

The Brenton Wright Scholarship

Social Impact Investing in South Australia

An Overview and Recommendations for the future

by

Pablo Gonzalez

prepared for

SIINSA



September 2019



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The present document represents an open source of information. It is publically available for those interested in Social Impact Investing. If you wish to use the content of this report for other purposes, feel free to do so and please acknowledge us. If you find the information here inspiring for other projects and can capitalise it, we would be thrilled to learn from your experience.

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Note: Next to each titled section, you will find an icon. These icons indicate the audience that might be more interested in each section (i.e. Investors, Government or NGOs). If you are keen to know about Social Impact Investing you will find all the document interesting :)

Useful for:



investors



NGOs



Government



Foreword

The Social Impact Investment Network of SA (SIINSA) aim is to stimulate and promote a diverse social impact investment community to address social issues through inventive financial collaborations for social and cultural change.

We are a membership association with members from community groups, banks, not-for-profit organisations, philanthropic foundations, individuals and businesses. We host events, commission research and offer advice to decision-makers in impact investment across the private and public sectors.

In 2018 we created the Brenton Wright Scholarship to recognise the unique contribution of one of our founders. Brenton Wright was a driving force in impact investment in South Australia. He had an indomitable spirit. He was a lifelong learner, committed to South Australia, and with a distinguished career and leadership in the public service, a major NGO, a multinational corporation and in small and medium business. His strong values driven approach and persuasive style opened doors and minds to solve problems and deliver results. Tragically, Brenton died in a road accident in 2017.

SIINSA called for proposals to help us explore South Australia's market readiness for social impact. Our first Brenton Wright scholarship holder is Pablo Gonzalez. In this report, Pablo has provided an overview of social impact investment and some of the different models in play. He has considered the evolution of the social impact investment market in South Australia and the pathways taken, to date, to secure investment. In the later sections of the report, Pablo has identified a number of critical factors that will inform SIINSA's future agenda, including the elements of investment readiness, current barriers and drivers for social investment in South Australia, and the key role of intermediaries and government in catalysing this space. Pablo's key findings and recommendations demonstrate that, whilst there is latent capital in the market, and we have some of the foundations in place, there are still gaps to be addressed to truly establish social impact investment in South Australia, and work to be done in building connection and collaboration in this space. We extend our thanks to Pablo for his work on this report.

This scholarship has been funded by SIINSA, and we sincerely thank the Wyatt Trust and the Broadley Trust for being our partners in generously contributing to the scholarship.

We hope that you enjoy reading this report and welcome your feedback and reflections. If you would like to join us in promoting social impact investment in South Australia, please follow us on Facebook, or join SIINSA via our website.

Jane Arnott

Chair, Social Impact Investment Network South Australia
www.socialimpact.org.au - www.facebook.com/socialimpactSA/

About the author



Pablo Gonzalez is passionate about social programs, from its conception to its design and its implementation and evaluation. Pablo has a Master's degree in Public Policy and Management from Carnegie Mellon University in Adelaide. In 2015, he co-founded Nova Smart Solutions, a consulting firm dedicated to designing social services, evaluating social policies and measuring social impact. Pablo has collaborated in the public and private sectors across different countries. In Australia, he has mostly worked in projects related to the ageing, disabilities, housing, and child protection sectors.

You can contact Pablo to discuss the content of this report, to have a coffee or to collaborate in other projects

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Key findings

Social impact investing has become a key driver for social change globally and it is starting to gain more attention in South Australia. The following findings are from a South Australian perspective but many of them are not exclusive to the state (or to Australia) but have also been part of the discussion in social impact investing forums all over the world. Also, these findings are connected to each other, they must be considered holistically rather than as individual insights.

CAPITAL ON STAND BY

Capital on Stand-by. Interviewees repeatedly said that the issue with social impact investing is not the supply of capital. Money is ready to be invested and investors are looking for innovative alternatives. This is a key finding in two senses mainly, first the availability of money is not evident for organisations that need funding to start or scale social programs. Second, even if there was awareness of the existence of this capital, many organisations in the social sector do not know what to do to have access to it. In a nutshell, capital exists, organisations do not know about this and how to access it. There is big potential to translate and leverage such capital into social change.

CULTURAL CHANGE IS KEY

Cultural change is key. Being a relatively new approach, social impact investing is still not ingrained in investors, government and organisations' culture. This is observable in language, policies, governance structure, strategies (e.g. design and evaluation) and service delivery. Many small and medium-size (and even large) organisations in SA are not ready to explore social impact investing instruments, existing policies are still not sophisticated enough to educate the market and to welcome new players and instruments and investors will not take the risk in this context.

EXPLORE OTHER MODELS

Less complexity, more collaboration. South Australia has successfully implemented a Social Impact Bond. On one hand, this initiative has brought together stakeholders that are not typically sitting at the same table to discuss policy, outcomes, evaluation and commercial investing. It has raised awareness for more organisations to explore alternative ways to design services, build capabilities and attract funding. On the other hand, designing and delivering outcomes under a social impact bond framework has brought an important lesson for future strategies. A social impact bond is a demanding, complex instrument typically appropriate for large scale interventions delivered by relatively sophisticated groups. In South Australia, there are smaller, start-up like organisations tackling complex social issues that require a more collaborative or multi-agency approach model and a less sophisticated instrument to fund services.



COLLABORATION IS CRITICAL

Partnering is critical. At this stage, social impact investing needs government, for and not-for-profit organisations to partner up. The interviews conducted for this research uncovered organisations' and government agencies' willingness to collaborate and share experiences and findings with each other. Private investors and wealth managers are willing to collectively understand new alternatives to allocate their money. Other State governments in Australia have tested policies, strategies and instruments from which they have gained insights that can be shared and used as tools to strengthen and sophisticate the market. South Australia's social sector is in a good position to expand and share the learnings gained by organisations and government locally and to tap into experiences gained interstate.



INTERMEDIARIES WANTED

Intermediaries wanted. One of the gaps identified during this research is the lack of intermediaries. Intermediaries are a game changer and their role is crucial to unlocking opportunities for various stakeholders. South Australia lacks a pool of institutions to do vital work like designing, strategising, building, measuring and connecting impact and investing. Given its importance, there is a specific section dedicated to intermediaries in this report.



MONEY IS NOT THE END

Money is not the end goal! Capital has been the tool necessary to support the delivery and sustainability of social organisations but given the current funding structure (e.g. government grants, philanthropic donations), the end and the mission behind capital has typically been to tackle social issues. Opening the doors to a model that welcomes financial returns as one of the end goals can be a two-edged sword with which the social sector must be cautious. Making more capital must always be subject to achieving measurable outcomes. Policy must make sure to enable organisations to deliver outcomes and to reward them and hold them accountable for the social value they create.

¹ Across this document, terms social impact investing and social impact investment are used interchangeably



Part 1

Understanding Social Impact Investing





The need for a new model

We live in a world in which traditional ways of teaching, learning, interacting, creating, producing, exchanging, traveling, consuming and multiple other aspects of life are changing. Triggers of such change are just as many, recent technological innovations, for instance, have increased efficiencies in production, shifting the way that a growing number of people make their living these days by performing services rather than directly manufacturing products.

Simultaneously, while advanced economies have succeeded in finding more efficient strategies to add value to the economy, many governments (if not all) still face challenges that have historically pushed policymakers, civil society, and social service organisations to explore new alternatives to address issues like inequality, social mobility, and disadvantage. In addition, governments that traditionally fund social organisations (typically not-for-profits) and programs, face fiscal restraints that can no longer ensure the availability of resources to tackle society's most pressing issues.

Not-for-profits (NFPs) and Non-government-organisations (NGOs)² are also finding difficulties in embracing new policies, attracting further funding, and to either create new services, improve them or scale them. In a very competitive environment where public funding is becoming more scarce, NFPs and NGOs have to restructure their administration and service delivery models to be sustainable and stay innovative.

Within this context, many for-profit companies³ are challenging their purpose and rethinking the impact they are having in the community and the environment. Today, a two-fold strategy to increase sales and to focus on solving social challenges is more commonly seen in companies of all sizes. Alongside a focus on profit, companies are more aware of other goals. Consumers and employees demand meaningful work, inspiring brands, and social and environmental responsibility.

² While Not-for-profits and Non-government-organisations are not necessarily the same (administratively and operationally), for the sake of simplicity, in this report both terms will be used as synonyms.

³ Across this document, the terms 'for-profit' and 'companies' will be used interchangeably.



Also, it is important to mention investors as a key player in this ecosystem. More commonly, investing strategies no longer consider a financial return only, investment approaches also consider environmental, social and governance factors and their impact. The convergence of these elements where multiple stakeholders - government, not-for-profits, companies, philanthropists and investors - are doing and expecting things differently provides opportunities to explore new business and social models that generate a positive impact and a mutual benefit among key players.

One of the alternatives to explore new pathways for social change is Social Impact Investment. This approach brings together social and environmental impact alongside a financial return. Furthermore, it expands the supply of capital in sectors that are traditionally funded with taxpayers' money. It is yet something to be evaluated but a call for something new that aligns the interests of multiple stakeholders and responds to a current need in our society.

South Australia is part of this conversation and has already explored instruments and strategies that seek to attract private capital and bring together different players to tackle social issues. Also, the time to expand the capabilities of the public, private and not-for-profit sectors in the world, pushes South Australia to align its economic and social strategy towards new models of change.

Social Impact Investing

key definitions

One of the fundamental elements of this research is to build awareness and a common understanding of some of the terms that will become more ubiquitous in the near future. It is important for all the stakeholders involved to have a mutual understanding of the terminology used in this space. Having a clear comprehension of social impact investing will facilitate conversations, negotiations and actionable steps.





Social Impact Investing – a definition

The Organisation for Economic Co-operation and Development (OECD) defines social impact investing as “the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return”.⁴

We can expand the above with the New South Wales Office of Social Impact Investment definition which states that “this investment often brings together capital and expertise from the public, private and not-for-profit sectors to achieve a social objective. Investments can be made into companies, organisations or funds, whether they be not-for-profit or for-profit. In these types of arrangements, payments are normally made based on achieving agreed social outcomes rather than on inputs or activities”.⁵

Akina complements these definitions by saying that impact investment “provides capital to address the world’s most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education”. Social impact investment “is a vehicle used to align interests across the activities of the traditional silos of private companies, government, NFPs and investors”.⁶

In other words, social impact investing is a new way for organisations (for and not-for-profit) to attract capital (from other sources than Government) to design, deliver and scale social services. It is an alternative for traditional grant aid that enables organisations to determine how services will be delivered as long as demonstrable social results are met.

We can take a look at social impact investing from the perspective of four key stakeholders: Government, Not-for-profits, Companies, and Investors.

⁴ Source: <http://www.oecd.org/sti/ind/social-impact-investment.htm>

⁵ Source: <https://www.osii.nsw.gov.au/what-is-social-impact-investing/>

⁶ Source: <https://www.jbwere.co.nz/assets/Uploads/Growing-Impact-in-New-Zealand.pdf>



Government: Social impact investing is a way to increase the supply of capital for initiatives that have a social aim. Within the social impact investing arena, the government can play different roles like designing policies, building markets, capabilities and shifting grants structure into outcomes-based ones (we will expand on this later in this report).



Not-for-profits: Social impact investment is an alternative way of funding social programs typically delivered by not-for-profits. NFPs or NGOs must demonstrate impact and prepare a sustainable service delivery/business model to attract this type of funding. From this perspective, the main appeal for social impact investing (rather than a grant) lies on being able to have alternative ways of funding programs. Depending on the model, social impact investment can have a start-up or scale-up funding available.



Companies: Social impact investing for companies can be seen in two different ways. The first one is to set up a company with a social purpose within its business strategy or being socially conscious and attract capital to establish or scale the business with social impact investing. The second one is to become an investor. Companies can also invest their money in financial products that expect a financial and a social return.



Investors: Social impact investing is a new way to diversify portfolios for investors (individuals or wealth managers) who are interested in combining a financial return and social or environmental impact.

Depending on the source, social impact investing can be described with similar words, and while some details may vary for each one of the definitions, the following can be used interchangeably:

- **Social finance**
- **Sustainable investment**
- **Impact investing**
- **Socially responsible investment**



Social Impact Investment instruments and business models

Being a relatively new concept, the social impact investment market is still developing definitions and structures of the alternatives that exist to invest capital in social projects. New financial instruments are being developed (it is common to see adaptations of traditional investment approaches), and some new business models are adapted to directly tackle social issues and others are structured under a socially conscious model.

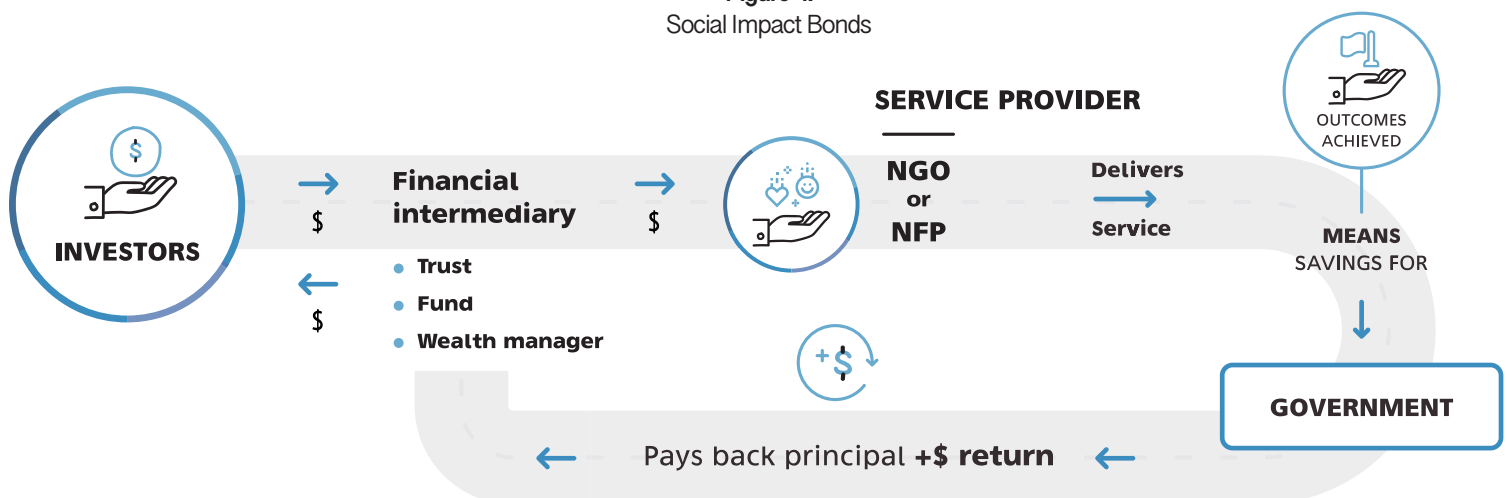
Instruments

Depending on the source, the number and name of instruments or types of impact investment might change but the most typical ones include:

Social Impact Bonds (SIBs)

A financial instrument that pays a return based on achieving agreed social outcomes. In simple terms, a service provider signs an outcomes-based contract with the government and gets private investor capital (usually raised by a third party) to fund upfront service delivery costs. If outcomes are achieved (based on an impact assessment process), government repays investors their original investment (or principal) plus a return.⁷

Figure 1.
Social Impact Bonds



⁷ More technical and specific details can be found here: <https://www.socialventures.com.au/impact-investing/social-impact-bonds/>

Layered investment

Combines tranches with different rates of risk/return and different sources of capital (philanthropic, public, private). Different stakeholders invest in a mutual fund (or a specific financial instrument that works accordingly) and the money collected is invested in various monetary assets for which, depending on their level of risk, the return varies (the higher the risk, the higher the return).

Figure 2
Layered investment



Equity

This type of investment is composed of funds and investors that directly invest in organisations acquiring a proportion of the business (ie. investors own part of the company and play a role in the strategic and business decisions). The capital can be utilised to expand working capital, fund new services or scale existing ones.



Debt

Debt is an amount of money borrowed by one party from another. Within this context, social-driven organisations can borrow money from financial institutions that offer debt with more flexible structures and fewer restrictions than commercial banks. Typically, this type of debt can be less expensive (than bank loans) since it is paid through lower interest rates.

Business models that fit in the social impact ecosystem

Social Enterprises and B Corporations.

Social enterprises are businesses that trade to intentionally tackle social problems, improve communities, provide access to employment and training, or help the environment. These sort of enterprises are led by an economic, social, cultural or environmental mission, they trade to fulfill their mission, they derive a substantial portion of their income from trade and reinvest the majority of their profit/surplus in the fulfillment of their mission.⁸

B Corporations (or B Corps) are companies that trade goods or services (of any kind) on a socially/environmentally conscious model. B Corps are certified by meeting specific standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

It is important to mention that Social Enterprises and B Corps are not mutually exclusive. A Social Enterprise can be certified as a B Corp. In addition, not-for-profits can engage in social impact investing, so while not distributing any profit to owners or shareholders, these types of organisations can also fit as models within the social impact ecosystem.

8 Source: <https://www.socialtraders.com.au/wp-content/uploads/2018/02/Fases-2016.pdf>



Part 2

South Australia and Social Impact Investing





Progress of Social Impact Investment in South Australia

An instrument that has gained a lot of attention, traction and momentum in the Social Impact space for its capacity to attract sufficient funding to scale social programs and involve multiple stakeholders are the Social Impact Bonds. This is typically the instrument that gets observed when the progress of social impact investment is assessed for a country or in this case for South Australia.

Social impact bonds An overview

According to the Impact Bond Global Database,⁹ 132 bonds have been launched worldwide. The top three areas targeted by these bonds include workforce development (41 bonds), housing/homelessness (23) and health (22).

In Australia, a total of nine Social Impact Bonds have been developed and launched. The following table summarises the number of SIBs launched by State, the Focus Areas and Total Capital raised.

9 Source: <https://sibdatabase.socialfinance.org.uk/>

Table 1
SIBs, Focus Areas and Capital Raised by State

SIBS, FOCUS AREAS AND CAPITAL RAISED BY STATE

STATE	NUMBER OF BONDS	FOCUS AREAS	TOTAL CAPITAL RAISED
New South Wales	5	Child and Family Welfare x2 Criminal Justice Health	AUD 29M*
Queensland	3	Child and Family Welfare x2 Housing/Homelessness	AUD 19.2M*
South Australia	1	Housing/Homelessness	AUD 9M
Victoria	1	Housing/Homelessness	AUD 3.7M**
Total Australia	10	Child and Family Welfare (x4) Housing/Homelessness (x3) Criminal Justice (x1) Health (x1)	AUD 60.9M*

Table mainly made with information collected from <https://sibdatabase.socialfinance.org.uk>

*Does not include the undisclosed amount of capital raised for the Arbias and ACSO bond launched in NSW.

**Cost of three-year program (capital raised undisclosed). Source: <https://probonoaustralia.com.au/news/2016/03/vic-govt-funds-ground-breaking-homelessness-project/>



Aspire Social Impact Bond

The Aspire Social Impact Bond (Aspire SIB) is Australia's first housing/homelessness focused SIB designed to target homeless people in Adelaide.. Through financial intermediaries, the Hutt Street Centre, Common Ground Adelaide and Unity Housing were able to raise a total of AUD 9M to fund the Aspire Program.




The Aspire Program aims to ensure priority housing for participants, and seeks to build independence and resilience through tiered services including employment pathways, life skills development and connection to broader services¹⁰.

Considering that an outcomes-based contract is signed to deliver a Social Impact Bond, the definition of clear, measurable and expected results is key to the success of the project. The outcomes of the Aspire Program were determined by measuring health, justice and homelessness service utilisation relative to existing information about three key indicators:

Hospital bed days,
Convictions and,
Crisis accommodation periods.

According to the latest Annual Investor Report prepared for the Aspire Program, the metrics for the indicators defined show an underperformance for hospital bed days (10% reduction vs an expected 15%) and an overperformance for the other two metrics. Convictions were reduced by 22% (target established 15%) and accommodation periods overperformed by an actual reduction of 64% when the target was 50%.

Table 2
Aspire Social Impact Bond outcome progress

	OUTCOME METRIC	RECORDED RATE PER PERSON	TARGET REDUCTION	ACTUAL REDUCTION
	Hospital bed days	3.0 p.a.	15%	10%
	Convictions	1.0 p.a.	15%	22%
	Accommodation periods	0.7 p.a.	50%	64%

¹⁰ Source: https://www.socialventures.com.au/assets/Aspire-SIB_About-web.pdf

Aspire Investors

Social Impact Bonds investors cover the spectrum from high net worth individuals to charitable foundations to corporate foundations to public offer super funds. In the case of the Aspire bond, there were 63 investors, 41 of which have a contact address in NSW, 11 in SA and 11 in Victoria.

The following table details the name of the investors that have been disclosed publically, a brief description of their core activities and their location is mentioned in Table 3 below.

Table 3

ASPIRE BOND IMPACT BOND INVESTORS¹¹

NAME OF INVESTOR ¹²	DESCRIPTION	LOCATION
Coopers Brewery Foundation	Supports charitable organisations focused on medical research and health care, youth education, aged care, fostering family and community support, based on Christian values.	South Australia
The Wyatt Foundation	Philanthropic foundation focused on four key areas: a) Increasing employment opportunities b) Improving the retention of young people in education c) Promoting financial wellbeing d) Providing appropriate and sustainable housing options.	South Australia
SYC	Not-for-profit organisation, invests back into the Australian community, helping with housing, education and employment.	South Australia
NGS Super	SuperFund dedicated to education and community-based organisations	Victoria
HESTA	Superannuation fund	NSW
Future Super	Superannuation fund focused on divestment, renewable energies, and social impact	NSW
Social Ventures Australia (SVA) Diversified Impact Fund	Fund dedicated to providing three types of finance, equity, loans and social impact bonds	NSW



Key networks

With the purpose of progressing collectively by sharing best practices, doing research, hosting events and expanding capabilities, South Australia hosts two networks that seek to collectively support the understanding of social impact investment and the measurement of impact and outcomes.

A. The Social Impact Investing Network SA (SIINSA)¹³

SIINSA's is a home grown network whose main goal is to stimulate and promote a diverse social impact investment community to address social issues through inventive financial collaborations for social and cultural change.

Key characteristics of SIINSA:

- Volunteer led association. All board members are volunteers.
- Membership association. Members come from community groups, banks, not-for-profit organisations, philanthropic foundations, individuals and businesses.
- Main activities include host events, commission research and offer advice to decision-makers in impact investment across the private and public sectors.

B. The Social Impact Measurement Network Australia (SIMNA)¹⁴

SIMNA's aim is to work with members to build a powerful community of practice that can lead and shape the development of social impact measurement in Australia.

Key characteristics of SIMNA:

- National network. SIMNA has chapters in Sydney, Western Sydney, Australian Capital Territory, South Australia, Victoria, Tasmania, Western Australia, and Queensland.
- Membership association. SIMNA has developed a network of over 1,000 members from different sectors.
- International affiliate. SIMNA is the Australian affiliate to Social Value international. This connects the network with 45 other countries.
- Main activities include: Member participation and networking around Australia. Organising the Think Outcomes conference and the SIMNA Awards.

Both SIINSA and SIMNA are volunteer-led organisations with a limited financial base supported by membership and event fees. This implies limited resources to operate and deliver services¹⁵.

11 Investors that have publicly disclosed their investment

12 Source: <https://sibdatabase.socialfinance.org.uk/> and email interview with Social Ventures Australia

13 Source: <http://www.socialimpact.org.au/about/>

14 Source: <https://simna.com.au/about-the-social-impact-measurement-network-australia-simna/what-is-simna/>

15 When writing this report, SIMNA was not functional in SA



Developmental Pathway to Social Impact Investment

“Social Impact Investing models like SIB require long-term commitment, they need buy-in from board members, and perseverance” Andrew Reilly ¹⁶

South Australia has set the ground for Social Impact Bonds to thrive. Policymakers, investors, philanthropists and service providers have sat on the same table to negotiate contracts, outcomes and metrics to define if results are happening or not and the financial returns attached to them. This denotes significant progress and the pioneers have learned from taking risks and exploring alternatives that others have not.

While there has been progress made, there are new challenges for the South Australian government and organisations who will step up and participate in the next round of Social Impact Investment initiatives.

From the interviews I carried out during this research, I talked to two different types of small-medium sized organisations ¹⁷. The first type was characterised by a lack or very basic awareness of terminology, instruments and steps necessary to be social-impact-investment-ready to attract funds.

“I get broadly speaking what Social Impact Investing is, but I don’t really know what it looks like in practice. I know the idea of social investment bonds but beyond that, I’m not expert”.
Jane Mussared

The second type were organisations that regardless of their relatively small size, had already explored the concept and process behind social impact investing.

On the other side of the spectrum, I also interviewed larger organisations ¹⁸ that have a specific team dedicated to social impact or social innovation projects which have allowed them to explore a bigger terrain preparing bids and negotiating with key stakeholders like government or investors to attract capital to design or scale new services.

The present section of this report captures the process that successful Adelaide-based organisations (medium and large) have followed when preparing to bid for a Social Impact Bond. It is important to highlight that, while this is not the only instrument to attract private capital, it is the only one where SA has experience in ¹⁹. Also, the steps described below to prepare an organisation for a SIB can be followed and adapted to be social-impact-investment-ready for other financial instruments.

¹⁶ <https://www.syc.net.au/>

¹⁷ South Australian organisations operating locally, annual revenue of less than AUD 2M and under 20 staff members

¹⁸ International or interstate organisations with an SA branch, with sufficient revenue and staff members to operate nationally

¹⁹ Some interviews suggest there might be organisations that have received debt finance from Social Enterprise Finance Australia (SEFA) but they are low profile.



Three alternative developmental pathways to Social Impact Investment

The following graphics illustrate what were the steps taken by a not-for-profit to be Social Impact Investment ready (in the context of a Social Impact Bond). The following, are three non-exclusive processes that were captured during the interviews.

Figure 3
Developmental Pathway to Social Impact investment
Process 1

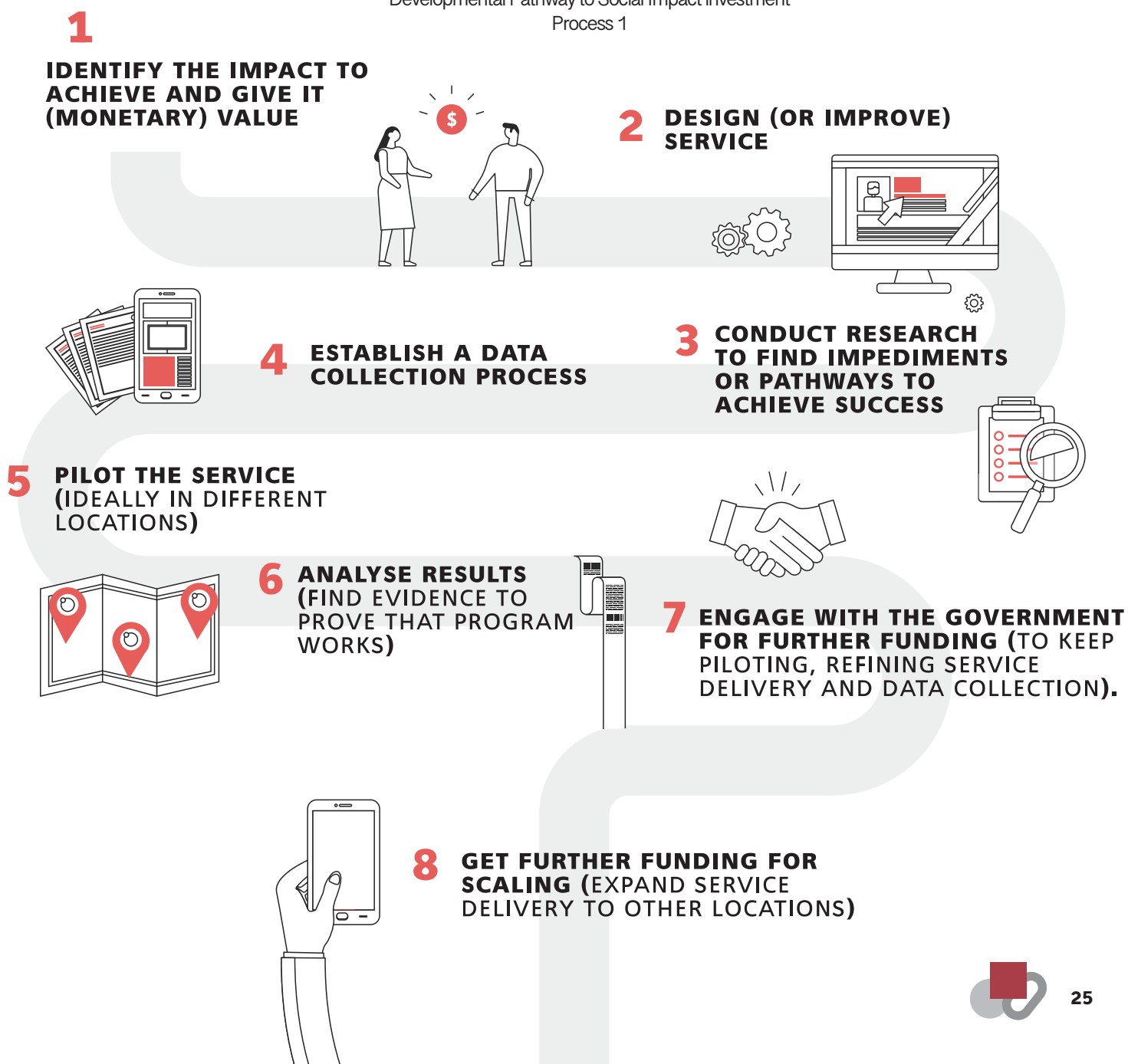


Figure 4
Developmental Pathway to Social Impact investment
Process 2

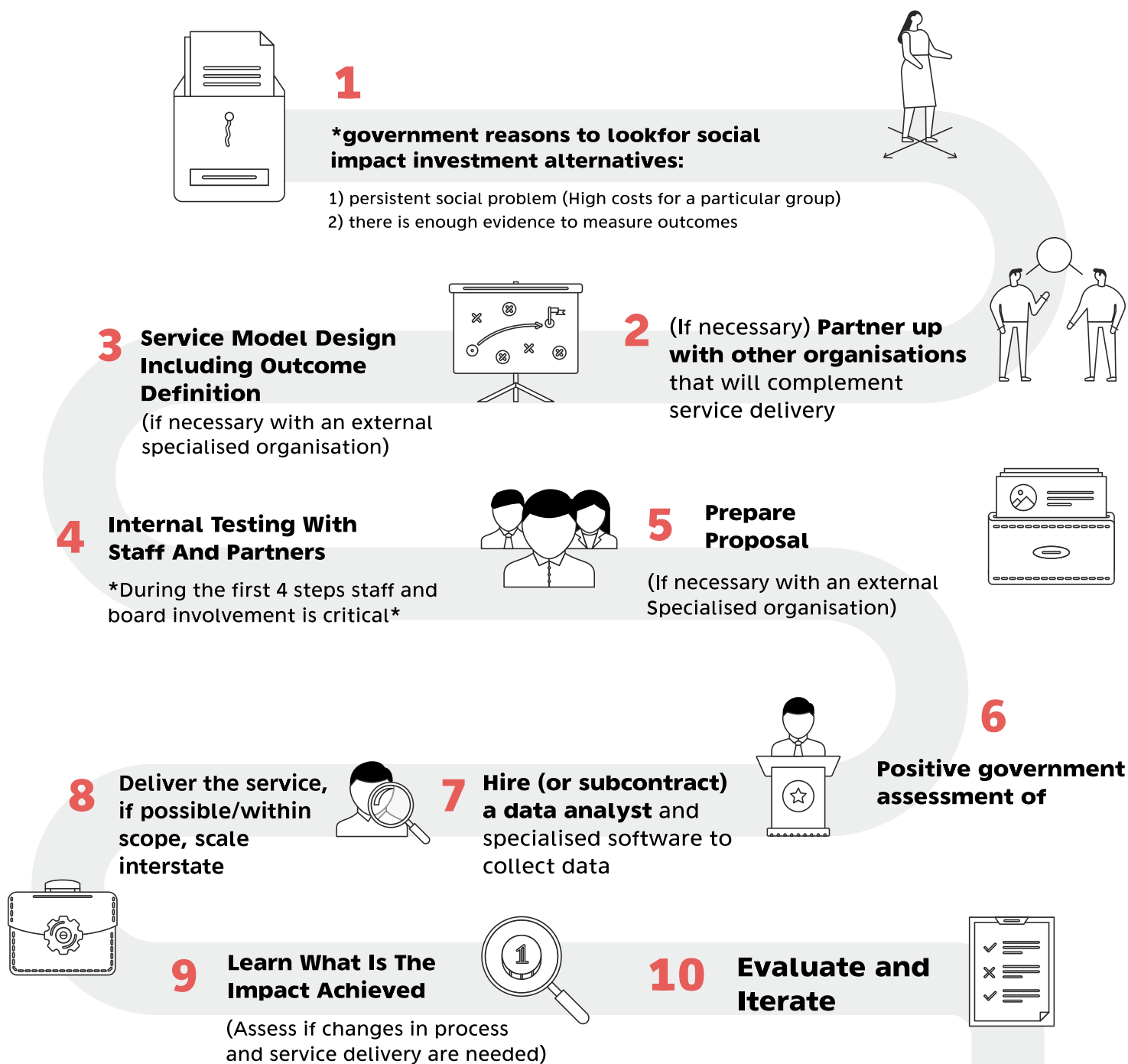
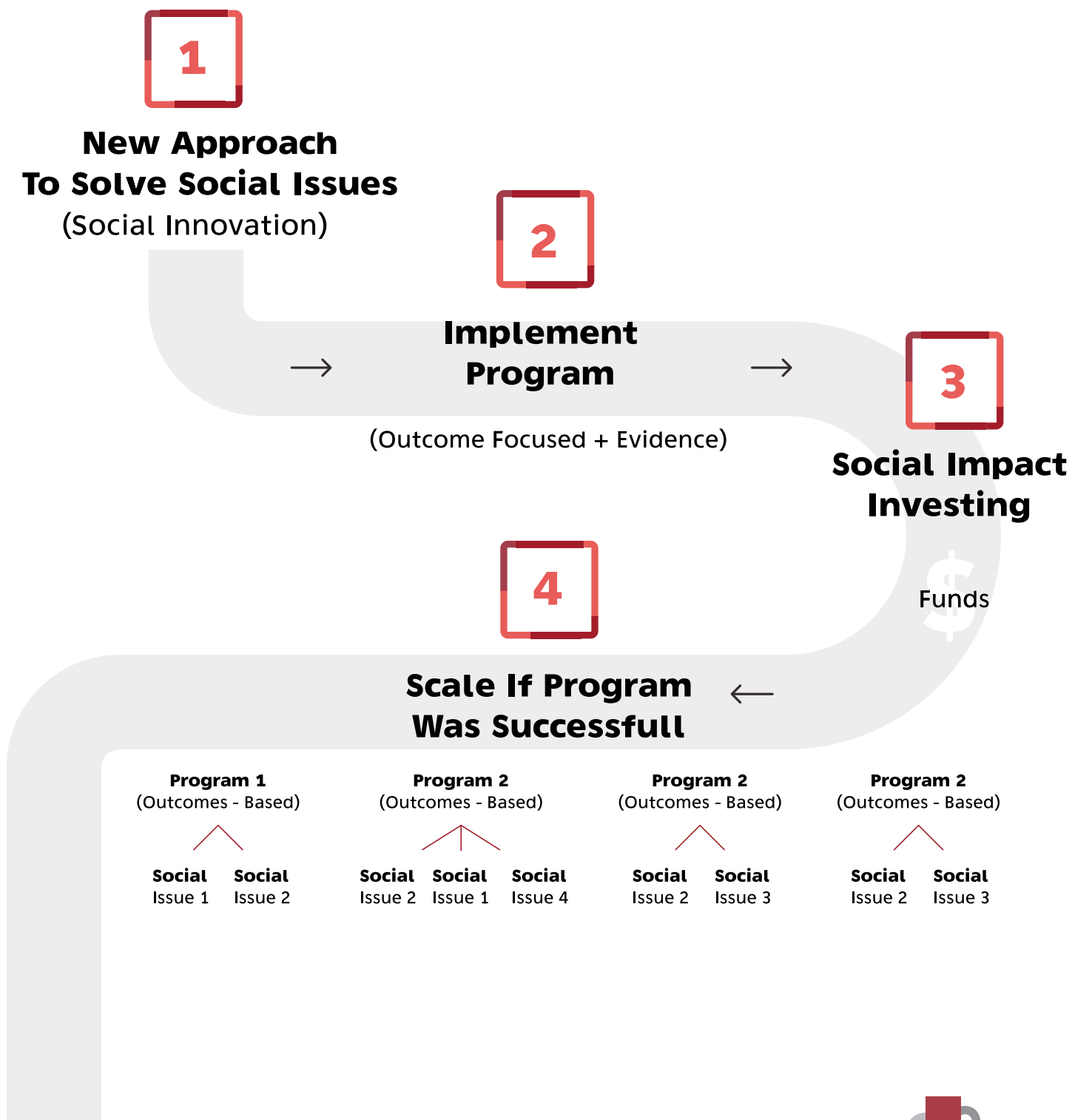


Figure 5
Developmental Pathway to Social Impact Investment
Process 3



Seven Key Elements needed in an organisation to be Social Impact Investment ready

On top of the processes followed to be social impact investment ready, there are some key elements or components that will bring value to organisations who are willing to participate in this space. These elements include skills, capabilities, and understanding of things not necessarily related to the core activities or services delivered by the organisation.

7 Key elements for being social impact investment ready:

1. Resources
 - a. People
 - b. Time
 - c. Know-how
2. Build and maintain relationships with investors
 - a. Know who they are
 - b. Understand their mandates and expectations
3. Skills to negotiate with the Government (Federal and State)
 - a. Policies and priorities
4. Financial knowledge
 - a. Business case ready
 - b. Commercial Analysis
 - c. Risk appetite
5. Legal knowledge
 - a. Negotiating contracts and terms
6. Innovation ability
 - a. Develop alternative solutions for social issues
7. Outcomes-based ready
 - a. Metrics
 - b. Evaluation
 - c. Outcomes-based payments



Stakeholders involved in a Social Impact Investing process

After describing the process and the key elements needed to be Social Impact Investment ready, it is important to mention the stakeholders that are typically involved in the Social Impact Investment process.

1. Community members. The people in need are the most relevant stakeholders in this equation. The service must be designed for and with them to ensure the quality and efficiency of the program.

2. Service Deliverer. The organisation itself (for or not-for-profit) is, of course, one of the key links in the process. The staff members operating back and front stage are key to the success of the project.

3. Service Designer. To make sure the service delivery is efficient, timely and outcome-focused, service designers play an important role. Having a good service design (a new service or an improved existing one) is the basis for bringing value to the community and tackling the issue appropriately. In practice, and depending on the organisation, service designers and deliverers can be the same stakeholder.

4. Researcher and Evaluator. Providing the evidence to demonstrate a social need and the impact (positive and negative) generated is key. Researchers and evaluators provide the tools (capabilities and software) to understand the data behind the service delivery. This is key to fill gaps along with the life of the project, to improve activities, resource allocation and service delivery. Research and evaluation are also relevant to scale the project.

5. Funder(s). Whether it is a private or a public funder, this stakeholder brings the capital into a successful pathway. Funders could be Government agencies, private investors or philanthropy. Monetary resources are crucial during the conception of the process, the testing of the model and the escalation of the service.

5. Board of Directors. This is a key stakeholder to expand social impact investing. Their role in taking risks, learning new models and embracing innovative alternatives is crucial for organisations to explore new methods of receiving funding.

6. Steering Committee. To improve the governance of the project, organisations who have been involved in a Social Impact Bond (and this could also be relevant for other instruments), have developed a Steering Committee that includes members from the board, service designers, evaluators, and service deliverers themselves.

Gaps, Barriers, and Drivers for South Australia

Being aware of the steps taken by other organisations, the key elements and the list of relevant stakeholders necessary to interact with for being social impact investing ready does not mean that South Australian organisations have the access, capabilities or the networks needed to design or expand innovative social services that will attract new capital. It is important to recognise that there are still gaps to be filled and barriers to overcome. Also, there are drivers that can ignite or facilitate change in South Australia.

Gaps

Intermediaries. Priming the pump for more and more sustainable intermediaries is one of the most impactful ways to accelerate direct and indirect effects that will grow impact²⁰. South Australia lacks a pool of intermediaries that do vital work like designing, strategising, building, measuring and connecting impact and investing. There is a whole section in this report dedicated to this crucial role that no one is deliberately playing in South Australia.

“Intermediation has to be generating solutions as well as bringing capital into the demand side”.

Rosemary Addis

Other financial instruments. Most of the efforts in social impact investing in South Australia have been focused to develop one single financial instrument, a Social Impact Bond. The strength of this instrument could also be its weakness, this is its complexity. On the one hand, complexity allows different stakeholders to deeply understand a pay-by-results structure combined with a financial return. On the other hand, its complexity excludes many organisations that are less sophisticated, do not have the size, resources nor the knowledge to structure a bid and deliver the service. South Australia lacks other, less complex, more inclusive types of investment that produce sustainable impact.

²⁰ Source: Scaling Impact. Blueprint for collective action to scale impact investment in and from Australia https://impactinvestingaustralia.com/wp-content/uploads/20181120_Scaling-Impact.pdf



Barriers

Maturity of the market. The interviews conducted for this research suggest that South Australia has a traditional not-for-profit sector with risk averse boards, many organisations have room to improve or build their capacities in terms of social impact investing, the pipeline of opportunities has not matured yet and the capacity of the local market to fulfil supply and demand (of capital) has yet been small. The Aspire bond, for instance, attracted capital from eleven investors from South Australia (out of 63 - i.e. 17%) while the remaining 52 were from interstate. This maturity is very related with the gap of alternative financial instruments to address social issues.

Organisational culture. While there are many organisations that have been operating on social impact for many years, another barrier observed in South Australia is the lack of culture that allows organisations to be social impact investment ready. Being a relatively new approach in South Australia (and in the world), organisations are slowly transitioning from traditional models to new ones that address the needs of an emerging market. Organisational structure, staff capacity and resource management has to evolve to address the new needs of a market that requires new governance, board of directors committed to exploring new models, staff (or contractors) with specific capabilities (e.g. service design, financial knowledge, negotiation skills - see key elements listed above), and a financial structure that reflects social impact investment as a key component of the budget. Governance and management culture must reflect the confidence to be able to engage with finance, and manage the risks and potential benefits associated with this (from financial and impact perspectives).

“Cultural change is what it'd take for impact investing to become a normalised part of the way in which we respond to human need” Pam Simmons

Baseline data and capacity to collect it. One of the barriers to identify and address the most pressing social needs is the lack of baseline data and the capacity of organisations and government to collect in a mechanism that is qualitative enough to inform decisions about rates of return. It is still uncommon to find public and private institutions with the capacity to produce data collection strategies and instruments to perform the collection. This is a space that needs to be filled if government and social service providers want to identify needs, end beneficiaries and also to evaluate programs.

“I don't think you can entice the corporate world into stumping up significant dollars if they didn't have a clear way of measuring the outcome. That's true for the corporate world but it's also true for government” Graham Brown

Drivers

Policy. Government can help to design and to action policy that drives other capital alternatives into projects aiming to solve social issues. Social procurement, Payment-by-Results (PBR) contracts and Outcomes Focused grants are existing drivers for social impact investing. Another relevant policy in this area is the National Disability Insurance Scheme (NDIS) which is shifting service delivery to more commercially focused models. Also, to drive change it is crucial to design policies that aim to build capabilities, establish impact reporting standards, strengthen intermediaries (see intermediaries section below), fiscal incentives and local and national strategies that set the ground for attracting new impact investment managers and social entrepreneurs.

Build capabilities. This driver is directly linked with the barriers mentioned above, organisational culture and the maturity of the market. Having social-impact-focused workshops, presentations, and competitions in different scenarios like local councils, universities, innovation hubs can drive new knowledge for existing or new organisations to scale social impact investing.

Peer to peer learning. Heavily attached to the previous driver, organisations learning from each other can boost capabilities and expand knowledge. From the interviews, organisations that have already succeeded in implementing a Social Impact Bond in or from South Australia are willing to share their knowledge and experiences with other institutions or companies willing to do so.

21 More about this: Victoria's Social Procurement Framework <https://buyingfor.vic.gov.au/social-procurement-framework>





Part 3

Intermediaries and Role of Government



Intermediaries

“Intermediation has to be generating solutions as well as bringing capital into the demand side”.

Rosemary Addis

One of the gaps for scaling Social Impact Investing in South Australia is intermediation. It is important to mention that this gap is not exclusive to South Australia, the expertise that brings together pieces already available into more efficient and accessible structures to connect impact and investment is one of the challenges for this market worldwide.

The present section has the objective of expanding on the definition and the details behind the tasks or roles that an intermediary plays. Also, to materialise this concept, there are a few examples of intermediaries that have played different roles in Australia.

An intermediary definition

Like many other concepts in this space, the definition and the role of an intermediary depends on the source and context. From the interviews conducted and the research done for this document ²², an intermediary can be understood, in very simple terms, as **the entity that makes evident concrete opportunities and creates a two way connection between services providers (e.g. not-for-profits, social enterprises) who demand capital and knowledge and the organisations that supply both capital and know-how (e.g. legal, financial, service design) necessary to be impact-investing ready.**

Based on this definition, we can classify intermediaries into two main types:

Investment Intermediaries. These are the intermediaries who have access to a network of investors and understand their financial return and outcome expectations. Some examples of this type of intermediaries include impact investing funds, investment banks, wealth advisors, brokers, investment managers and not-for-profits specialising in impact investing advisory and consulting.

Capacity building intermediaries. These intermediaries can help develop ideas and business cases, design new services and build capabilities. Examples of these intermediaries include social impact experts and local foundations.

²² Definitions and concepts in this section is a blend of quotes from interviews and information collected from the following sources: OECD, Georgia Social Impact Collaborative, Brookings Institution, and Bridges Fund Management



Role of intermediaries

Similar to other concepts in this document, defining the specific roles that intermediaries play can be challenging because it depends on various factors. A definition of roles depends on the source, the context, the stage of the impact investing process and the financial instrument in place. Interviews and research suggest that the role intermediaries play is not exclusive to investment or knowledge/capability intermediaries, they both can conduct similar roles.

Combining elements from different sources, the main roles an intermediary performs include:

Structuring and developing contracts. Assist with the structure and development of contracts between service providers, outcome funders and investors.

Raise capital. Market investment to investors, attract and broker investments.

Convener. Support with managing partners, bringing the stakeholders together to determine and agree upon the transactional details.

Develop business ideas and models. Help organisations with designing, testing, and evaluating new ideas for business and service models.

Build capability. Support organisations building different types of capability such as investment, service design, strategic, outcome definition, and evaluation capabilities.

Provide finance. Act as funders or direct investors.

Determine feasibility. Assess the viability and likelihood of defining meaningful and measurable outcomes, defining reasonable timeframes to achieve them, find accessible evidence to prove outcomes and determine if legal and political conditions are appropriate.

Manage performance of service provision. Lead the execution of the service delivery process.

Receive outcome payments and pay investors. Act as a financial conduit between the outcome funder and investors.

Give visibility and connect. Raise awareness and connect relevant stakeholders to action concrete opportunities that will generate impact and profit.

Examples of Intermediaries in Australia

Some of the intermediaries identified in Australia, particularly for Social Impact Bonds include financial institutions, social services providers, local foundations. According to the Impact Bond Global Database, the following are the intermediaries that played a role at some stage of the life of the SIBs implemented in Australia.

- Social Ventures Australia
- UnitingCare Burnside
- Westpac Institutional Bank
- Commonwealth Bank of Australia
- Benevolent Society
- Social Outcomes
- National Australia Bank

Importance of intermediaries for South Australia

Other than the roles described above, intermediaries as a whole play a substantial part in structuring and building a social impact investing community. Lack of intermediaries is a gap to be filled in South Australia, filling it would mean addressing other gaps like financial innovation (new financial instruments for social impact investing) and barriers like growing the market and its maturity and changing the organisational cultures.

Currently, the issue in South Australia resides in a lack of organisations that have both the skills, experience and connections to act as intermediaries and the remit, mission or funding to do so. While there are banks, consultants and wealth managers that can play some intermediaries roles, they are not visible in the market acting as such. At this stage, many of the potential intermediaries work independently or siloed from each other. Bringing them together to explore synergies, capabilities and common goals to grow the market will be crucial for South Australia to thrive in the social impact investing space.





Role of Government

There is no doubt the government plays a crucial role in the social impact investing ecosystem. Policymaking across the world has been catalytic of more effective social outcomes and sustainable investing.

Policy cycle

The Global Steering Group (GSG) for Impact Investing says the government should consider itself a catalyst for the impact ecosystem, encouraging other players to contribute to the impact economy²³.

In its report Social Impact Investment 2019 - The impact imperative for sustainable development, the OECD describes a policy cycle that unfolds as a step-by-step chronological process²⁴. In this cycle the public authorities have to:

- Determine what **role the government wants to play**, based on the maturity of the Social Impact Investing market. The three main government roles as catalysts to the ecosystem include:
 - Market facilitator:** Creating organisations and systems that enable and educate on impact.
 - Market participant:** Supporting the impact investment ecosystem through the commissioning and procurement of impact products and services.
 - Market regulator:** Implementing laws that build support and recognition for the impact ecosystem.
- Identify the needs expressed by service providers and end beneficiaries, possibly through impact evaluations on previous interventions, and understand how the behaviour of the market actors needs to change.
- Set the **policy objectives in alignment with the political agenda**.
- Select the **most appropriate type of intervention and instrument**, allocate the necessary resources for implementation and design the delivery mechanism.

²³ Source: <https://gsgii.org/reports/catalysing-an-impact-investment-ecosystem-a-policymakers-toolkit/>

²⁴ Source: https://fa-se.de/static/fa_se_de/uploads/2019/03/OECD-Social-Impact-Investment-2019.pdf

Policymaking pathway

From analysing countries with experience in social impact investing²⁵, the Global Steering Group for Impact Investing has found a pattern that helps describe a path of policymaking. As the market matures, the policymaking process evolves in four different phases that support the social impact investing ecosystem with more sophisticated policy tools. It is important to mention that while these phases are considered at a Federal level, it is worth seeing them as applicable from a State perspective.

Phase 1 - Foundational policies

Countries tend to first build the foundation of the impact ecosystem through education and by fostering a favourable environment for impact businesses. This phase is underpinned by educational programs showing a clear intention to build an understanding around the industry (e.g. university and research centre courses, investor training, incubators, and access to capital programs).

In South Australia, the state government has delivered workshops to build capabilities around impact investing, particularly for Social Impact Bonds. There is room for improvement in South Australian foundational policies.

Phase 2 - Strengthening policies

With foundational policies in place, governments develop policies to strengthen the core of the ecosystem by:

- a) Structuring government spending implementing outcomes commissioning and impact values in their procurement decisions.
- b) Designing legal forms for impact businesses targeted as fiscal incentives.
- c) Define impact reporting standards to report on non-financial factors
- d) Create impact investment wholesalers²⁶ and fiduciary duty to develop the impact investment market.

In South Australia, there are some programs with impact values (e.g. Reboot program²⁷ and Launch Me program²⁸) and outcome-based contracts but Phase 2 of the policymaking pathway can still be strengthened.

²⁵ These countries include Australia, India, Japan, South Korea, Finland, France, Germany, Italy, Portugal, UK, Israel, South Africa, Argentina, Uruguay, Brazil, Canada, Chile, Mexico and the US.

²⁶ An impact investment wholesaler finances funds, other intermediaries and, directly or indirectly, social enterprises. It seeks to invest where the investees could not raise enough money. More information here: <http://gsgii.org/wp-content/uploads/2018/10/GSG-Paper-2018-Wholesalers.pdf>

²⁷ More information: <https://aic.gov.au/publications/rr/rr14>

²⁸ More information: <https://goodshepherdmicrofinance.org.au/services/launchme/>



Phase 3 - Expansive policies

This phase is typically observable in countries where the impact ecosystem is more mature. The way in which these countries are broadening the reach of the impact investment industry includes actions like:

- a) Opening the market to attract retail investors by creating pensions with purpose and impact stock exchanges.
- b) Designing national strategies as a way to have a coherent, agreed path for further industry development.

In South Australia Phase 3 is still unexplored.

Australian Government agencies in charge of Social Impact Investing

At a Federal level, the Department of Treasury plays an important role in developing strategies around social impact investing. In April 2019, for instance, a new Social Impact Investing Expert Panel was established to **“help foster Australia’s fledgling social impact market”** ²⁹. The Expert Panel will support the Social Impact Investing Taskforce, which will be situated in the Department of Prime Minister and Cabinet and was announced as part of the 2019-20 Budget.

Worldwide, it is not an uncommon strategy to create a taskforce to address these matters that depends on the treasury. In the UK, for example, the Treasury was the government agency to first establish a taskforce to investigate how entrepreneurship could be applied to combine financial and social return.

State-wise, in Australia it is also common to see the State Departments of Treasury and Finance as one of the key players, where social impact investing initiatives have been implemented,

In South Australia, two central agencies have been in charge of social impact investing, originally, the Department of Premier and Cabinet and later the Department of Treasury. In Queensland and Victoria, State Treasury agencies have played a key role.

New South Wales, is the only Australian State with an agency dedicated to this area. The Office of Social Impact Investing is the central point of contact for the state in matters of social impact investing. It is worth mentioning that this office is formed by a team of the Department of Premier and Cabinet and the NSW Treasury.

29 More information: <https://ministers.dss.gov.au/media-releases/4846>

Recommendations

Many of the recommendations for SIINSA that come out of this report are heavily related to the key findings presented at the beginning of this document and, of course, with the barriers and gaps presented in section 'Developmental Pathway to Social Impact Investment'.

a. Promote an environment to normalise Impact Investing

It will be crucial for SIINSA to promote activities, connections, conversations and negotiations that will help normalise social impact investing in South Australia. Workshops, debates, forums, training and connections will be key actions that will assist in promoting the environment for social impact investing in South Australia to thrive. At this stage, various topics can be addressed to educate and build a market, from financial capabilities to measuring outcomes, to service design, to impact governance and impact management.

b. Showcase Metrics

One of the barriers identified for this research was the baseline data necessary to, among other things, identify social needs for South Australia, measure the potential size of the market, define clear outcomes and evaluate progress. Overcoming this barrier is crucial for social impact investing to thrive in South Australia. SIINSA must lead organisations into the right tools, help building consensus about the metrics that are being used in other states or countries and spread the knowledge locally.

- Identify the most poignant social needs for SA to test new solutions
- Potential size of the Social Impact Investing market for SA
- Create a Social Enterprise Census for SA
- Map potential Social Investors for SA
- Map potential and existent intermediaries in SA



c. Supply of capital is not an issue (so let everyone know about this!)

Capital on standby was one of the key findings of this report. More than once, interviewees mentioned that capital is ready to be invested in projects that are innovative and bring a financial return. This is definitely something that organisations need to be aware of. This recommendation is heavily attached to the rest of the recommendations presented here. There might be many reasons why capital is on hold. Lack of awareness of innovative projects, immaturity of the market, bad communication, and lack of intermediaries are just some of the examples of elements that block the flow of resources.

d. Bold policies

Government has policy levers to explore new models to attract investors and service deliverers in South Australia. Policies that exemplify successful cases include tax reliefs available on qualifying social investments, use of money lying in dormant bank accounts and building the legal structure to set up social enterprises. Bold policies do not necessarily mean to reinvent the wheel, there are many cases to learn from across the globe that have successfully led to innovation.

e. Intermediaries, the game changer

International literature and experience point to intermediaries as the main game changer for social impact investing. Intermediaries bring opportunities to improve collaboration among public, private and development investors. Intermediaries also can spot opportunities to scale up intervention that works. It will be crucial for SA to grow a network of intermediaries or tap into other States experience to access this key element of Social Impact Investing. Some of the actions worth exploring as SIINSA include:

- Build a directory of potential intermediaries specifying roles and capabilities (existing organisations - local and interstate- or new ones)
- Define the incentives for becoming an intermediary in South Australia
- Collaborate with State Government to define if creating a new independent institution (or pool of institutions) is worth creating for SA or tapping into existing experience interstate is better.

e. Gain and Maintain Momentum

Social Impact Investing is gaining momentum around the world. South Australia must not be an exception. During the interviews, there were some suggestions to generate and maintain track. Examples of these suggestions for SIINSA include:

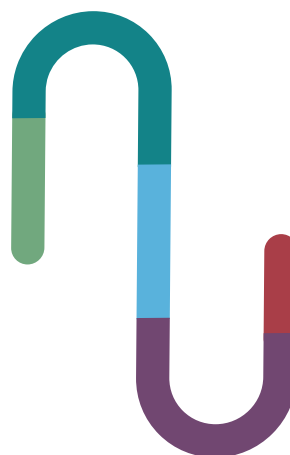
- Design and test a new investment model for SA that is more accessible and scalable than a Social Impact Bond.
- Create a taskforce team where treasury, NGO's and the private sector are involved.
- Build an anchor or a symbol, beacons for people to know social impact investing is happening. Lot fourteen and SAHMRI were examples
- Ride on thinkers in residence insights. There are powerful insights that can be used to expand social impact investing along with other related topics like the purpose economy.
- Collaborate with other networks or Government agencies operating in the same space. - Treasury is definitely worth partnering up with. Also, a Social Enterprise movement is growing in SA. There are common interests worth exploring.



Useful links

The following links were useful to build the different sections of this report. While not all of them are quoted across this document, they do present valuable information for those interested in exploring more in detail elements of social impact investing.

- ▲ Impact Capital Australia <http://www.impactcapital.com.au/>
- ▲ Sustainable Development Goals (UN) <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>
- ▲ UN Principles for Responsible Investing <https://www.unpri.org/>
- ▲ HILDA Survey: <https://melbourneinstitute.unimelb.edu.au/hilda>
- ▲ Blackdog Institute: <https://www.blackdoginstitute.org.au/>
- ▲ Department of Treasury and Finance: <https://www.treasury.sa.gov.au/>
- ▲ Impact Bond Global Database <https://sibdatabase.socialfinance.org.uk/>
- ▲ Social Outcomes <https://socialoutcomes.com.au/toolkit/payment-by-outcome/>
- ▲ Australian Charities and Not-for-Profits Commission Fact Sheet
<https://www.acnc.gov.au/tools/guidance/factsheets>
- ▲ The Potential and Limitations of Impact Bonds
<https://www.brookings.edu/wp-content/uploads/2016/07/Impact-Bondsweb.pdf>
- ▲ Community Interest Companies
<https://www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies>
- ▲ Social Investment tax relief
<https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief>
- ▲ Dormant bank accounts funds <https://www.bigsocietycapital.com/about-us/governance>



Methodology

The approach to completing this report was based on four elements: field research, desktop research, blog and graphic design.

Field research included interviewing 14 diverse organisations from the private, public and not-for-profit sector to understand the initiatives that are happening around social impact investing. This could be policy or service design, pathways to attract private capital into the not-for-profit arena, or design new services that challenge the status-quo.

It is important to highlight that the term field research refers to conducting one-on-one interviews, participating in group meetings, or attending events.

The strategy behind the list of organisations relied on the sectors considered most relevant to prepare this document. Such list included the following types of organisations:

- Wealth Managers
- Community Sector Organisations
- Academia
- Consultants
- Government

Specifically, the organisations and people interviewed ³⁰ for this report were:

- Ernst and Young, Christopher Thorne and Marie-Louise Symons
- Impact Investing Australia, Rosemary Addis
- Wyatt Foundation, Paul Madden
- SYC, Andrew Reilly
- Self-employed, Pam Simmons (Strategic Leader in Human Services)
- muru-D and She-EO, Julie Trell
- COTA SA, Jane Mussared
- Department of Treasury and Finance SA, Matthew Winefield, David Cripps
- Don Dunstan Foundation, David Pearson
- The Hutt St Centre, Ian Cox
- Baptist Care, Graham Brown
- GoGo Events, Sarah Gun
- Brightlight Impact Advisory, Jai Sharma
- Non-Executive Director and Design Thinker - Rob Di Monte

Special collaborators:

- Founder at Hen House Co-Op Ltd and SIINSA's board member, Moira Were
- General Manager, Consulting and Business Services at Community Business Bureau and SIINSA's chair, Jane Arnott.

30 The order follows the same as the order in which interviews were conducted.



The strategy to connect all the interviews and create a coherent narrative between them was to ask each one of the interviewees what would they ask the next interviewee. The questions answered during this process were:

- What do you think is a reasonable proportion of your corpus that could be invested in SI projects and how soon could that happen?
- What would it take for impact investing to become a normalised part of the way in which we respond to human need?
- What does a medium-sized organisation (2M annual revenue) need to be Social Impact Investing ready?
- What are the barriers to creating more Impact Investment ready projects?
- What would be the attributes of a social impact investment bond that they [wealth managers] would consider supporting?
- How do we activate your team's appetite for Social Impact Investing through Social Procurement of services?
- What is the role that impact measurement plays in social impact investing?

The answer to most of these questions is embedded along this report.

The strategy to build audience and momentum around this piece of research was to create a series of blog posts explaining different parts of the research process as well as defining some concepts that were relevant for this research. The platform used to publish these posts was Medium and the series of posts was named 'Brenton Wright Scholarship'³¹.

Desktop research was the third component of this research. Evidence from different sources (see notes across the document and the Useful Links Section) allowed to support insights and findings collected during the interviews with evidence. While desktop research was mainly conducted after the interviews, it was also helpful to inform questions for interviews, connect insights and to visualise what this report could look like.

The fourth element was the graphic or editorial design. This element was challenging in terms of being able to use it as a channel to capture insights and to translate them into visually appealing content. The design has been the bridge between research and digestible insights.

31 You can access the series of blog posts here: https://medium.com/@jp.gonzalezgz/brenton-wright-scholars-hip-no-1-44b8eb0e75da?source=friends_link&sk=ee1dbda1a60b016ea071246081c2fb43