

Impact Investing – A Pacific Islands view

Written by Samantha Cook

Introduction

Impact investing is a growing global movement which aims to provide social outcomes along with investment returns. As part of the broader ideal of utilising private sector investment in the Pacific Islands to achieve development, impact investing is increasingly being viewed as a viable solution to address the ‘funding gap’ many Pacific businesses face.

What does impact investing mean for the Pacific Islands? Is your organisation a suitable candidate for receiving funds through impact investing? What are some of the key considerations to think about?

What is impact investing and who are impact investors?

The *Global Impact Investing Network* describes impact investing as:

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors’ strategic goals.”¹

Impact investing is not a grant or a donation; but rather:

- operates like any commercial investment (initiated through financial instruments such as shares or debentures); and
- aims to deliver returns to investors both financially and socially.

Impact investors can be for example, institutional investors (such as funds), foundations and high-net worth individuals.

What kinds of organisations/projects are suitable for impact investing?

Aside from the aim of creating positive social change, there are no hard and fast rules about what constitutes a suitable candidate for impact investing. Impact investments can be made into organisations (which could take the legal form of (for example) companies, associations, cooperatives) or projects for a range of purposes including scaling, asset financing as well as program delivery.²

¹ Global Impact Investing Network, website: <https://thegiin.org/>, accessed 22 June 2017.

² Impact Investing Australia, website: <https://impactinvestingaustralia.com/>, accessed 22 June 2017.

What are some things you need to consider?

The SROI

The 'hallmark' of impact investing is the 'social return on investment' and an impact investor may look beyond things ordinarily considered as part of due diligence (i.e. compliance with laws) and will look to the social and environmental value that is generated from your business and the investment.³ Impact investors will measure your SROI and will monitor and evaluate in order to evaluate the success of their investment. While there are no prescriptive criteria applied to social impact measuring, there are international 'best practice' standards which have been developed to measure social impact.⁴ Investors and investment facilitators will help you to understand and navigate this process.

Your ROI

While it is important you satisfy social objectives, you should ensure that your investment is generating a satisfactory ROI.

The management of your business

Like any investment deal, it may be a condition that the incoming investor wants to have a greater say in your business and operations as either/both a shareholder or member of your board, which can mean relinquishing a degree of control. While this idea can be daunting, keep in mind that any investor wants your business to succeed as much as you do and so think about the value an impact investor may be able to offer to you and your board through a diversified skill-set.

The legal and tax consequences

- As part of the due diligence process, any investor will look to (among other things) your company structure (i.e. who are the shareholders and directors in your business) and that you've met your legal and tax obligations. It's a good idea to do a 'health check' on your organisation to confirm you have this information and it's up-to-date.
- As part of the investment process, the transaction will be documented through, for example, a subscription deed and a shareholders' agreement which governs the rights between you and the incoming shareholder. Consulting with a lawyer is useful to navigate this process.
- You need to consider the tax consequences of any incoming funds and seeking tax advice is important to ensure you understand the financial consequences of investments.

What is on the horizon for the Pacific?

The Australian Government has also thrown its support behind impact investing in the Pacific Islands region, having recently implemented the Pacific Readiness for Investment in Social Enterprise

³ Nicholls, Jeremy et al., "a guide to social return on investment", January 2012, <https://iris.thegiin.org/guide/a-guide-to-social-return-on-investment/summary>, accessed 29 June 2017.

⁴ See the IRIS standards applied by the Global Impact Investing Network, website: <https://iris.thegiin.org/about-iris>, accessed 29 June 2017.

PLN Australia

Pacific Legal Network

program (**Pacific RISE** or **PACRISE**).⁵ PACRISE aims to facilitate impact investing into social enterprises in the Pacific, and will introduce at least \$5 million in capital into the region.⁶

The announcement of this exciting initiative coupled with the successful closing of a landmark [impact investment into Tanna Coffee](#) demonstrates the heightened interest in impact investing in the Pacific region and an even greater opportunity for Pacific businesses to achieve their business and social goals.

Written by [Sam Cook](#). Sam is a Senior Associate at the [Pacific Legal Network \(PLN\)](#) and was part of the deal team which assisted in the landmark impact investment by Genesis into Tanna Coffee. Working closely with the [Jinita Prasad](#) at [PLN Advisory](#), the corporate advisory arm of the PLN network, Sam assists clients to 'get business done' in the Pacific Islands region. Want to know more? Please contact Sam – s.cook@pln.com.au

Contact

For more information please contact:

Samantha Cook
Senior Associate
T +61 412 951 187
E s.cook@pln.com.au



This work is licensed under the Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

⁵ Pacific Rise, website: <http://www.pacificrise.org/>, accessed 22 June 2017.

⁶ Coffey, website: <http://www.coffey.com/en/our-projects/improving-access-to-reliable-energy-for-health-facilities-2/>, accessed 22 June 2017