



Pacific RISE

Pacific Readiness for
Investment in Social Enterprise

Annual Report 2020

June 2020



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About Pacific RISE

The Pacific Readiness for Investment in Social Enterprise (Pacific RISE) facility is a pilot program funded by the Department of Foreign Affairs and Trade (DFAT), with a total value of \$9.70 million over five years (first phase: \$5.95 million 2016–2019; second phase: \$3.75 million 2019–2021).

The goal is to attract at least \$10 million of new private investment capital into the Pacific by July 2021 and promote greater investment into social enterprises that deliver women's economic empowerment. Pacific RISE is also expected to demonstrate a contribution towards four long-term objectives:

1. to create and strengthen relationships between Pacific social enterprises and impact investors
2. to increase long-term investment in Pacific businesses by private investors, including investors that understand the value of investing in women's businesses
3. to increase social outcomes and growth of Pacific social enterprises by securing investment
4. to improve economic outcomes for women in the Pacific by improving the capacity for gender lens investing, creating income-earning opportunities and improving services.

This report highlights achievements and key insights from October 2019 (that is, from the commencement of the Implementation Plan 2019–2020) to June 2020. It builds on the [lessons learned in the first phase](#) of the program.

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Note: Dollar amounts in this report are in Australian dollars unless otherwise indicated.

Cover photo: Leata Alaimoana-Roberts (Impact Investment Manager – Pacific Trade Invest Australia) and Vani Nades (Founder and CEO - Emstret Holdings Ltd) speaking at the Impact Investment Summit Asia Pacific 2019

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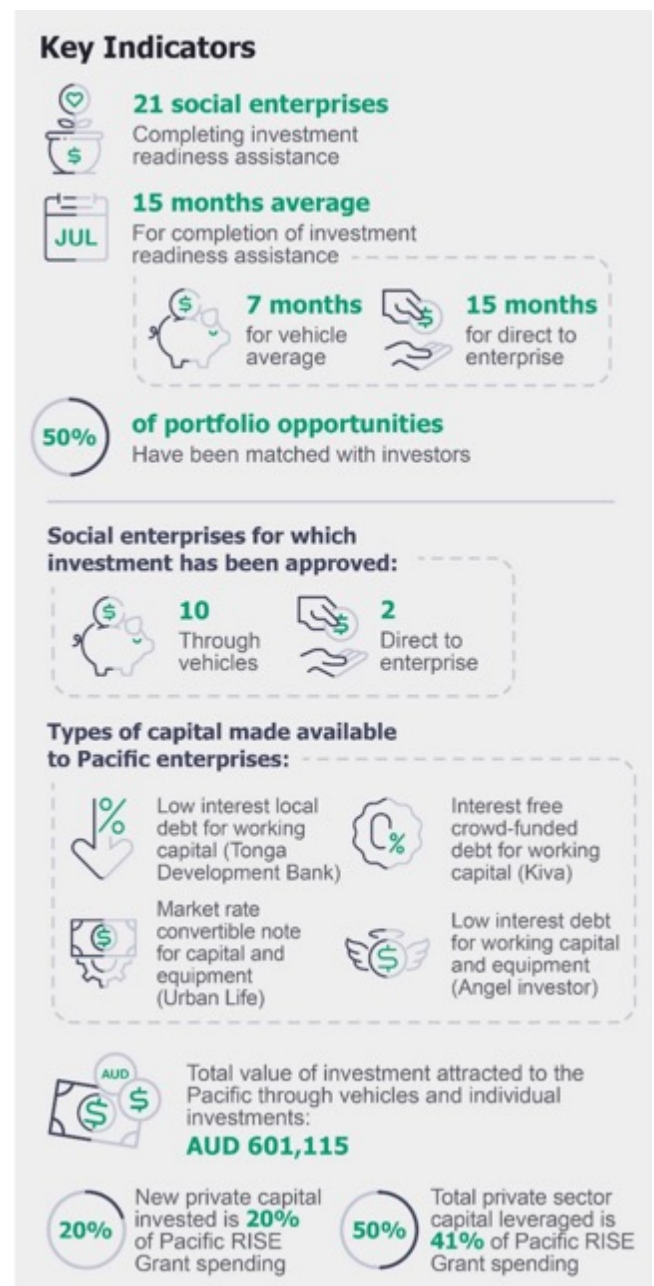
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Report highlights

- Facilitated private investment into the Pacific worth \$173,615 in 2019-2020. Total private investment facilitated over the life of the program is \$601,115
- In 2019-2020 leveraged investment in two vehicles¹ supporting 12 agriculture and creative industry social enterprises and commenced the design of two further Pacific focused investment vehicles
- Commenced targeted negotiations for investments in 2020-2021 potentially worth \$7.02 million for investment in health, infrastructure and agriculture and supporting COVID-19 response in the Pacific
- Designed two new tools with a gender and power lens to support investment decision-making
- Supported 12 intermediaries and 15 investors to partner with Pacific organisations
- Brought together capital funds supporting COVID-19 response and recovery in the Pacific through a working group of practitioners and programs and analysis of power dynamics
- Initial insights and lessons emerged:
 - COVID-19 has impacted on the Pacific and investment opportunities. As businesses face uncertainty they are reluctant to take on capital, and investors have reduced liquidity and lower risk appetite for investments.
 - Pacific RISE and donors can play a role in influencing the way capital moves, particularly in a crisis to create social and development impact that will extend to the recovery phase.
 - To date, the use of traditional finance models in the Pacific context has not resulted in successful impact-first or Pacific-focused investments. Pacific RISE is exploring alternative models and investors in this second phase.
 - The capital needs of Pacific social enterprises are unique to the region. They require a blend of different capital sources and are more likely to attract Pacific sources of finance that are not 'impact investment'. Pacific RISE is conducting research in its final year learning program initiative, on the capital needs of Pacific businesses.
- In its final year (June 2020 – July 2021), Pacific RISE will support investments that respond to COVID-19 and Australia's Partnerships for Recovery strategy; focus on learning; and identify referral pathways as needed for investments post-Pacific RISE.

Figure 1: Pacific RISE key indicators



¹ Investment vehicles are financial products produced and used by investors to gain returns and can take the form of funds, securities or debentures. Pooled investment vehicles allow multiple investors to invest.

1 The Pacific investment market

In the past year, **Pacific RISE received 45 expressions of interest (EOI)** from businesses and intermediaries to find investible social enterprises. **Nine EOIs progressed to the application stage, and three of these received approval**². Enterprises that progressed along the investment process were identified through scoping missions by intermediaries and referrals and represented a diverse range of sectors, including renewable energy, infrastructure and marine conservation. Impact investment opportunities in the Pacific continued to surface progressively within the themes of the UN Sustainable Development Goals³, and investors have shown a growing interest in steering investment activities to support these goals. Impact investment, social entrepreneurship and enterprise support services were on the increase in many Pacific island countries, with donor – and national government-funded initiatives commencing, like the Invest Pacific fund – an initiative of the New Zealand Ministry of Foreign Affairs and Trade (MFAT).

Scaling of impact investment continues to be one of the major market constraints. Larger (often foreign) institutional investors have sought larger-sized investments to justify the transaction cost and risk involved. Aligning the mission of the social enterprise with that of the investor has also been more challenging than anticipated. While capital mapping has identified some larger pools of funds within the Pacific, the conversion into real investment was much slower than anticipated. This could be partly attributed to the lack of early movers who would ideally accept sub-market returns to unlock and attract further private capital and help manage the initial risk while helping build confidence in the business. Access to early-stage capital is difficult which increases the importance of philanthropist funding and government grants. Pacific RISE sees this gap in the market being partly addressed through blended finance and development funds, but with increased private sector engagement. Investors should then be better able to understand and value the social returns to invest in social enterprises.

Since February 2020, **the business and investment environment in the Pacific has been significantly affected by the COVID-19 pandemic** through the closing of borders to travel and tourism, effects on global trade, and the impact on shipping and transportation in the Pacific.

COVID-19 has had a tremendous impact on the tourism sector in several Pacific countries, which resulted in an immediate response from some national governments. The impact is also being felt in goods export industries, as freight challenges made it tougher to reach markets. Governments in Fiji, the Solomon Islands, Samoa and Vanuatu have provided national subsidy packages, and donors and Pacific networks have also responded with support. Both tourism and goods exports make up significant proportions of GDP in most Pacific island countries.

The current uncertainty about how and when things might change has made forecasting demand, revenue, and potential growth sectors increasingly difficult for all businesses in the Pacific. This is impacting on existing financial obligations, such as loans and paying creditors, but also for determining whether planned expansions should go ahead and what type of financing models make sense in the current environment. Small-medium enterprises (SMEs) are often risk-averse when it comes to taking on too much debt, and the ongoing uncertainty makes long-term financial planning even more difficult.

COVID-19 has also impacted investor capacity and confidence with the downturn in the global markets, uncertainty and the perception of risk across all investments. Restrictions on travel are likely to delay investments where more detailed due diligence or site inspections are pending. Pacific RISE has used an investment thesis to engage with investors and broaden the sense of possibilities about what types of investment opportunities exist in the Pacific. In September, Pacific RISE will hold further discussions with investors to discuss how their perceptions of the future have changed or evolved due to COVID-19 and to identify investment opportunities.

Towards the end of the 2019-2020 financial year, Pacific RISE shifted operational focus to COVID-affected industries and enterprises in the Pacific. Part of this focus was leading a working group

^{2a}. All three applications were to support the design of investment vehicles or providing additional funding to scale up vehicles to new countries. Two applications were put on hold for not responding to COVID-19 or were unable to be implemented due to travel restrictions.

³ See United Nations, 'About the Sustainable Development Goals', at <https://www.un.org/sustainabledevelopment/sustainable-development-goals>.

(including fund managers, intermediaries and NGOs) on fund design to assist with response and recovery for small and medium-sized enterprises in the Pacific (see case study on page 11). National governments and donors are also providing a range of other finance for businesses and business advisory support services. The Government of Fiji is providing SME loan guarantees, and the Government of Vanuatu is providing grants to the tourism sector and donors. Going forward, investment focus is likely to shift more towards projects that deliver resilience and sustainability within Pacific economies and, looking at the impact of COVID-19 on the tourism sector in some countries, the need to diversify.

In the COVID-19 recovery phase, the shift globally will be towards businesses building stronger resilience. This will be affected by which businesses receive support during the response and how the recovery is mapped out. While Pacific national government programs and donor-funded initiatives are the predominant funders in the response period, impact investors can play a critical role in providing capital for businesses pivoting and adapting to the 'new normal' with social impact at the heart of their operations. Through the working group, we made observations (see case study on page 11) on how a natural shift towards sectors, such as agriculture, could effectively help rebuild Pacific economies, making them less vulnerable to the next pandemic. This could see enterprises evolving and emerging with more impact investment opportunities in the market as investors re-enter with a stronger commitment to building a resilient economy. Aligning their objectives and matching the investors with the right enterprises could see important action in this space.

2 What Pacific RISE does

Pacific RISE provides investment readiness funding and support to direct-to-enterprise impact investments, as well as to impact investment vehicles that move capital to Pacific enterprises.

An outline of the investments in our investment portfolio and their current status are shown in Table 1.

Table 1: Status of Pacific RISE investment portfolio deals as at June 2020

		Assessment October 2019	Assessment April 2020	Assessment June 2020	Investment status as at June 2020
Direct to investment deals	Vinaka Group	●	●	●	Due diligence in progress
	Essence of Fiji	●	●	●	Targeted negotiations commenced – on hold.
	Coconut Oil Production Santo Limited (COPSL)	●	●	●	Investment made
	Pacific Ocean Culture	●	●	●	Investment made
	Bula Coffee	●	●	●	Working with other partners
	Ranadi Plantation	●	●	●	Working with other partners
Design of vehicles	Good Return blended finance model in the Pacific	●	●	●	Targeted negotiations commenced; investments placed.
	Menstrual Health Trade Finance Platform	●	●	●	In design
	PBSE Australian-based diaspora fund	●	●	●	In design
	Real Impact – Kiva crowdfunded working capital fund	●	●	●	Full capital raised, investments placed
	Enterprise Angels Impact Fund	●	●	●	Decision not to proceed

Legend: ● Early assessment ● Tracking ● Delayed ● Unlikely to go-ahead ● Closed and will be monitored for impact

To adjust to the current market, Pacific RISE will focus on supporting investments in COVID-19 response and relief, including health (Vinaka Group, menstrual health trade finance) and economic recovery through the design of financing vehicles. For example, Pacific RISE is supporting partners

Good Return and Pacific Business, Sport and Entrepreneurs (PBSE) to examine how their models should adjust to the post-COVID environment.

Pacific RISE will also play a role in influencing how investment moves during and after the COVID-19 crisis by using a gender and power lens to influence investments and increase the program's impact on women's economic empowerment.

3 Achievements in key outcome areas

Pacific RISE facilitated private investment worth \$173,615 to the establishment of a new fund and eight agriculture social enterprises in the Pacific

During 2019-2020, \$73,615 worth of investments were made in 8 agricultural enterprises, and \$100,000 in private investment was raised for a new fund established to provide guarantees for the Pacific SMEs (see Table 2).

As at June 2020, total investment facilitated by Pacific RISE is \$601,115⁴ both direct to enterprises and through different structured investment vehicles designed to invest in Pacific SMEs.

Table 2: Amount of private investment leveraged for Pacific social enterprises

Enterprise or vehicle	Value of investment in original currency	Value of investment approved (A\$)	Value of investment approved 2019-2020
Coconut Oil Production Santo Limited (COPSL)	A\$250,000	\$250,000	-
Real Impact – Kiva vehicle	US\$50,000	\$87,500	-
Pacific Ocean Culture	A\$90,000	\$90,000	-
Good Return capital raise	A\$100,000	\$100,000	\$100,000 ⁵
Good Return – Heilala Vanilla Suppliers through Tonga Development Bank	TOP 120,000	\$73,615	\$73,615
Total		\$601,115	\$173,615

Analysis from Pacific RISE's learning program (2016–2020) finds that most enterprises did not commence investment readiness work seeking a specified type of finance. Of those that were seeking finance, many were seeking debt.⁶ Secondary research shows Pacific businesses have a hesitancy for seeking equity due to preferences, the availability of grants and not wishing to relinquish control. As capital markets in the Pacific are less developed, there are limited exit options for equity investors.

The average investment *sought* across the portfolio from 21 businesses seeking investment is \$693,000, with one-third of cases seeking over \$500,000. The lowest funding sought is \$25,000, and the maximum is \$5,826,086. These figures change during targeted negotiations and do not represent the final investment sought or received.

The average value of investment *approved* so far is \$170,000 for a business and \$87,000 for an investment vehicle⁷ – considerably lower than the average investment sought. On average, SMEs receiving debt through vehicles received \$12,000 per business. All but one business received debt finance for working capital. The one business receiving equity finance is for purchasing new assets and is a higher value (\$250,000); however, the company is struggling financially and looking to restructure or exit its investment relationship.

⁴ New private capital invested is 24% of Pacific RISE grant expenditure, and total private sector capital leveraged (through investments and private investment in readiness work) is 45%.

⁵ Good Return also raised a further \$200,000 from DFAT for their fund as first loss guarantee finance.

⁶ The type of capital cited was, in some cases, strongly influenced by the financial intermediary.

⁷ Investment vehicles are produced and used by investors to gain returns and can take the form of funds, securities or debentures. Pooled investment vehicles allow multiple investors to invest.

Three businesses completed investment readiness during the period, but did not take on investment:

- One business opted not to consider private equity at this stage and is happy to proceed with organic growth through revenue.
- A second business pivoted to other products and the investment plan changed. Partnerships and social impact are less likely, so the business no longer meets the investment criteria for the intermediary. The business is receiving support from Pacific Trade Invest Australia.
- A third business sourced its own investment through its local bank adviser and proceeded with targeted negotiations. The business was then heavily impacted by the economic downturn and reduced tourist arrivals as a result of the COVID-19 pandemic, so the investment process has been delayed.

Businesses that stopped pursuing investment were seeking, on average, larger investments of close to \$1 million (compared to those that secured investment) and appeared to have more options available to them.

All 21 businesses seeking investment noted that investment readiness support was valuable, despite some businesses not taking on investment, as it allowed them to focus on the future needs of the business, which may or may not include external capital. This, in addition to the evidence that the initial ask always decreased through the investment readiness and targeted negotiation process, confirms two things:

- Actual investments in the Pacific will likely fall into a smaller range than initially thought. In part because Pacific social enterprises are smaller and somewhat slower growing (because they have historically relied on their revenue for growth and operate in smaller markets) and thus require less capital to manage growth effectively. This is not unusual compared to the rest of the world - one of the big gaps in impacting investing is smaller investments into individual enterprises.
- Pushing for higher investment is counterproductive and could be detrimental to business growth.

Targeted negotiations worth \$7.02 million are underway for investment in health, infrastructure and agriculture to support Pacific COVID-19 economic recovery.

Since 2016, 81 investors have been identified by Pacific RISE and partners. Given the starting direction of Pacific RISE, these are impact investors (31%), philanthropic investors (27%) due to the need to blend finance, and institutional capital investors (11%). This last investor group have an interest in impact investment and the Pacific as a way of diversifying their portfolios, but a low appetite for small-size deals or high risk.

Investors are mostly from Australia (49%) and New Zealand (10%), as well as global funds (16%) and a few from the Pacific (5%). Figures 1 and 2 show types of investors identified by Pacific RISE, and those entering targeted negotiations.

Figure 2: Types of investors identified by Pacific RISE

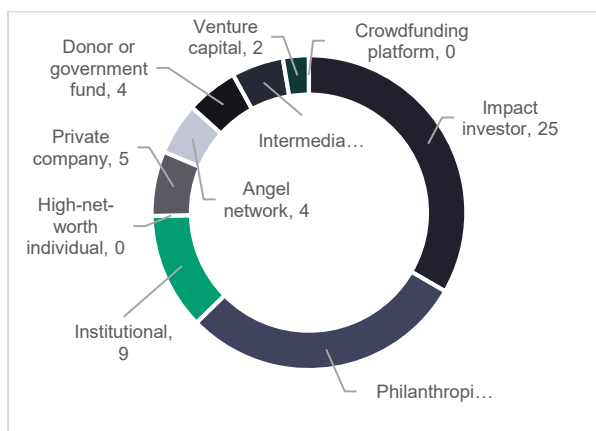
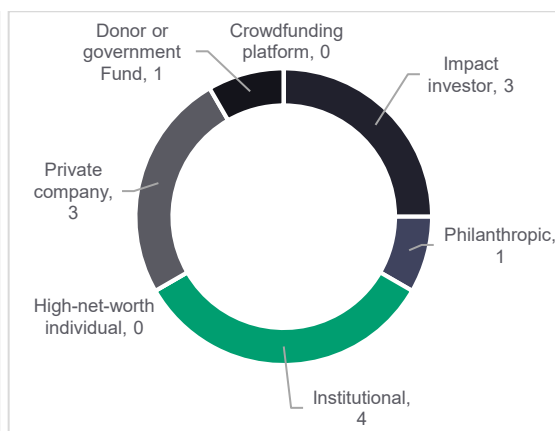


Figure 3: Types of investors entering targeted negotiations



Businesses that have completed investment readiness work can then proceed to raise capital through either open calls or targeted negotiations.

Targeted negotiations have proceeded with 15 investors across seven deals. These are deals where investors have expressed an interest, completed initial due diligence, and convened investment committees. Some opted to proceed to an offer through letters of intent or memorandum of understanding, requesting full due diligence and further negotiation on the terms of the investment. Interestingly, targeted negotiations were more likely to proceed with institutional investors (25%) – mostly Pacific banks, than private companies (19%), impact investors (19%), high-net-worth individuals (19%) or philanthropic/donor funds (12%). Targeted negotiations were more often made with Australian (50%) or Pacific (38%) finance and more frequently used a blend of different finance from investors.

Targeted negotiations worth \$7.02m are underway:

- The **Vinaka Group** is a laundry and water sanitation startup business seeking FJ\$8.340 million⁸ (\$5.826 million) in equity finance. Social Outcomes have designed the startup and are also managing the sourcing of capital and associated negotiations. Fiji will benefit from Vinaka by it addressing COVID-19 infection control in hospitals and bolstering confidence in hotels during the recovery of the tourism sector. To date, Fijian textile and clothing company Lyndhurst has confirmed it will consider a 25 - 50% stake worth **\$2 million**⁹. In July 2020, an institutional investor is considering a portion of the **FJ\$8.340 million (\$5.862m)** ask. Its board has given in-principal approval to do a full due diligence report into the investment. Vinaka also entered targeted negotiations with Australian company Aspen Medical as an investor; however, instead of investing Aspen provided a letter of intent as a supplier, provided Aspen is contracted by the Fiji Government to manage the Lautoka and Ba hospitals¹⁰ Aspen's commitment to social procurement through its status as a B Corp is a good fit with Vinaka.
- **Good Return** is launching a \$1 million blended finance social impact fund to support its work in the Pacific and Southeast Asia. It is in targeted negotiations with a range of investors for **\$700,000**. Good Return has already secured \$300,000 in funding, including \$200,000 in first-loss investment from DFAT's innovationXchange and \$100,000 in impact investment from two Australian foundations and family offices. For more information, see the case study on page 8.
- **Essence of Fiji**, an enterprise that is supported by The Difference Incubator (TDi) entered into a targeted negotiation for **FJ\$700,000 (\$489,000)** in an equity deal with a local company that would secure a FJ\$1 million (\$698,000) loan from the Bank South Pacific. The equity arrangement required land to be retitled from agricultural to commercial land in a lengthy

⁸. This investment value increased to cover the additional risk to the business in starting up during a COVID-19 business environment. DFAT is also considering whether blended finance can play a role to reduce this risk.

⁹ 50% of the original investment value of \$4m (see footnote above).

¹⁰ The value of this supply contract has not been estimated and not included in the targeted negotiations calculation.

procedure. In February 2020, Essence of Fiji saw a sharp decrease in activity due to cessation of tourism following the spread of COVID-19 and has put the business, including the investment discussions, into hibernation.

Pacific RISE is funding the design of four investment vehicles to invest in COVID-19 economic recovery of Pacific SMEs.

Pacific RISE works with partners and investors in a facilitative way and is testing the design of adapted investment vehicles. These vehicles pool multiple investors' capital into a single investment entity and invest in multiple businesses, often within a region or sector.

Two organisations have invested \$261,115 through vehicles for 12 Pacific SMEs:

- An impact investment model designed by **Good Return** (see case study on page 8) provides financial service providers incentives to enable SMEs in the agricultural value chains to access credit and create employment for marginalised communities, especially women. With funding from Pacific RISE, Good Return has already piloted an impact investment model in the Solomon Islands and Tonga; and has completed a scoping review for impact investment programming in PNG. In Tonga, Good Return has supported six vanilla farming families to access loans from Tonga Development Bank worth \$73,740 and supports other farmers to apply. In 2020 Cyclone Harold and COVID-19 acutely disrupted food supply in the Pacific. Good Return has also designed e-diagnostic tools to analyse SME and gender issues. The SME diagnostics provide insight into the capability of financial service providers to serve this market, and how Good Return can help them to improve. The "Gender Smart Diagnostic" provides insights into how well lenders serve male and female clients and identifies areas of any discrimination, be they deliberate or unconscious, against women.
- **Real Impact** partnered with crowdfunding platform **Kiva** to create a revolving working capital fund of US\$50,000 (\$87,500), which Real Impact raises from the Kiva platform for creative arts enterprises in Papua New Guinea. To date, Real Impact has raised US\$40,750 (\$71,312) and is offering further loans to those enterprises as they continue to need working capital.

Two organisations are in the design phase, collaborating with Pacific partners and testing the investment market:

- **Pacific Business, Sports and Entrepreneurs (PBSE)** is a member-based network of Pacific diasporas. Members have long been providing investment into the Pacific using formal and informal methods. The group is looking to pool investment funds and leverage their collective impact. To achieve this, PBSE partnered with Pacific RISE and Pacific Trade Invest Australia to design a revolving evergreen philanthropic fund to invest in early-stage ventures in the Pacific. The fund will commence in Samoa, Tonga, Fiji and Papua New Guinea. PBSE aims to raise an initial \$500,000 for investments of \$10,000 - \$100,000 for debt and equity investments in SMEs across the region.
- Pacific RISE, in partnership with **Red Hat Impact** and **Lotus Impact**, will design and launch a trade finance vehicle estimated at \$300,000 to finance menstrual health enterprises in the Pacific. Trade finance will be used to fund the aggregated demand of the core materials and identify ways to finance the logistics of receiving other materials (such as cotton or flannel) through existing transport networks. The fund is supported by an advisory board comprising Pacific menstrual health enterprise representatives and other sectoral experts to ensure the vehicle is designed with the menstrual health sector and the Pacific front of mind.

CASE STUDY

Good Return to invest in Fijian businesses to support COVID-19 recovery and launch a \$1 million social impact fund to guarantee bank financing to SMEs

Good Return's impact investing model is designed to use blended finance from Australian philanthropic and impact investors to develop partnerships with financial service providers.

With support from Pacific RISE, Good Return works with several Pacific financial service providers to structure loan products. It provides technical support to SMEs in agricultural value chains to access loans, intending to support and not undermine the current market. In 2020, Good Return will launch a \$1 million social impact fund to provide these guarantees and aims to leverage \$2 million in bank financing for at least 20 SMEs.

Since 2017, Pacific RISE has operated as an early-stage funder for Good Return to pilot its impact investment project, exploring which Pacific countries they work most successfully in and what type of partnerships with Pacific financial service providers, Australian impact investors and SMEs are most effective. With \$609,394 of Pacific RISE support, Good Return has scoped for and tested its model in Papua New Guinea, the Solomon Islands and Tonga.

In the Solomon Islands, Good Return provided a \$50,000 guarantee to enable Kokonut Pacific Solomon Islands (KPSI) to sell Direct Micro Expelling (DME) equipment to rural SMEs. This is helping farmers to increase and diversify their incomes by producing high-quality virgin coconut oil. Loans totalling \$125,000 have been made by Pan Oceanic Bank to finance five SMEs, generating income and employment for 72 people in remote communities, now earning an average income of \$2,200 per year. This has positively impacted on 360 lives. KPSI buys the oil to supply to international markets. Additionally, gender value chain analysis identified areas to strengthen gender equitable workplace practices supporting business sustainability.

In Tonga, Good Return worked with Heilala Vanilla to provide finance to farmers to increase the production of vanilla beans. Heilala Vanilla purchases green vanilla beans from the network of smallholder farmers, then processes the beans to export dry to New Zealand where the company makes vanilla products such as vanilla extract, vanilla paste and vanilla syrup. Working with the Tonga Chamber of Commerce & Industry, Good Return co-facilitated financial literacy training and provided 1:1 business planning support to empower smallholder vanilla farmers to access loans to secure their farms and increase their yields. To date, six SMEs have been financed positively impacting 60 lives. With success in piloting their impact investment model in the Pacific, Good Return continues to collaborate with the Pacific RISE and also develop partnerships with other donors to replicate its models in the region.

Good Return also adopted localisation strategies by developing partnerships with local organisations and hired local staff in the Solomon Islands and Tonga.

In April 2020, Pacific RISE approved an additional \$120,000 for Good Return to adapt its model in Fiji, which requires addressing the current COVID-19-affected economic situation. This work will increase the pipeline of investments for its social impact fund.

In the longer term, Good Return's model and social impact fund has the potential to establish long-term changes in the way Pacific SMEs view bank loans, the way Pacific financial service providers view SMEs, and the way they both view gender, while increasing the capacity of local partners to reach unbankable rural communities, especially women.



4 Achievements in key activity areas

Pacific RISE provided valuable investment readiness support to 21 enterprises in the Pacific

Since 2016, 21 social enterprises in the Pacific have completed, or are completing, investment readiness assistance with financial intermediaries. More commonly, investment readiness assistance provided support in financial management, defining the business or social impact model. It also provided support on designing business metrics to establish performance and investment plans, developing key documents and investor negotiation. Businesses indicated that the investment readiness assistance provided by intermediaries was valuable as it helped:

- prepare a proposal for a bank loan, for the first time
- take a step back and reflect on the business model, internal processes and growth
- get a third-party perspective and feedback, which was helpful especially when intermediaries ask the right questions and support the business to find its own way
- understand the impact of the business better, and how the unique story can attract investors
- facilitate introductions to new types of finance and investors.

Partnering with the Criterion Institute to support financial intermediaries to use a gender and power lens

Pacific RISE partnered with the Criterion Institute – a US-based think tank on using finance for social change – to influence intermediaries to incorporate a gender lens into their investment readiness work with social enterprises, their deal design and negotiation, and their vehicle design. Gender lens investing seeks to intentionally and measurably address gender disparities and examine gender dynamics to inform investment decisions¹¹.

- **The Criterion Institute** supported Australian-based diaspora group **PBSE**, during the design of its fund, to develop a gender action plan and incorporate a gender lens into the Fund's investment criteria. The gender lens highlights where bias might emerge, from the initial screening of investments to the deal offer and reporting. PBSE identified its gender strategy as responsive, such that gender is important to the fund design but is not a focus of the fund, and will identify actions that can shift opportunities for bias. PBSE will focus on processes to support gender mainstreaming – deepening the awareness of gender and the role it plays in the group's policies and procedures. PBSE is committed to tracking and evaluating the rollout of its gender action plan over time.
- **Good Return** works to address 'gender blindness' in local banking operations by supporting financial service providers to adopt financial products to remove barriers to women accessing capital. This work starts with an organisational gender self-assessment tool, which is used with partners on an ongoing basis to influence and encourage awareness of gender equality issues and promote gender-equitable workplace practices.

¹¹ better—Global Impact Investing Network, 'Gender Lens Impact Investing Factsheet 2018', at <https://missioninvestors.org/resources/gender-lens-impact-investing-factsheet>.

- **Red Hat Impact** and **Lotus Impact** are designing an issue-driven vehicle based on the needs and concerns of menstrual health enterprises in the Pacific and consider gender issues during the design. This includes deepening the Criterion Institute's initial assessment into a demand analysis of menstrual pads in the Pacific region, particularly communities currently being served by microenterprises, to understand the power and economic dynamics of aggregated consumer purchasing of menstrual pads, and the social impacts for women. Red Hat Impact and Lotus Impact will work with stakeholders to explore the use of an appropriate gender lens toolkit to guide their analysis. The intermediaries also note that the application of trade finance can improve visibility, acceptance and value assigned to Pacific menstrual health enterprises and their founders and teams in male-dominated societies and economies. Designing the vehicle with this empowerment in mind, and any possible associated risks could lead to more lasting change in the position of women and women-led businesses across the Pacific.

Pacific RISE and intermediaries create partnerships with Pacific finance and networks.

Pacific RISE and partner Pacific Trade Invest Australia have supported intermediaries and investors to partner with Pacific organisations to influence how capital is moved to the Pacific:

- Good Return contextualised its impact investment model in Tonga and developed partnerships with Heilala Vanilla and Tonga Chamber of Commerce and Industry to empower vanilla farmers in financial education, business planning and provide loan application assistance to access credit from Tonga Development Bank.
- **Real Impact** partnered with Kiva (financial intermediary) to raise finance through Kiva's platform.
- **PBSE** will source a pipeline of business for its funds from in-country programs of the Samoa Chamber of Commerce, Youth Entrepreneur Council, Youth Co: Lab and Samoa Business Hub (business support organisations).
- **Red Hat Impact** and **Lotus Impact**, financial intermediaries involved in the pre-design phase of the menstrual health trade finance vehicle, decided to use their complementary skills to tender for the design and implementation of the vehicle together. Red Hat Impact has undertaken a demand assessment of the menstrual health sector in the Pacific to identify key partnerships. Pacific RISE has established an advisory board supporting the design with four Pacific menstrual health enterprises, DFAT (financier), WaterAid (sector technical assistance) and a Philippines period clothing manufacturer (supply chain assistance).
- In response to COVID-19, Pacific RISE established a working group to bring together capital moving during COVID-19 response and recovery in the Pacific. During the calls, funds which were initially designing in isolation were able to share their research and opportunities with the group; hear from Pacific experts and networks in the Pacific dealing with the current crisis and look at ways to work together outside of the calls (see case study on page 11). Following the calls, Pacific RISE and **Plan International** are meeting with the Fiji Business Disaster Resilience Council to look at what support Plan International could provide through the DFAT funded Australian Humanitarian Partnership and **Business Links Pacific** and **Good Return** are looking at ways to support Pacific Chambers of Commerce further.
- Pacific RISE regularly works with a range of other DFAT programs and is partnering with DFAT's **Australian Infrastructure Financing Facility for the Pacific** and **Business Link Pacific** (funded by the New Zealand Ministry of Foreign Affairs and Trade) to evaluate the potential for investment readiness support to two infrastructure social enterprises in Fiji and Samoa.

CASE STUDY

Bringing together funds supporting COVID-19 response and recovery in the Pacific

To support how capital is moved during COVID-19 response and recovery in the Pacific, Pacific RISE set up a working group of practitioners and programs involved in designing funds. Participants include a range of impact funds, donor-funded initiatives and Pacific experts*.

The Working Group commenced fortnightly meetings to reflect on research and analysis during the design stage and invited Pacific programs and enterprises to provide on the ground perspectives on COVID-19 impacts. The disruption of the virus presented a unique opportunity to evaluate fund design investment strategies to 'build back better', and to examine as a community with shared objectives, what that meant.

In considering fund designs, the working group discussed where different sources of capital are useful along a timeline: the immediate response phase relies on grants as relief; the subsequent recovery phase to stimulate employment growth and open up markets; and finally, the 'new normal' phase when stability returns. The majority of traditional investment capital will only finance the 'new normal', but funds in design were targeting response and recovery phases.

Table 3: Matrix assessing the stages of a crisis against the classification of businesses: what enterprises need

TIMELINE	RESPONSE	RECOVERY		NEW NORMAL
CLASSIFICATION	Immediate relief	Stimulate re-employment	Open up markets	Invest in stability and growth
Enterprises that are growing	N: Stable growth C: Working capital S: Planning for recovery phase	N: Stable growth C: Investment capital, working capital S: Planning for 'new normal' phase	N: Stable growth C: Investment capital, working capital S: Planning for 'new normal' phase	N: Stable growth C: Investment capital S: Choice of stability or growth
Enterprises that are stable or experience a small decline	N: Stability C: Working capital S: Planning for recovery phase	N: Stable growth C: Working capital S: Cash flow planning	N: Diversification C: Trade finance S: Explore new opportunities	N: Stable growth C: Working capital S: Establishing business model
Enterprises that are downsizing	N: Liquidity, employee support C: Grant S: Planning for recovery phase	N: Review model C: Working capital S: Assessment of opportunities	N: Diversification C: Trade finance, concessional debt S: Planning for recovery phase	N/A – move to other classification
Enterprises that are on pause^(a)	N: Household and employee support C: Grant S: Warehousing/storage	N: Restart operations C: Working capital, grant S: Assessment of opportunities	N: Diversification C: Trade finance, concessional debt S: Planning for recovery phase	N/A – move to other classification
Enterprises that need to pivot^(b)	N: Household and employee support C: Grant S: Planning for pivot	N: Plan for restart C: Seed capital S: Assessment of opportunities	N: Restart operations C: Revenue rights, concessional debt S: Planning for 'new normal' phase	N: Stable growth C: Working capital S: Planning for recovery phase
Enterprises that will close^(c)	N: Household and employee support C: Grant S: Support for closure	N: Plan for restart C: Seed capital S: Assessment of opportunities	N: Restart operations C: Revenue rights, concessional debt S: Planning for 'new normal' phase	N: Stable growth C: Working capital S: Planning for recovery phase
Informal sector (unregistered)	N: Household support C: Grant S: Planning for recovery phase	N: Supply chain liquidity C: Working capital (microloan), grant S: Planning for 'new normal' phase	N: Stable growth C: Working capital S: Planning for 'new normal' phase	N: Stable growth C: Working capital S: Support for stability

Key: N – enterprise and/or household need; C – appropriate forms of capital; S – support services.

As these enterprises restart, they will have an immediate need for trade finance to fund the first set of purchase orders and subsequently invoices. Entrepreneurs should be identified and supported.

b These enterprises will require investment in entrepreneurial support organisations that will support entrepreneurs to pivot, diversify and access new markets. For the pivot model, there is an opportunity for trusted partners to provide investment through revenue rights. Further, there is an opportunity to reduce the risk of business pivots.

c For enterprises that will close, entrepreneurs, particularly women, should be supported and encouraged to start a new business in future.

Following the calls, Pacific RISE is reflecting on how to better support vehicle designs funded by Pacific RISE such as the Good Return social impact fund, Pacific Diaspora Fund and the menstrual health trade finance vehicle, to connect to other funds and address some of the gaps identified.

* Expert participants included Brightlight Impact Advisory, Business Link Pacific, Fiji Women's Fund, Good Return, Impact Investment Exchange (IIX), Pacific Trade Invest Australia, Pacific Women Shaping Pacific Development, Pacific Islands Private Sector Organisation (PIPSO), Pacific Horticultural and Agricultural Market Access (PHAMA) Program, Plan International, Pacific Organic and Ethical Trade Community (POETCom), Red Hat Impact, Talanoa Consulting, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and ygap.

Pacific RISE designs two new tools to support investment decision-making in the Pacific.

During the reporting period, Pacific RISE designed an investment tool and a framework to support investment decision-making in the Pacific:

- Pacific RISE, with its partner the Criterion Institute, designed a world-first [investment due diligence tool for gender-based violence](#). The tool analyses four existing due diligence categories of political, regulatory, operational and reputational risks and shows how these can be affected by gender-based violence. The tool is specific to the Pacific region but acknowledges that gender-based violence is a global issue and builds on due diligence processes that are standard worldwide. In 2020, the Criterion Institute worked with UNICEF to [adapt the tool](#) to more global applicability and is also working on how to apply the device specifically to infrastructure projects.
- In May 2020, Pacific RISE launched a [power dynamics framework](#) to assess current and future deals. The framework's design is based on analysis from each deal in the Pacific RISE investment portfolio. The framework identifies seven gender and power dynamics that are inherent in traditional investment models and impact on deal-making in the Pacific. The dynamics include how and what knowledge is valued, who participates in decision-making, how access to capital (or investability) is assessed, and what risks are prioritised or mitigated.

Communications with Pacific and global investors, businesses and networks highlight the investment potential of the Pacific and identify new areas for investment.

In November 2019, Pacific RISE partnered with Pacific Trade Invest Australia to present a panel of Pacific Islander investors at the Impact Investment Summit Asia Pacific. This led to conversations with potential investors and other connections in the Pacific-based investment ecosystem.

In February 2020, Pacific RISE Facility Manager Amanda Jupp attended a roundtable on impact investment with the Hon Alex Hawke MP, Australian Minister for International Development and the Pacific, and an expert panel. Pacific RISE team members presented at the SOCAP19 conference, [GenderSmart](#) and the Criterion Institute's Milena Bacalja Perianes presented on the innovative trade finance vehicle funded by Pacific RISE at UNICEF's [8th Virtual Conference on Menstrual Hygiene Management in Schools](#) in May 2020.

Pacific RISE also ran targeted presentations with investor groups, including the Impact Club and Enterprise Angels, and in March 2020, with the Criterion Institute, held a virtual session with 14 investors on the principle of collaborative design for investments in the Pacific. From this design session, Pacific RISE entered discussions with two potential partners for vehicle designs in the Pacific, including Murawin's Morning Sky Impact Fund.¹²

Pacific RISE was also invited by our partners at Pacific Trade Invest Australia to present at the Impact Investment Digital Talanoa in June 2020 to support business growth in the Pacific. The registration invitation received more than 150 respondents, and more than 30 Pacific organisations joined the online event.

The learning program will research the lessons from Pacific RISE and provide insights into future investments for the Pacific impact investment market.

Pacific RISE designed a learning program to evaluate the key components of the program, from design to conclusion, to influence future investments into the Pacific impact market. The four core research questions from the learning program are:

1. How did the design of Pacific RISE impact its performance?

¹² An application was constructed to support the design of the impact fund, which has been postponed due to COVID-19 travel restrictions.

2. What are the real needs of Pacific social enterprises, and what does that mean for investment and investment readiness?
3. What has Pacific RISE done that shows potential to contribute to the outcome of the development of an impact investment market and the goal of impact on women's economic empowerment in the Pacific?
4. What should be considered for future programming?

As of June 2020, Pacific RISE has progressed all four research questions, including looking at the program design and the global impact investment context and conducting initial secondary research into the needs of Pacific social enterprises.

Towards impact: an outlook on sustainability

Early indications are that the best potential for sustainability will come through the design of vehicles. In Pacific RISE's experience, none of the direct-to-enterprise intermediaries sourced during Phase 1 of the program has gone on to self-fund their work. Maintaining those intermediaries would be costly since they have no ongoing pipeline and only a limited number of interested investors.

In the second phase of Pacific RISE, many investments in the program's portfolio have been in the design of finance vehicles with partners that have a long-term commitment to the Pacific. If these vehicles are designed with sustainability features, such as revolving finance and in-built management costs, they may be more sustainable over the longer term. Local partnerships, local information and networks, and cost-effectiveness are all key features of sustainability and will be evaluated through the Pacific RISE learning program.

5 Key insights and lessons

What is the role of investment in COVID-19 response and recovery?

As countries and communities around the world respond to the impact of COVID-19, immediate relief in the form of grants, micro-grants and potentially some long-term patient working capital for larger and mid-tier businesses is required. Funds are provided by national governments, regional bodies and microfinance organisations. Some businesses also require the restructuring of loans and debt relief from micro financiers, lessors, banks and other investors.

As economies move from relief to recovery, SMEs may require capital and business advisory support to pivot their operations, depending on when and how markets recommence. Investors generally play a role during the economic recovery rather than during crisis response, and donors and investors have started designing funds for investment in the Pacific in the post-COVID-19 economic recovery. Funds should be designed to come in at the right time and consider what type of capital or support services businesses will need. Pacific RISE has been researching these issues as part of the working group on SME fund design (see case study on page 11).

Recovery of markets and value chains are also vital as investors need to see market stability to invest in individual enterprises. The response phase and early-stage recovery should be supported by governments and donors whose investments should target the temporary failure points in key market value chains resulting from the COVID-19 pandemic. Investments could be in shipping, transportation and infrastructure.

In the Pacific, the informal sector has grown as a result of the COVID-19 pandemic and is the security net for many people. Businesses move in and out of formality during crises to survive. This sector has largely been missed in policy and funding for recovery. Decisions on where resources are placed during the response phase then influences who is investible in the recovery phase. This is important for governments and donors to take into consideration.

Pacific RISE and donors play a role in influencing the way capital moves, not just in moving capital.

Pacific RISE works with the Criterion Institute to influence the way intermediaries incorporate a gender lens into their investment readiness work with social enterprises, into the deal design and negotiation, and into vehicle design. In some cases, using a gender lens has led intermediaries to adjust their investments. For example, PBSE worked with the Criterion Institute to examine how a gender lens could adjust the composition of their board and support more female members to become involved in the Pacific Diaspora Fund.

Pacific RISE has also designed tools that help investors and intermediaries to use a gender and power lens, including a gender-based violence due-diligence tool and a power dynamic framework. Two Pacific intermediaries (Good Return and Red Hat Impact) will use the framework in the design of their investment vehicles and will consider power dynamics between investors and enterprises in their funds.

Pacific RISE will also support the redesign of models to move capital in a COVID-19 context. For example, Pacific RISE is providing support to Good Return to adapt its impact investment model in Fiji to the COVID-19 context. This knowledge is being shared with a range of donor and investor funds currently under design in the Pacific region, including MFAT funded SME response fund and the innovationXchange's Frontier Brokers and enterprise support services facility (see case study on page 11).

It is important that capital moves, but how and where it moves are equally as important to consider for social and development impact.

Most businesses found investment readiness support valuable, but it did not always lead to investment.

Most businesses viewed the work of intermediaries positively. Their view is that intermediaries understand the importance of the financial performance and health of the enterprise, as well as the value of its social impact and unique story. Areas of negative feedback included where an intermediary proposed a loan product that the entrepreneur did not view as ideal given the enterprise's stage of development; and the long and time-consuming investment process, which many Pacific enterprises find challenging.

In the Pacific RISE pipeline, all businesses identified for investment have revised their initial investment figures downwards throughout the investment readiness process as it became clearer what was needed and what was appropriate for the business.

- Larger businesses seeking higher amounts of capital were more likely to decide not to take on private capital and were more conscious of and had access to, different sources of finance including grants, bank loans and normal growth through revenue.
- Larger businesses with limited access to different sources of finance (due to operation in high-risk sectors, or business or management performance issues) tended to be higher risk investments – therefore finance was priced higher, and the investments did not meet expected returns.
- Smaller businesses had fewer options but were less able to meet the criteria for investment (including sufficient collateral or equity in the business or being able to provide detailed business plans or applications) for the available financial products provided by local banks, microfinance institutes, investment funds and global funds. Specific financial vehicles needed to be designed to move capital to SMEs.

In some cases, advisory support provided by intermediaries analysed business models and clarified the role of external investment, but some businesses decided not to proceed with the investment. Either they were able to find savings in their existing business model to fund growth or were not in a position to be able to meet future repayments. The time and effort involved in this work was not recognised as having created a positive outcome – by not having a business go into debt unnecessarily – as the goal of Pacific RISE was not achieved: securing investment.

Pacific RISE and intermediaries learned before the mid-term review that:

- Pacific businesses are hesitant to take foreign equity capital¹³
- Pacific businesses do not fit the criteria¹⁴ for foreign equity investors, even impact investors
- social enterprises in the Pacific are mostly in the early stages of business and need different forms of capital and support.

Privileging traditional finance models as a model for social finance impacted on investment-making in the Pacific

Pacific RISE analysis found power dynamics were evident between intermediaries and enterprises that either worked for or against actors in the various scenarios. A deeply held cultural value underpins traditional finance models that those who hold the most capital deserve the most power:

- investor risk profiles are privileged over entrepreneur and community risk
- preference for high-growth scalable equity opportunities is normative
- deal terms are often sourced from finance-first models rather than being contextualised and can be inappropriate in social investment contexts.

The traditional finance model had been privileged through the Pacific RISE design due to the influence of an earlier pilot: Pacific Investment Readiness Program. This impacted the way investments were offered and made in the Pacific, and ultimately on the success of individual investments. By shifting away from traditional finance models, and using new vehicle designs or blended capital, organisations were able to make more equitable deals that were ultimately more successful.

A blend of capital is needed for Pacific impact investment, including domestic capital, Pacific investors, philanthropy and concessional finance.

All investments made in the Pacific RISE investment portfolio required a blend of finance, and all except one investment came from non-traditional sources of finance such as loan guarantees from private ancillary funds, personal investment from a high-net-worth individual, and crowdfunding. Only one investment was through a more traditional private equity model of impact investment.

A much higher percentage of finance came from Pacific sources that are not 'impact investment', compared to what Pacific RISE targeted initially. Pacific funds are interested to learn more about impact investment. Foreign investors engaging with Pacific finance also noted that local finance would provide additional due diligence, give market advice, vet management teams and provide post-investment support.

Analysis of the pilot, Pacific Investment Readiness Program, highlights that the risk-return profile will make it difficult to raise capital from traditional impact investors or venture capital-style investors, and will require a special type of investor – those that are looking at the market first or problem first approach to investment for Pacific businesses, which Pacific RISE and partners have only just begun to explore more widely.

¹³ Initial research into the global private investment market shows that this is not necessarily unique to the Pacific. More information on this will be forthcoming when the global research component in the learning program is complete.

¹⁴ These criteria include the size of the investment, stage of business development (proof of concept and track record), risk of investment, the potential return of investment vs that risk, management capacity, and exit options. Even impact investors want a financial return and the growth potential of Pacific businesses has unfortunately not matched expectations. This is not uncommon around the globe for SMEs/social enterprises.

6 Next steps

Pacific RISE will support investments that respond to Australia's Partnerships for Recovery strategy

In response to *Partnerships for Recovery: Australia's COVID-19 Development Response*,¹⁵ Pacific RISE will continue to support current deals within the Pacific RISE investment thesis and will target support to the following COVID-19 response areas:

- **Health security** – Pacific RISE will support Vinaka Group, and the menstrual health trade finance vehicle, to provide key investment in health enterprises in Fiji and the wider Pacific.
- **Stability** – Pacific RISE will support partnerships with existing Pacific organisations, providing finance, knowledge and advisory support, and will support a working group on SME fund design.
- **Economic recovery** – Pacific RISE will design funds to channel diaspora finance to SMEs in the Pacific, support Good Return to adapt its model in a COVID-19 context in Fiji and connect businesses seeking infrastructure finance to participate in the COVID-19 economic recovery, such as through information and communications technology and climate change adaptation.

Underpinning all Pacific RISE's work is a focus on gender and power, which complements the Australian Government's overarching goal of protecting the most vulnerable, especially women and girls.

Focus on learning from the Pacific RISE pilot in the final 12 months

In the final 12 months of the program, Pacific RISE will complete research into four core research questions from its learning program (see page 13) and will include the findings in its completion report. Fieldwork scheduled for early 2020 is delayed due to COVID-19 travel restrictions.

Pacific RISE will evaluate investments made during the program, including where funds have commenced deployment from the vehicles in design. Where useful, Pacific RISE will hold discussions with DFAT and other donors investing in impact investment to share knowledge gained, including recommendations on the role for donors. Pacific RISE will also develop a review of the impact of Pacific RISE in the gender lens investing field to demonstrate the variety of learning and ideas dissemination from this program.

Identify referral pathways for existing investments post-Pacific RISE.

As Pacific RISE will close in July 2021, the program will examine the sustainability of existing investments, including the need for referral pathways. Some initiatives are already underway:

- **Good Return** will access grant financing from the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) to scale up their model in Cambodia, Nepal, Fiji and Samoa, commencing in June 2021. Good Return is also launching a social impact fund that will support the ongoing sustainability of the impact investment model.
- **Real Impact** is continuing to work with crowdfunding platform **Kiva** as a field partner and has access to a revolving fund for working capital loans to support creative artisan partners.
- **Ranadi Plantation** and **Pacific Ocean Culture** in Fiji are working with **Pacific Trade Invest Australia** on a next stage of capital raising, including a review of their projected financial statements and developing an information memorandum.
- The team designing the **menstrual health trade finance platform** will take on external capital to drive the platform and will examine the role international non-government organisations involved in financing menstrual health can play, including IWDA, UNICEF and CARE Australia.
- **PBSE** will establish its own foundation to continue to support and finance the work of the Pasifika Diaspora Fund.

¹⁵ Released by the Department of Foreign Affairs and Trade in May 2020. See <https://www.dfat.gov.au/sites/default/files/partnerships-for-recovery-australias-covid-19-development-response.pdf>.



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