

The role of evaluators in social impact investing

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20 September, 2016
Australasian Evaluation Society Conference



What we will cover

What is impact investing?

Where is impact investing being used?

What types of impact investing are there?

A Social Impact Bond Lifecycle (Concept, Design, Implementation and Operation)

The roles for evaluators

Case study: Prevention program for domestic and family violence

What is impact investing?

Impact investing is an investment that intentionally targets **specific social objectives** along with **financial return**, and **measures the achievement** of both

What is impact investing?

Impact investment is used worldwide to address entrenched social issues, generating not only financial gains, but positive environmental or social impact. It is gaining momentum as a solution to reducing the gap between government resources and the demand for social services.

The key benefits of impact investing:

- Governments can encourage private capital into areas of greatest need, foster innovation, and achieve better outcomes¹
- By measuring social impact, organisations will learn what really makes a difference and can improve their outcomes over time²
- Generate stable returns for investors that do not correlate to the return volatility of other investments through the economic cycle³
- Increase the positive social impact that philanthropic funds have in society by focusing philanthropic grants on capacity building and de-risking future impact investments⁴
- Increase transparency and accountability for delivering on the intended area of impact⁵

¹Addis, R, Bowden, A and Simpson, D, (2014) Delivering on Impact: The Australian Advisory Board Breakthrough Strategy to Catalyse Impact Investment, available online http://impactinvestingaustralia.com/wp-content/uploads/0109Delivering_on_impact.pdf, last accessed 8 July 2015

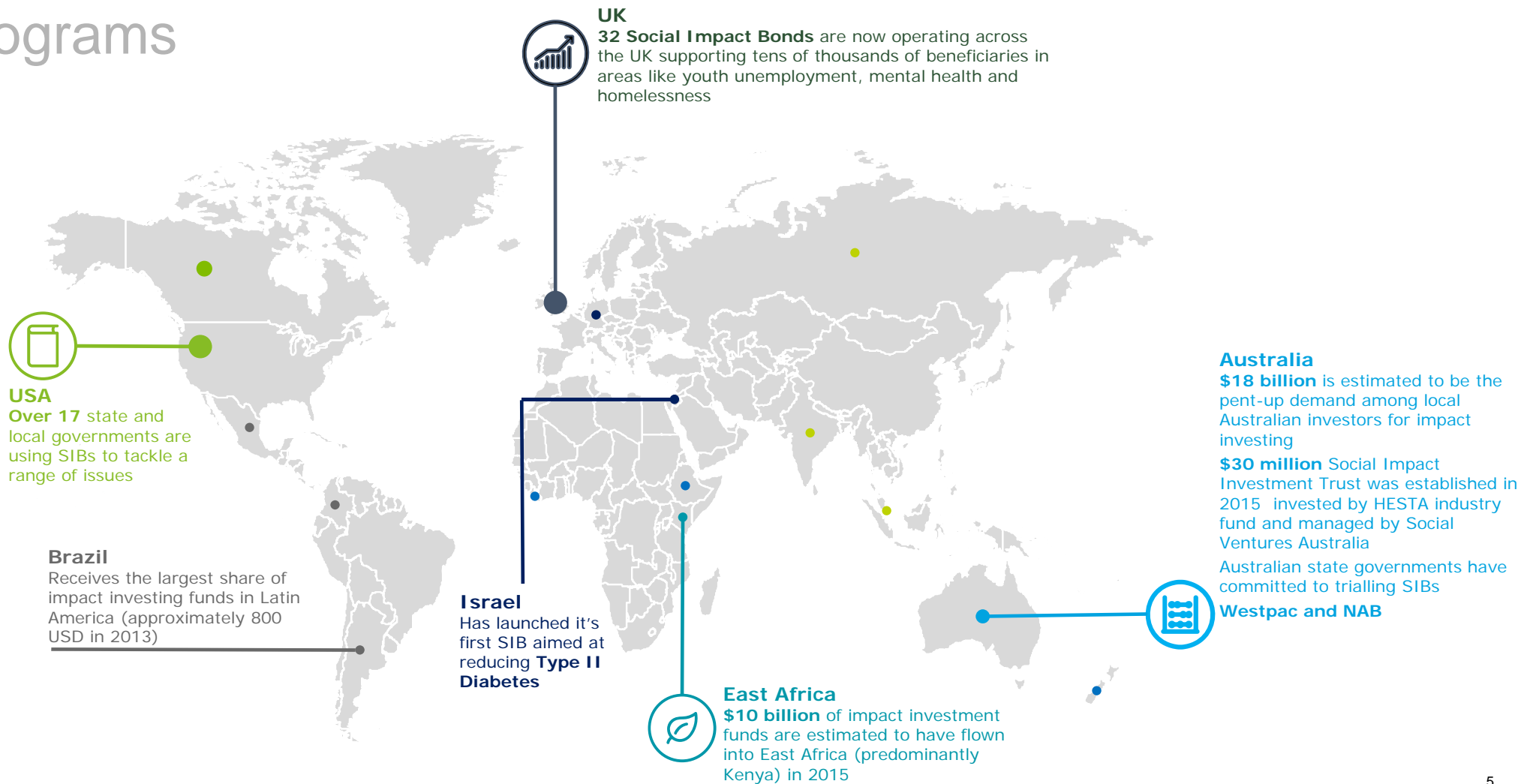
²Muir, K. & Bennett, S. (2014). The Compass: Your Guide to Social Impact Measurement. Sydney, Australia: The Centre for Social Impact, available online http://www.csi.edu.au/media/uploads/CSI_The_Compass.pdf, last accessed 8 July 2015

³Addis, R, McLeod, J, Rain, A, IMPACT – Australia: Impact for social and economic benefit, available online https://docs.employment.gov.au/system/files/doc/other/impact-australia_nov_2013_2.pdf, last accessed 8 July 2015

⁴Graham, B., Anderson, E. (2015) Impact Measurement: Exploring its Role in Impact Investing, National Australia Bank, The Difference Incubator and Benefit Capital

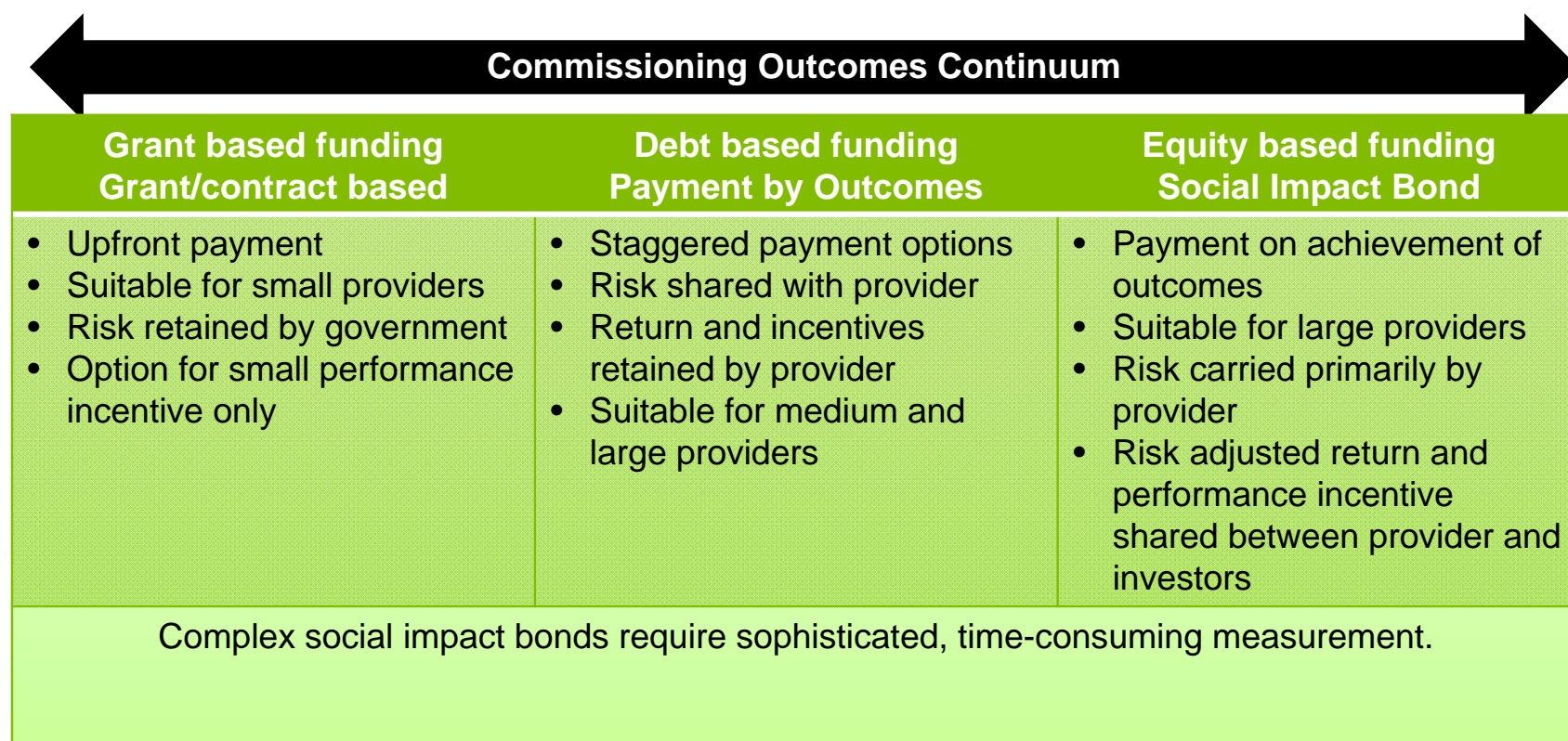
⁵SIIT (2014) Impact Investment: The Invisible Heart of Markets, Harnessing the power of entrepreneurship, innovation and capital for public good. Social Impact Investment Taskforce, 15 September 2014

Impact investing is increasingly being used to fund social programs



Types of impact investing?

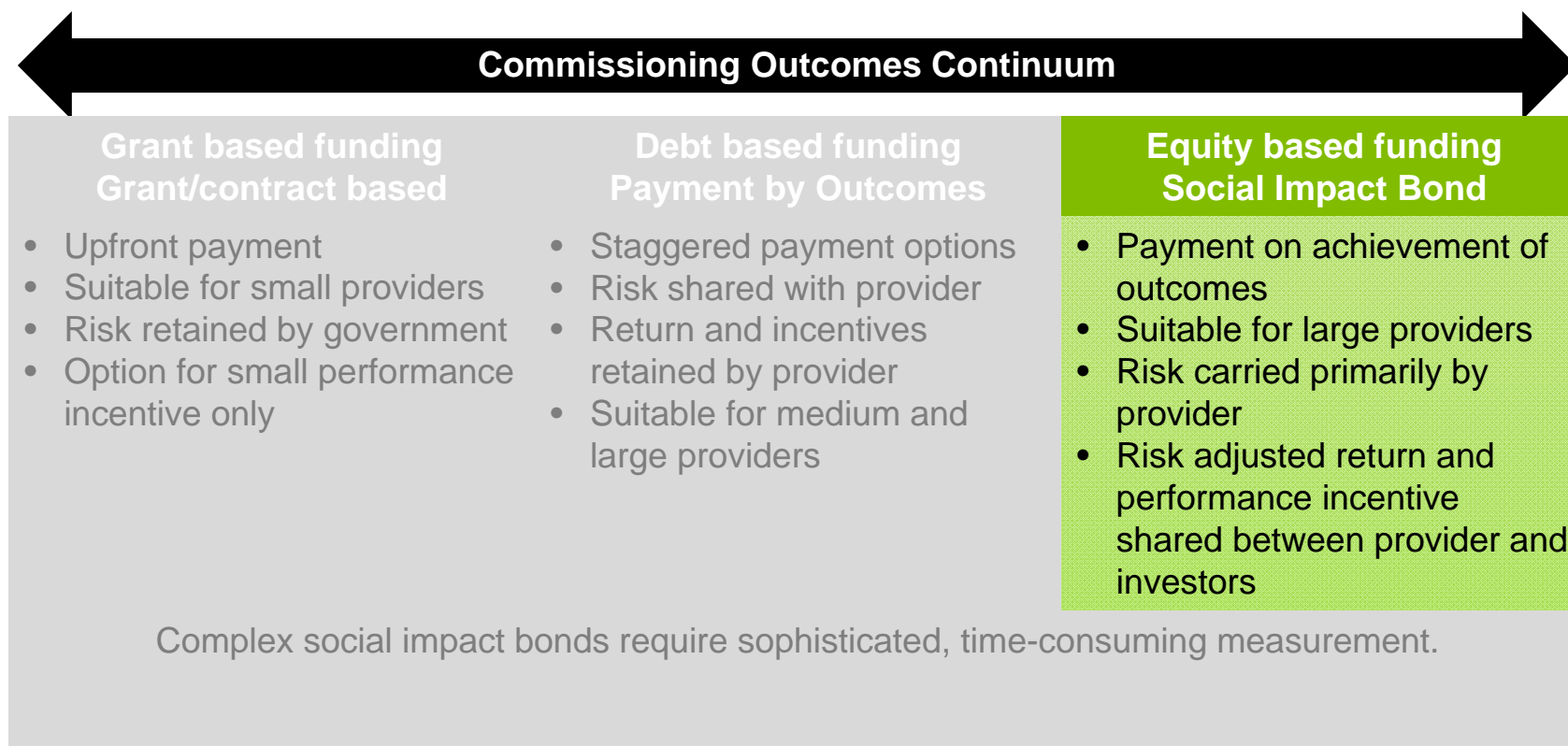
Impact investing is an investment that intentionally targets specific social objectives along with financial return, and measures the achievement of both



Source: Deloitte Access Economics (2016) based on Graham and Anderson (2015)

Types of impact investing?

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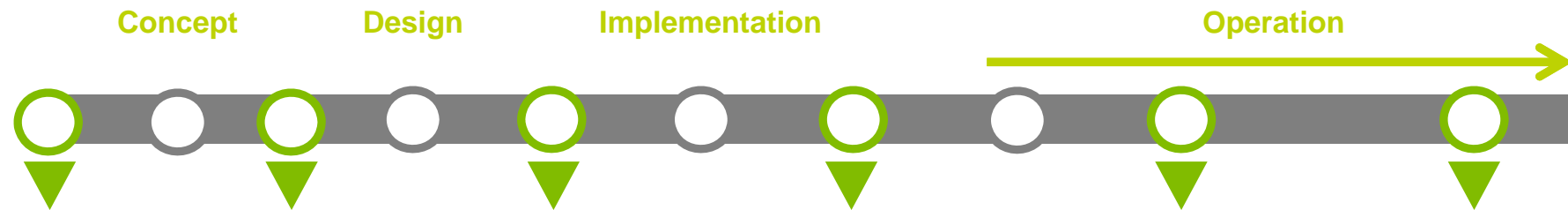


Source: Deloitte Access Economics (2016) based on Graham and Anderson (2015)

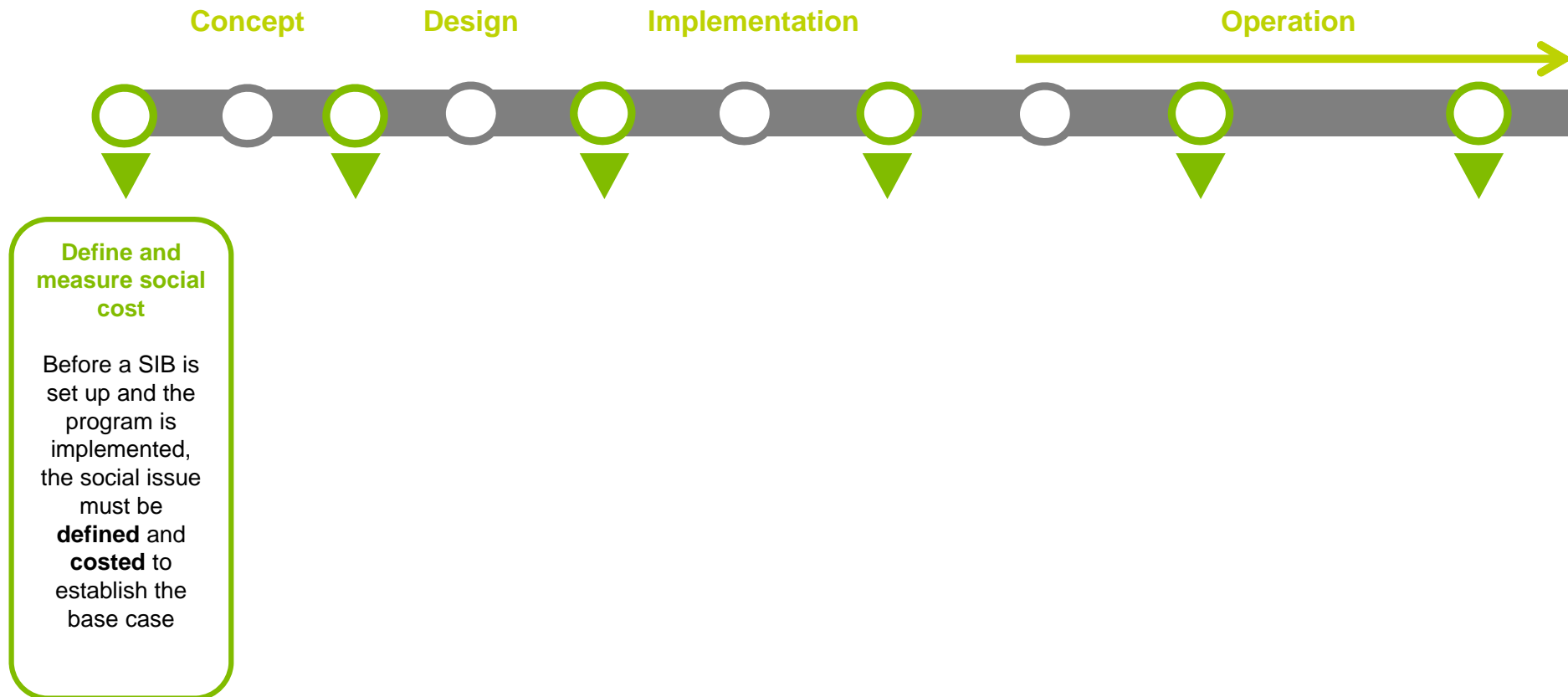
Social Impact Bonds

SIBs present an **alternative investment model** in the midst of rising demand for services and unprecedented pressures on public finances. Focused on **preventive action**, the Social Impact Bond is based on a contract in which the contractor agrees to **pay for improved social outcomes**

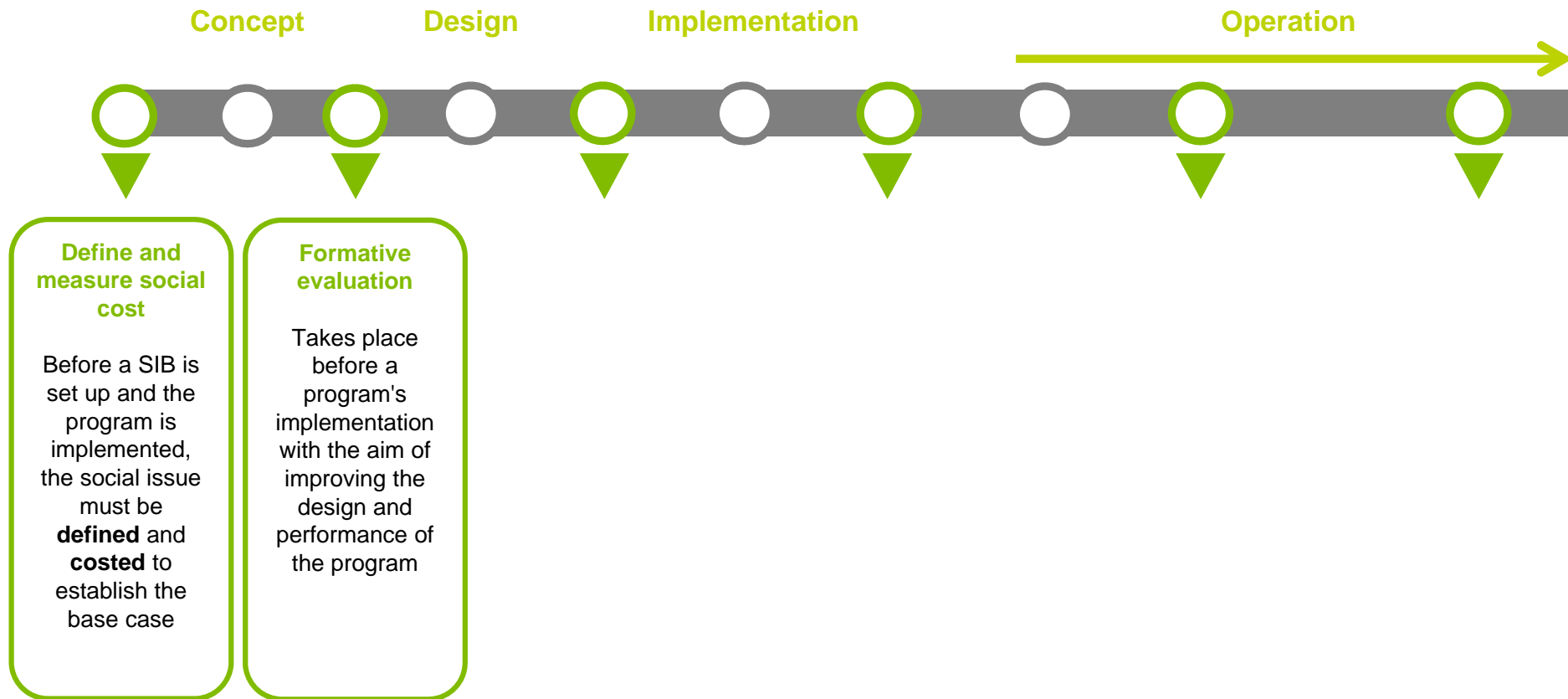
A social impact bond lifecycle



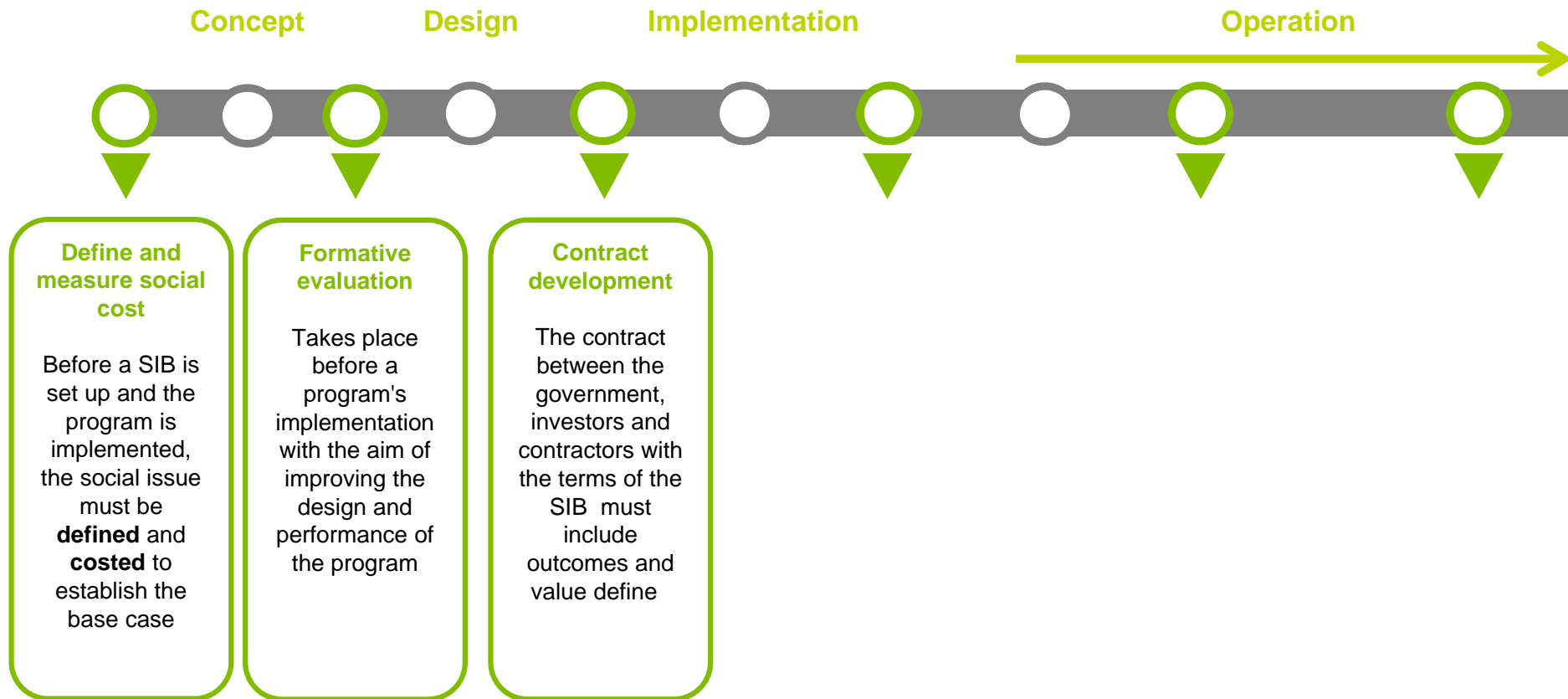
A social impact bond lifecycle



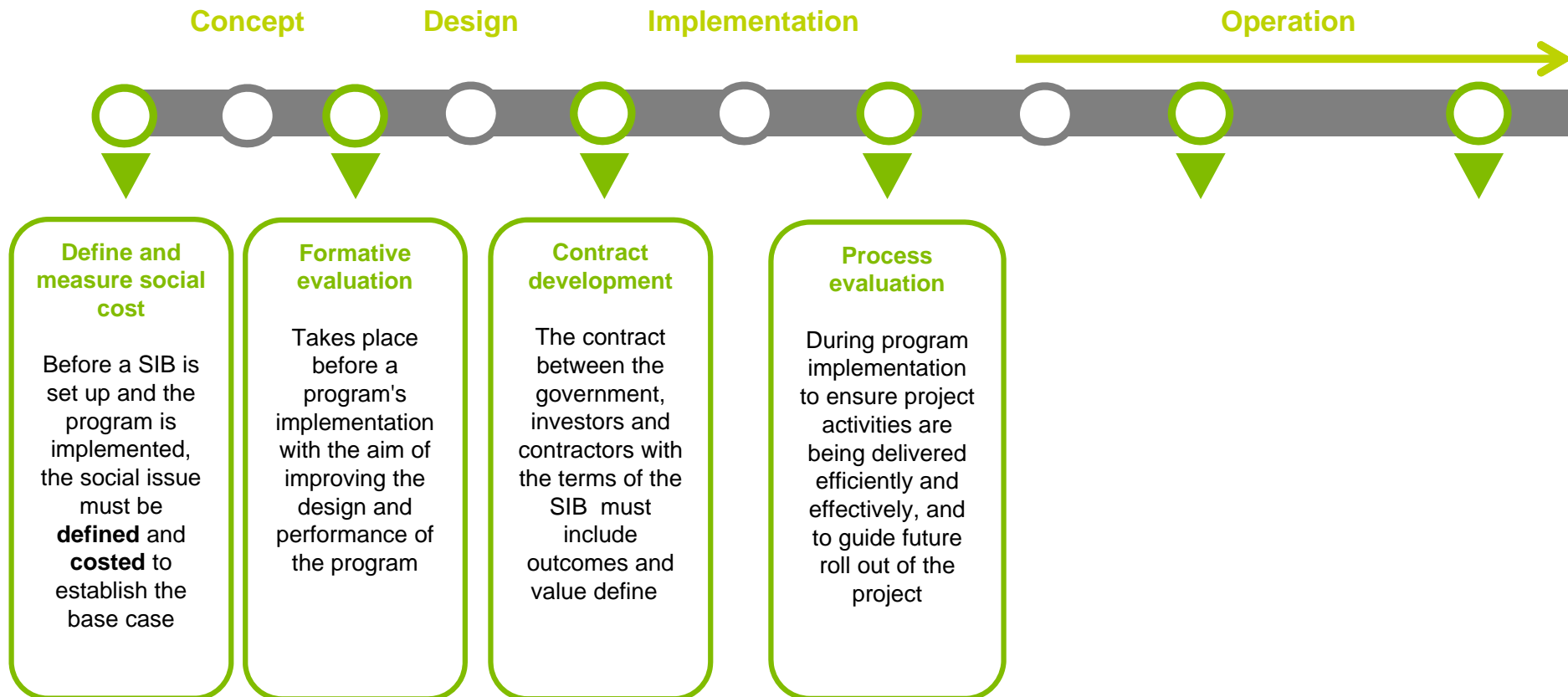
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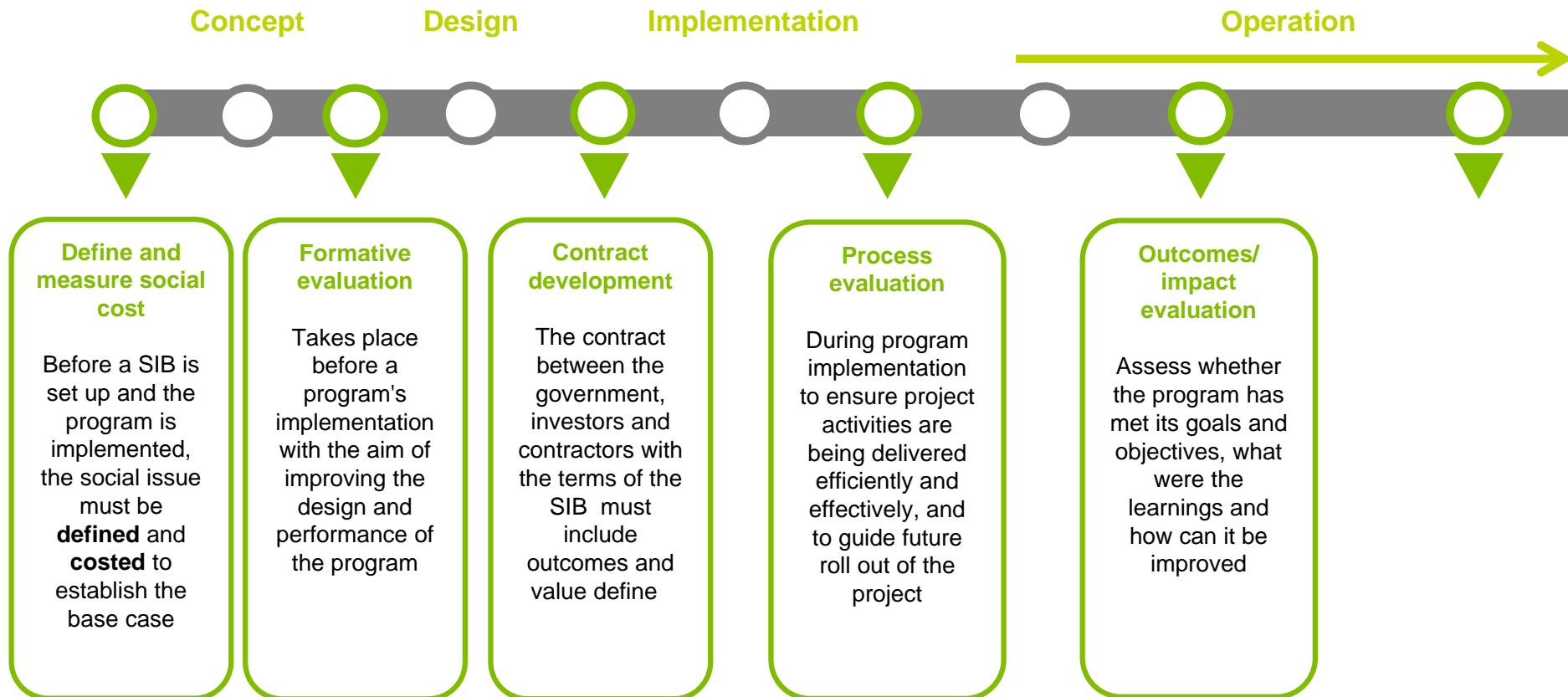
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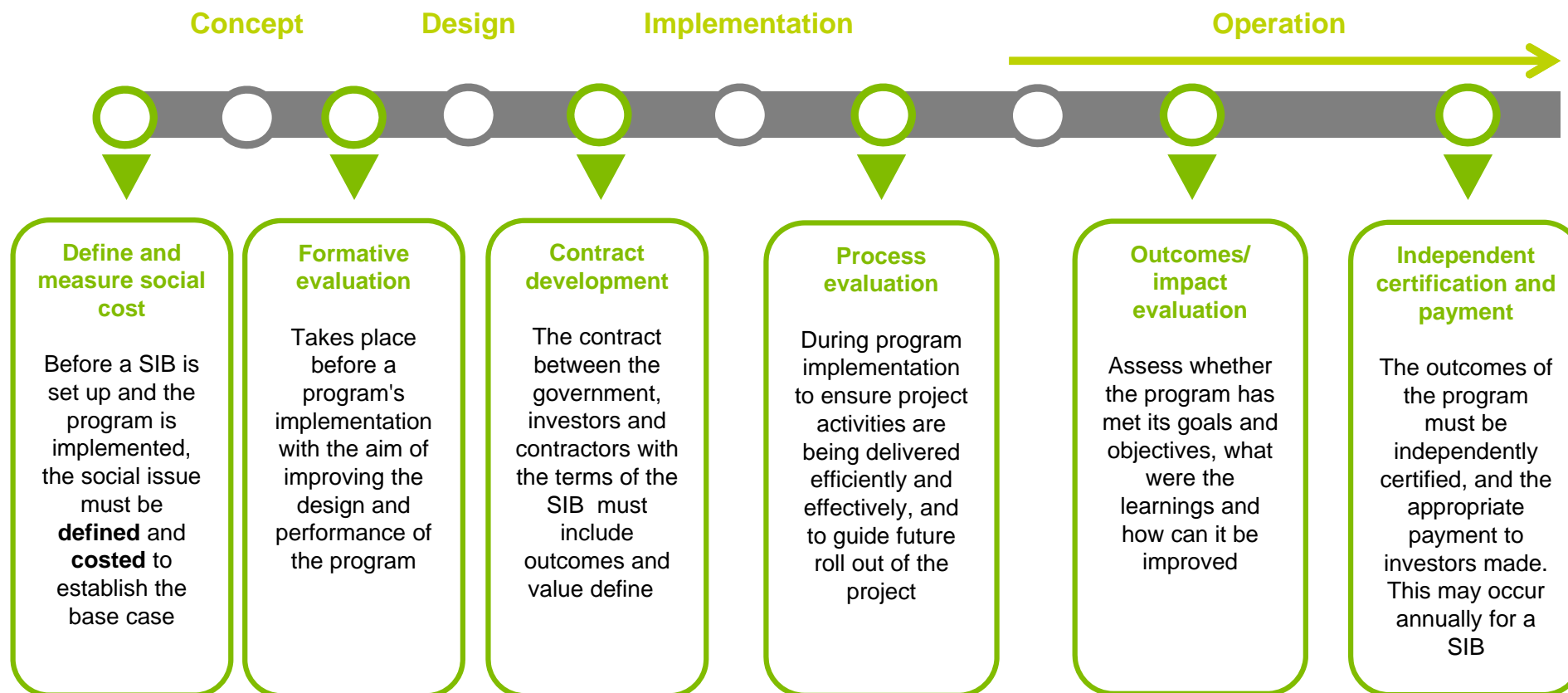
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A social impact bond lifecycle



Hypothetical case study: *Stop It Early*

We are from the Human Services Department and we would like to set up a preventative program for domestic and family violence, *Stop It Early (SIE)*. The program will involve raising awareness about the root causes of domestic and family violence . The program will also incorporate gender studies and the impact of domestic and family violence into the school curriculum.

Define and measure social costs

Before the concept of a SIB is explored in detail, the social cost must first be defined and quantified.



1. Define the social issue

Describe the problem

Establish target cohort

Quantify prevalence or incidence

Define desired outcomes

Consider confounding factors



2. Identify and classify costs

Establish evidence base

Categorise costs

Refine accountability



3. Review data sources

Map data sources

Identify data gaps

Assess impact and risks of data gaps



4. Undertake cost analysis

Select costing tool and integrate data

Reporting year, data estimates & sensitivity analysis

Conduct reasonability test

Define and measure social costs

Before the concept of a SIB is explored in detail, the social cost must first be defined and quantified.



Role

- Provide framework for estimating the true cost of complex social challenges
- Estimates the amount that the government should be willing to pay for the preventative action



Stop It Early

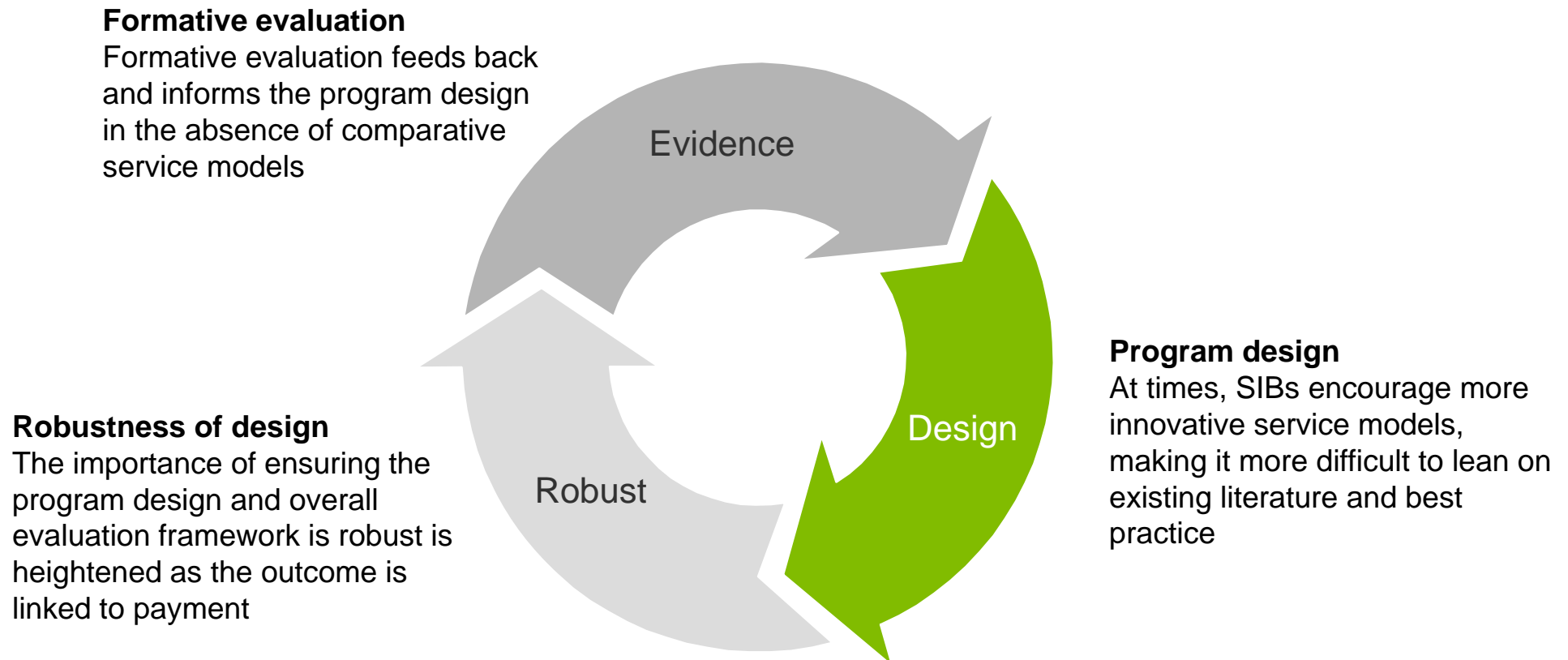
As a Department with limited resources and funding, our incentives for paying to prevent domestic and family violence should equal the cost of the social issue.

Total cost of domestic and family violence, includes costs associated with health and wellbeing, education, employment, justice etc.

The costs should be defined in the areas in which they will be expended, either by organisation and/or portfolio.

Formative evaluation

A formative evaluation is intended to guide an assessment of the success of the service delivery model in achieving its intended outcomes for clients, the community and Government



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Role

- Occurs when the impact investing project is evolving in its design and being refined
- Useful in assessing options for how to best achieve program goals and improve program
- Provides real-time feedback in a 'non-threatening' way to feed back into program design



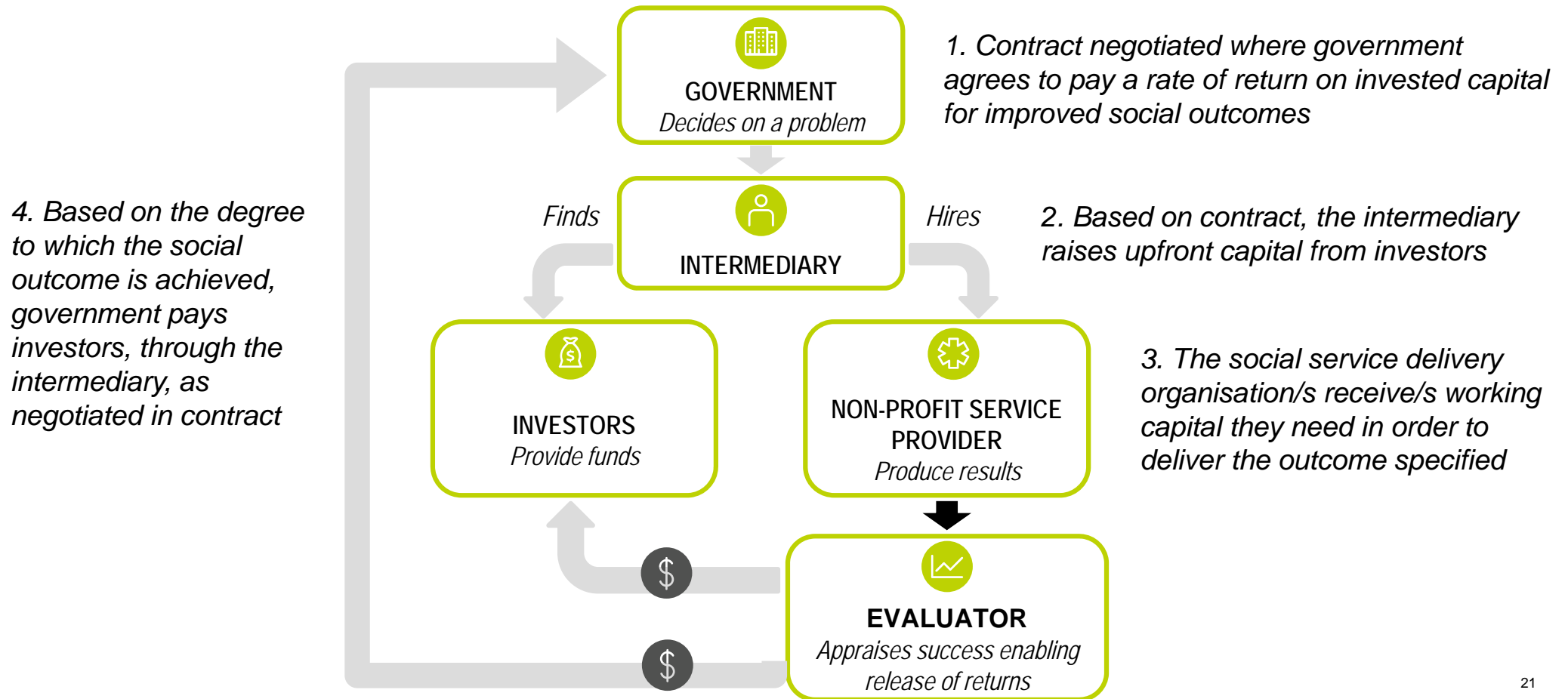
Stop It Early

Example formative evaluation questions as we develop the program:

- How can the program leverage existing programs and enhance what is working well and improve what is not?
- Based on what we know about education programs targeted at primary and secondary school children, what is the best method to deliver the messages?

Contract development

The contract between the Government department or agency, investors, service delivery organisation and any intermediary underpins the entire concept, defining the rate of return on invested capital for the improved outcomes.



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Role

- Establishes the Agreement between the different parties in terms of:
 - rate of return
 - payment trigger
 - risk allocation
 - event of non or partial achievement of outcome/s



Stop It Early

- Based on the costing of the social issue and evidence of the impact of the intervention an appropriate rate of return should be established
- This rate of return will need to be risk shared between the Department and the consortium - this will consider the appropriate likely impact on variable costs and long term fixed costs
- The timing of the payment and triggers of payment need to be established and appropriate outcome measures

Process evaluation

A process evaluation typically focuses on the way in which a program has been implemented, and how it is affected by the context within which it operates

Future roll-out

Current SIBs are small in scale with small target cohort. In order to scale up the program, it is necessary to assess the key enablers and barriers to implementation that will inform future roll-out.

Performance measures

The process evaluation stage is a good time to assess the suitability and appropriateness of the outcome and performance measures that have been designed for the purposes of payment.

Understand the contextual influences

The process evaluation will assist to understand the contextual influences on the challenges/successes of the program. This will be important to future roll out with particular influence on the future definition of the cohorts the program is applied to.

Process evaluation

A process evaluation seeks to identify opportunities for further program development



Role

- Determines whether program activities have been implemented as intended.
- Assists with ongoing program implementation



Stop It Early

- Monitoring of the program during implementation will allow for assessment of fidelity and determination of differential or innovative aspects that may influence the outcomes both desired – undesired and anticipated and unanticipated

Outcomes/impact evaluation

The operation phase of the SIB lifecycle is continuous, with an outcome or impact evaluation conducted on a regular (often annual) basis

Outcomes for who?

Many stakeholders along the impact investment value chain:

- **Social organisations** – most effective way
- **Social investors** – capital-efficiency
- **Public authority** – isolated segments of impacts
- **Policy-driven funders** – policy support met policy objectives?

Impact vs impact investment performance

Investors: How efficiently has their money been allocated to activities in pursuit of a social purpose?

Social sector organisations: Tangible indicators of the impact they achieve in order to steer their activity

Turning outcomes into social value

If social impact becomes effectively a 'currency' for trading (as in a social impact bond), how do we attribute financial value to social impact?

Value creation – public sector and investors need to move beyond considering the cost of a good or service and accept the idea of paying for its value.

Outcomes/impact evaluation

The operation phase of the SIB lifecycle is continuous, with an outcome or impact evaluation conducted on a regular (often annual) basis



Role

- Determines the extent to which the agreed outcome has been achieved across all aspect of the outcomes
- Allows (if achieved) for the payment trigger to be activated post independent verification



Stop It Early

Differing outcomes:

- **Policy makers and DHS** want to know how effective it is to target children and young people in reducing domestic and family violence later on down the track
- **Investors** want to know how much return they receive for every dollar spent on this program compared to if they spent it on a different program

Value creation

- More children and young people educated in root causes of DFV, and potentially reduction in domestic and family violence cases in future. Apart from domestic and family violence policy, this has wider implications for health, justice, police and others.

Independent certification and payment

Payment is made to investors based on terms of the contract as verified by the independent certifier



The outcome evaluation will determine the outcomes across a number of aspects of the program from a variety of perspectives

The independent certification is concerned with the contractual outcomes defined and verification of the results reported in the outcome evaluation

Independent certification and payment

Payment is made to investors based on terms of the contract



Role

- Determines the extent to which the agreed outcome has been achieved for payment to be released
- Allows (if achieved) for the payment trigger to be activated



Stop It Early

- An assessment of the evaluation undertaken is independently verified
- This involves examining the data used in determining the outcomes achieved and the subsequent payment amount
- This does not involve re-evaluating the program – it is about checking the conclusions of the outcomes achieved

Key takeaways

Key takeaways

There is a role for evaluators across the development of impact investing projects

There are variable outcomes that are sort for projects by various stakeholders

Establishment of the cost of the issue is vital to adequate and appropriate outcome payments

The inexorable link between the outcomes and funding heighten the need for rigour

Innovative aspects provide a challenge to the establishment of the program logic and evaluation design

There are a variety of skills needed through out the development of projects



Thank you

Lets Chat



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