What is the impact of 'impact investing'?

November 21 2017, by Erin I. Castellas And Jarrod Ormiston

The financial returns from "impact investing" are on par with mainstream investments, according to a recent report. Impact investing aims to generate a social or environmental return (such as affordable housing or a reduction in greenhouse emissions) as well as a financial one.

Our research shows that impact investors have already funded many significant social and environmental programs in Australia. These range from investing in schools and programs for the homeless, to renewable energy.

Australian debt impact investments have returned 7.9% over a five-year period, compared to expectations of a 7% market return. This disproves the idea that there is a necessary trade-off between impact and financial returns.

However, it is still too early to determine how material the financial investment is to the impacts that are created.

What's the impact?

Our research shows that impact investing in Australia has supported:

- 60,000 vulnerable Australians through access to health, education services and jobs training
- 126 schools through investments in new facilities, training and inclusion programs

- 319 jobs, including for those typically marginalised from mainstream employment such as the long-term unemployed
- 1,072 people with disabilities, by funding disability support enterprises
- 11,501 MWh renewable energy generation through investment in wind farms

And this list isn't extensive. Australian investors also support carbon reductions, mental health support, foster care reductions, and teacher training etc.

Australian impact investors also support more than 7,000 people living in poverty, primarily by addressing their exclusion from the financial system. For example, an impact investor may invest in a business that provides accessible and affordable finance to people who have typically been excluded from mainstream financial services.

The potential for impact investment to create social change is exemplified by an A$300,000 equity investment into STREAT in 2012. STREAT is a Melbourne-based social enterprise that provides training and employment opportunities for homeless and disadvantaged youth.

The investment, which aimed to achieve between 5-7% returns, was used to double STREAT's operations and acquire two cafes and a coffee roasting business. This, in turn, helped STREAT to provide more sustainable revenue and training opportunities for its young people.

Another example is the A$7 million raised from private investments when the NSW government sold "social benefit bonds" in 2010. This money was used to fund activities focused on restoring children in out of home care to their families.

In the first four years the program restored 203 children to their families and prevented another 55 families from having their children entering care, all while giving a 13.2% annual financial return to investors.

A maturing sector

Australia's impact investment market grew from just one deal in 2010, to 92 deals and over A$1.2 billion invested by the end of 2015.

The New South Wales, Queensland, South Australian, and Victorian state governments have all sold social benefit bonds to fund programs tackling homelessness, or to make families more resilient.

Many private impact investment funds have also launched recently, such as the Murray-Darling Basin Balanced Water Fund which trades water rights and aims to restore water to the local ecosystem. The Giant Leap venture capital fund invests in social and environmental businesses.

While our research shows that impact investing is already making a difference in Australia, these metrics don't say anything about quality. For example, of the jobs that were created, how were people's lives affected? Did this job creation lead to improved well-being? Would these jobs have been created in absence of the investment anyway?

These questions are yet to be resolved and lead to further questions about the meaningfulness of reports about impact. Additionally, given the complex nature of trying to measure the result of diverse initiatives on the lives of vulnerable people, impact is not easy to compare or measure consistently. This makes it challenging to determine impact at a market or even portfolio level, and so it is often individual deals and stories that are highlighted.

Looking past individual success stories, not all investments are doing well and not all investors know how to track, measure, aggregate, attribute, or scale impact. Although, as the market grows, expect to see new and better measurement tools, as well as greater scrutiny on whether and how impact is being delivered. Without impact, there is no impact investment.

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