Good Return Submission to DFAT Development Finance Review - September 2022

Good Return thanks DFAT for the opportunity to provide a submission to its review of Development Finance. We would be happy to elaborate on any aspects of this submission.

I. ABOUT GOOD RETURN

Good Return is the business/trading name of World Education Australia, an international development agency fully accredited by the Department of Foreign Affairs & Trade. It holds Australian Financial Services Licence 504804.

Since 2003, Good Return has partnered with financial service providers across the Asia Pacific region (Australia, Cambodia, Fiji, Indonesia, Lao PDR, Nepal, Philippines, PNG, Solomon Islands, Sri Lanka, Timor Leste, Tonga) to improve access of low-income people, especially women, to responsible financial services and economic opportunities.

II. GOOD RETURN'S EXPERIENCE IN DEVELOPMENT FINANCE

As a holder of both DGR status and an Australian Financial Services License, Good Return is uniquely positioned to raise and deploy blended finance to support its development objectives. The following are highlights of Good Return's experience and approach:

Raising retail investment capital to fund microenterprise

Since 2009 Good Return has raised investment capital from the Australian public to finance more than 12,000 microenterprises across the Asia Pacific region. 98% of these enterprises are led by women, and Good Return's public investors have received a 99% repayment rate.

Establishing a Guarantee Fund to catalyse SME finance

In 2020 Good Return launched a pilot impact investment guarantee fund. We used a modest $200k first-loss grant from DFAT to crowd in investment capital from sophisticated investors and achieve the initial $1 million fund target. The fund is being used to provide guarantees to innovative financial institutions in Asia and the Pacific to expand financing of agricultural SMEs that create employment in poor communities, with a focus on women. The fund has a 5-year timeframe. In its first 18 months it has leveraged $2.88 million in finance for 288 SMEs (14x leverage on DFAT investment) - with 83% of loans issued to women. This has created or sustained 2,194 jobs in the midst of the Covid pandemic.

Supporting financial institutions across the region to be more responsible and inclusive

Good Return has provided training to over 6,000 staff of more than 30 financial institutions across the Asia Pacific to build a more responsible and inclusive local financial sector. The training and technical support offered includes gender inclusion, disability inclusion, poverty targeting, and client protection. In addition, Good Return has provided intensive technical assistance to enable 9 financial institutions in Nepal, Cambodia and Sri Lanka to achieve a global standard of consumer protection.

Supporting financial regulators

Good Return has been engaged by multilateral development finance institutions such as ADB and UNCDF to provide technical assistance to regulators / central banks in Cambodia, Lao PDR, Solomon Islands, Nauru and Fiji to raise public awareness of financial services, support the growth of microfinance, develop guidelines on mobile money agents, and promote poverty targeting and measurement.

Strengthening financial capability of vulnerable households

Good Return has partnered with local financial service providers and NGOs across Asia and the Pacific to provide financial capability and small business management training to more than 55,000 households / small business owners. This training adopts a behaviour change approach, and its developmental impact is currently being validated via a Randomised Control Trial supported by JICA.

III. GAPS AND CHALLENGES

Based on our longstanding work and deep relationships across the region, we have identified the following gaps and challenges:

A great need for innovation and intermediation in the impact investment market

The financing needs of MSMEs across the region are immense, and in recent years we have seen an explosion in funding to impact investment funds, but there remains a disconnect between the primarily developed-country funds and the developing country enterprises in need of funding. The role of local and regional intermediaries is critical in bridging this gap. DFAT initiated work in this space via the successful Frontier Brokers initiative of the iXc, but much remains to be done. Likewise, innovation is required in the area of Development Impact Bonds and outcomes funding models.

A need to build the pipeline of investment-ready MSMEs

On the ground work is required to build the financial capability and management skills of MSMEs across the region to make them investment ready. This can be achieved through initiatives to strengthen the capacity of local actors to deliver these services.

Encouragement to PAFs and Foundations to invest in impact

Private Ancillary Funds are a rapidly growing form of philanthropy, with an estimated $10 billion in corpus. This presents opportunities to leverage not only their annual grant disbursements (minimum 5% of corpus or $500 million p.a.) but also through investment of corpus in development bonds, impact investment funds and other mechanisms. Likewise, opportunities exist to engage Charitable Trusts which hold similar asset and charitable disbursement levels to PAFs. Further, there is a need to provide clear guidelines, structures and incentives to encourage these institutions to invest in international development activities.

Australia's rapidly growing impact investment market is not investing in the region

The domestic impact investment market is growing rapidly, but very little of the capital raised to date is being deployed internationally. This is partly due to the reasons cited above, and the fact that it is much easier and lower risk for them to invest in Australia. Incentives and support are required.

IV. RECOMMENDATIONS FOR THE REVIEW TEAM

Unlock private capital through new investment models

1. Invest in new funding models: Fund a series of Development Impact Bonds as an experiment for DFAT in new ways of financing development that crowds in private sector investors and capital.

2. Unlock philanthropic funding: Establish an Outcome Fund (funded via grants) for the government to invest alongside charitable foundations to pay for successful development outcomes. This would follow a payment by outcomes model - typically linked to a Development Impact Bond or similar.

3. Unlock investment capital: Establish a blended finance mechanism for foundations and investment funds to invest alongside the government in development initiatives. The government would take a junior position to crowd in private capital. This would involve the application of grants and debt, and could be extended to include equity and guarantees.

4. Provide incentives for impact investment: Provide grants and first-loss risk capital to enable impact investment funds to establish operations in developing countries and crowd in private sector investment (extending the work of EMIIF).

5. Create a supportive regulatory environment: Work with relevant government agencies to establish a formal framework and incentives for Private Ancillary Funds, foundations and trusts to invest their corpus in development outcomes (drawing on learnings from the Program Related Investment structure in the US).

Leverage NGO skills and capacities

6. Utilise NGO skills: Engage NGOs as social impact technical assistance providers to conduct pre-investment assessments and verify social impact of any investments.

7. Leverage existing impact investment vehicles to maximise impact: fund a technical assistance facility that pays for environmental, gender and disability inclusion technical assistance to complement investments made by private impact investment funds in Asia-Pacific. Impact Investment funds could apply to access this TA fund to maximise the social and environmental impact of their investments.

8. Fund new business models: Provide a funding mechanism to assist NGOs in making a transition from traditional grant-based funding models to impact investment models.

Strengthen the market

9. Match supply and demand by building the intermediary market: Fund an extension of DFAT's Frontier Brokers network to facilitate knowledge sharing, collaboration and growth of the intermediary market in Asia-Pacific in order to better match capital with funding needs across the region.

10. Build the small business pipeline: Fund NGOs active in financial education and small business development in Asia and the Pacific to build a pipeline of investible small business opportunities so that investments flow to low-income communities.

11. Invest in high-impact agri SMEs: Support in-country financial intermediaries to invest in agricultural SMEs to maximise poverty impact. This can be achieved by scaling up Good Return's Guarantee Fund or similar approaches.

Establish an autonomous unit and apply a focused development lens

12. Establish a separate entity or an autonomous unit within DFAT (similar to how the innovation eXchange operated, with reduced red tape) to manage DFAT's development finance activities.

13. Ensure that all investments have a clearly defined development lens, and that development experts are involved in the design, implementation, and M&E of all development finance activities. As experienced and knowledgeable development actors with deep networks in the region, NGOs will be important partners in this regard.

14. Ensure a localised approach, leveraging in-country experts and organisations and strengthening the local financial ecosystem.

Good Return | ABN 39 106 279 225 & AFSL 504804
PO Box 479, St Leonards, NSW 1590, Australia
Phone +61 2 9114 8111

support@goodreturn.org
www.goodreturn.org