

# Impact Investment in WA

Leverage funding to support and scale your social enterprise

1<sup>st</sup> November 2023



# Who we are

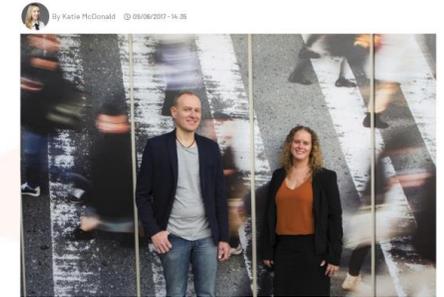


WA's capacity builder for the social enterprise, impact investment and social innovation ecosystem

Our **vision** is to catalyse systems-change across finance, business and entrepreneurship by integrating social, cultural and environmental impact as key outcomes alongside financial metrics for organisations, and to support ventures and investment.



BUSINESSNEWS  
Seed funds for social impact



AUSTRALIA  
bono  
ocates say WA is ripe for impact investing

ct investing is yet to gain traction in Western Australia, but a new cross-sector alliance is ig to change this by building the state's impact investment market from the ground up.



[From L to R] Paul Flatau, Treasurer Ben Wyatt, Sven Stenvers, Kylie Hansen, and Dan Minchin at the Iiwa



# Today's objective

Introduce the key concepts of impact investment and practically link it to social enterprise and how it can be leveraged for growth.

## Topics covered:

- Definitions and key concepts
- Types of investments / financial products
- Real life examples
- WA landscape
- Impact Loan Fund

# What is impact investment?

## Impact investments

- Investments that intentionally seek to generate both positive social, environmental or cultural impacts AND financial returns.
- The social /environmental / cultural impacts are measured and reported on.

## 'Finance-first' impact investments

- Generate a market risk-adjusted rate of return.

## 'Impact-first' impact investments

- Prioritise impact and generate a sub-market risk-adjusted rate of return.
- Often invest in innovation and higher-risk proof of concept/pilots

# The impact investment spectrum

APPROACH	TRADITIONAL INVESTMENTS	RESPONSIBLE INVESTMENTS				PHILANTHROPY
FOCUS	FINANCIAL ONLY	NEGATIVE SCREENING	ESG INTEGRATION	IMPACT INVESTMENTS		IMPACT ONLY
				FINANCIAL-FIRST	IMPACT-FIRST	
FINANCIAL GOALS		Target competitive risk-adjusted financial returns			Accept low risk-adjusted returns	Accept partial/full capital loss
FEATURES		Manage ESG risks				
			Pursue ESG opportunities			
		Intentionality: delivering impact is central to underlying assets/investments				
		Impact investment is measured and reported				
IMP INTENTIONS	MAY OR DO CAUSE HARM	ACT TO AVOID HARM		BENEFIT ALL STAKEHOLDERS		
			CONTRIBUTE TO SOLUTIONS			

Source: Adapted from Bridges Fund Management (2014), PRI (2013), RIAA (2019), UK NAB (2017), Impact Management Project (IMP) (2018)

Seeks financial returns regardless of ESG factors

Negative screen examples: tobacco, weapons, gambling

Factors considered: carbon footprint, gender equality

Impact and financial returns drive investment

Impact takes precedence over financial return

Financial returns disregarded in favour of impact

# Where does social enterprise fit in?



# Example of target issue areas

## Renewable Energy Investments

Investment in companies that operate solar farms

## Microfinance

Small loans to low-income individuals

## Affordable Housing

Investment in development projects that increase availability of affordable housing

## Sustainable Agriculture

Investment in companies that practice renewable agriculture practices

## Education Technology

Investment in education technology companies that aim to make education more accessible

## Healthcare

Investment in healthcare sector in regions where services are lacking.

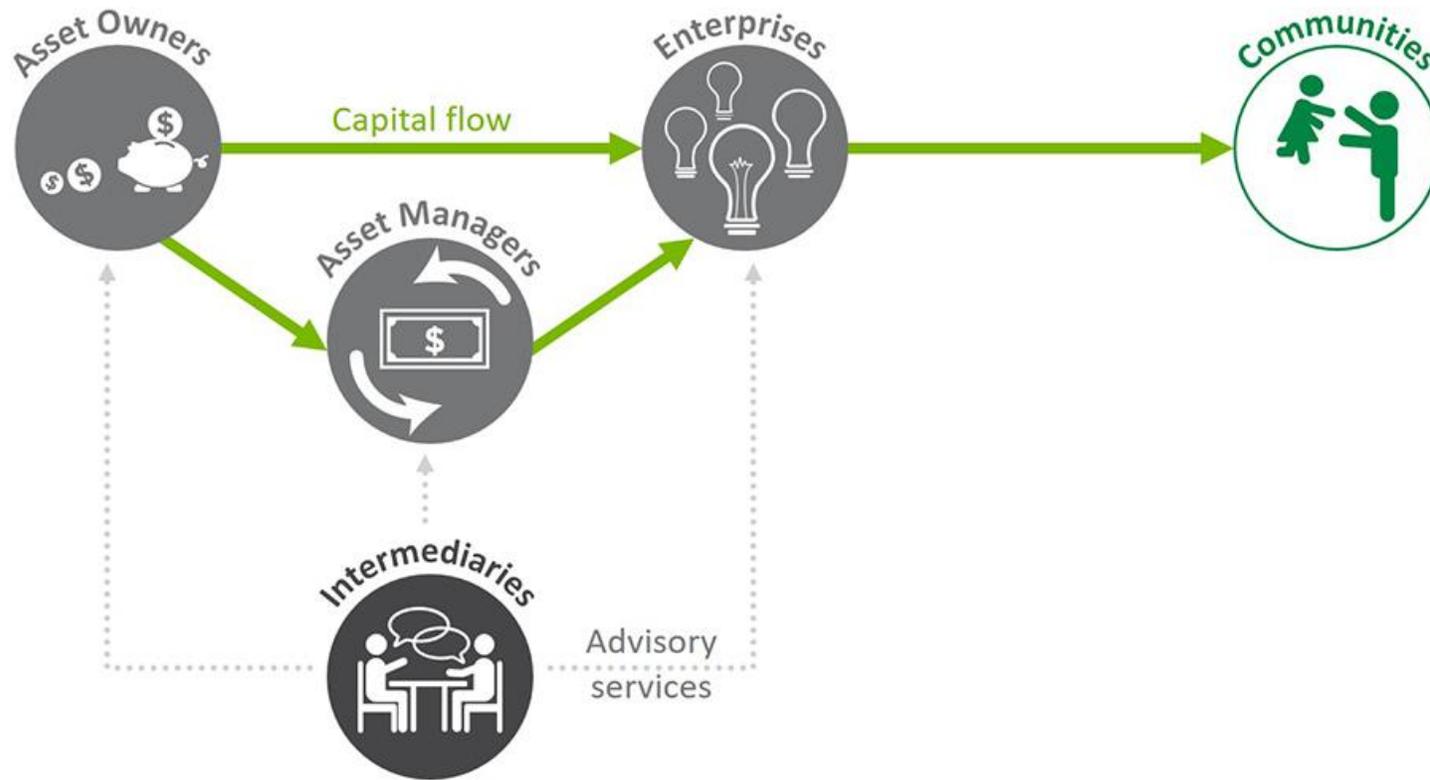
## Employment

Investment in companies that create employment pathways for people with barriers to employment.

## Underserved communities

Investment in small businesses in under-invested communities

# Who is engaged in Impact Investing?



**Asset owners:** do their own investing or hire asset managers (foundations, individuals, super funds, banks)

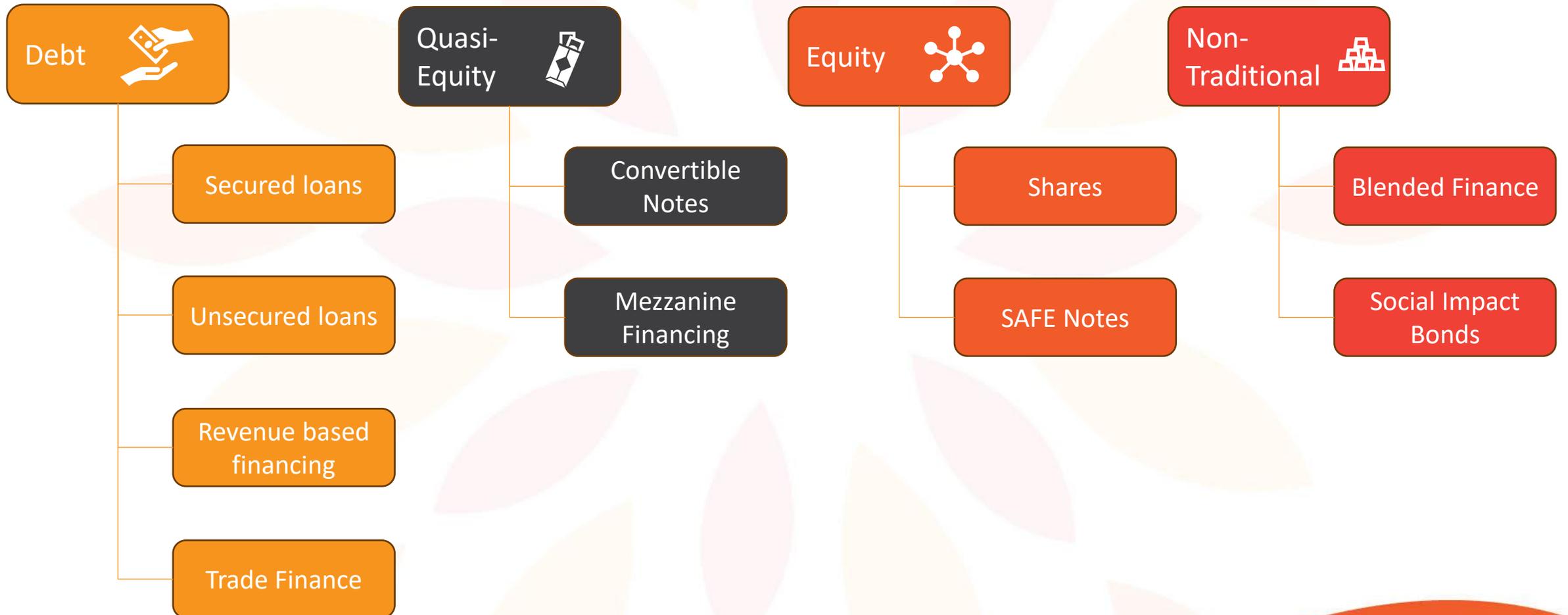
**Asset/fund managers:** invest on behalf of asset owners (funds, debt lenders, banks)

**Intermediaries:** provide capacity building and advice to stakeholders and bring parties together to design a investment

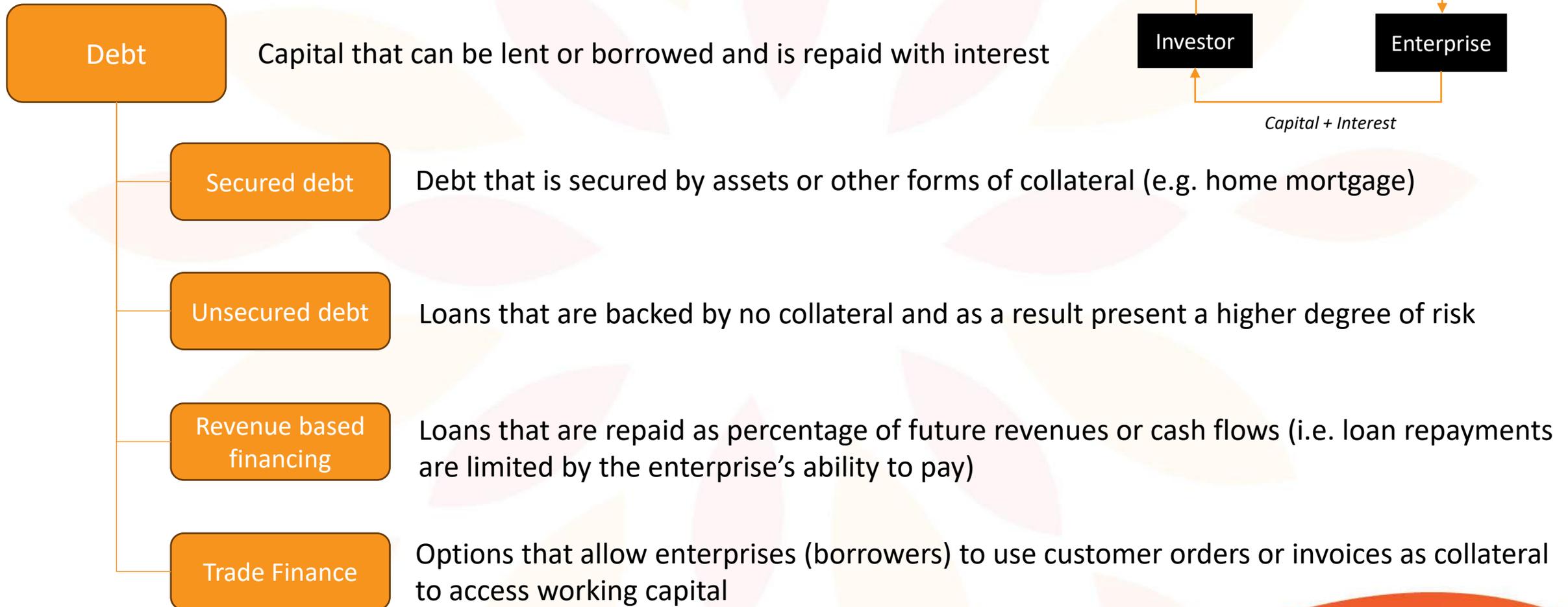
**Enterprises:** receive impact investment to grow activities. Can be for-profit or non-profits

**Communities:** benefit from activities of enterprises

# Types of Investments or Financial Products



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## Quasi-Equity

Funding that is a combination of equity and debt

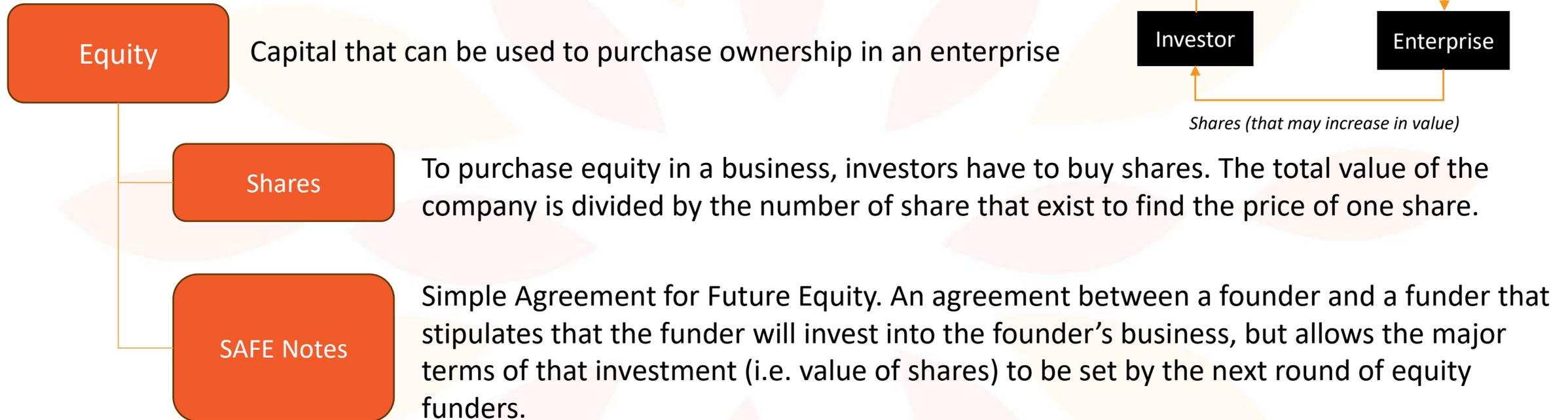
### Convertible Notes

A debt agreement that converts into equity at a later date, normally when the enterprise raises a round of equity capital. When the enterprise raises a round of equity capital the amount of the loan outstanding is used to buy shares of the company (at a discount given the early stage risk the investor has taken on)

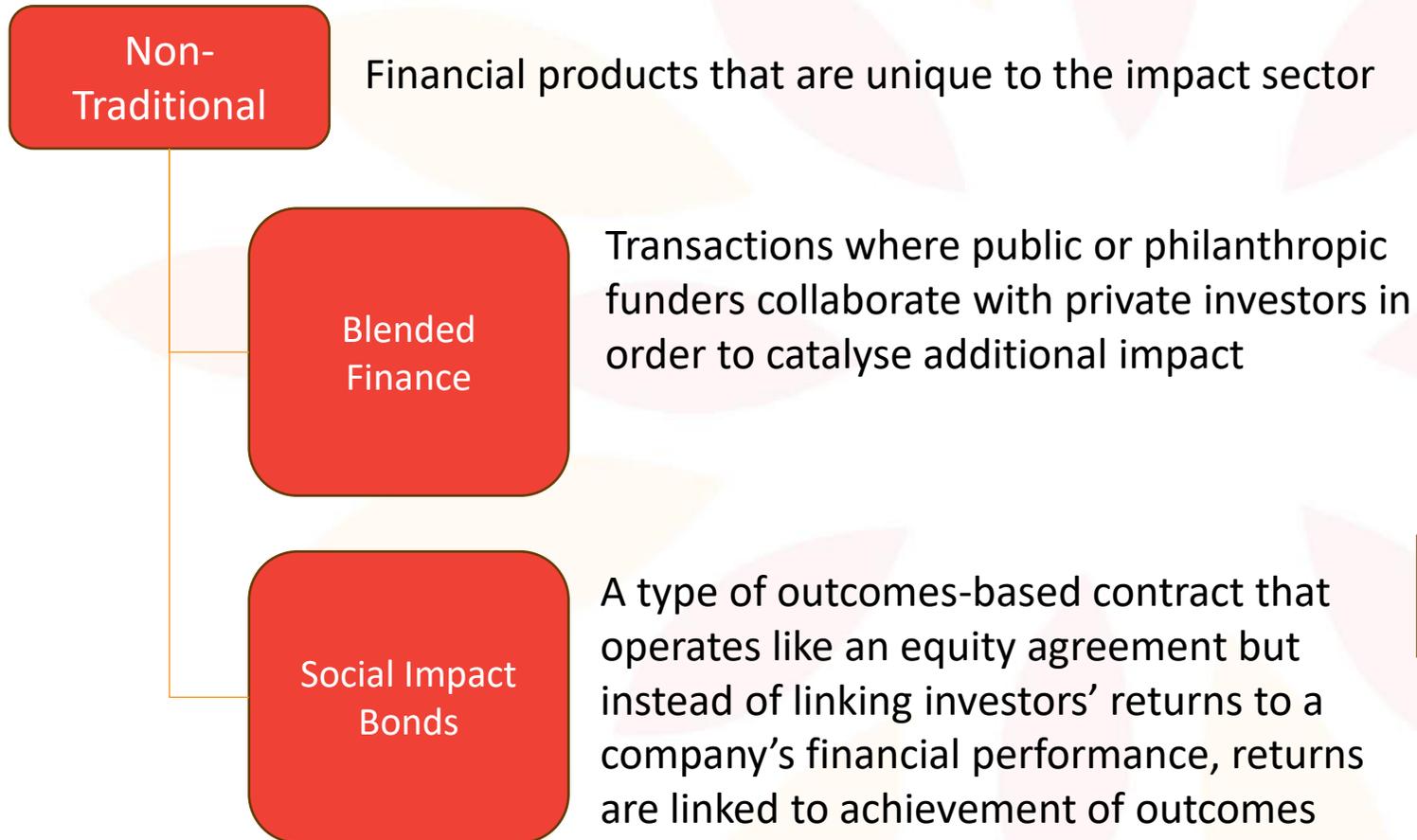
### Mezzanine Financing

Combines elements of debt and equity to create funding that has more flexibility than pure debt or equity. For example a loan that is paid back with fixed interest and has upside through profit share.

# Types of Investments or Financial Products

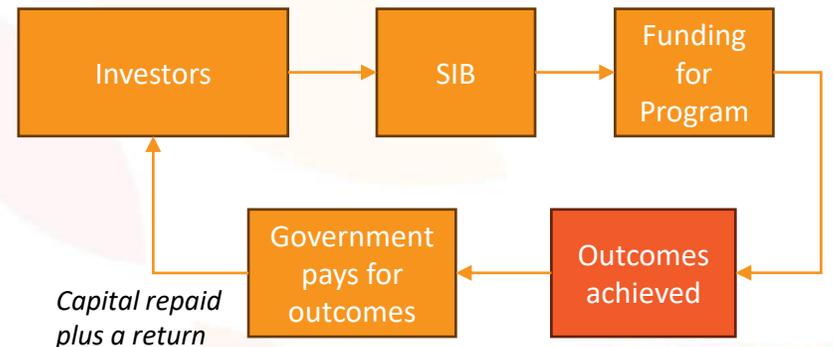


# Types of Investments or Financial Products



Layer 1 (\$200k) – private investors that receive risk-adjusted returns and are first to be repaid in an event of default

Layer 2 (\$50k) – government/philanthropic investors that receive lower returns and are second to be repaid in event of default and have therefore derisked the investment for Layer 1 (incentivising them to invest)



# Examples

## Dismantle Unsecured Loan

- Raised \$250k debt from 5 investors
- Using investment to add a service offering to Renew (property maintenance social enterprise).
  - Capital expenditure required to buy new equipment
  - Working capital required to pay expenses (hire team etc) prior to being paid for new contracts

## Loop Unsecured Loan

- Raised \$250k debt from one investor
- Using investment for working capital critical to the growth in Loop's corporate clientele.



## Aspire Social Impact Bond

- \$9m raised to invest in outcomes for 600 homeless individuals over four years.
- Hutt St Centre (homeless services specialist), supported by housing partners, developed 'housing first' program that will help achieve health, justice and homelessness outcomes.
- Cost savings to SA government will pay for outcomes plus a return (approx. 8.5%) based on performance

# WA Landscape

- In Australia, impact investing is an increasingly popular investment approach as more investors look to align investment with their values and make positive impacts on society and environment.
- The impact investment sector nearly doubled from \$30bn in 2021 to \$59bn in 2022. WA portion of this likely less than 10%.
- There is growing momentum behind impact investing at a national level with some exciting developments (e.g. Budget 2023) that could be leveraged in WA.

## FINANCIAL REVIEW

### Making an impact: Why Chalmers is backing social investing



— Exclusive

### Big four may back \$400m social impact investment bank



### Call for social impact investing 'wholesaler' to attract capital

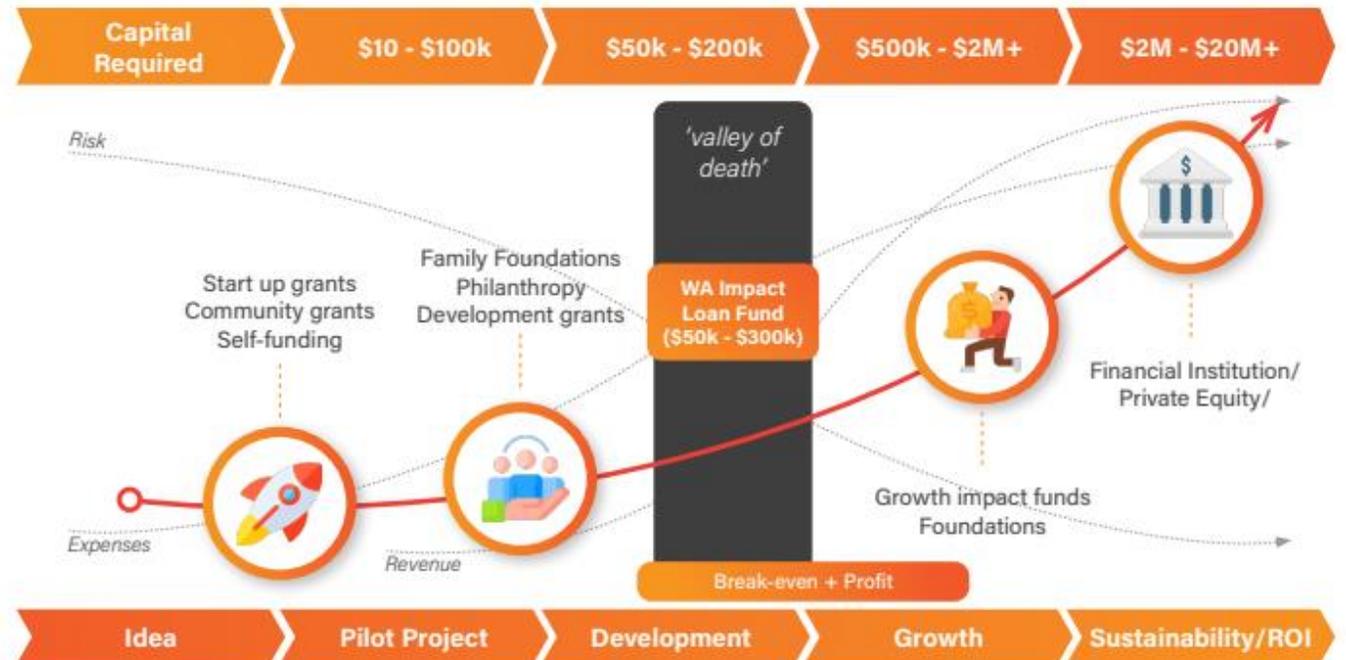


# Active impact investors in WA



# WA Impact Loan Fund

- Patient debt capital (3-7 years)
- Concessionary terms
- Loan sizes of \$50-300k
- Criteria:
  - Enterprise and impact grounded in WA
  - Demonstrated business model working towards financial sustainability
  - Committed and capable leadership
  - High social impact in the area of breaking cycles of disadvantage (e.g. job creation, health, education)



# How to start your funding journey

## What are our funding needs?

- How much funding do we need?
- What do we need to spend it on?
- How do we want to pay it back?
- What are our ownership expectations in the short/medium term? Long term?
- How involved do we want our funders to be?

## What type of funder is right for us?

- What types of funders are there?
- What kind of resources can they provide?
- What level of risk are they comfortable with?
- What kind of return do they require and when?
- Who are their stakeholders? How does funding get approved?

**If you are ready for investment:** access a directory of Impact Investors in Australia at the Impact Investing Hub: [www.impactinvestinghub.org](http://www.impactinvestinghub.org)

**If you require some investment readiness support:** reach out to Impact Seed



# Questions