Innovation in the Australian aid program (part two): possibilities and dilemmas

By Danielle Logue and Mel Dunn
6 August 2014

Underpinning the Australian aid program's innovation focus is the new Development Innovation Hub, which we view as a welcome introduction to the program. However, it is not an endless source of investment capital; in fact some argue that $140 million over four years is inadequate to meaningfully contribute as a catalytic fund. Like so much of the conversation about the aid budget, and dismay at 'only' $5 billion, we suggest this comes from a "how do we spend" focus, not a better "how can we leverage" mindset.

It is pleasing that Australia will become a partner in the Global Development Innovation Ventures (GDIV) program. However, it is crucial that the Innovation Hub itself connects deeply and purposefully to other innovation developments internationally. There are any number of new, big ideas out there that the Innovation Hub could support, explore, build upon or modify.

Social Impact Bonds (SIBs)

Social Impact Bonds recently emerged on a global scale as a novel and innovative form of funding organisational solutions to social problems. SIBs raise funds from non-government investors to pay for the provision of services. If the services make a difference and social outcomes improve, investors receive success payments from the government(principal and interest in some arrangements). SIBs are not an actual bond (in the sense of a debt instrument) but rather a multi-stakeholder partnership in which private investors – not state governments – provide the capital for non-profit organisations to develop and deliver services (in this respect, SIBs share some common features with public-private partnerships). The government repays the investor (in the form of principal and interest) only if the program succeeds: repayment to investors is contingent upon specified social outcomes being achieved and therefore, in terms of investment risk, SIBs are similar to a structured product or an equity investment. Their diffusion creates a new network of collaborative arrangements among diverse actors by producing new categories, standards, contractual relations and measurements that link them.

Against the backdrop of the Global Financial Crisis, SIBs have been seen as a potential solution for the sustainable financing of social programs, due to their ability to recalibrate incentives and investment to stimulate social change. The first pilot SIBs project was established in the UK in 2010 and is yet to be completed, however; due to much international attention, SIBs have since been introduced or piloted in the USA, Australia, Canada and, more recently, continental Europe. In other empirical settings, such as Africa and Asia, they are in the planning stage. At this time we are hearing discussions around how to modify this new financing mechanism into development and foreign aid (for example, see here).

B-Corp Certification

There is a growing global movement of certifying businesses as a 'B-Corp' to signal to stakeholders that the business meets rigorous standards of social and environmental performance, accountability and transparency. The US non-profit B Lab is behind this and has recently established an office in Australia. Today there are more than 1,000 certified B-Corps from 33 countries in over 60 industries. B Lab describes the certification as "B-Corp is to business what Fair Trade certification is to coffee or USDA Organic certification is to milk". Certification as a B-Corp can reduce risk for impact investors, and there are now discussions around such certification being valuable for the functioning of social stock exchanges and mainstream institutional investors seeking due diligence on potential investments. We already have several B-Corps certified in Australia, and BRW reports that the movement is gaining.

Beyond this, some states in the US have developed a formal legal structure, a Benefit Corporation (sometimes also referred to as a B-Corp). Benefit Corporation status is legally recognised by 26 American states and the District of Columbia. It was developed as a response to existing legal frameworks that do not meet the needs of entrepreneurs and investors seeking to use business to solve social and environmental problems, and/or legal protection to consider non-financial interests when making decisions.

Impact Investing

Impact investing seeks both a social and a financial return. It is not an asset class, but rather a lens through which to make investment decisions. You may ask: doesn't every investment have impact in terms of creating jobs, wealth and so on? While this is a reasonable question, impact investing defines itself as having both *intentionality* (investments motivated by the social and/or environmental return) and *measurement* of outcomes (social impact and financial return). The World Economic Forum reports that the impact investing market is being estimated as worth, by some accounts, $650 billion within the next 10 years. Globally, there has been a lot of hype around impact investing, putting it on the agenda of the recent meeting of the G8, as governments and organisations seek to mobilise more capital to address the world's pressing and wicked problems. There is an emerging global infrastructure for this market (for example, the Global Impact Investment Ratings System). New ideas on how to connect investors with opportunities are emerging, including the idea of Social Stock Exchanges.

Social Stock Exchanges

While stock exchanges have facilitated transactions for centuries, the first Social Stock Exchange was officially launched in London in 2013. Common to all types of investments and financial markets, exchanges and investment platforms help address the challenge that many investors face when seeking to make investments. For impact investments, a social stock market helps impact investors to invest in impact enterprises: identifying 'investable' opportunities. The Social Stock Exchange showcases publicly listed impact enterprises that trade on the London Stock Exchange. The Impact Investment Exchange (IIX), which trades out of Mauritius, will "support listing, trading, clearing and settlement of securities issued by social enterprises" across Africa and Asia. In 2013, Canada also launched Social Venture Connexion or SVX.

These are exciting, and arguably large scale, disruptive innovations. In addition to supporting some of these large and transformative approaches, we would argue for the importance of also focussing on, and achieving, the small wins and incremental innovation. As our survey of approaches to innovation shows, these (often) process innovations also have the capacity to be transformational over the longer term.

Achieving incremental, and possibly business model, innovation requires recognition that the aid program is not starting with a blank sheet, and that there are enduring investments that are potentially ripe for harvesting new ideas … if risk appetites and contractual constructs are re-imagined to more easily cater to emergent ideas. The traditional aid investment cycle of design-review-deliver-monitor-evaluate can contribute to delivery inflexibility. There is potential here for innovation by, for example, defining the problem and stimulating a market to respond with solutions.

It is also important that the Innovation Hub ensure that we are investing in innovation, not a tested (or previously trialled) modality that was once (possibly) innovative. Models such as The Challenge Fund are worthy mechanisms that have already been tested by AusAID, with similar mechanisms by other donors. Australia's Enterprise Challenge Fund for the Pacific and South East Asia has received much discussion, including through this blog, and is generally perceived to have been a success. Replicating this, even with some modification from learnings from its six-year run, might be better positioned as a private sector development initiative, not an Innovation Hub investment.

However it is designed, the Innovation Hub will benefit from formalised external engagement. This could include experts available to work on specific initiatives; experts drawn from current implementing partners and the private sector more broadly; academics who bring and conduct research of relevance to the agenda; and, possibly, even new investors.

The focus on innovation will require training and development for all of us, including DFAT, as we re-imagine the possibilities to address the big development challenges. It will require a change in mind-set and a willingness to take more risk. Most importantly of all, while we must never lose sight of the horizon, each of us must equally harness the incremental innovations at our finger tips.

Read part one of this post here.

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