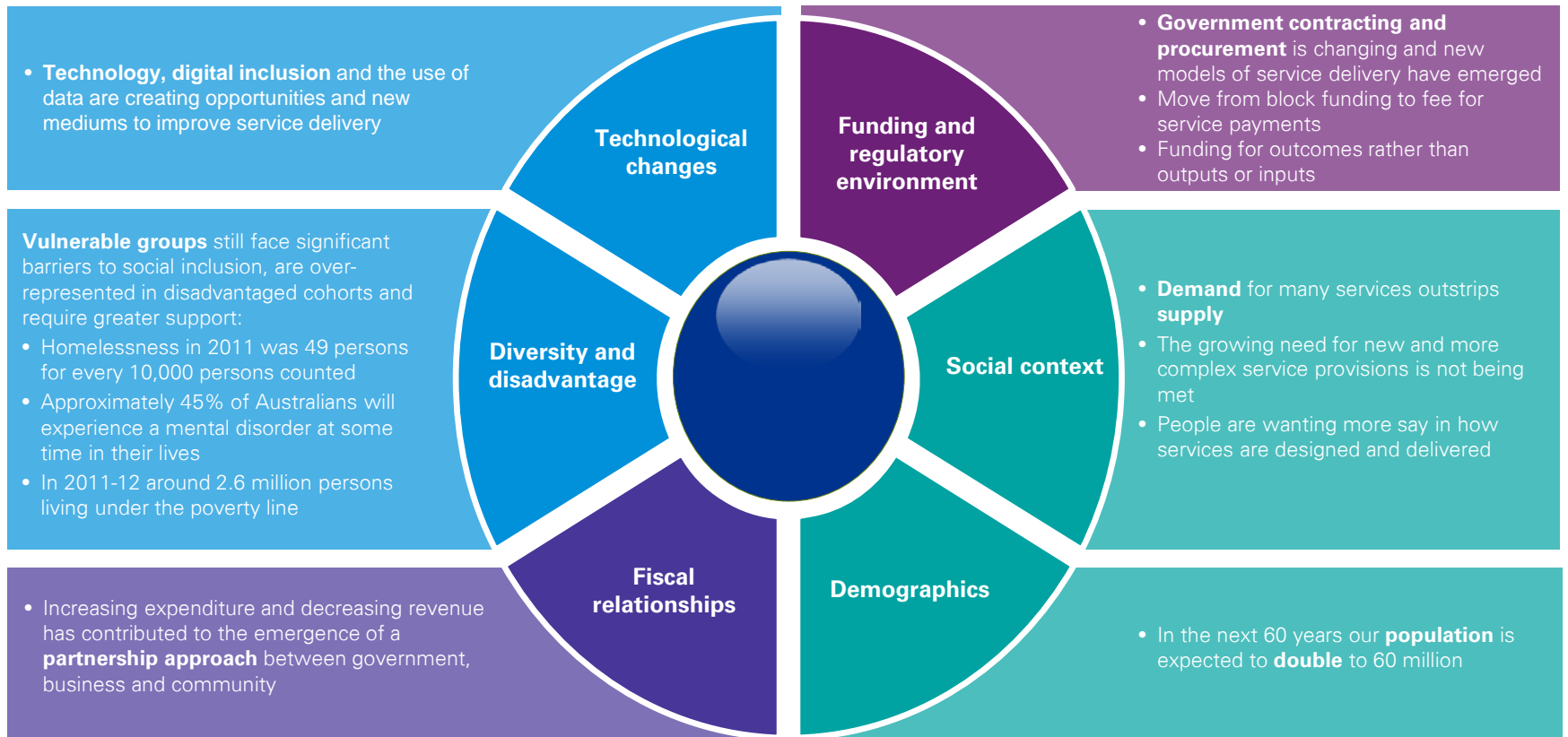
3) Australian impact investing market

4) Case studies

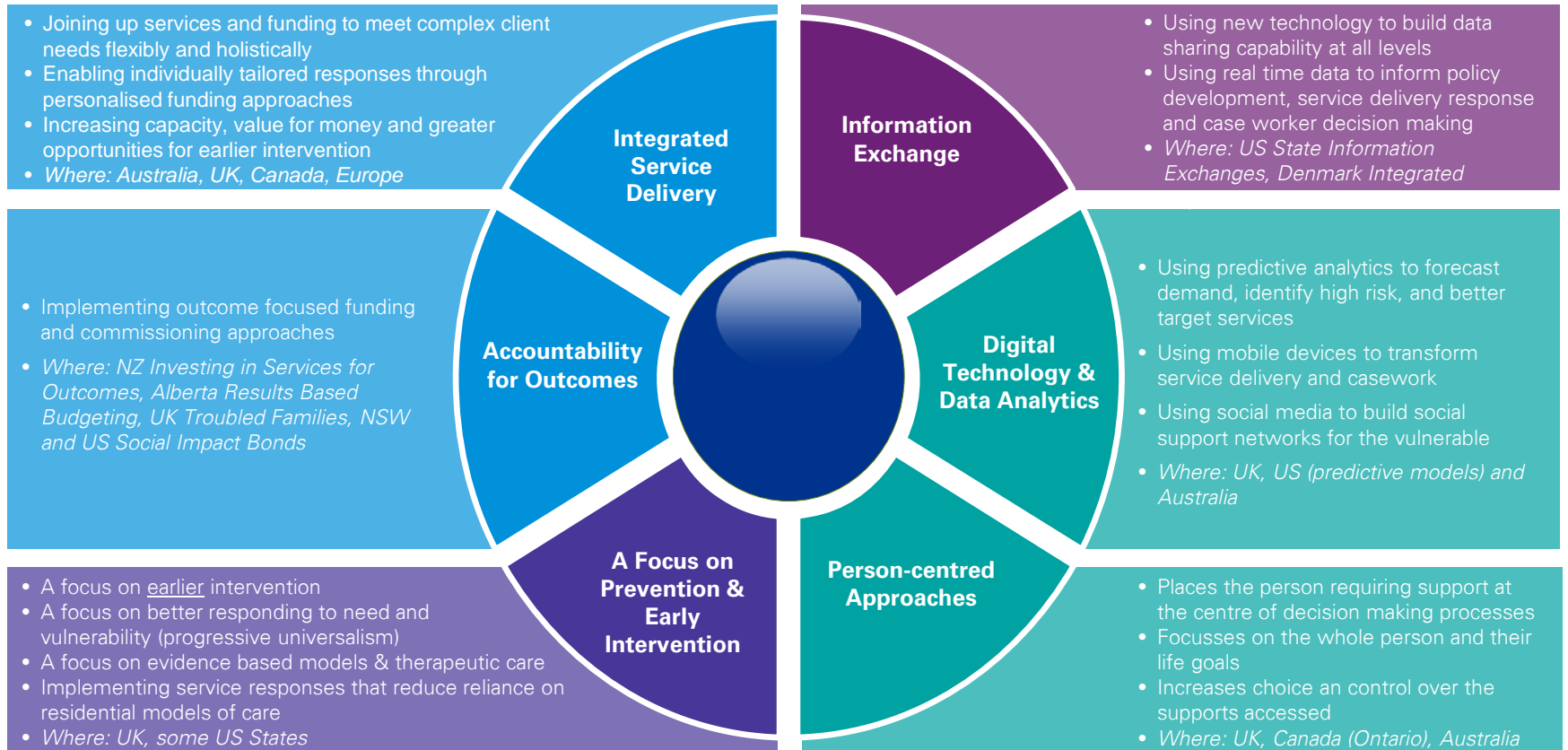
5) Is your organisation ready?

Trends impacting on social services

Trends impacting on social services in Australia



Overview of western government trends



Introduction to impact investment

Defining impact investing

**World Economic Forum
defines impact investing as:**

“An investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured”



Investing approaches

Exclusionary Screens
(Positive and negative)

**Socially responsible
investment**
(PRI*, ESG*, CSR*)



**Impact
Investing**

**Increasing impact intent,
measurement and reporting**

Note: *PRI – Principles for Responsible Investment; *ESG – environmental, social, governance; *CSR – Corporate Social Responsibility.

Source: World Economic Forum 2014: http://www3.weforum.org/docs/WEF_ImpactInvesting_Report_ChartingTheCourse.pdf



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Drivers for impact investing

Public sector



Service demand increasing
Government funding stretched
Large global investment in Sustainable Development Goals \$3 trillion/year
Increase focus on Value for Money (VFM) and Results-based management
Need for innovation

Investors



Increasing focus on “Yield + Impact” with social and environmental outcomes
Environmental/Social/Governance (ESG) screening (e.g., UN Principles for Responsible Investment) more commonplace
An alternative asset class as an attractive investment option with limited correlation to traditional assets

Non-profit



Financial sustainability with Mission-related and Program-related investment seeking “Impact + Yield”
Potential to scale up impact systemically
Public sector use of NGOs for service provision
Focus on results/outcomes by donors and evidence-based programs

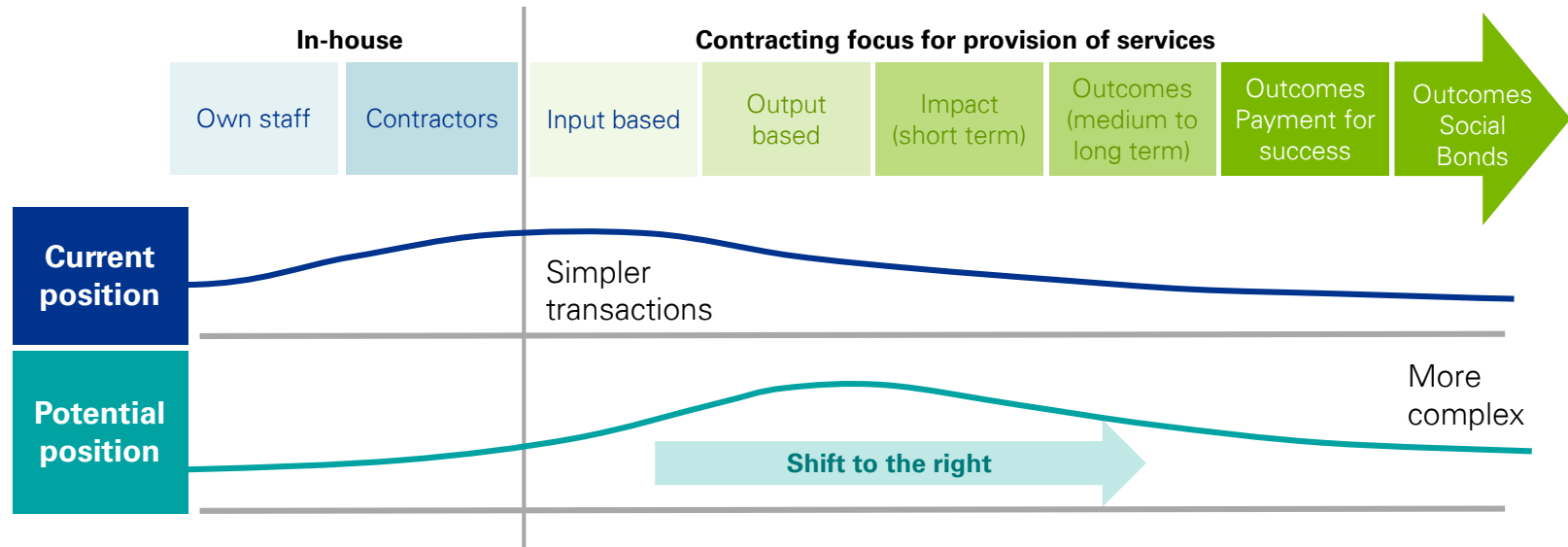
Philanthropists



Shift to results-based aid (cash for delivery, E.g.: Global Alliance for Vaccines (GAVI), matched funding vaccine alliance)
Focus on evidence-based programs
Need to leverage private sector funds for SDGs and other mandates (COP21)
Desire to use credit enhancements to leverage existing capital

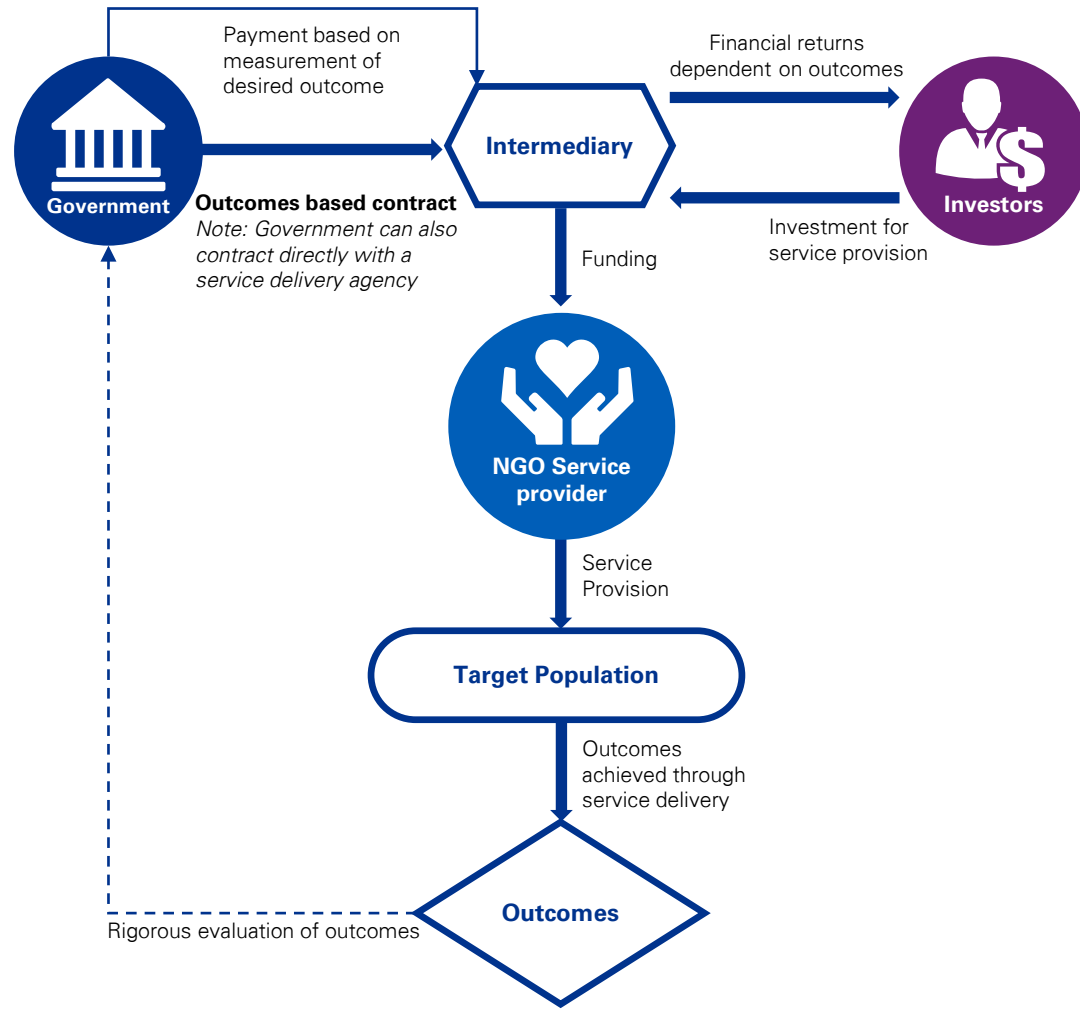
Shift in types of contracting

The shift towards payment by results contracting



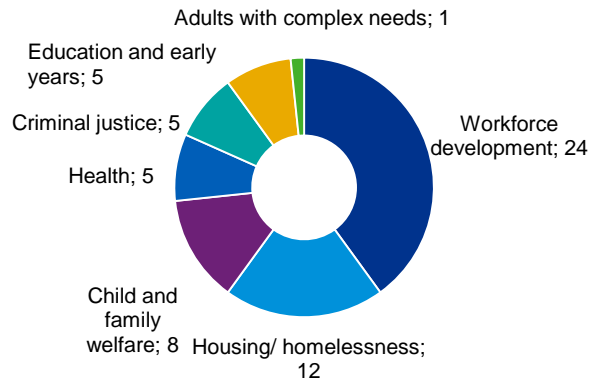
Source: KPMG NZ

Basic structure of a social benefit bond

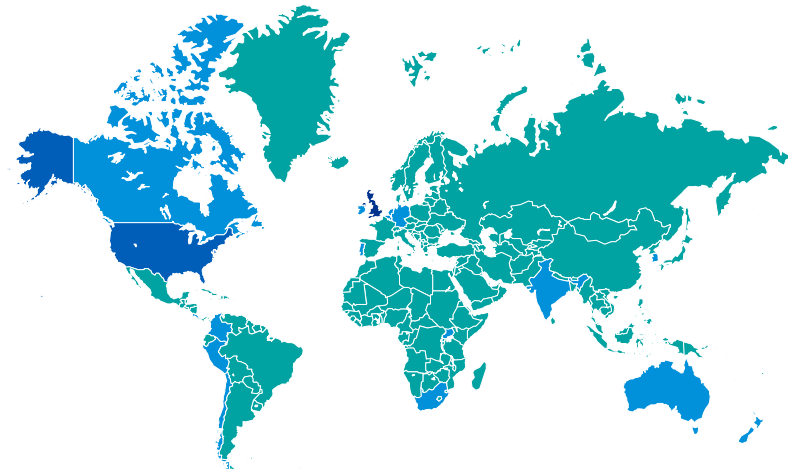
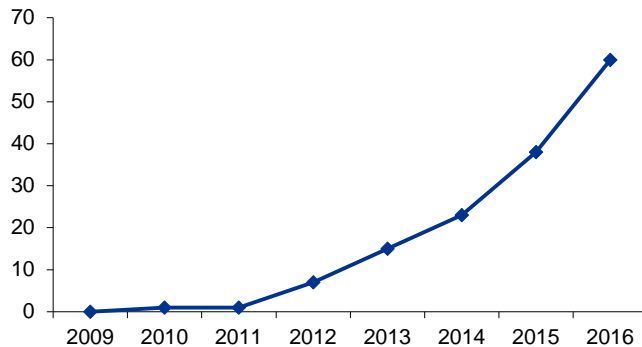


Key facts - SIBs

Social issues addressed by SIBs (June 2016)



Social impact bond market



- **67 bonds across 17 Countries**
- **First launch 2010**
- **\$300+m capital raised**
- **89,985 'lives touched'**
- **Smallest** capital committed is Portugal SBB (\$148,000)
- **Largest** is Massachusetts, USA \$24.5 million upfront capital commitment
- **Bonds in NSW** are AUS \$7m and \$10m

Source: Social Finance; Social Impact Bonds the Early Years <http://www.marketwired.com/press-release/60-social-impact-bonds-across-15-countries-show-growing-global-reach-2140137.htm>, Brookings Institute 2015)

Australian impact investing market

Size of the Australian market

Growth in the Australian market is strong:

The Australian impact investing market is still in the early stages of development but with strong potential, and is estimated to grow to a **\$32 billion market by 2022**.



The Impact Investing Australia 2016 Investor Report shows that in Australia....

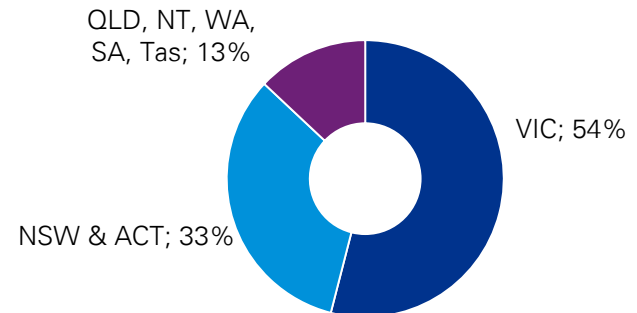


Active impact investors aim to **triple** the size of their impact investment portfolios **over the next 5 years**



Non-active investors expect to **consider social and environmental impact** in investment decision making **over the next 5 years**

The majority of active impact investors will likely be in **Victoria and New South Wales** based on current trends



Source: Impact Investing Australia 2016 Investor Report, Impact Investing Australia, 2016: <https://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-2016-Investor-Report.pdf>



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2016 Benchmarking Impact report findings

The first report on a data-set based on impact investments in the Australian market shows that, of the sample of investors reviewed...



Impacts were reported across nine outcome areas and over 60,000 beneficiaries, including...



126 schools supported



669 mental health sessions delivered



319 jobs created



4,493 tons of e-waste diverted



1,072 people with disabilities supported



11,501 MWh renewable energy generated and **3.9** tons of CO2 avoided

Source: Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016, Impact Investing Australia, 2016: <https://impactinvestingaustralia.com/wp-content/uploads/Benchmarking-Impact.pdf>

Types of investors



Desire to contribute to a more sustainable society

Opportunity to unite families around common values and positive legacies

Opportunity to **engage a younger generation in the leadership** of a family office

Demand for investments to align with their clients' and members' social and environmental values

Opportunity to manage risk and diversify their investment portfolios across asset classes, sectors and geographies

Opportunity to deliver large-scale solutions to local and global issues and, in so doing, to carve out a distinct competitive advantage

Desire to increase their social, environmental and cultural impact

Opportunity to align their investments with their mission and values

Opportunity to engage with a wider range of solutions for addressing societal challenges, while also maintaining and growing their endowment for future use



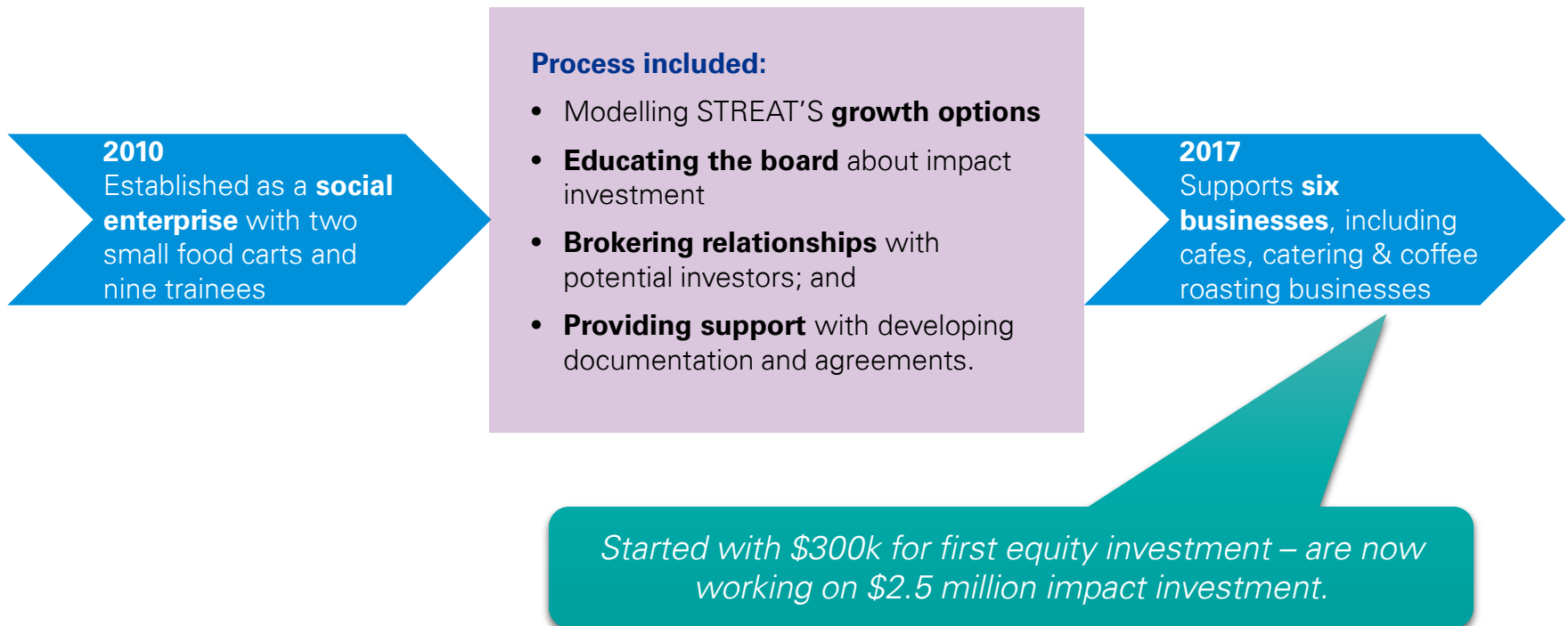
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Case studies

Case study: STREAT

STREAT is a Melbourne based **social enterprise** that provides homeless **youth aged 16-25** with the life skills, work experience and training to start a career in hospitality. After training, they are given the opportunity to work in STREAT's cafes, coffee carts and catering company.

Development process



Source: STREAT case study, The Difference Incubator website, 2014 (accessed March 2017).



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Newpin Social Benefit Bond

Area	Design
Intervention	<ul style="list-style-type: none"> • Newpin is a long-term, intensive support program that works with families to improve parenting so children can live safely with their families • Australia's first social benefit bond • Designed to support children and young people in foster care to be safely returned to their families
Target population	<ul style="list-style-type: none"> • 700 + families (of which approx. 55% will have at least one child under the age of five in foster care)
Outcome metric	<ul style="list-style-type: none"> • The restoration rate of children who enter the program. Baseline is 55 % of children return home within one year
Evaluation method	<ul style="list-style-type: none"> • Matched control group
Capital raised	<ul style="list-style-type: none"> • \$7m; 7 year term
Principal repayment	<ul style="list-style-type: none"> • 50% guaranteed to be repaid at the maturity date • 100% repaid if the restoration rate reaches 55%
Investors	<ul style="list-style-type: none"> • UnitingCare Burnside • High net worth individuals • Family Foundations • Superannuation Funds
Interest	<ul style="list-style-type: none"> • Minimum interest rate is 5% p.a. over the first 3 years • Maximum interest rate is 15% p.a. over the full term • Target is 10-12% p.a.

Results

- Restoration of **66 children** to their families
- Supported another **35 families** to prevent their children from entering care
- Return of **7.5 per cent** in Year 1 **and 8.9 per cent** in Year 2



Real Lettings Property Fund UK

Design

- Resonance and Broadway
- Infrastructure and Service model
- 240 one-two bedroom homes in Greater London
- 7 years plus two 1-year extension options
- Aimed at HNWI
- Capital £57m from investors including Big Society Capital
- Looking to expand across the UK
- Structured as a limited partnership
- Avoids 'ghettoization'
- Selects clients who are ready for independence

Impact

- Improved housing – sustain tenancy over 6 months; save deposit
- Progress towards work – volunteering, job, skills, education
- Resilience – social integration, connection with family and friends, improved financial management

***98% maintaining tenancies
300 properties and around 1,000 people
assisted***

Is your
organisation
ready?



GO

Getting impact investing-ready



What are the **options for social investment** that we should think about?



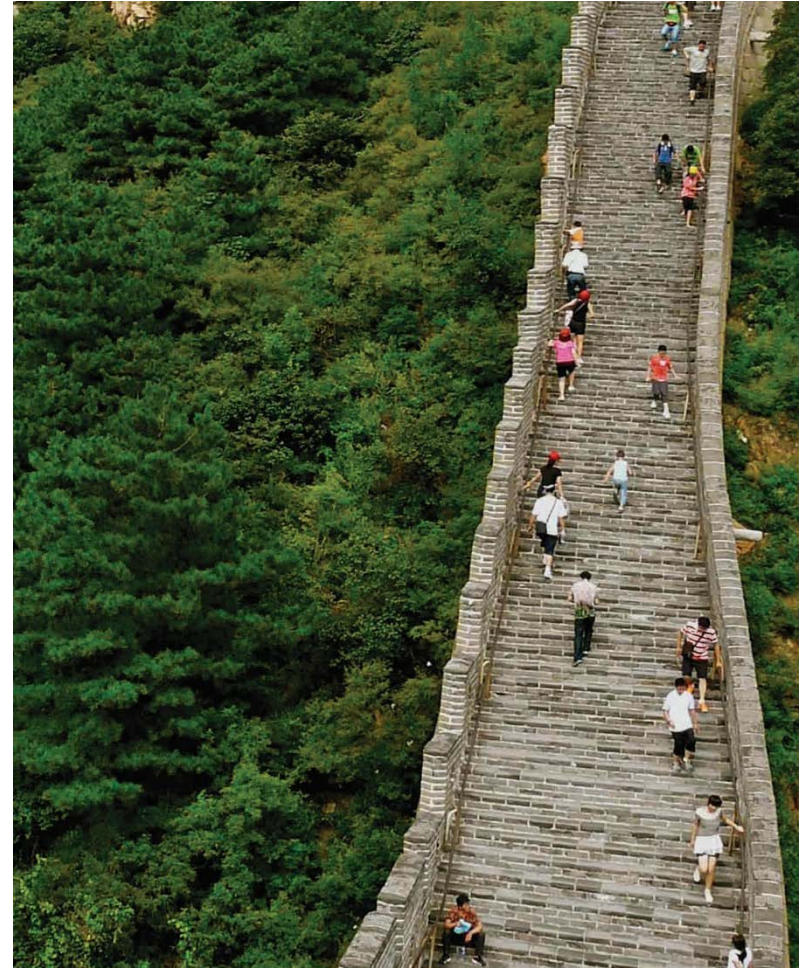
What does my **organisation need to consider**?



Should we consider **partnerships** with other organisations?



What does our **Board need to consider**?



Skills, structures and capability

Area	Considerations
Organisational alignment	Strategic direction; buy-in from Board
Organisational capacity	Flexibility; program logic; measurement of outcomes; staff capability; back office processes.
Partnerships	Formation of partnerships for specific purposes
Track Record	Ability to demonstrate a track record of performance to meet improved social outcomes
Knowledge	Strong knowledge of the relevant policy area or legislation
Measurement and data collection	Appropriate systems and processes to provide periodic investor reporting
Internal resources	Available resource to undertake the initial development and ongoing operations for the impact investment

Questions



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Source: Diminish and Ascent by David McCracken, BBC.com



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