

Who will fund your Social Impact?



If you're a startup, creating social impact and looking for funding, here's a rundown on what's happening right now around Australia. How we got here and a bit of a global perspective too; it's a fast moving space.

During 2002, I had my fourth child and "jumped ship" from the corporate sector! Ever since, I've been helping to grow and fund organisations that create social impact. In this post, you'll get to see how and why funders invest for social impact.

"Impact investing" is where there is an opportunity for funders to invest in an organisation for both a financial and a social impact return.

"For purpose" organisations create social impact and can be not-for-profit or for-profit.

How did we get here?

Australia has grown up with a long history of not for profits, mutuals and co-operatives where organisations have a social benefit and reinvest in the organisation and the members benefit.

Not for profits

The Benevolent Society is Australia's oldest **not for profit** and continues to be funded by government and philanthropy. **Member based organisations** such as Bendigo Bank (established 1858 in the goldfields) and RACQ (established 1905 for drivers here in Queensland) raised their capital from their members. Member benefits such as local access to banking and improved road safety equate to social impact for members and the community.

Social enterprises

Social enterprises have traditionally been funded by loans and grants, particularly for capacity building purposes. Having witnessed many years of exhausting debate about the definition of social enterprise, I see the fundamentals as follows:

- there is a social purpose
- the main activity is trading of products or services
- majority of profits are reinvested in organisation



A strong **social enterprise** network started across Australia in the mid- late naughties, particularly with support from Social Traders in Melbourne, and Social Ventures Australia (SVA) in Qld, WA, and NSW. When I was part of the Qld SVA team, we supported over 60 social enterprises with over \$2M in funding.

Australian social enterprise expert, Professor Jo Barrakat, formerly at QUT, now at Swinburne has written the best reports on the social enterprise sector <http://www.socialtraders.com.au/news-and-events/finding-australias-social-enterprise-sector-2016-analysis/> There has been much excitement about social enterprise with current estimates of more than 20,000 social enterprises in Australia but limitations to access to capital have tended to limit growth. Limited access to capital has tended to limit growth.

Goodstart changed the game for social enterprise funding

In 2009, Goodstart was the vanguard of the current movement of social investment in Australia with a bid of \$96M for 678 childcare centres and the creation of a new social enterprise. \$22M was raised from social investors, like myself, for a loan that had high risk and was subordinated to the bank and government debt. The social impact of early learning plus support for parents particularly in low socio economic status areas to work continues to be very high. Returns to the social investors were 12% p.a. for 3 years. See www.goodstart.com.au and the full story in my friend Michael Traill's book "Jumping Ship"¹. Goodstart www.goodstart.org.au/ today has revenues of \$1B and continues to expand with innovations across Australia.

Government has been a catalyst for funders

A key driver into social enterprise development was the Australian government Social Enterprise Development Investment Funds (SEDIF) commencing in 2012. The main objective was to support the development of a marketplace for social impact investment.

<https://docs.employment.gov.au/system/files/doc/other/sedifevaluation.pdf>

Progress was patchy as a colleague **Belinda Drew**, CEO, Foresters Community Finance (now CEO of CSIA Ltd) said in 2013

"Although we've had some early successes and we're seeing extended interest from investors in this kind of space, there's still a large task of education to go on to help people understand that social investment isn't a dressed-up form of philanthropy, but can produce a financial return and do a social good."

¹ Michael Traill: Jumping Ship from the world of corporate Australia to the Heart of Social Investment. Hardie Grant books 2016

What's going on now?

There are over 600,000 not for profits in Australia with 60,000 of them classed as “significant”². There are 20,000 social enterprises and many are less than five years old.

While total philanthropic giving is over \$8B (0.6% of our GDP) and there is a rise in the number of High Net Worth Individuals and family foundations, it remains difficult to extract those precious funds. What's particularly interesting is that more philanthropists are wanting to have an impact and asking for evidence of their giving outcomes which creates an opportunity for new ventures.

At the same time, we observe the emerging startup ecosystems particularly in Melbourne and Brisbane and an enlivened angel and venture capital industry. Organisations in local hubs are combining social and financial outcomes with plans for global scalability.

Australian state governments are currently releasing Social Benefit Bonds. Cutting through all the verbage and techspeak, they are basically bond instruments where an innovative program is funded by social investors and paid back by government when social impact and cost savings to government are proved. It's early days and currently restricted to programs that create savings in out of home care, recidivism and homelessness. I've been happy to receive the NSW Newpin bond returns of over 8% per year from my family's investment in it.

You know when something is attractive when the big guns turn up.

In 2010, Christian Super invested \$6M into Foresters for development of social enterprise.

In 2014 HESTA (a \$32 billion super fund) partnered with SVA to launch the 'Social Impact Investment Trust', with a commitment of \$30Million from superannuation funds to be managed by SVA. The fund makes direct and indirect investments in a range of businesses, housing projects and social impact bonds that deliver both financial returns and identifiable and quantifiable social impact. It looks at investment opportunities that address disadvantage and improve employment, education, housing and health outcomes.

In Australia, a great summary of current impact investors, intermediaries and providers can be found at <https://impactinvestingaustralia.com/useful-links/>.

A good state of the nation report on sources of capital was written by Michael Traill in 2014 <http://www.socialventures.com.au/sva-quarterly/investing-in-social-change/> with a plea that there is a need for a more efficient capital market for social purpose in Australia.

² The Not for Profit Sector in Australia: Fact Sheet [http://eprints.qut.edu.au/75397/4/75397\(updated\).pdf](http://eprints.qut.edu.au/75397/4/75397(updated).pdf)

Where's it all heading?

There are signs of future convergence

In the movement for more “for purpose” organisations, the defining lines and reasonings for profit and not for profit are getting blurrier and opportunities for equity investments are getting greater.

Leapfrog Investments is a very interesting profit for purpose private equity fund with over \$1B invested in developing countries. Investors include U.S. government's development finance institution OPIC and Australia's Christian Super. One example of Leapfrog's investment is Alllife where equity is being invested for impact into an insurance company for people with HIV who previously couldn't get cover. <https://thegiin.org/knowledge/profile/alllife>

Emergence of B- Corps

As one investor surveyed by Impact Investing Australia said, “my dream is that every business creates a positive societal impact” which is what B-Corps (Benefit Corporations) do. Maybe that's the future convergence for sustainable businesses? “Benefit corporations operate the same as traditional corporations but with higher standards of corporate purpose, accountability, and transparency. Benefit corporations give leaders legal protection to pursue a higher purpose than profit, and offer the public greater transparency to protect against pretenders.”³

Allan English is another top favourite Queenslander of mine with his family foundation www.englishfoundation.org.au and he runs a B-Corp. Allan lives and breathes what he believes in and invests in. Just last week he reinforced to me how the impact investing space is changing so rapidly. Silver Chef, the company that he founded and took to the stock market, has a current value of \$260M and became a certified B Corporation in 2015. Allan put 50% of his shares into the English Foundation which supports many organisations through impact investing and philanthropy with a focus on maximising social impact. recently

The emergence of B-Corps in Australia appears to be here to stay with over 1200 accredited globally. <http://bcorporation.com.au> does the accreditation.

The Shared Value movement is an area worth watching. The core principle is that business has the best capacity to solve social issues with business and social returns. Here in Australia go to www.sharedvalue.org.au and in the USA, www.sharedvalue.org. In some ways, not new at all as Bendigo Bank has been doing it for over 150 years.

Crowdfunding is worth watching

Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large group of people, usually individual consumers, typically via the Internet. One of the cleverest people around is former colleague Prashan Paramanathan who co-created Chuffed - www.chuffed.org one of the leading crowdfunding organisations, helping to fundraise for social, community or political causes. What is particularly interesting is how it is a great example of its change from a not for profit organisation into a for profit organization (social benefit company) so that it could take in venture capital for its own growth after receiving charitable funds when it was a not-for-profit.

³ <http://bcorporation.com.au>

<http://www.theaustralian.com.au/business/technology/chuffedorg-passes-10-million-in-step-towards-social-good-economy/news-story/9f0017dee02a125309749b3300943865>

Crowdfunding itself has just morphed into the equity field in Australia where the government has released draft legislation to allow crowd-sourcing equity funding to private companies.

<http://www.afr.com/leadership/entrepreneur/venturecrowd-ceo-vivian-stewart-slams-lengthy-crowdfunding-legislation-process-20170509-gw0mkl>

High global growth in Impact Investing

Globally the Impact investing area is attracting a lot of attention with high growth. Funds with both debt and equity options are available to invest in. As detailed in the Impactbase global investment database of over 400 funds with \$32B of impact investments, over 50% of funds are private equity or venture capital based.

https://www.impactbase.org/sites/default/files/giin_impactbase_400_funds.pdf

Government's role is also changing in the support of growth in developing countries. Where previously government foreign aid was in grant form, there is a realization by governments worldwide that development impact can best be achieved in collaboration with the private sector. Development finance Institutions are growing with the backing of impact investors. In Australia, Department of Foreign Affairs and Trade has built a business partnerships platform to attract funding and growth for commercially sustainable solutions for development challenges.

Emergence of market based solutions

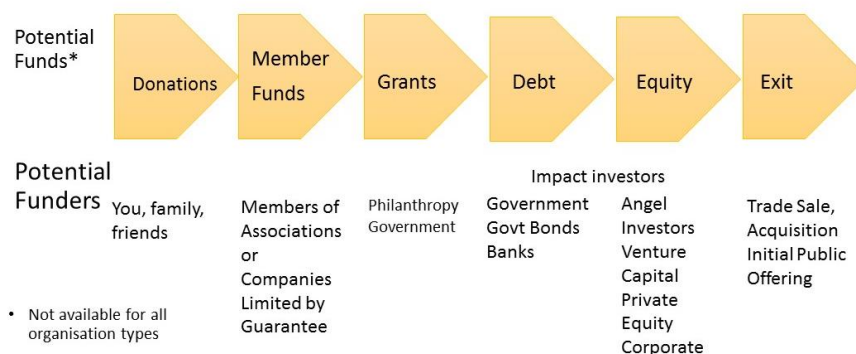
This is an exciting time to engage as new rating organisations for sustainability become potential long term institutions. Will the Dow Jones Sustainability Index or the FTSE4Good Index designed to measure the performance of companies utilising Environmental, Social and Governance (ESG) standards be the standards of our future organisations creating social impact? I've just invested in a "global sustainability leaders" fund.

How do you get there?

What are the options for funding of social impact?

If you're a startup, you've been through the rounds of your own pockets, family, friends and community. What's next? There is an array of possibilities which is summarised here.

Who are the funders and what funds are available?



Some options will not be available to you depending on your company structure. A high level of “investment readiness” is vital for your successful funding applications so get advice and mentoring well before you pitch to funders. Limited investment readiness funds are available at

<http://www.impactinvestmentready.com.au/>

It's the outstanding entrepreneurs who get the funding

Great business plans and evidence are essential but it's always the outstanding entrepreneur who gets funded. Luke Terry in Toowoomba is by far my most favourite social entrepreneur who keeps adapting, innovating and proving the success of sustainable social enterprise as he spots opportunities, secures contracts and finds capital. His latest enterprise opened by the Prime Minister is Vanguard Laundry, a laundry service which provides jobs training for local people in Toowoomba who need a helping hand. <http://www.vanguardlaundryservices.com.au/>. Luke raised over \$6M capital in 2016 including \$2.1M borrowings from social impact financiers plus donations to establish the new laundry.

Measurement of social impact is key

Investors want to know what the social impact was, as well as the financial return. One of Australia's experts in this area is [Simon Faivel](#) Chair, Steering Committee - Social Impact Measurement Network of Australia, who has workshopped this with many thousands of people in the last 10 years. I have had the pleasure of doing a few of the presentations on social impact with Simon when he was visiting Queensland.

You don't have to be a not-for-profit to get funding for your social impact

Not-for-profit doesn't equate to “good” and for-profit doesn't equate to “bad” – “for purpose works well.”

If you are a startup looking to create major social impact and needing capital to grow, I trust you've found a few pathways here. I believe you are more likely in the long term to become a for profit “for

purpose” organisation. Gift funding, capacity building funds, debt and equity are all options to be considered.

You can't work alone – who will you partner with for growth?

Developing strong partnerships will help you realise the funding you need in the long run. As growing start-ups, it's the access to introductions, networks, knowledge, distribution systems, assets, data, customerbases and in-kind assistance that will propel you forward. Identifying the best potential partners and building the relationships is the first essential stage rather than your dollar hitlist. Your partners will have a common purpose of solving this social and business problem together and successful funding rounds will be an enabler for your work not the focus.

Questions for you to ponder

As we “morph” away from the not-for-profit social enterprise space into “for purpose” organisations attracting impact investors from philanthropists to angels to corporate venture capital funds, there are many questions to consider:

- Who is aligned to your mission and the problem you are solving?
- Who are the other partners you will need to create success in the industry you choose?
- What value do you bring to the partner?
- What are you thinking of in terms of the best company structure and how will you reward your investors?
- Are you willing to share equity?
- Do you want a gift or a loan? How will you pay it back?
- There are impact investors out there looking for you. How will you find them?
- How will you demonstrate impact and outcomes?

Let's start the conversations and get you partnered for impact.

We would welcome your questions and comments.