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Examples of Impact Investment

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Goodstart Early Learning

Size of Deal: Large
Location: Australia
Sector: Education

Overview

A pioneering example of impact investment at scale within the Australian market.

Goodstart Early Learning is a not-for-profit social enterprise that provides early learning childcare services throughout Australia. It was formed in 2008-09 by a consortium of leading community-sector organisations that came together to submit a competitive tender following the voluntary administration of ABC Learning, formerly the world's largest provider of early childhood education services.

After securing AU$95 million in investment capital from bank debt, government loans, subordinated notes and private impact investment, the GoodStart consortium purchased the 678 childcare centres in December 2009 and began implementing the Goodstart social enterprise model.

The deal had a layered finance structure, combining senior and subordinated debt. The private impact investors provided $22.5M at 12% p.a. By 2011-12, Goodstart had met liabilities to lenders, and secured a surplus of $8.3 million and reduced debt by $16 million.

Goodstart now operates 649 early learning centres in all States and Territories of Australia, employing around 13,500 people and caring for 70,500 children.[1] It continues to champion access for disadvantaged families and communities, and lead sector transformation.

Key Information

Mission	Organisation	*To ensure children have the learning, development and wellbeing outcomes they need for school and life.* *To provide high-quality, accessible, affordable, community-connected early learning; to partner and openly collaborate with the sector to drive change for the benefit of all children.*
	Deal	"To buy a significantly scaled childcare chain and run it with business discipline for social purpose."[2] - Michael Traill AM, Chair of Goodstart
Partners		Goodstart consortium: Social Ventures Australia (SVA), the Benevolent Society, the Brotherhood of Saint Laurence, Mission Australia

[1] See Goodstart Early Learning 2017 Annual Report: https://www.goodstart.org.au/getattachment/34ab9d61-418c-4500-9f5b-b7077bcbd471/.aspx
[2] Cited in Social Ventures Australia, SVA Quarterly, May 2013: https://www.socialventures.com.au/sva-quarterly/goodstart-a-story-of-impact-investing/

Investment	Layered, combining structured and unstructured debt: • National Australia Bank: secured senior debt – $50 million over 5 years at 10% • Australian Government: secured debt – $15 million over 7 years at 6% • 41 private social impact investors: unsecured social capital notes – $22.5 million over 8 years at 12% • Members of Consortium: unsecured subordinated notes – $7.5 million over 20 years at 15% • Members of Consortium: non-cash deeply subordinated notes – $10 million at 15% for advisory services • NAB: operational capital – $70 million in various forms
Financial Return	2011-12: Goodstart reported a surplus of $8.3 million and reduced debt by $16 million; all financial liabilities to lenders were met. 2014: Goodstart repaid all external debt years ahead of schedule ($43.1 million, saving a projected $12.4 million in interest repayments)
Measurable Social Impact	• Centres up and running under social enterprise model of quality childcare. At 30 June 2017 - • Quality childcare for over 70,000 children • 649 childcare centres • Employment for >13,000 people • 27% increase in social purpose spending to $21 million
Lessons for entrepreneurs and investors	• Layered investment can be a way of accommodating diverse risk appetites. It can also be a channel for innovative financial instruments. • Networks are important for securing trust, mobilising action and generating sufficient support for sector change. They are vital conduits to funding. • A passion for social impact must be coupled with strategic vision as well as sound business acumen for sustainability of model. • Look to the state of the market for investment appetite & opportunities. The sectoral environment can provide cues for timely product modification/development and chances for leverage. • Look for evidence of genuine partnerships and collaboration when seeking investment opportunities. Scale/impact is likely to be greater when there are multiple (intra- and inter-sectoral) stakeholders on the same page.
More Information	https://www.socialventures.com.au/assets/Goodstart-report-Final.pdf

Who Gives a Crap

Size of Deal: Small
Location: Australia
Sector: Environment

Overview

A start-up social enterprise with quirky, clever branding that mobilised crowdfunding and a working capital loan to scale revenue by more than 250%.

Who Gives a Crap was founded in July 2012 by Simon Griffiths (CEO), Jehan Ratnatunga, and Danny Alexander. A social enterprise creating forest-friendly toilet paper, WGAC donates 50% of all profits to organisations building toilets and implementing sanitation programmes around the world.

The co-founders received their initial capital through a popular crowdfunding campaign, in which Simon sat on a toilet for 50 hours in order to raise $50,000.

In 2014, Impact Investment Group and Cubit Family Foundation both gave Who Gives a Crap a working capital loan in order to finance the purchase of additional inventory of the core product line. This loan enabled the enterprise to meet consumer demand and increase total donations to $428,500 by the time of repayment.

Who Gives a Crap has now expanded into the UK and US.

Key Information

Mission	Organisation	To create ethically-made, environmentally-friendly toilet paper that enables 50% profits to be donated to build toilets and implement sanitation programmes in the developing world.
	Deal	To purchase additional inventory of core product line in order to increase production volumes and meet consumer demand.
Partners		Donation Partners – WaterAid Australia; Sanergy; Shining Hope for Communities; Lwala Community Alliance
Investment		Private; fixed income (unsecured debt) – 2 x working capital loans of $200,000 provided by Impact Investment Group and Cubit Family Foundation
Financial Return		Monthly interest rates of 1%, with interest paid each quarter. Half of all profits are donated; the other half are reinvested into the business for core growth.
Measurable Social Impact		• At the loan's maturity, Who Gives a Crap had donated $428,500 to its partners to fund access to clean toilets in East Timor and Papua New Guinea • To date, over $1.2 million donated to charity. • Number of environmental benefits due to specific product choices

Lessons for entrepreneurs and investors	• Demonstrating consumer demand through a crowdfunding campaign can be a powerful leveraging tool to inspire further (e.g. private) investment. • A venture's social impact can be an important branding point. It should fit within an overall communications strategy that delivers clarity of concept to consumers, potential investors and the market at large. • Keep things simple! Everybody loves a good idea expressed cleanly and actioned without fuss. • For investors, working capital loans are a method of leveraging investment with a pay-back for other social investments.
More Information	https://impactinvestingaustralia.com/case-studies/who-gives-a-crap/

Nightingale Housing

Size of Deal: Medium
Location: Australia
Sector: Housing

Overview

Nightingale Housing is a triple bottom line housing model that licences architects as developers to build sustainable, well-designed urban apartments for affordable home ownership.

A not-for-profit company based in Melbourne, Nightingale Housing was founded by architect Jeremy McLeod in 2016. After completing a successful sustainable building project in Brunswick called The Commons, Jeremy sought collaboration with a number of established architecture firms around Victoria to kickstart similar builds. This consortium led to the proposal for Nightingale 1, a five-story block of 20 apartments in inner-city Melbourne.

Given that developers traditionally require financial returns of >20%, and the Nightingale model caps investor profit margin at 15%, the consortium wasn't able to secure mainstream financing for the project. Instead, Social Enterprise Finance Australia (SEFA) formed a debt syndicate with Social Ventures Australia, Christian Super and two private family foundations to fund construction.

This flexible mechanism enabled Nightingale Housing to complete the project to great acclaim and a waiting list of almost 1,000 people. They have now scaled operations to have 12 further projects in development.

Key Information

<table>
<tr><td rowspan="2">Mission</td><td>Organisation</td><td>To build homes for people to live in, rather than invest in.
To deliver homes that are socially, financially and environmentally sustainable.</td></tr>
<tr><td>Deal</td><td>To construct a triple bottom line inner-city apartment building that cuts out the need for developer-finance and provides affordable housing for long-term owners.</td></tr>
<tr><td colspan="2">Partners</td><td>Consortium of leading Melbourne-based architecture firms:
• Breath Architecture (Jeremy McLeod)
• Austin Maynard Architects
• Clare Cousins Architects
• MRTN Architects
• Six Degrees Architects
• Architecture Architecture
• Wolveridge Architects
• Robin Boyd Foundation</td></tr>
<tr><td colspan="2">Investment</td><td>$6 million - equity (concessional) and debt
Debt syndicate led by SEFA, and including SVA, Christian Super and two private family foundations</td></tr>
</table>

Financial Return	Investor profit margin capped at 15% over 3 years. Project has been extremely successful; concept has outgrown social finance capacity.
Measurable Social Impact	• Introduction of new affordable housing model for inner-city living – has led to significant sector interest and consumer demand. • Construction of 'homes' that are environmentally, socially and financially sustainable. Esp. – - No fossil fuels - No mechanical air conditioning - Rainwater storage - Solar hot water array to rooftop - Rooftop garden - Shared spaces for community building • Assistance to first-home buyers
Lessons for entrepreneurs and investors	• Ventures don't have to be bound by status-quo financing. Look for innovative funding models to make a model work. • When sourcing investment, find partners whose values and mission align closely with that of the venture. The relationship is more likely to last and investors are more likely to be open to doing things differently if there are shared intentions and expectations around the projected social impact.
More Information	http://nightingalehousing.org/

BBOXX and Bamboo Capital

Size of Deal: Large
Location: United Kingdom
Sector: Energy & Environment

Overview

A first-of-its-kind investment platform aimed at scaling energy access in the developing world.

Bboxx is a not-for-profit company founded in March 2010 that designs, manufactures and distributes innovative, affordable solar systems to off-grid communities across Africa and the developing world. Bamboo Capital Partners is a private equity firm that invests in finance, energy and healthcare where there are opportunities for high growth and measurable social impact.

In February 2018, bboxx and Bamboo Capital launched the BEAM platform. An initial USD$50 million equity investment into bboxx and its data-driven distributed energy service companies (DESCOs) will enable the provision of reliable off-grid energy infrastructure to consumers in Africa and Asia. The BEAM platform is also intended to unlock further capital though debt and co-investments.

Key Information

Mission	Organisation	To provide 20 million people with affordable, clean electricity by 2020.
	Deal	To expand the bboxx model into Africa and Asia and catalyse substantial investment into reliable off-grid energy access initiatives in the developing world.
Partners		• Africa Enterprise Challenge Fund (AECF) • Global Off-Grid Lighting Association • The Institution of Engineering and Technology • The Program on Energy and Sustainable Development, Stanford University • Power Africa • United Nations Foundation
Investment		USD$50 million in equity for bboxx and its distributed energy services companies.
Financial Return		Unknown. This is a new deal.
Measurable Social Impact		Since 2010, bboxx has produced nearly 150,000 units and sold to over 35 countries, providing over 625,000 people with electricity. Over 40,000 tonnes of CO_2 have been offset, and $2.4 million saved by customers on energy expenses. This deal will enable bboxx to scale operations to reach more rural communities, working towards their aim of supplying 20 million people with electricity by 2020.

Lessons for entrepreneurs and investors	• Funds can be valuable mechanisms for enabling access to equity before debt becomes viable. • Collaborative disaggregation can replace vertical integration as a way of enabling scale. • Close partnerships between investors and ventures enable both sets of resources, expertise and networks to be leveraged for greater project impact. Collaboration is usually critical for sector transformation.
More Information	http://www.bboxx.co.uk/beam-investment-platform-deploy-initial-50m-scale-energy-access-developing-world/

Peterborough Social Impact Bond

Size of Deal: Large
Location: United Kingdom
Sector: Criminal Justice & Recidivism

Overview

The world's first payment-for-success instrument, the Peterborough Social Impact Bond was a pioneering financing mechanism aimed at bringing together the public and private sectors for outcomes in the area of recidivism.

A social impact bond (SIB) is a form of outcome-based commissioning. Social investors provide the upfront capital needed by a provider to perform a service that aims to deliver outcomes resulting in public sector savings. Only if these expected outcomes are achieved does the government repay investors with interest.

The Peterborough SIB, launched in 2010, was used to fund an intervention by 'The One Service' to reduce reconvictions among prisoners released from Peterborough Prison within the UK. Support through The One Service was available to three cohorts of 1000 short-sentenced male prisoners on a voluntary basis for 12-months post-release. A total of 17 impact investors committed £5 million, with financial return aligned to the expected impact of reduced reoffending. According to the terms of the SIB, if The One Service was able to reduce recidivism rates by a minimum of 7.5% across the whole pilot against a national comparison group, then the government would repay investors.

The programme had been intended to run for seven years, but the roll out of national reforms to probation cut short operations in 2015 with only two cohorts. In July 2017, a final independent evaluation of the Peterborough SIB took the weighted average of these two remaining cohorts and reported an overall reduction in reoffending of 9%. This was sufficient to trigger outcome payments to investors.

Key Information

Mission Deal	To reduce rate of reconviction events relative to counterfactual. Target: 7.5% reduction.
Partners	HM Prison Peterborough + UK Government + 'The One Service' – provided by St Giles Trust, Ormiston Families, Sova, MIND, TTG Training, YMCA and John Laing Training, and managed by Social Finance. During the course of operations, The One Service also worked with the Police, Probation, Integrated Offender Management Teams, the local authority, local statutory providers and the voluntary sector.
Investment	17 investors provided £5M of upfront capital.
Financial Return	Investors received a single payment from the government representing their initial capital + return amounting to just over 3% per annum for the period of investment (5 years).
Measurable Social Impact	• Reoffending rate reduced by 9% (average across two cohorts) – enabling these individuals to pursue independent lives and remain with their families.

	• Safer communities • Savings to the government resulting in alternate allocation of taxpayer money
Lessons for entrepreneurs and investors	• When there is collaboration among organisations working in the same sector, there is a greater pool of expertise and perspectives that can be leveraged to solve a problem. This also means that funds can be channelled into the same cause, rather than spread across competing projects. • If there are multiple stakeholders working on the same project, there needs to be consensus on the target demographic and impact. Participating organisations may have different ideas on the root cause of a problem, or how to solve it, but they ultimately need to agree on a plan of action to make sure efforts are transparent, focused and properly coordinated. • There is the potential for government to make notable savings by harnessing the talent and expertise of the NFP and private sectors to solve an entrenched social problem. • As with many entrenched social challenges, it can be difficult to determine whether outcomes are directly resultant from an intervention. It helps if the target impact is clearly defined and not too broad, and actions are matched • Bonds are generally more secure forms of investment (than private equity). They can be a good introduction to social impact investing.
More Information	https://www.gov.uk/government/publications/final-results-for-cohort-2-of-the-social-impact-bond-payment-by-results-pilot-at-hmp-peterborough