Giving 2 Kids:

Investment Methods:

Options for collaborative giving

Philanthropy New Zealand
Tōpūtanga Tuku Aroha o Aotearoa

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Children's Commissioner

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OVERVIEW

This section provides an overview of funding methods that could be considered by local groups working together to collectively achieve better outcomes for children and young people.

POTENTIAL FUNDING METHODS

Many organisations are exploring how to best contribute to improving child and youth wellbeing in their regions. Some methods of funding are able to build on community strengths and enable collaboration across local or national government, business and other philanthropic funders, creating new partnerships where needed.

Investments that are more likely to improve the situation will follow a regional needs assessment, stock take and/or asset mapping. This will enable better focus on specific areas of greatest need. Alongside this important factor, the method of investment can also have significant effects through optimising impact.

We have identified four funding methods to be considered that all broadly sit under the 'Collective Impact' and 'Impact Investing' models. Each method gives the various players the flexibility to work within their area of expertise, while leveraging off each other's strengths. Some methods will suit certain organisations - the key will be garnering the right organisations into the right fit.

Local government is well placed to lead and support a whole-of-community response. Similarly leaders of key agencies have the power to collectively engender social change. Such leadership can spearhead the development of innovative funding methods, with its ability to be flexible and work with extended timeframes across sectoral boundaries.

It is important to build strong relationships across a region and to be ambitious about what can be achieved for children and youth to flourish. An over-arching strategy should be developed by the whole community to promote buy-in, sustainable support and goodwill to implement supports for vulnerable children.

It should be recognised that, when thinking about implementing a strategy, there are many options. In some instances, a 'quick fix' solution may be all that is required. In contrast, a multipronged approach may be required including supporting existing, well-performing programmes to thrive and expand, as well as enabling a mix of short term solutions and long term goals through new interventions. Collective models can embrace an organic-style approach with a focus on fostering collaboration amongst all the players who have a role and responsibility to create social change.

Philanthropy New Zealand has summarised these methods to test the appetite of central and local government agencies, businesses, service providers and philanthropic organisations to operate within the collective impact framework. Please note, this analysis infers that, where appropriate, existing funders would continue to fund some initiatives and projects along more traditional methods of grants and scholarships.

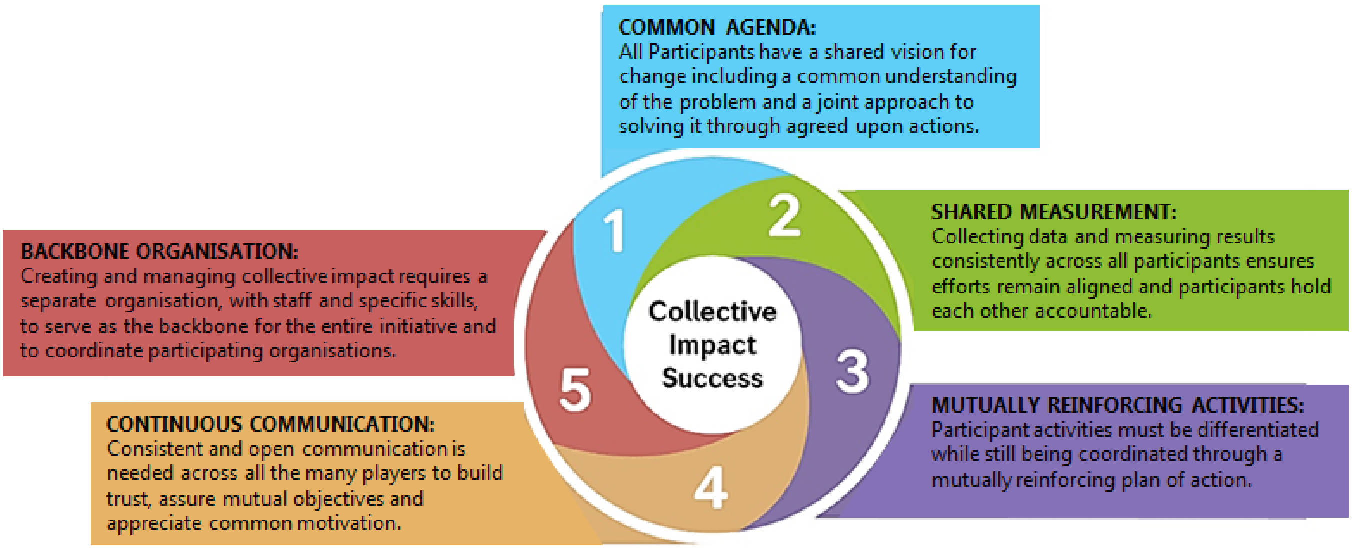
Collective Impact

> *Collective Impact initiatives are long-term commitments, by a group of important actors from different sectors, to a common agenda for solving a specific social problem. Their actions are supported by a shared measurement system, mutually reinforcing activities and ongoing communication and are staffed by an independent backbone organisation.* John Kania & Mark Kramer – Stanford Social Innovation Review[1]

Large scale social change requires broad cross-sector coordination. Successful collective impact effort focuses on a complex community issue and strives to make an impact on the issue. Collective impact efforts involve diverse partners, with equally diverse opinions about the issue, and getting to a common agenda takes time and resources.

The Five Conditions of Collective Impact Success*

Collective impact is more rigorous and specific than collaboration among organisations. There are five conditions that, together, lead to meaningful results from collective impact:



*Adapted from John Kania and Mark Kramer, Stanford Social Innovation Review, Winter 2011, Volume 9, Number 1.

There are a number of organisations internationally and throughout New Zealand that are engaging in collective impact initiatives. It is a heavily researched and evaluated practice which, if applied appropriately, renders effective outcomes. Collective impact initiatives, if they are seeded

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[1] http://www.ssireview.org/articles/entry/collective_impact

see also: http://www.fsg.org/OurApproach/WhatIsCollectiveImpact.aspx around an identified issue and are place-based, can create catalytic change, with economic as well as social benefits.

Case study one: Mataura

Mataura is a small town of approximately 1400 people which straddles the Southland River after which the town was named. The same river had in the past attracted industry and prosperity to the town in the form of a paper mill and a meat freezing works. However with the closure of the Mataura paper mill and with the increasing dominance of dairy farming, the capacity of the freezing works was seriously eroded, and the once prosperous town was struggling.

In 2002 Mataura residents felt "angry that the town was being taken for fools" and when agencies didn't respond to a 2007 report on the failing health of the community, the residents "decided to come up with their own solutions."

Using aspects of the collective impact model combined with 'Community Led' and 'Strengths-Based' principles a Mataura Taskforce was established and with the assistance of the Community Trust of Southland, the Department of Internal Affairs Community Development Scheme and other funders (including tapping into Inspiring Communities' collective wisdom), meetings were held, and local aspirations and strengths were identified.

Community led development in Mataura has since encouraged:

- *a community vegetable garden*
- *a school vegetable garden*
- *a local 'meals on wheels' service (which uses vegetables from the community garden)*
- *an increase in early childhood education resources and activities*
- *the establishment of a youth focused facility called 'The Bunker'*
- *encouraged new business and social enterprises*
- *establishment of a shop for the SPCA*
- *establishment of a community market*
- *establishment of a community gala and swede festival*

Indirectly it has also encouraged:

- *local arts developments*
- *historic walks*
- *kapa haka in schools*
- *community environmental restoration on the riverbank.*

Having a common agenda, where residents are at the centre of locally driven aspirations and activities, has changed the way organisations work. Residents have also learned to value their contributions and their place in the Mataura community.

Impact Investing

Impact investing encompasses a number of shared risk, shared investment, models resulting in positive social and environment outcomes. They can be used in isolation or integrated in a fit-for-purpose process. Pulling together elements appropriate to the issue at hand (identified through regional assessments) impact investing can improve outcomes through systemic change.

Often aligned with impact investing is a measurement methodology called 'social return on investment' (SROI). SROI is an approach to understanding and managing the value of the social, economic and environmental outcomes created by an activity or an organisation.

Most models are cyclical – they create opportunities for a variety of investors to fund programmes and initiatives contributing to positive social change while generating a return that can be reinvested in further social outcomes. The return on investment varies depending on the model and can take a number of forms e.g. monetary return, increases in human capital, and positive societal and systemic outcomes. The models used, and the returns required, also vary as the solutions demand, but will be defined in the planning and implementation process. (Social Innovation and Social Impact Investment methods are discussed in the next section.)

One example where a number of elements from impact investment models have been pulled together is described in the second case study below.

Case study two: Social Housing

> *The Canterbury Community Trust has recently taken its long–term support of social housing to a new level with an innovative partnership with the government and community organisations to provide social housing for some of Christchurch's most vulnerable citizens.*
>
> *Comcare is one of six social housing providers being funded through an innovative $31 million partnership between the Canterbury Community Trust and the government to build 126 new units for high-needs tenants who have been particularly hard hit by the Christchurch earthquake. The Trust is contributing $10 million towards the project and the government the remaining $21 million, to be delivered through its Social Housing Unit.*
>
> *After talking to the community, the Trust realised that $10 million on its own would not be enough to make meaningful and sustainable changes in social housing, particularly for high-needs tenants. It was this change in thinking that lead the Trust to develop the partnership with the government and the Social Housing Unit, as well as engaging with community housing providers to deliver the outcomes.*
>
> *It was clear a 'whole sector' approach was needed to develop community housing for high-needs tenants.*
>
> *It has always been the Trust's aim in funding social housing projects not only to provide housing to disadvantaged people, but also to ensure that those people are catered for by wrapping a social support service around them, along with the property management.*
>
> *Comcare now has six tenanted flats, with another eight almost completed. It recently received funding for another 16 units. The work is being financed partly through the partnership funding, and partly through market loans. Comcare has also committed all of its reserves to the work.*
>
> *Social housing reforms, introduced in April 2014, mean Comcare can receive income-related rent subsidies for its properties, adding another important element to the mix. This means they can manage the properties appropriately, ensuring they are kept in excellent condition while creating some surplus for future investment. Basically, turning social housing into a self-sustaining social enterprise is an important factor when you are housing people with long-term needs.*

This project has an estimated market value of $48.1 million and far-reaching consequences for the economy in terms of health benefits and reduced costs for social service providers.

Social Innovation Fund

Social innovation funding supports new ideas, organisations, or ways of working that meet social needs more effectively than existing approaches. Often, social innovation involves the remaking and reuse of existing ideas: the new application of an old idea or the transfer of an idea from one part of society to another.

It is an opportunity for government, philanthropy, business and not-for-profit organisations, because the most important sectors for growth in the next decades are linked to the development of human and social capital. The various stakeholders bring different elements to the fund. Large scale social innovation funds are emergent in New Zealand but a number of social innovations and innovators have existed for many years.

Case study three: The Social Innovation Fund

The Social Innovation Fund (SIF), a key White House initiative, combines public and private resources to grow the impact of innovative, community-based solutions that have compelling evidence of improving the lives of people in low-income communities throughout the United States of America. The SIF invests in three priority areas: economic opportunity, healthy futures, and youth development.

The SIF makes grants to experienced grantmaking 'intermediaries' that are well-positioned within communities to identify the most promising programmes and guide them towards greater impact and stronger evidence of success. These grants range from $1-$10 million annually for up to five years. The intermediaries then match the federal funds dollar-for-dollar and hold open competitions to identify high-performing not-for-profit organisations working in low-income communities that have innovative solutions with evidence of compelling results. Once selected, these not-for-profits must also match the funds they receive, and participate in rigorous evaluations of the impact of their programmes. The not-for-profits share data, lessons learned and results – helping to build the capacity of the social sector and lift up solutions that can transform lives and communities.

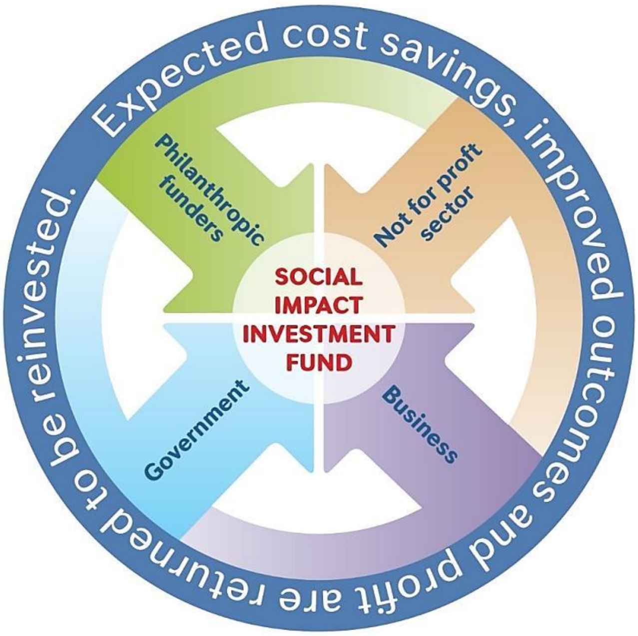
In addition to funding, Social Innovation Fund grantees receive significant technical assistance to support implementation of their innovative programmes. Participation in the Social Innovation Fund gives grantmakers greater visibility and plugs them into a national network of funders and not-for-profits that are committed to fostering social innovation to improve lives in low-income communities throughout the United States of America.

Through the Social Innovation Fund, limited federal investments mobilise considerable private cash resources and collaborations. Grantmakers receive between $1 million and $10 million per year for up to five years. The award requires grantmakers to match every federal dollar 1-to-1 in cash from non-federal sources. Grantees then select not-for-profit organisations (sub-grantees) for awards of at least $100,000 per year for up to five years. These grant awards must also be matched 1-to-1 in cash from non-federal sources. This match requirement triples the federal investment, augments working capital, and sparks new collaborations, helping sub-grantees more effectively to transform lives beyond the initial grant period.

Social Impact Investment Fund

A social impact investment fund can bring together investors from government, philanthropy, not-for-profit service providers, the private sector and the public. Focussed on a specific issue, the fund can leverage monetary and human capital to fund preventative social programmes while leveraging cost savings.

Impact investments are expected to generate a financial return on capital and, at a minimum, a return of capital, which can be reinvested.



The various stakeholders bring different elements to the fund, although there is often crossover. Most will provide money and expertise in their chosen field, but there are many more facets including experience in what works, on-the-ground knowledge, evaluation and business acumen. Leveraging these elements into a collective framework provides opportunities to bring about deeper, broader impact and change into communities.

Case Study four: Acumen Fund

> *Acumen Fund's basic model is to raise charitable funds from individuals, foundations and corporations, which in turn is invested as equity or debt in enterprises serving Base of the Pyramid markets. These enterprises could be for-profit businesses or not-for-profit organisations (with an earned-income revenue model) focused on delivering services to those in need.*
>
> *Acumen's investments can also build a portfolio company's human and knowledge capital through assistance in a range of areas, including business planning strategy and performance management.*
>
> *Acumen's premise for this is that capacity building occurs much too rarely and yet is essential to creating visible enterprises that, after a few years, would no longer need Acumen's support. A typical investment would involve a commitment of five to seven years, with financial commitments ranging from $300,000 to $2 million in equity or debt. Acumen also runs a Fellows Programme which places 'high potential young*

professionals' with investees to provide intensive on-site capacity-building assistance, particularly with respect to business planning.

Acumen recognised that its investments in private enterprises would likely yield below–market returns. While these returns were not to be given back to Acumen's investors they were important for recycling back into the organisation's pool of resources for future investment while also enabling the investments to stand on their own. The financial returns were viewed as part of a broader set of primary investment criteria, explicitly articulated by the organisation as follows:

Potential for significant social impact
Potential for financial sustainability
Potential to achieve scale

A major concern for social venture investors is the challenge of how to anticipate and measure the cost-effectiveness of an investment. Unlike traditional venture capital investments, which rely primarily on financial returns, social investors do not have a standard benchmark. Acumen Fund decided to benchmark its investments by answering the following question: For each dollar invested, how much social output will this generate over the life of the investment relative to the best available charitable option (BACO)? Since no investment occurs in a vacuum, Acumen defines its choices in relation to other options in the same space, particularly not-for-profit charities. For the investments to be worthwhile, even if they made a loss, they would have to be more cost-effective than traditional charity at achieving a set of social goals.

The BACO compares the investment to a relative benchmark rather than an absolute one, and proceeds in three steps:

1. *Cost analysis. The net cost (or revenue) of an investment was calculated simply by taking the total investment, plus administrative costs, and subtracting this from the expected return.*
2. *Social impact projections. Acumen's assessment of social impact focuses on the number of people affected in 'bottom of the pyramid' markets, multiplied by a factor that estimated how they were affected.*
3. *BACO ratio. A ratio of the first two calculations (Net cost per unit of social impact) provided a cost-effectiveness model. It estimated how cost effective the Acumen investment was likely to be in comparison to the best available charitable option. To generate a more comprehensive set of projections the BACO ratio could be calculated along a range of scenarios of financial return as well as along various projections of social output, given that initial projections are likely to be optimistic.*

   The BACO ratio is intended as a rough estimate that helps the Acumen team consider alternatives. It could not, in itself, justify an investment. A combination of literature review and BACO give the investment committee confidence that they are supporting something that's been tested or vetted.

Adapted from Harvard Business School – Acumen Fund Measurement in Impact Investing 9-310-0

FURTHER READING

Global Impact Investing Network - www.thegiin.org/

Collective impact – the seminal article by John Kania & Mark Kramer:

www.ssireview.org/images/articles/2011_WI_Feature_Kania.pdf

FSG – Social Impact Consultants – www.fsg.org

Collective Impact - Vibrant Communities Initiative - www.vibrantcommunities.ca

Inspiring communities – www.inspiringcommunities.org.nz

Social Innovation - The Monitor Institute - www.monitorinstitute.com/

Social innovation in Auckland
www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/reports/technicalpublications/Documents/ac1527socialinnovationinauckland2013.pdf

The social innovation fund www.nationalservice.gov/programs/social-innovation-fund/about-sif

Funding Social Innovation Report from Social Innovation Europe –
http://ec.europa.eu/enterprise/policies/innovation/files/funding-social-innovation_en.pdf

The Social Return on Investment Network www.thesroinetwork.org

Acumen: http://acumen.org