Impact investment - funding sustainable business models to improve vision

By Lachlan McDonald

Last month, APEC economic leaders convened in Manila to discuss building inclusive economies. Central to doing so, and thus to reducing inequality, is access to finance. While such topics have typically been the domain of the economic and financial sector, NGOs too can play a constructive role in this
regard, by guiding capital markets toward social entrepreneurs to realise genuinely beneficial outcomes.

A new report, *The Power of Impact Investment to Improve Vision*, produced by The Fred Hollows Foundation in conjunction with Social Finance UK, examines the potential for a new paradigm in private finance, impact investment, to widen access to cataract surgery by incubating and accelerating sustainable social enterprises.

Cataract blindness results from a clouding of the lens in the eye. It tends to occur as people age, and robs people of their livelihood and social networks. Fortunately, sight can be restored almost immediately via a quick surgical technique that implants an artificial lens.

Prior to the early 1990s, cataract surgery was a luxury: able to be purchased largely by wealthy governments with well-funded health systems or by individuals with the resources to afford treatment. Breakthroughs in the manufacturing techniques used to produce artificial lenses and the development of new low-tech surgical techniques led to substantial falls in the cost of treatment.

These cost reductions explain why cataract surgery is considered one of the best buys in health care, and have contributed to a halving of the prevalence of cataract blindness since 1990. Yet despite these breakthroughs, cataract surgery still remains inaccessible for many. Best available data from 2010 indicates that 10.6 million people in developing countries were still needlessly blind because of untreated cataracts. Most of these cases are concentrated among the poor.

Innovative inclusive business models have been developed that make cataract surgery available for all while remaining financially sustainable. They combine rigorous cost control with a pricing structure that uses wealthier patients’ willingness to pay for surgery to cross-subsidise free services for the needy.
they remain limited to particular regions, and are generally constrained by their small size.

The new Fred Hollows report proposes several investment options that respond to these limitations. These include concessionary loans to scale the social enterprise cataract hospital model; seed funding for social franchises that provide spectacles; and investing in treatments for blinding trachoma. The report also explores how a development impact bond could turn preventive health programs, such as diabetes prevention in the Pacific, into investible opportunities – leveraging the fact that external development assistance forms an integral part of Pacific health budgets.

Turning these ideas into action will depend on a raft of factors, including the quality of investment proposals, local context and the willingness of the various parties to engage. While concrete lessons can be drawn from successful examples of some investments, such as concessionary loans to established social enterprise cataract hospitals, others, such as development impact bonds, are only just getting off the ground. Close collaboration between interested donors, investors and service providers is needed to make these less conventional financing approaches a reality.

The global framework for financing sustainable development emphasises the importance of private sector engagement in the post-2015 period. We at the Fred Hollows Foundation believe that impact investment can make three major contributions. First, it offers a new source of development finance. Second, it can directly target the binding constraint faced by local entrepreneurs who are interested in sustainably blending economic and social value – the inability to access affordable finance to get their ideas off the ground, or to take them to a larger scale if they already exist. Third, it also offers a way to improve the accountability of funding as the social impact is actively measured.
Critical to the constructive development of the market is that capital gets allocated to where it can be most productively used and that the returns are appropriately evaluated, not just for a financial return, but also a positive social or environmental impact. NGOs, which have considerable expertise in program development and evaluation, can play a key value-adding role in this regard: providing guidance to investors on how to place social impact at the centre of investment calculations; designing sustainable service delivery models that are suited to the local context; and proposing new investments that are “impactful”.

While this may sound like picking winners, the basis of the “win” in each instance is what most benefits communities, which is not altogether different from existing program development.

Impact investing is a new way of thinking about private investment. It is unlikely to satisfy all of the unmet resource needs in international development, but if quality investment propositions can be developed then it could offer a way to foster the growth of sustainable and inclusive businesses in developing country contexts. From the Fred Hollows Foundation’s perspective this means that a much broader share of vulnerable populations will be able to enjoy the gift of sight.

*Lachlan McDonald is Senior Economist at The Fred Hollows Foundation. The Fred Hollows Foundation will also be presenting on this topic at the 2016 Australasian Aid Conference; find out more about the conference, including the draft program, here.*

About the author/s

**Lachlan McDonald**

Lachlan McDonald is Senior Economist at The Fred Hollows Foundation.