Executive Summary
Civil society plays a crucial role in bridging gaps between systems of finance and social impacts. Traditionally, civil society is seen as separate from the market but, in reality, civil society actors are already impacting market systems. Civil society actors engage in grassroots community endeavors which have the potential to translate into valuable market analyses. They address power structures in ways that have been proven to positively impact successful deal construction. They approach impact investing with an “impact” and “gender first” framework.

While civil society is broader than non-governmental organizations, NGOs have a unique role to play in bridging government agencies and markets. Concurrently, NGOs are newly engaging in impact investing, providing new opportunities to incorporate different kinds of expertise into the standard investment process. This brief reviews the importance of engaging with civil society, and specifically with NGOs, in developing innovative approaches to impact investing broadly, and investing with a gender and social equity lens in particular. We discuss the importance of developing NGO capacities to serve as impact investment vehicles, review concerns raised by some NGOs about entering into this space and share potential opportunities for DFAT to play in facilitating and catalyzing NGO engagement in this process.

Introduction
Defining Civil Society
Civil society can have varying definitions and encompass a wide range of relationships and actions. For the purpose of this brief, civil society includes people acting at the individual level, as well as NGOs operating at the organizational level. Varying amounts of influence and power exist between these two distinct levels. For example, while individuals of common interests might congregate together to protest and thus exert their influence on a community decision or policy, an NGO might exercise their power by having designated “seats at the table” in policy decisions.

The environment in which civil society exists and operates is also important to note. As of 2016, there were approximately 600,000 charities and nonprofit organizations operating in Australia (Australian Government Department of Social Services, 2016). There is evidence that Australians are reliant on the nonprofit sector more now than ever before to perform direct services and to carry out government policies. This brief will examine civil society’s role in, and path toward, market-based solutions, with an emphasis on impact investing.

Civil Society’s Role in the Market
Civil society and civil society organizations possess a wide range of knowledge and expertise of their communities that is currently untapped in market-level decisions. Close to the ground, these individuals and organizations understand local and regional power dynamics, patterns of violence and exploitation, the dynamics of informal economies, where conflict or civil unrest is about to erupt, and more. They have experience in advocating for the most marginalized populations, in placing impact first, and in thinking about, and disrupting, systems (INGO Impact
Investing Network, 2018). These are valuable data that need to be translated as part of market analysis.

A powerful example of individuals in civil society acting in the face of power is the recent #MeToo movement. Many people came together to share their individual experiences of sexual harassment and assault, establishing a collective voice, and greatly impacting business practices, investments, and markets overall in the process. If investors had invited informed members of civil society into decision-making processes earlier on and valued that knowledge, they could have realized the market risk that sexual violence presents. Consumer behavior also is shaped by and reflected in civil society. It is important to engage with civil society actors in order to both expand whose voices matter in decision-making and reach more accurate market analyses.

While some firms view NGOs as lacking necessary corporate expertise and background in finance to reach desired goals, we argue that it is useful to consider the reverse. Rather than approaching engagement from a standpoint of teaching civil society organizations to play more of a role in market systems, we need to start by analyzing the role civil society is already playing in market formation and change. To understand the role civil society plays in shaping markets, we need to evolve our analysis of the relationship between behavior and cultural change and markets, and consequently value civil society organizations as agents of market formation and change.

Pacific RISE and Power Dynamics in Deal Making
Criterion Institute’s work with the DFAT-funded Pacific RISE program on power dynamics in deal making is an illustration of how this theory can look in practice. Through our engagement in this initiative we conducted a granular assessment of the deals conducted through the Pacific RISE program, with attention to the implications of power on deal making processes and success.

Through this power analysis, seven specific power dynamics were identified as crucial to the operating success within the deal-making processes. These dynamics include: knowledge, access, decision making, timing, transparency, risk sharing, and alignment and incentives. NGOs, with their relationships to local partners on the ground, and deeper awareness of systems of power to start with, serve as excellent vehicles to address these power dynamics in deal-making and should be encouraged to participate more fully in the development of the field.

Recently, Criterion invited investors and community organizations to a virtual design session to share the results of this power analysis and obtain additional input and feedback. While a number of different ideas and opportunities arose from the session, one particularly valuable take-away was how much the aspects of power that were already named as essential to successful deals (valuing local knowledge and partners on the ground, for example) proved also to be vital in the current climate of responding to COVID-19. This current health and economic crisis exacerbates, not diminishes, the need to review and address power structures in impact investing practice.
The relationship between governments and civil society in impact investing

Impact investing is becoming increasingly popular with NGOs. Research indicates that the momentum behind the field has continued to build and has already reached investor networks, academia, and the public sector (Global Health Alliance Australia, 2019). As of 2018, NGOs were managing approximately $916.7 million in assets (INGO Impact Investing Network, 2018). The INGO Impact Investing Network states, “As their understanding of the field has matured, INGOs have begun to be involved in increasingly sophisticated ways, including structuring complex blended finance deals, creating multi-stakeholder social impact bonds, and providing nuanced technical assistance to social businesses (INGO Impact Investing Network, 2018). NGOs have begun to use this knowledge to empower others and challenge traditional systems, seeking to address “difficult to reach markets” and “hard to structure investments.”

Plan International, World Vision, the International Red Cross, and Save the Children all are examples of international NGOs that have either considered, or already implemented, market-based strategies. Case study highlights from these organizations are summarized below, detailing why impact investing was pursued by the NGOs, challenges that were faced by NGOs in implementation, and opportunities for DFAT to accelerate this important work moving forward. The full case studies of Plan International Australia, World Vision Australia, and Save the Children Australia are available in the Annex.

Reasons Why Impact Investing was Considered or Adopted

- Alignment with programmatic goals and objectives
- Source of sustainable funding
- As a process for which to utilize strong evaluation methods and evidence-based decision-making
- The potential for increased impact
• Concern that if impact investment is led solely by private finance the field will not be well-shaped or well-equipped to truly address gender or social equity concerns
• As a method for convening new partners and increasing the flow of different kinds of knowledge
• Global networks of NGOs allowed for diverse and far-reaching partners to be brought into the process as effective stakeholders
• NGO staff possessed financial knowledge to build on

Challenges and Hesitations to Implementation
• Poses an increased risk to NGOs
• Requires increased legal capacity to carry out
• Concerns about legal and contractual compliance
• Internal struggles with “profit making” inside non-profit structures
• Limited opportunities to act as engaged partners or as a fund manager
• Perceptions of being inexperienced and expensive to work with in comparison to the private sector
• Concern regarding aggressive timelines promoted for pipeline development that are not always aligned with the timelines needed on the ground
• Fear of entering space that is “new”
• Risk of failure

Opportunities for DFAT to Influence and Accelerate NGO Involvement in Impact Investing
• DFAT might act as a convener for a wide range of NGOs, civil society actors, investors, and contractors working on impact investing to increase capacity and expand technical expertise.
• DFAT could allow and ensure that nontraditional models of investment are explored and adopted, beyond typical corporate methods.
• DFAT can continue to build on the work already being undertaken to incorporate civil society considerations into deployed capital, and progress further to include additional measures of accountability and even more innovative metrics.
• DFAT can act as a messenger to ensure that investors understand the unique and essential role that these types of organizations play in developing high social and financial investment returns.
• DFAT could improve investor confidence by de-risking initial investments.
• DFAT could also provide support through the development or support of wholesale investment vehicles.
• DFAT could support structural initiatives that allow non-profits to have increased agency and flexibility around profit-making impact investing initiatives.
Conclusions

Now more than ever, government agencies are in a position to proactively shape market systems rather than reacting to markets. In the ways that they show up, in whose voices are elevated, in how power is discussed and responded to, government agencies have a role to play in shaping the field of gender lens investing as leaders in social finance and social change. To play a proactive role, DFAT should build internal and external capabilities through funding, educating, convening, and supporting technical assistance in achieving these goals.

It is important to recognize, and fully understand, the strengths and unique value that civil society can bring to market analysis and the impact investing field. The benefits will prove mutual, as market-based solutions can offer sustainability to civil society actors and organizations during tumultuous times and constantly evolving funding landscapes. These mutual benefits can be further enhanced by DFAT’s involvement and support, acting as a convener, funder, thought partner, and leader in the field.

DFAT can serve as an avenue to welcome and encourage NGOs to the social finance space. According to the Development Practice Committee of ACFID, the peak organizing body for international development NGOs in Australia, convenings and panels to demystify the impact investment space—with speakers from NGOs who have formed funds and are engaged in this work successfully already—would be highly sought after and well-attended by NGOs interested in entering this space.

There also needs to be a flexibility and adaptability in approach, and an openness to new operating and financing structures. DFAT can act to legitimize opportunities for alternative approaches and processes such that social mission agencies are leading the development of this field, not those coming from the traditional finance sector. This could be achieved by collaborative design sessions bringing DFAT departments together with NGOs who are considering entering this field to discuss how best to support each other’s goals, including the ways that proposals and funds are drafted and managed.

The NGOs who have entered this space to date have done so largely without the aid of government support. Yet, as demonstrated with the success of World Vision’s entrance into the field aided by DFAT program support (discussed in more detail in the annex below), DFAT can elevate NGO likelihood of success. DFAT also has a role to play within the NGO community to build confidence in organizations who are considering engaging in impact investing but have concerns about what that engagement looks like or how best to proceed. In this ever-important time, DFAT is well positioned to serve as a catalyst to facilitate and broker increased NGO engagement and to encourage efficient and immediate responsiveness.
Annex

Case Studies of Plan International Australia, World Vision Australia, and Save the Children Australia

Plan International Australia has considered adopting an impact investing approach for several years. Initially, the organization looked at impact investing as a revenue-generating opportunity to support ongoing programmatic work. Considering the organization’s focus on the rights and protection of women and girls, they found gender lens investing to be especially relevant to their mission.

While Plan International still views this approach as an interesting opportunity, they experienced challenges in their journey to thinking about implementation. Plan International Australia has had to consider over time if they were better positioned to manage a fund themselves (given the feasibility of finding sufficient funds to make that sustainable) or be a technical partner. Plan International discussed creating a social venture fund with a gender lens, with Plan International Australia adding impact as a technical partner to that and other existing funds and investments within the Asia Pacific region. Another consideration in the process was the opportunity to align the INGO’s Reserve funds to a gender lens investment fund with their fund manager. However, the minimum fund amount required made this unfeasible, though they are continuing to explore this from an advocacy angle.

As an in-between option, Plan International Australia is seeking opportunities to allow them to closely work with fund managers as a consultant in an existing project or investment facility. Although there has been so much interest in the impact investing space, the organization found that there are not yet ample opportunities to match the demand. Although finding the right partner and opportunity has been challenging, they have not lost interest.

To improve impact investing approaches to reach broad-based behavior change, Plan International Australia recommended that any actors engaging in this practice consult the knowledge and expertise of local people and community-based, grassroots organizations to realign the power dynamics of investments. They also noted the importance of not just consulting with one person on gender and equity concerns, but making an effort to invite in multiple stakeholders that can provide comprehensive insight. To this end, it is important to note the cultural context and cultural differences across investment opportunities. These recommendations directly align with Criterion Institute’s Pacific RISE power analysis discussed above.
Plan International Australia’s experience to date is that some actors are reluctant to collaborate or share expertise, lest it diminish their own competitive advantage. In continuing their journey, Plan International Australia would value the opportunity to connect with other investors, contractors, and like-minded NGOs who are considering impact investing strategies in order to expand the technical knowledge of the entire group and support capacity-building. In particular, it would be beneficial for them to connect with legal experts, program officers, and other related NGO staff to talk through legal advice, risk, challenges, and benefits to moving in this direction. If a collaborative approach were to be pursued, intellectual property and cost/income sharing tensions would need to be managed, but the advantages of a coalition or even joint venture approach should be investigated.

World Vision Australia
World Vision Australia is a leader among NGOs entering the impact investing space. The organization is intentionally positioning itself as an “early adopter of innovative social finance mechanisms” with the aim of supporting the development of social enterprises in line with the SDGs. It has been highly successful to date, in large part due to programmatic and financial support from DFAT.

Last year, World Vision launched a $20 AUD bond in the Australian market— the first of its kind – for its microfinance subsidiary VisionFund. VisionFund used the funds to provide microfinance loans to entrepreneurs, primarily low-income women. FIIG Securities served as the pro-bono intermediary to arrange the bond, a five-year unsecured note with a fixed rate of 5.00% p.a. to be paid semi-annually. Building from this successful capital raise, the organization is considering launching a similar investment product supporting “missing middle” SMEs in Myanmar and Ghana, also with a strong focus on WEE. This loan support program builds on World Vision Australia’s Small and Growing Business project, originally funded through DFAT’s Innovation Exchange program.

World Vision Australia is also making their own investments, partnering last year with a social enterprise in the Solomon Islands, Kokonut Pacific Solomon Islands (KPSI). The investment aimed to support diversification of KPSI’s product offering and to train cocoa farmers on organic practices in order to achieve organic certification and improve market access. Notably, the investment was de-risked through a partnership with DFAT’s Business Partnerships Platform (BPP). World Vision is currently working to build out a pipeline of similar projects and partnerships for future investment.
World Vision is well-positioned to enter the impact investment space, as their approach is impact first with a strong agreement across all levels of the organization on the importance of a gender lens integration. The organization has strong global networks with in-country offices maintaining core partners on the ground. It maintains a strong history of supporting supply chains and promoting women’s economic empowerment, translating neatly to a technical assistance role. The organization is working to determine how that technical assistance role is maintained in an impact investment space and whether it is grant or investment-funded over the long term.

Their challenges include the struggle with the perception that NGOs are slow, clunky or expensive in comparison to the private sector – rather than the capable and innovative partners that they can be. Additional challenges include pressure from investors on aggressive timelines for pipeline development that are not always aligned with the timelines needed on the ground.

DFAT has a role to play in shaping the ecosystem within which NGOs enter and compete in the social finance and impact investing space. DFAT already plays a role in funding pilot projects, hosting and supporting convenings, and de-risking investments. DFAT could support messaging to investors and the public at large the unique and essential role that these types of organizations play in developing both high social and financial investment returns.

Paying legal fees is costly for NGOs attempting to enter this space, particularly if they have not been active participants previously. As a convener, influencer, and educator, DFAT could provide education to organizations on best practices in entering this space, support in sharing tools or information on regulations, and/or or provide free or pro-bono legal resources.

Save the Children Australia

Another leader and early adopter in the field, Save the Children Australia launched their Impact Investment Fund in February of this year. Designed as a ten-year fund to support mission-aligned social enterprises, the $10m Impact Investment Fund is allocated 50% domestically, 25% in the Pacific, and 25% across the rest of the world. The Fund will focus on activities designed to improve the lives of vulnerable children including health, education, and child protection.

The launch of the fund came from years of careful conversations and analysis. Unlike some other NGO models, Save the Children has a commercial executive team with finance experience and a risk appetite with financial markets. The development of Save the Children’s fund did not rely on government support.

The largest challenge for Save the Children (other than the major current global financial challenges of COVID-19 on the market and the unfortunate timing of the fund’s launch) is in
fundraising. Through its historic connections and local partnerships, the organization has a strong pipeline and a robust due diligence structure in place. Encouraging investors to see the value and creativity in the organization’s approach – one that develops financial models to meet the needs of entrepreneurs rather than fall within typical fund manager-specific investment mechanisms – requires innovative messaging about who is well positioned in leadership to drive high social and financial returns.

DFAT has a role to play in building that confidence through convenings and messaging. DFAT could improve investor confidence by de-risking initial investments. DFAT could also provide support through the development or support of wholesale investment vehicles, necessary to move forward these investments.
References


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