We Need to Talk About Impact…

Provocation One: Impact Investment needs to stretch horizontally not just vertically

Internationally, Impact investment has focussed overwhelmingly on building onto the infrastructure of mainstream investment. The emphasis has been on investment at scale, looking towards attracting institutional investors and using traditional vehicles such as managed investment funds.

While it is necessary to grow the vertical integration of impact investment into this mainstream market in order to achieve both a degree of scale and legitimacy, the focus on supply of capital in the context of existing investment infrastructure could overlook more horizontal opportunities for growing impact investment. Such a horizontal focus could increase participation in investment, engage investors in questions of wealth transfer, and democratise and localise impact investment in ways that should not be overlooked in terms of equity and impact.

Expanding the pool of investors and the scope of impact investments

A focus on growing institutional investment in impact investment in Australia has limited both who can invest and how. However, there are a growing range of mechanisms that could significantly open up both the range of investors, and the types of impact in which they could invest.

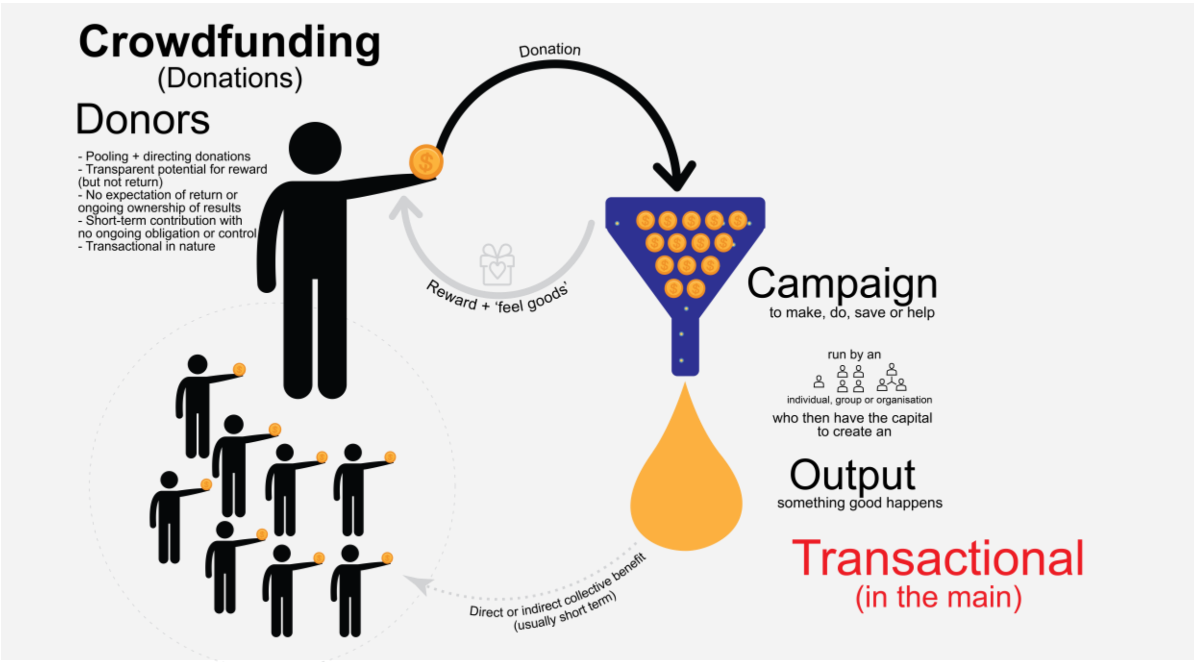
For example, crowdfunding has been both overlooked and underestimated as a mechanism to facilitate not only collective *funding*, but collective *impact investment*, particularly in respect to start-ups, SMEs and community ownership of assets. This shift from a donation mechanism to an investment mechanism has been facilitated through the legitimisation of both P2P lending and equity crowdfunding.

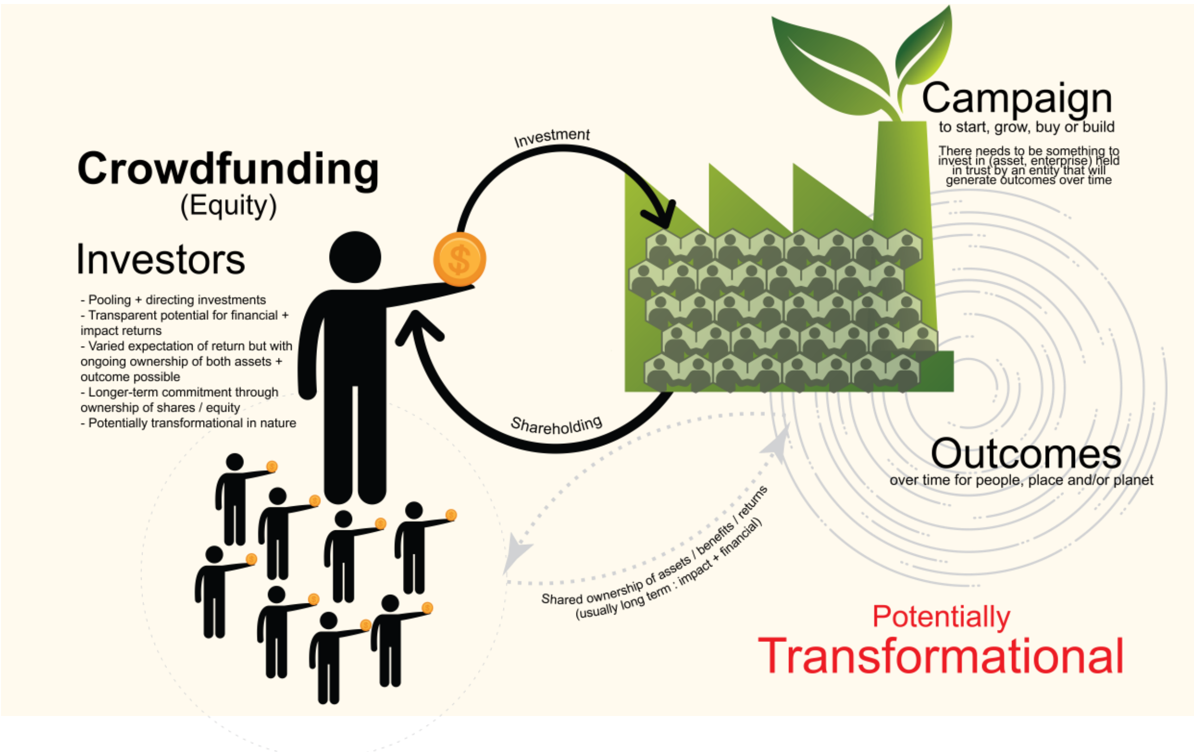
Equity crowdfunding is particularly interesting in the context of impact investment as this enables organisations and enterprises to raise money from the general public as 'investment' rather than donation - making contributors investors rather than donors. P2P lending also opens up opportunities for a broad range of people to lend money to other individuals, organisations or enterprises, fostering a rethinking of both how and from whom impact-focussed entities can access capital. For the purposes of this provocation we will focus particularly on the potential of equity crowdfunding as a 'horizontal' mechanism to expand the possibilities of impact investment.
To date the field of impact investment has largely been limited to those who have access to managed funds, institutional investment vehicles, or who are sophisticated investors. Equity crowdfunding changes this supply-side dynamic as it enables broader participation in investment, by people who would not or could not engage in more structured / 'sophisticated' investment practices.

The investors in an equity crowdfunding initiative gain part ownership of the enterprise and can potentially make a financial return from this investment. If these investments flow into enterprises and projects that are generating impact, then this opens up a whole new cohort of impact investors and a new, much broader space for impact investment. It also democratises impact investment to a degree, or at least begins that process.

In the same way, the investees in impact investment have been limited in terms of meeting risk criteria, or even conforming to particular legal structures. Equity crowdfunding has the potential to stretch the range of 'investable' options and opportunities and grow the demand-side into spaces that, quite frankly, might never be considered by traditional investors, but which could potentially deliver significantly more impact than perhaps they could imagine.

Indeed, one of the most exciting potentials of equity crowdfunding as an impact investment mechanism is that it could increase the flow of capital to fund solutions by and for those directly





experiencing disadvantage or other challenges. Equity crowdfunding has thus started to open up both opportunities for investors, and the types of investments on offer. It is also opening discussions about what constitutes 'impact' with a heightened focus on equity, and a more diverse range of 'end users' (if not beneficiaries) beginning to set up offers (as the platforms require little or no upfront capital).

In 2019, more than $42m was raised through equity crowdfunding campaigns in Australia and New Zealand. Of course, Australia's market is still nascent with legislation only introduced two years ago (and initially restricted to public company structures), but the market has grown from around $7m in its first year to $27m in its second. Admittedly this is tiny compared with the estimated global impact investment market of $500billion. However, its potential lies in the increased access and quality of impacts it could drive rather than merely the quantum of capital it could generate.

While not all of equity crowdfunding deals have explicitly been impact investments, many of them have societal benefits embedded in them which could be made more visible and tangible. In addition, there are a growing number of examples on both sides of the Tasman that point to impact enterprises using equity crowdfunding to not only grow their business, but simultaneously embed their communities, members and stakeholders into the fabric of these businesses.

Growing the latent potential for wealth transfer in transformational impact investment

While equity crowdfunding currently has its limitations, (such as the size of investment that can be raised by the enterprise or entity, and how much each individual investor can invest), it serves a dynamic, grass-roots (and underserved) part of the impact market. It also has the potential to realise valuable co-benefits through deepening the relationships between companies, customers, and communities. These ties can help mitigate (or insulate against) business risks by 'crowds' helping to strengthen sales of the businesses they invest in, and taking greater ownership of new community initiatives.

It also creates opportunities to bundle 'sticky' packages of returns – blending the prospect of financial returns with

Given that crowdfunding seems to be both here to stay and growing, it should be more prominent in discussions and strategies that pertain to impact investment and market development. It also needs to be better monitored and understood. As a start, we believe the following aspects demand greater investigation:

- number, purpose and nature of raises and deals;
- success rates - and nature of offers that are both successful and unsuccessful;
- Investment totals and average investments raised;
- access/inclusivity (who is using crowdfunding?) to raise capital;
- innovations in investment offers and structures;
- characteristics of investors (for example, 90% of investors in Food Connect, an Australian impact enterprise who recently raised more than $2m, were women),
- performance of investments in relation to both financial returns and impacts generated.

We welcome the opportunity to hear from and partner with anyone wishing to explore metrics, opportunities for more impactful equity crowdfunding models or any of the ideas / issues examined in this provocation.

asset ownership, discounted goods/ services, social and environmental impacts, civic pride, and shareholding opportunities beyond the sharemarket.

Over coming years, it will be interesting to see how equity crowdfunding could be used in the context of:

- place-based initiatives (enabling a broader 'ownership' within community of impact initiatives and ventures);
- family and clan-based initiatives (enabling inter-generational impact); and
- cohort / alliance-based impact initiatives (so that capital, benefits and impacts can flow between networked movements and/or to particular groups previously excluded).

This creates an opportunity to really explore the concepts of 'ownership' and 'asset building' in the context of impact - it puts equity into 'equity'. This is important because despite good intentions, the majority of impact investments are not addressing the systemic imbalance of wealth and power, and the transfer of wealth isn't a focus of impact. However, we know that participation in asset ownership is fundamentally transformational if we are to address some of the underlying inequities that impact investment so often purports to address.

This is particularly the case given the growing wealth and asset inequality in Australia (see figure 2; Oxfam, 2018; Productivity Commission, 2018).

Without a deeper conversation about wealth transfer and ownership in impact investment this field risks perpetuating a charitable and welfare orientation where the 'investors' merely replace the 'funders' to perpetuate the status quo, and wealth inequality continues to grow poor outcomes.

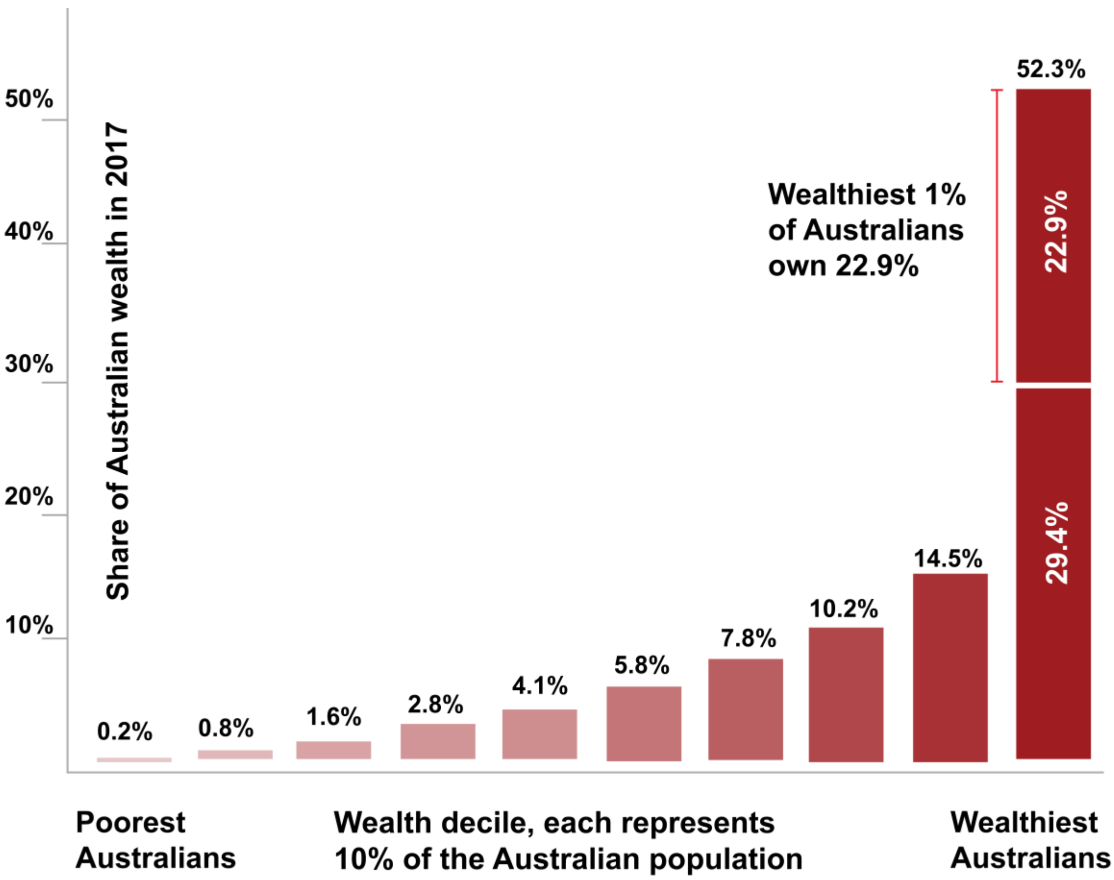


Figure 2: Growing Inequality of Wealth in Australia presents a challenge for impact investment to explore how to build in wealth transfer and generation if the impact sought is truly to address entrenched disadvantage

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The Yunus Centre equips people with the know-how to navigate change and create positive, societal impact. We are interested in how a progressive, regenerative and inclusive future can be achieved through new models of innovation, entrepreneurship, and enterprise.

Specifically we're focused on navigating impact-led innovation, developing impact literacy, growing the impact economy and fostering impact entrepreneurship.

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