Generating private finance for social impact

Achieving the SDGs requires greater investment than governments alone can provide. How can we ensure private investors see the value in supporting programmes that offer more than just financial returns?

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Over the last 20 years, new actors and intervention models have radically changed international cooperation. First, we have seen the development of 'South–South' cooperation promoted by emerging countries, at the expense of models based on the expertise and culture of traditional donors. At the same time, the role of private foundations and their support of economic and social activities has increased dramatically. Finally, the private sector has started to adopt a 'shared-value' perspective towards investing resources and creating business initiatives in developing countries.

All these factors are creating and encouraging hybrid models, which look at both financial sustainability and social impact – these models are gradually smoothing over the differences between the profit and non-profit sectors.

In several official situations, the international community publicly defined and shared some principles and rules. These have legitimated and encouraged new actors and models within development aid, which is now not exclusively restricted to NGOs or the publicly funded.

For instance, Millennium Development Goal 8 outlined the importance of creating a global partnership for development. It underlined the importance of the private sector as a supplier of the economic

▲ A wastewater treatment plant in central Java, Indonesia. There are a number of innovative investment products that tailor the financial risk on sustainable development projects to make them attractive to private investors

resources and technical know-how to enable international cooperation programmes to aim for social and economic sustainability.

Recent international gatherings such as the Monterrey Conference (2002), Busan Conference (2011) and Doha Declaration (2008) have all moved in the same direction. The private sector, identified as the for-profit sector, has been presented as a relevant player for international cooperation – not just as a sponsor of economic resources, but also as a partner for building strategic relationships and innovative development models.

This perspective is creating a variety of new tools and opportunities in the fight against poverty and other social global issues. We need to strategise and coordinate all these different models, instruments and objectives to maximise their effectiveness and impact across the globe.

The Sustainable Development Goals (SDGs) represent a shared framework that identifies the resources necessary to face the challenges of global issues such as access to clean water, healthcare and wellbeing and climate change mitigation. They encourage the creation of a global partnership where governments, civil society and the private sector can actively cooperate.

The involvement of the for-profit sector implies that, on the one hand, governments would be well advised to implement policies favourable to private investments. On the other, it suggests that private companies should refocus their investments towards sustainable initiatives that take into account environmental, social and governance criteria and where the economic returns are spread over a longer timeframe.

Impact investments

In this scenario, 'impact investments' assume an important role in strengthening businesses' initiatives that help to address global issues. As defined by the Social Impact Investment Taskforce, established under the UK's presidency of the then G8 group of countries in 2013, impact investments are those made with the intention of generating positive social and/or environmental impact alongside a financial return. In recent years, impact investors around the world have demonstrated the potential for the private sector to drive progress in areas such as affordable housing, access to financial and health services, sustainable energy and other areas that clearly align with the SDGs.

The UN's *World Investment Report* 2014 estimated that to achieve the SDGs, we need to fill a funding gap of $2.5 trillion a year. According to the same report, the private sector has the potential to invest some $1.8 trillion of that. However, this will be difficult without adapting a range of financial tools that can facilitate private-sector investments in the SDGs.

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Over the last few years, the social impact finance sector has developed numerous innovative investment products to mobilise both private and public investors, as well as additional resources from other actors such as NGOs and development agencies. These include:

Sustainable development bonds (SDBs): these are debt securities issued by private or public entities to finance activities or projects linked to sustainable development. SDB issuers state the interest rate that will be paid and the time at which the original investment amount must be returned.

Development impact bonds (DIBs): these bring together private investors, non-profit and private-sector service delivery organisations, governments and donors to deliver results that society values. They provide upfront funding for development programmes from private investors. The investors are remunerated by donors or host-country governments – and make a profit – if evidence shows that programmes achieve pre-agreed outcomes. If interventions fail, investors lose part or all of their investment.

Challenge funds: these are financial instruments promoted by organisations such as development agencies, private foundations and NGOs. They are linked to a specific objective or outcome.

Debt and equity investments: these are investments that are suitable for sustaining social enterprises whose aim is to create a benefit for particular groups of people or to generate a positive impact for the environment.

These various financial instruments should also improve the effectiveness of the resources invested by promoting innovative models of intervention. Impact investing can stimulate and encourage public policies in experimental programmes and, above all, attract private investments, promote technical solutions and build new capacities.

DIBs can be an effective way to create greater accountability among parties cooperating on international interventions. The evaluation of the bond's impact is central to this purpose, generating estimates for financial return and social impact based on the results of similar kinds of deals.

Developing synergies

Social impact measurement practices also require us to set measurable objectives and track their achievement. As stated in the Social Impact Investments Taskforce's report, *The Invisible Heart of Markets*:

"Specifically, effective social impact measurement is needed by five key market participants: government, foundations, social sector organisations, impact-driven businesses and impact investors. They all have a broad interest in a wide range of metrics (including the gain to society resulting from a successful intervention, and the associated social rate of return on investment)."

Overall, impact investment instruments are encouraging synergies among several actors. Private investors are investing financial resources and are assuming part of the risk of the interventions. NGOs are offering their knowledge of contexts and their capacity for involving beneficiaries in the programmes. Governments and donors are cooperating on outcome-based models that define development priorities.

Together these actors can work efficiently to realise sustainable solutions and give their significant contribution to the achievement of the SDGs. ●