

# BLUEPRINT TO MARKET

Impact Capital Australia



In collaboration with:



**ATKearney**

ashurst



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# Foreword

I congratulate the Australian Advisory Board on Impact Investment. They have done what Australians do so well: adapt key learning from the global experience to shape a uniquely Australian approach. In this case, that approach targets key enablers for a vibrant market for investments that benefit society: 1) strategic leadership to catalyse the market; 2) clear action to deliver breakthroughs; and 3) engagement with policy-makers to create a supportive ecosystem for the field.

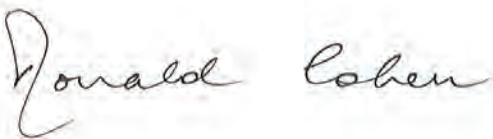
It is increasingly clear that every national market will need scalable impact investment companies that connect social sector organisations with capital, to drive broader participation and innovation in delivering impact. Impact Capital Australia is such an investment company. This Blueprint has the hallmarks for success:

- social impact at the centre, coupled with financial discipline and understanding of how markets develop;
- independence, with a mandate for the public good and a focus on creating a multiplier effect by attracting matching capital;
- participation of government and financial institutions to send a clear signal of encouragement to innovators; and
- strong leadership at both local and global levels.

I commend the Australian Advisory Board and the Working Group for their vision. They have focused the need and delivered an excellent Blueprint.

Australia's unique mix of social values and robust financial institutions puts it in a position to play a leading role in the impact investment market locally, in its region and globally. This initiative provides Australia with an important opportunity to lead.

Sincerely,

A handwritten signature in black ink that reads "Ronald Cohen". The signature is written in a cursive, flowing style.

**Sir Ronald Cohen**  
Chair, Global Social Impact Investment Steering Group

# From the Australian Advisory Board on Impact Investing

In September 2014, we released a strategy to catalyse the market for investments designed to create positive impact and benefit our society. Our vision for immediate and growing impact included aspirational goals to drive the market in and from Australia towards scale.

In combination, the actions we identified to deliver that impact are designed to stimulate activity and encourage greater, and more effective, participation in the Australian impact investment market.

Thanks to over 50 senior leaders from across sectors responding to the call and working alongside us and the Impact Investing Australia team over the past year, a number of those actions have been delivered, including the first stage of an Impact Investment Readiness Fund, and the first survey of Australian investor sentiment and activity in the field. We are fortunate indeed to have benefited from the energy and experience of community sector and finance practitioners in shaping these initiatives.

Critical among the actions is a flagship independent financial organisation with a combination of capital, mission and mandate that equips it uniquely to be an independent champion that can play a key role in driving the market for impact investment to scale. One of the working groups has focused on the strategy, policy and design for this. The Blueprint they have articulated brings our vision for Australia into relief in three dimensions for what such a flagship organisation could be.

To achieve this it has been essential to engage social sector and impact driven organisations as well as impact investment practitioners whose reach and impact this Blueprint is intended to facilitate and grow. Their insights and input have been complemented by broader consultation and expert advice from A.T. Kearney and Ashurst. Big Society Capital has also been open in sharing its learning and practice which has contributed valuable insights.

What we have now is a Blueprint for an organisation that is uniquely shaped for the Australian context. Now is the time for action to translate the vision to reality that has a powerful multiplier effect for delivering impact at scale for Australian communities.



**Rosemary Addis**  
**Chair, Australian Advisory Board on Impact Investing**



‘Australia is a wealthy country that can have an even more prosperous future shared by everyone.’

Australian Future Summit, August 2015



# CONTENTS

BLUEPRINT AT A GLANCE	i
OVERVIEW	iii
PART 1: TIME FOR IMPACT AT SCALE	1
Inflection point: fiscal challenges and new solutions	2
Impact investing - time for action	6
Achieving breakthrough: a new type of institution to drive market development	15
PART 2: BLUEPRINT FOR A MARKET CHAMPION	23
The vision, mission and mandate for ICA	24
What ICA would do	28
How ICA would operate	35
PART 3: TIME FOR ACTION	41
REFERENCES	
APPENDICES	
Indicative business and financial model	
Introduction to impact investing	
ACKNOWLEDGEMENTS	

# BLUEPRINT AT A GLANCE

## What is the intention of this Blueprint?

Impact Capital Australia (ICA) does not yet exist. This Blueprint is an invitation to Australian leaders from government, the community sector and major financial institutions to join with those already involved to bring the vision and intention behind ICA to reality. This Blueprint sets out how a uniquely independent market builder could bring more resources to address the pressure points faced by Australian governments and society and achieve a significant breakthrough in how impact and social purpose can be delivered and why the opportunity to act is now.

## What is impact investment and why is it important?

The emerging market of impact investing holds enormous potential for unlocking private capital to deliver positive impact for society and our environment. It is enabling for new solutions to pressing issues and expanding the toolkit to deliver public value. The focus is on measurable outcomes and sustainable impact for people and communities. This market is already delivering positive outcomes in areas as diverse as aged care, health, social housing, education, clean water and sanitation, microfinance, and sustainable agriculture and development.

## What is ICA and what would it do?

Impact Capital Australia (ICA) is the name of the financial organisation described in this Blueprint, an agile and independent financial institution with a mission to create impact for society and a unique mandate to drive development of impact investment. It is designed to be a game changer to mobilise capital and other resources and transform the way Australia deals with social and environmental issues.

ICA would have two roles: investor and market champion. The focus of ICA's investment activity would predominantly be wholesale, as a supporter of existing and new intermediaries. It would also originate socially impactful, innovative and scalable solutions and ways of funding and financing them. It would be a proactive market builder to accelerate growth and impact by identifying opportunities and removing barriers.

## Why is a wholesale function important?

Impact investing is happening in Australia, but without scale, opportunities to deliver positive impact for society will not be fully realised. Wholesale investment means investing in vehicles being taken to market by others (intermediaries), who will then invest in enterprises and initiatives at the front line so they can grow and increase their impact. This focus has a multiplier effect, enabling those already active in the market to do more, and encouraging more participants to enter because capital is more readily available.

## Who is behind the strategy for ICA?

ICA is part of the strategy to catalyse the impact investing market developed by the Australian Advisory Board on Impact Investing as part of a broader global effort. The work has been led by Impact Investing Australia and a Working Group including leaders from the Community Council of Australia, NAB, Social Enterprise Finance Australia, Social Ventures Australia, Australian Impact Investments, Grace Mutual, Blue River Group, Evans & Partners, The Benevolent Society, Philanthropy Australia, GVT Capital, and AMP Capital. A.T. Kearney and Ashurst provided expert advice. This has also been supported by the unique insights and first-hand experience of Big Society Capital in the UK.

## What is the goal?

The shared goal is to see the vision for ICA become a reality. The intention is to make an important contribution to a dynamic market for investment delivering direct positive benefits for society, operating at scale and with a diversity of participants and products.



**How would ICA be different?**

ICA's independence and focus on impact at scale would make ICA unique in the Australian financial landscape. It would be independent and collaborative to enable others. Its success would lie in 'growing the pie' by unlocking talent and capital to invest in our future. It would take up quality deals brought to it by others and be proactive to demonstrate the potential of investment opportunities being overlooked. All ICA's activity would be driven by the intention of impact, financial viability and market development.

**What would ICA invest in?**

ICA would invest across a range of outcome areas for society. Its wholesale investments would take a range of forms and present opportunities from community infrastructure to enterprise development. In its direct investment approach, ICA would be proactive in originating impactful, innovative and scalable solutions in key areas of need and opportunity. This proactive effort would prioritise areas that combine growing demand or unrealised potential, pressure on government budgets, need and readiness for new models, potential for high impact and investor appetite.

**How would ICA be structured and governed?**

ICA would be a public company with its mission and mandate clearly embedded in its constitution and governance. It would have a high-performing, multi-disciplinary board and leadership team. It would have a governance and accountability framework that ensure it is independent, effective, inclusive, transparent and compliant.

**How much capital would ICA need and where would it come from?**

ICA would need sufficient scale to act as a flagship institution and to be credible in encouraging new intermediaries to enter the market. Initial modelling indicates ICA would need \$300 million to execute its mission and mandate credibly and become self-sustaining within 7 years.

Where the capital comes from will matter. It is anticipated the capital to establish ICA will come from governments (50–60%) and financial institutions (35–40%). Some capital could also come from established social sector organisations and philanthropy (5–15%). The presence of government and the banking sector would send powerful signals in the market.

**Who would benefit?**

The ultimate benefits would flow to Australian communities and the economy through more resources available for social purposes, new approaches to solving old problems and greater transparency and accountability for the outcomes achieved. The market, investors and intermediaries would benefit from ICA as a market champion that is prepared to go first, unlocks new capital and creates new opportunities for investment with impact. Governments would benefit through delivery of greater public value from improved outcomes, a multiplier effect for funding they provide and from more capacity to target scarce public resources. The social and environmental sectors would benefit from more, and more appropriate, access to a range of funding and finance options. Philanthropy would benefit from potential to achieve more impact from strategic use of its grants and investment capital.

**Why do this now?**

There is a window of opportunity characterised by growing momentum and interest, and an appetite for action. Action now can contribute more options to overcome limitations on government resources, as well as encourage the focus on effectiveness of services by putting a spotlight on innovation, outcomes and impact. There is growing appetite from investors to allocate more of their resources to creating social as well as economic value. There are leaders with a track record and relevant experience who are ready to turn this Blueprint into a market reality.

# OVERVIEW

**This is a Blueprint for what could be:** a unique, independent financial corporation with a mandate clearly linked to our future productivity and prosperity. Impact Capital Australia (ICA) would be something new for Australia. Its mission and mandate would focus on driving development of the market for impact investment towards scale for the benefit of Australian communities.

ICA does not yet exist. This Blueprint sets out what it could be and why it is needed. It is an invitation to Australian leaders from across government, the community sector and major financial institutions to join with those already involved in this process to bring the vision and intention behind ICA to reality.

Governments are active in provision of social services; across Australia they spend over \$154 billion annually on service delivery. However, government budgets are under pressure, heightened by rising demand for social services. There is also increasing focus on the quality of outcomes being achieved for public money, particularly whether any progress is being made in tackling persistent and difficult issues. This focus highlights areas where we need to do better, and where people and communities continue to be left behind.

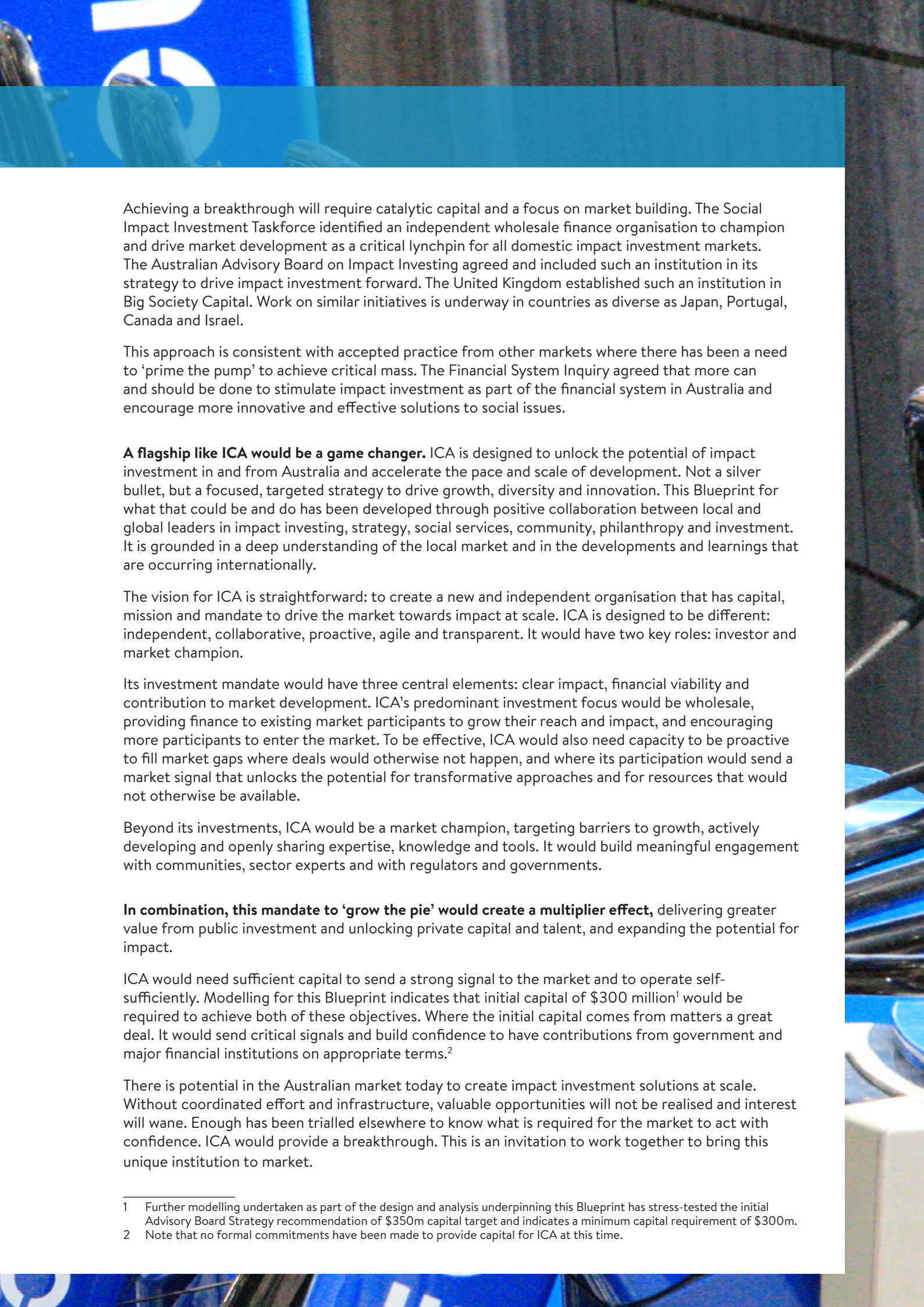
Delivering greater value for public money and unlocking other sources of funding and finance is critical to meeting demand. Pressing issues such as homelessness, long term unemployment and poor outcomes for Aboriginal communities affect not just those experiencing disadvantage, but ultimately the prosperity of all Australians. That requires different approaches to problem solving, bringing together the evidence and experience, skills and resources from government, business and communities, and from different disciplines in new combinations to answer the question: How can things be done differently to achieve a better result?

**There is reason for optimism.** Australia has a dynamic and growing social sector. There is increasing innovation and diversity in approaches to service delivery and in approaches tackling issues affecting society. There is better evidence and greater understanding of the importance of prevention and early intervention in practice responsive to the needs of people and communities. Technology makes available options to share information and to deliver public goods not possible before. There is a groundswell across the world of new and different approaches to tackling social issues and of people seeking positive ways to integrate purpose into their work and business models.

Impact investment is providing new tools and resources to enable more of this positive activity. It is happening here, in the Asia-Pacific region and across the globe. The field has gained interest from governments, social sector organisations, philanthropists, communities as well as from investors ranging from households to institutions. Local initiatives and transactions have been innovative and well regarded internationally. Pioneering leaders of impact investment in Australia have strong networks and credibility locally and in global markets.

However, the impact investing market in Australia does not yet have scale. And without scale, take-up of impact investing will remain fragmented and progress will remain incremental and niche. This will limit the social and economic impact that could be delivered. Australia can step up and be competitive locally and globally in this promising market with estimated potential to mobilise \$32 billion domestically and US\$1 trillion globally.

**Now is the time to act.** There has been a concerted focus from leaders, including the Social Impact Investment Taskforce established under the UK Presidency of the G8, to catalyse this effort globally. There is a clear opportunity to create common platforms and infrastructure that links Australia's market to the region and to global markets. Now is the time before budget pressures leave little room for adjustment. While frameworks and infrastructure are still evolving, a competitive Australian approach can be shaped to intersect with and influence global practice. If the window of opportunity is missed, our communities and economy will be the poorer for it.



Achieving a breakthrough will require catalytic capital and a focus on market building. The Social Impact Investment Taskforce identified an independent wholesale finance organisation to champion and drive market development as a critical lynchpin for all domestic impact investment markets. The Australian Advisory Board on Impact Investing agreed and included such an institution in its strategy to drive impact investment forward. The United Kingdom established such an institution in Big Society Capital. Work on similar initiatives is underway in countries as diverse as Japan, Portugal, Canada and Israel.

This approach is consistent with accepted practice from other markets where there has been a need to 'prime the pump' to achieve critical mass. The Financial System Inquiry agreed that more can and should be done to stimulate impact investment as part of the financial system in Australia and encourage more innovative and effective solutions to social issues.

**A flagship like ICA would be a game changer.** ICA is designed to unlock the potential of impact investment in and from Australia and accelerate the pace and scale of development. Not a silver bullet, but a focused, targeted strategy to drive growth, diversity and innovation. This Blueprint for what that could be and do has been developed through positive collaboration between local and global leaders in impact investing, strategy, social services, community, philanthropy and investment. It is grounded in a deep understanding of the local market and in the developments and learnings that are occurring internationally.

The vision for ICA is straightforward: to create a new and independent organisation that has capital, mission and mandate to drive the market towards impact at scale. ICA is designed to be different: independent, collaborative, proactive, agile and transparent. It would have two key roles: investor and market champion.

Its investment mandate would have three central elements: clear impact, financial viability and contribution to market development. ICA's predominant investment focus would be wholesale, providing finance to existing market participants to grow their reach and impact, and encouraging more participants to enter the market. To be effective, ICA would also need capacity to be proactive to fill market gaps where deals would otherwise not happen, and where its participation would send a market signal that unlocks the potential for transformative approaches and for resources that would not otherwise be available.

Beyond its investments, ICA would be a market champion, targeting barriers to growth, actively developing and openly sharing expertise, knowledge and tools. It would build meaningful engagement with communities, sector experts and with regulators and governments.

**In combination, this mandate to 'grow the pie' would create a multiplier effect,** delivering greater value from public investment and unlocking private capital and talent, and expanding the potential for impact.

ICA would need sufficient capital to send a strong signal to the market and to operate self-sufficiently. Modelling for this Blueprint indicates that initial capital of \$300 million<sup>1</sup> would be required to achieve both of these objectives. Where the initial capital comes from matters a great deal. It would send critical signals and build confidence to have contributions from government and major financial institutions on appropriate terms.<sup>2</sup>

There is potential in the Australian market today to create impact investment solutions at scale. Without coordinated effort and infrastructure, valuable opportunities will not be realised and interest will wane. Enough has been trialled elsewhere to know what is required for the market to act with confidence. ICA would provide a breakthrough. This is an invitation to work together to bring this unique institution to market.

<sup>1</sup> Further modelling undertaken as part of the design and analysis underpinning this Blueprint has stress-tested the initial Advisory Board Strategy recommendation of \$350m capital target and indicates a minimum capital requirement of \$300m.  
<sup>2</sup> Note that no formal commitments have been made to provide capital for ICA at this time.



# PART 1: TIME FOR IMPACT AT SCALE

The need and opportunity for more and different resources to tackle issues affecting society and contribute social and economic value has never been greater. This is reflected locally and globally in the news, in policy debate and in the experience of people and communities.

‘We believe that reform is now urgent. While Australia has enjoyed almost a quarter of a century of economic growth and weathered the global financial crisis better than other comparable countries, the nation’s economic and social positioning is slipping.’

**National Reform Summit, August 2015**

The changes occurring have major implications for all sectors: public, private and the non-profit or third sector. Global trends mobilising more resources and different combinations of actors offer concrete opportunities to tackle some of the challenges society faces in new ways.

‘... the idea that capital can drive social change, and that mission, margin and mandate can co-exist is fundamentally new... The challenge is to draw clear enough pictures and bold enough ideas that scale widely enough and sustain long enough to make significant progress on the myriad challenges we face... We need to understand scale and sustainability so that we can make smarter impact investments and drive more tangible social benefit for society at large.’

**Mission, Margin, Mandate: Multiple Paths to Scale, 2011**

Part 1 of this Blueprint examines three key aspects of the context: first, the fiscal challenges and new solutions coming to the fore; second, the potential of impact investment and the inflection point that has been reached in its development; and third, how a flagship organisation with the right combination of capital, mission and mandate could achieve a breakthrough and ensure a clear window of opportunity is not missed.

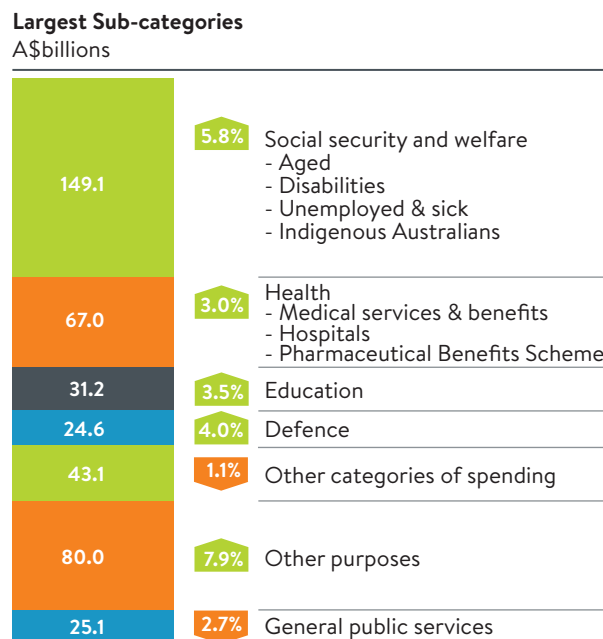
## Inflection point: fiscal challenges and new solutions

The central pillars of Australia’s prosperity are a strong economy and a fair society. Australia has weathered recent financial conditions better than most countries. However, social services and infrastructure are under increasing pressure to deliver on future requirements.

Australia has significant areas of unmet need and untapped potential. Where cycles of disadvantage have become entrenched, it has consequences beyond the individuals and communities directly affected. It has a ripple effect through society. The dial has not shifted any meaningful degree for intergenerational and long term unemployment or for our Aboriginal communities. Whole postcodes mark areas of persistent disadvantage, the hallmark of which is joblessness, which leads to a lack of income and purchasing power, spirals of disinvestment and increasing dependence on welfare. The missing pieces are well documented: a focus on prevention, early intervention, more joined-up place-based approaches and on building a confidence that these communities are capable of investment to shape a different future.<sup>3</sup>

A social safety net is an important feature of Australian society. The cost of providing social services is rising (Figure 1). The 2015 Australian Government budget includes \$154 billion on social security.<sup>4</sup>

**Figure 1. The 2014 Australian Government expenditure and compound annual growth rate of projections to 2019 highlight the significant and growing demand on social spending**



Source: Compiled from Australian Government, 2015, Budget Paper No. 1

Australia has a dynamic and diverse not-for-profit sector. In 2012–13, the sector contributed 3.8% (\$57.7 billion) to Australia’s GDP, comprised 9.3% of the employed workforce, and had significant assets and cash reserves.<sup>5</sup> Key areas of social service provision, including

<sup>3</sup> CEDA, 2015, *Addressing Entrenched Disadvantage*; Productivity Commission, 2013, *Deep and Persistent Disadvantage in Australia*

<sup>4</sup> Australian Government, 2015, Budget Paper No.1

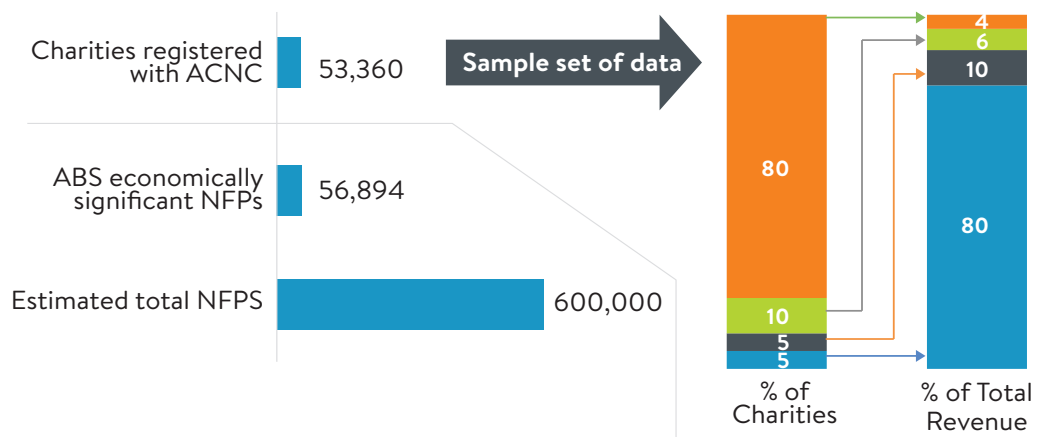
<sup>5</sup> Australian Bureau of Statistics, *Australian National Accounts: Non-Profit Institutions Satellite Account, 2012–13*; Wilson, C and Knowles, D, 2015, *The Koda Capital Non-Profit Sector Review*

health care and social assistance, are expected to grow and contribute over 250,000 jobs by 2018.<sup>6</sup> The dynamics of social service delivery are also rapidly changing for governments and social sector organisations. In particular, there is more focus on the outcomes being achieved and people are seeking more connected, accessible services.

Whole segments of the social sector are undergoing major shifts informed by changing community expectations, rising demand and policy change, such as for people with disabilities and their carers, early childhood development and aged care.

Very few individual social sector organisations have the scale or the flexibility to redirect income to address changing needs (Figure 2). Most lack data, resources and infrastructure to fully realise their objectives. Australian research has identified access to capital as an issue for important segments of the social sector, including in health, education, community services and housing. Lack of financial skills commonly magnifies the problem, particularly in smaller organisations.<sup>7</sup> Many are not geared to engage with a broader range of financing options. Therefore it is not a surprise that grant funding remains their major funding source. Some organisations that are large enough to do so access finance; however, with the exception of a few leading organisations and some faith based institutions who have established financing mechanisms, there has been limited use of funding alternatives that facilitate innovation or use emerging models.<sup>8</sup>

**Figure 2. A small number of Australian Charities and Not-for-Profits Commission (ACNC) registered organisations are responsible for the majority of revenues**



Source: Compiled from ABS: Non-Profit Institutions Satellite Account 2012-13. ACNC Register, viewed October 2015, Productivity Commission 2010, Contribution of the Not-for-Profit Sector, Research Report, Canberra; Knight, P. A. and D. J. Gilchrist, (2014), Australian Charities 2013: The First Report on Charities Registered with the Australian Charities and Not-for-profits Commission, Report for the Australian Charities and Not-for-profits Commission, Melbourne

The challenge of funding and financing delivery of services and infrastructure that are fit-for-purpose is real. Government sources represent close to 40% of income for the not-for-profit sector and most of that is short term and tied to particular programs and uses.<sup>9</sup> While there is not yet a capital crisis for the social sector, market opportunities are not being fully realised. Without capital, distortions can occur in the market for service delivery, depending on whether service providers are for-profit or not-for-profit. Even more importantly, capacity for renewal and innovation, and therefore impact, is inhibited.<sup>10</sup>

6 Australian Department of Employment, 2015, *Industry Employment Projections*  
 7 Lyons, M et al, 2006, *Mobilising Capital for Australia's Non-Profits*; Burkett, I, 2011, *Finance and the Australian Not-for-Profit Sector*; Productivity Commission, 2010, *Contribution of the Not-for-Profit Sector*  
 8 Productivity Commission, 2010; Burkett, I, 2011  
 9 Australian Bureau of Statistics, 2012-13; Wilson, C and Knowles, D, 2015; Dass, S 2015, *Non-Profit Leadership Emerging Themes*, JB Were  
 10 Lyons, M et al 2006; Productivity Commission, 2010



‘There is tremendous potential that is not being realised in terms of investment into the not-for-profit sector and investment by the not-for-profit sector. The not-for-profit sector holds a lot of assets. How we best create that kind of better investment and better use of the resources that are actually going in there is at the heart of the kind of community we want to live in in the future.’

**David Crosbie, Chief Executive Officer, Community Council for Australia**

With all governments projecting deficits and Commonwealth net debt due to peak at 18% of GDP by 2017, the highest levels since the mid-1990s<sup>11</sup>, increased government borrowing and spending is unlikely to be the answer. Philanthropic contributions have been growing; however, the 2012–13 total of \$2.3 billion in tax-deductible gifts<sup>12</sup> relative to the very much larger size of the sector, underscores the extent of the need and opportunity to consider alternatives. The alternatives need to facilitate greater prevention and effectiveness to tackle the issues and bring more resources.

There are, however, positive aspects to these shifts. Not-for-profit leaders are increasing their focus towards more resilient, sustainable and impactful options to diversify their resources. This includes exploring earned revenue streams, and more fit-for-purpose finance and investment options to supplement and complement traditional sources of funding and finance.

‘I think societies everywhere will come to the conclusion that an important part of the capitalist system is having a powerful social sector to address social issues, because government doesn’t have the resources.’

**Sir Ronald Cohen, Chair Social Impact Investment Taskforce, 2010<sup>13</sup>**

Growing demand for services also creates jobs and new opportunities, and drives innovation. There is increasing diversity in the approaches entering the market, some enabled by technology, and others by a new generation of entrepreneurs seeking to deliver public value and tackle social issues.

<sup>11</sup> Daley, J, and Wood, D, 2015, *Fiscal Challenges for Australia*, Grattan Institute

<sup>12</sup> Wilson, C and Knowles, D, 2015

<sup>13</sup> Quoted in *The Telegraph* 26 June, 2010



Investors too are looking for more opportunities for their investment portfolios to reflect their values and place in the community. Bank of America found that 50% of their high net worth clients are seeking options for investment that align with their societal values.<sup>14</sup> Research by Barclays Bank also found that there is a great deal of latent demand, and that investors do not yet have the frameworks and tools to act upon their preferences, with at least 56% of all respondents and 66% of high net worth respondents to a recent survey indicating at least moderate interest in investing for impact.<sup>15</sup>

‘... the trend lines are extremely encouraging. A confluence of factors – including reduced government expenditure, a greater emphasis on evidence-based interventions, growing consciousness among investors, and a new generation of talented social entrepreneurs who are pushing boundaries and developing disruptive solutions – all point to a window of opportunity that cannot and should not be missed. There is a greater openness for cross-sector dialogue and for experimentation with new approaches than at any time in recent memory.’

### **Breaking the Binary, 2013**

The net effect is a groundswell of new approaches and different capacity being brought to tackling the issues society faces and increasing the vitality and dynamism of the social sector. However, at least domestically, there is still a lack of scale. These new approaches reflect a change in attitudes to the relationship between purpose and work, including new approaches to addressing social challenges that focus less on organisational form and more on outcomes.<sup>16</sup>

These changes also reflect a growing appreciation that the issue is not limited to capital or service provision in the traditional sense. A key insight is the recognition that there is a range of ways in which social and economic value is created and depleted. For example, businesses create jobs and economic activity in communities; welfare and aid can create cycles of dependence as well as provide critical relief; private initiatives can generate significant public goods, such as Google and Wikipedia. It will require a mix of contributions to take full advantage of the insight and open up new possibilities for how we tackle social issues to get different results. More and different funding, financing and capability are required to enable promising developments to reach critical mass. This is not a debate about public or private provision, or even the role of market based mechanisms. Rather, it is an exploration of how we bring the best of all our capacity to achieve the Australia we want.

Action is needed now to enable a transition via adjustment rather than crisis. There is a real need to make inroads into areas of persistent disadvantage, enable a vibrant and resilient social sector and expand the options for how we invest in our future productivity and prosperity. New tools and resources are developing. A number of them apply proven approaches to support innovation in other fields to achieving outcomes for society that are more equitable and effective. These approaches include new enterprise solutions and, critically, means for mobilising capital and talent. The time to act is now to support and accelerate early developments, to grow experience with the market, develop our understanding of what works and ‘prime the pump’ to deliver impact at scale.

<sup>14</sup> Bank of America Merrill Lynch, 2014 cited in Social Impact Investment Taskforce, *The Invisible Heart of Markets*, 2014

<sup>15</sup> Barclays Bank, 2015, *The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy*

<sup>16</sup> Eggers, W & MacMillan, P, 2013, *The Solution Revolution*; Addis, R in Nicholls et al, [pending publication]

## Impact investing - time for action

Impact investing is the term given to the emerging field of utilising investment to benefit society. It holds enormous potential for unlocking private capital to deliver positive impact for society, alongside financial returns. Impact in this context captures the range of improvements to social, environmental and cultural conditions that affect quality of life for people and communities and their capacity to participate and contribute.

Impact investment is part of an expanding toolbox for achieving positive change. It is developing as an enabler of the global shifts in how we tackle social issues and resource more activity than governments and philanthropy alone can achieve. The intention is to expand the total pool of social and economic value through prevention, innovation, and scaling what works, not promoting the investment as an end in itself.<sup>17</sup>

UK Government initiatives, under its Presidency of the (then) G8 to catalyse and accelerate a global market, primarily through the Social Impact Investment Taskforce, brought together over 200 leaders from G7 countries, Australia and the European Union. The Taskforce concluded that there is significant potential for a global market. As many as 17 countries participated in a plenary meeting in July 2015, just two years after the global effort was launched. UN convenings in Addis Ababa in mid-2015 brought an even broader range of countries together to address the challenge and opportunity of securing resources to deliver on the Sustainable Development Goals<sup>18</sup>.

**‘The world is on the brink of a revolution in how we solve society’s toughest problems. The force capable of driving the revolution is ‘social impact investing’, which harnesses entrepreneurship, innovation and capital to power social improvement.’**

**Social Impact Investment Taskforce, 2014**

This is a growth market globally, already catalysing new markets, encouraging entrepreneurship and innovation, resourcing communities, creating jobs, and financing initiatives across aged care, health, social housing, education, clean water and sanitation, microfinance, and sustainable agriculture and development.

**‘This innovative form of funding is growing globally as a valuable mechanism to support social service delivery. Changing community expectations about the role of government and the financial sector in funding social service delivery highlight a need for this funding mechanism in Australia.’**

**Australian Financial System Inquiry Report, 2014**

Commentators expect impact investment will be materially additive to existing social development investment activity. The latest annual market sizing undertaken by JP Morgan and the Global Impact Investing Network estimates there was US\$69 billion under management for impact globally in 2014.<sup>19</sup> Estimates of market potential range between US\$600 billion and US\$1 trillion globally, and \$32 billion for the Australian domestic market.<sup>20</sup>

<sup>17</sup> For an introduction to impact investing see Appendix 2

<sup>18</sup> UN Finance For Development Conference, Addis Ababa, July 2015

<sup>19</sup> Saltuk, Y, Idrissi, A E, Bouri, A, Mudaliar, A & Schiff, H, 2015, *Eyes on the Horizon: The Impact Investor Survey*

<sup>20</sup> Social Impact Investment Taskforce, 2014; Saltuk, Y et al, 2014, *Spotlight on the Market: The Impact Investor Survey*

The number of impact funds nearly doubled from 181 to 354 between 2007 and 2012<sup>21</sup>. In addition, there are clear signs of growing investor demand coming through surveys like those conducted by Bank of America and Barclays which found that more than 50% of the participating high net worth individuals are interested in investment opportunities that align with their values.<sup>22</sup>

## Case Study One: The Global Health Investment Fund – driving impact through upstream health investments

The Global Health Investment Fund (GHIF) responds to the need for development of promising interventions to prevent or treat diseases that disproportionately burden low-income countries.

Launched in 2012-2013, this US\$108m social impact investment fund is focused on bringing about significant improvements in the treatment and prevention of disease and improvements in maternal and child health. It does this by financing advanced development of drugs, vaccines, diagnostics and other interventions.

The GHIF is back-stopped by a guarantee from the Gates Foundation and has attracted investment partners as diverse as Grand Challenges Canada, JP Morgan, GSK, Merck, Pfizer and the International Finance Corporation.

Its investments include US\$10m debt finance for the registration of moxidectin for the treatment of river blindness which affects 37m people with 100m more at risk of infection. This drug, currently used for treatment of parasitic worm and mite infections in animals, is being developed by Melbourne based not-for-profit Medicines Development for Global Health.

**Source: Global Health Investment Fund website, viewed October 2015; Impact Investing Australia Case Study, Registration of Moxidectin, 2015**

### Impact:

The Fund seeks to achieve affordable medicines to prevent or treat the most common causes of child and infant mortality and contagious diseases that kill hundreds of thousands of children annually. It is too soon to have figures for impact achieved.

### Market development:

The Fund is focused on upstream drug development which is higher risk and less appealing for investors. The intent is to prove up the model to attract future investment in this area at significantly greater scale.

### Financial viability:

Investment types to date range from debt to preferred equity. All GHIF investors have an additional buffer of protection with the Gates Foundation and SIDA underwriting the first 20% of losses and a further 50% of subsequent losses, should they occur.

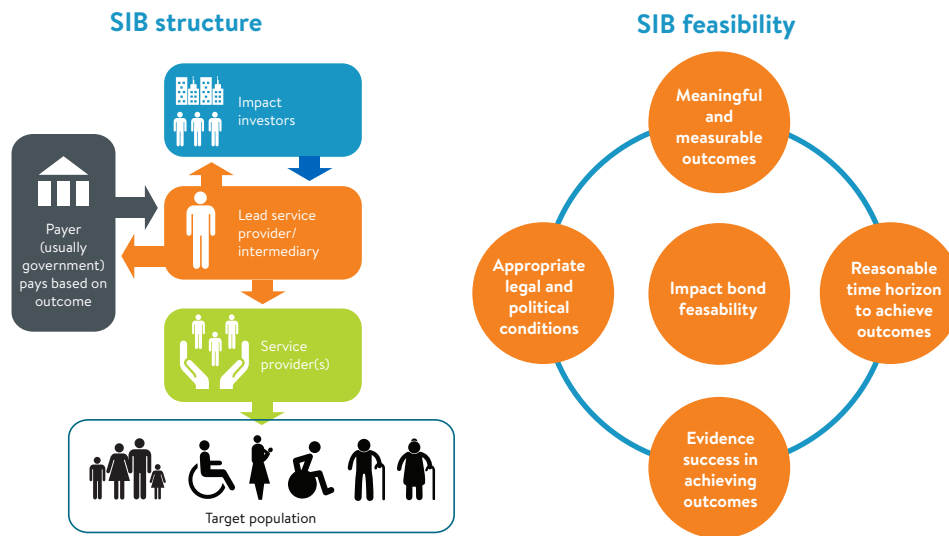
<sup>21</sup> Addis, McLeod & Raine, 2013, *IMPACT-Australia: Investment for social and economic benefit*

<sup>22</sup> Social Impact Investment Taskforce, 2014; Barclays Bank, 2015

## Case Study Two: Evolution and diversity of Social Impact Bonds globally

The first Social Impact Bond (SIB) was The One Service, in Peterborough UK in 2010. It brought together five service providers in an adaptive learning environment to pilot a bespoke solution for high-frequency short sentence offenders to break the cycle of re-offending.

Approximately 50 SIBs have been developed since, in the UK and elsewhere, targeting different social issues. They show an evolution in financial structures reflecting differing social issues, measurement environments, investor risk appetite and delivery models.



Social outcome	SIB description & evolution	Who & where
Reduced recidivism and secure employment for ex-offenders	This US\$13.5m SIB evolved the model with foundations laying a role and some investors accessing the investment through Bank of America Merrill Lynch's wealth management platform.	Center for Employment Opportunities: New York, USA
Reduced homelessness: accommodation and employment for the homeless	£5m over 4 years targeting better outcomes for 831 persistent rough sleepers. Potential 6.5% return based on move to longer term accommodation, employment, reduction in emergency services.	St Mungos: London, UK
Children living safely with their and families	Two SIBs for different interventions that aim to prevent children from entering out-of-home care (The Benevolent Society) and returning them safely to their families (Newpin). These bonds evolved the model with a tiered capital structure to encourage broader investor participation.	Newpin, Uniting Care Burnside & The Benevolent Society: NSW, Australia
Quality early childhood education to improve academic performance and reduce need for special education	A 7-year US\$7m bond that aims to increase school readiness among 3,500 3-4 year olds from low income households. The model is intended to be scalable.	Utah High Quality Pre-school program: Utah, USA
Training and employment for young people out of education and employment	€680k investment that aims to provide support to 160 unemployed young people (aged between 17 and 27) with low skills. Payment could be up to 12% based on reduction achieved in benefits paid.	Buzinezzclub: Rotterdam, The Netherlands

**Source: Adapted from Delivering on Impact 2014, Introduction to Social Impact Bonds and early intervention, EIF, 2014, Brookings Institute Potential & Limitations of Impact Bonds, 2015 related SIB service provider websites**

Five years on from the first social impact bond being launched in the UK in 2010, there are approximately 50 in operation or development across diverse purposes and political systems. Collectively they have attracted approximately US\$150 million in private capital and affected approximately 18,500 people's lives.<sup>23</sup>

**'Importantly, impact investing has the potential to benefit government and taxpayers by reducing costs and improving social policy outcomes. It can change the role of Government from paying for inputs to paying for outcomes. It can also benefit not-for-profits by diversifying their funding sources and helping them to develop technical expertise in benchmarking and measuring outcomes, as well as improving governance and accountability.'**

**Australian Financial System Inquiry Report, 2014**

Australia already has a global leadership role, which reflects the quality of thought leadership and transactions, dynamism of the social sector, its role on the G8 Social Impact Investment Taskforce, and on its successor, the Global Social Impact Investment Steering Group. Leadership and interest from across sectors provides a strong foundation.<sup>24</sup>

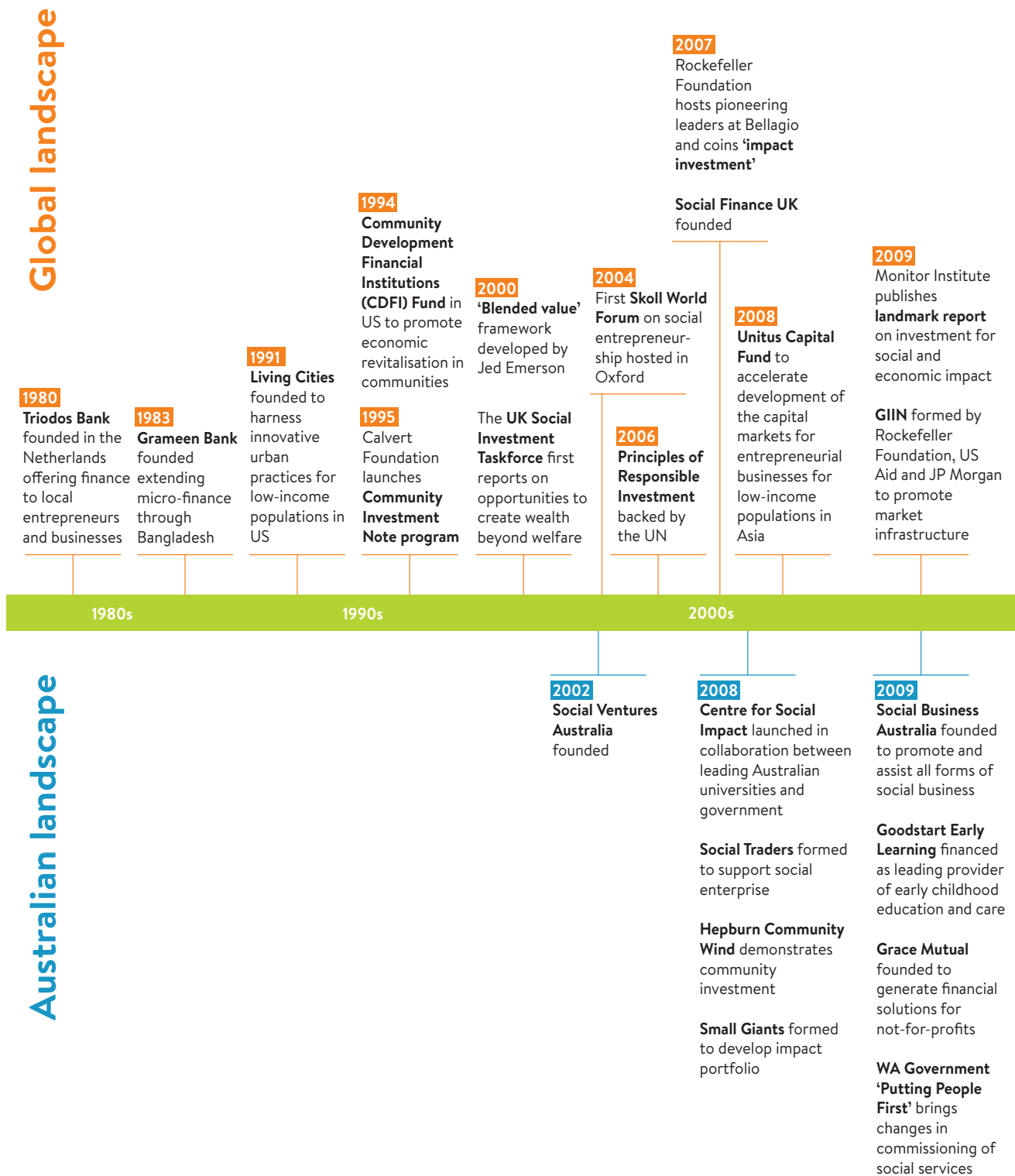
There have been clear signs of growing interest and momentum (Figure 3). Since early transactions, such as GoodStart Early Learning, the first Social Benefit Bonds in New South Wales and the social enterprise funds seeded through the Social Enterprise Development and Investment Funds, activity and participation have increased.



<sup>23</sup> Social Finance UK, 2015; for more detail on social impact bonds, see <[instiglio.org/en/sibs-worldwide](http://instiglio.org/en/sibs-worldwide)>

<sup>24</sup> Addis, McLeod & Raine, 2013

Figure 3. Evolution of the impact investing market - examples highlight growing momentum



**2010**  
**First Social Impact Bond (SIB)** in the UK in Peterborough for 'The One Service'

**Global Alliance for Banking of Values** formed by Triodos Bank

**2011**  
**'Shared Value'** published by Porter & Kramer

**Social Finance US** founded

**2012**  
**Social Progress Index** launched

**Big Society Capital** launched in UK with capital from unclaimed bank account assets and 4 Fleet St banks to champion the market and provide wholesale funding

**2013**  
UK as President of G8 hosts Impact Investment Forum and launches **G8 Social Impact Investment Taskforce** to catalyse global market

**Social Finance Israel** founded

**2014**  
Social Impact Investment Taskforce reports with **8 key recommendations** for local and global markets; National Advisory Boards in 8 countries report alongside Taskforce

**2015**  
Social Impact Investment Taskforce hands baton to **Global Social Impact Investment Steering Group** and 5 more countries admitted

2010

2011

2012

2013

2014

2015

**2010**  
**Social Enterprise Development & Investment Funds** launched by Australian Government to promote access to finance for social enterprise

**CDFI Pilot** launched

**Lifehouse at RPA** bonds finance new facility for cancer care

**Productivity Commission** reports on contribution of the non-profit sector in Australia considers access to capital and social innovation and enterprise

NSW launches **Social Benefit Bond (SBB)** initiative

Tasmanian Government: **Social Inclusions Report** and **Social Enterprise Fund**

**2011**  
**Social Enterprise Finance Australia and Foresters Community Finance Fund** launched to offer finance to social enterprises

**First STREAT** equity raising

**Senate Economics References Committee** picks up access to capital for non-profit sector and 'social economy and reports on 'Investing for Good'

**2012**  
**WA Government Social Enterprise Grants Program** launched

**The Difference Incubator** launched

**Australia's Social Ventures Fund** launched

**Bank Mecu** formed as cooperative bank

**Place Based Impact Investment** reports on potential for community investment in Australia

**2013**  
**IMPACT-Australia** Field scan of Australian market and potential is published

**Impact Investment Group** formed

Australia joins the **G8 Social Impact Investment Taskforce**

**Newpin and Benevolent Society SBBs** launched in NSW

**2014**  
**Impact Investing Australia** founded

**Australian Impact Investment** formed by Ethinvest

**Blue River Group** formed

**Australian Advisory Board on Impact Investing** formed and delivers national strategy to catalyse impact investing

**Financial System Inquiry** recommends government action to build market for social impact investment

**2015**  
**Impact Investment Readiness Fund** seeded by NAB

**Second STREAT transaction** to scale employment and training for homeless youth

**Joint Select Committee on Foreign Affairs Defence** recommends more actions to build impact investing

**First Australian impact investor survey** conducted by Impact Investing Australia in collaboration with leaders across sectors

**Social Impact Investment Trust** launched by Social Ventures Australia, with a \$30m cornerstone investment by HESTA

**NSW Social Impact Investment Strategy** launched

**SA** announces SIB for homelessness

**QLD** announces \$2 million feasibility fund for SIBs

Diversity of opportunities in the Australian market is reflected in the range of actors and interests. For example, established community organisations such as The Benevolent Society and Uniting Care have been expanding their range of funding and financing activities. Newer community organisations large and small such as Life Without Barriers and Family Life have been actively engaging with new tools. New enterprises such as Maths Pathway and HireUp are responding to the changing service delivery environment and attracting funding and finance.

### Case Study Three: HireUp – illustrating innovation in social service operating models

<p>Based in Melbourne, HireUp is an innovative online platform developed in response to increased consumer choice afforded by the National Disability Insurance Scheme.</p> <p>HireUp enables people with a disability and their families to directly find, engage, manage and pay for support workers.</p> <p>Service providers register their details with HireUp who then perform a rigorous screening and verification process before support workers are added to the platform.</p> <p>HireUp has had early support from a range of partners and received a grant from the Impact Investment Readiness Fund to secure advisory services relating to capital raising to enable further development and reach.</p>	<div style="background-color: #f4a460; padding: 5px; margin-bottom: 10px;"><b>Impact:</b></div> <p>While still in early stages of development HireUp will empower clients. It will also potentially enable greater choice across a broad base of service providers.</p> <div style="background-color: #3498db; padding: 5px; margin-bottom: 10px;"><b>Market development:</b></div> <p>HireUp is an example of innovation in response to change in the policy and service delivery environment. The model could be replicated in other service areas or scaled as the NDIS develops.</p> <div style="background-color: #7ed321; padding: 5px;"><b>Financial viability:</b></div> <p>HireUp is still in the start-up phase and its business model is predicated on a centralised technology driven platform. It recently closed a capital raising of \$2m.</p>
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**Source:** Impact Investing Australia website, viewed October 2015; HireUp website viewed October 2015.

Financial intermediaries, such as Impact Investment Group and Australian Impact Investments, and enterprise incubators have also been steadily emerging in the landscape. Some institutional investors such as Christian Super have been active for some time, with impact investments now approaching 10% of their portfolio. Other examples highlight larger institutions starting to explore more actively what the opportunities are; for example, HESTA recently made a cornerstone investment in the Social Impact Investment Trust established by Social Ventures Australia.

Strengths of the Australian system, such as globally competitive expertise in infrastructure investment, have not yet translated to equitable access to quality infrastructure that meets the needs of an ageing population and rising demand for health services and for affordable housing. Most of the impact investment into the Asia-Pacific region comes from funds based in Western Europe and North America rather than Australian investors.<sup>25</sup> Australia has not yet undertaken focused direct investment into the communities where investment in manufacturing and other sectors are withdrawing, to help counter negative impacts and generate jobs.

<sup>25</sup> Saltuk, Y et al, 2015





For all the growing interest and momentum, impact investment remains a market in development, domestically and globally. It is not yet mature and key infrastructure to drive growth and maturity are lacking in many local markets.

The quality of what has been achieved through Australian transactions and leadership, and the potential for impact investing in Australia, is not yet matched by the volume of investment or rate of policy development. The capital available for impact is currently small in relation to both the financial markets and the social sector. However, interest is growing from a range of potential capital providers from philanthropic trusts and foundations to institutional investors. Information asymmetries and lack of track record manifest in difficulty for those who need resources to navigate the channels of finance, and for available finance to find and fit the market need.

Specialist intermediaries that have been in the market for a decade or more remain relatively small, and growth is slow. New entrants are enriching the landscape but they are also small. Overall, without an injection of support, intermediaries are not yet in a position to drive growth, scale and diversity of the offerings.<sup>26</sup>

These challenges are not unique to Australia. In fact, they echo the global experience. The Monitor Institute identified this transition stage as a move from uncoordinated innovation to market building.<sup>27</sup> They identified critical coordinated effort and sufficient investment in infrastructure as a critical focus to make that transition successful and help people identify and function as part of an industry that can ‘function as a coherent marketplace with high standards for impact’.<sup>28</sup>

All the challenges can be overcome. They must be addressed to realise the potential for impact investing to make a meaningful contribution. An inflection point has been reached where targeted policy, and funding, are required to drive market activity at scale that has positive impact at its core.

New impact investment opportunities in Australia could contribute to health and education, support major changes in service delivery including the National Disability Insurance Scheme, or breakthroughs for Aboriginal peoples and for communities where persistent joblessness has become a hallmark of disadvantage.

<sup>26</sup> For further analysis of the role of specialist intermediaries, see Burkett, I, 2013, *Reaching Underserved Markets, The Role of Specialist Financial Intermediaries in Underserved Markets in Australia*

<sup>27</sup> Fulton, K & Freirich, J, 2009, *Investing for Social and Environmental Impact: A design for catalysing an emerging industry*

<sup>28</sup> Fulton, K & Freirich, J, 2009, p4



The McClure report on welfare reform and the 2014 Financial System Inquiry are among an array of recent reports pointing to the importance of appropriate finance for a strong community sector and to encourage more effective and innovative approaches to tackling social issues.<sup>29</sup>

‘Social finance is an innovation story in its own right. It brings together new combinations and structures for capital and a new conception of how capital markets can function integrating social purpose and financial rigour. It is also an enabler of innovations, providing the capital to finance new models, infrastructure and entrepreneurs focussed on addressing issues affecting society.’

#### **The Role of Government and Policy in Social Finance, publication pending**

The pieces are out on the board. The time for action is now. There is a concerted focus from leaders globally, and leaders have already mobilised in Australia to bring focus and attention to the opportunity. They have done the groundwork on what will work for the Australian context, and what action and infrastructure can have the most significant impact. There is an opportunity to create common platforms and infrastructure that links Australia’s market to the region and to global markets. Enough has been trialled elsewhere to know what is required for the market to act with confidence.

There is demand for funding and a pressing need for innovative solutions. There is money poised to invest. Developing the impact investment market and its potential to drive change will take time. The pace of development can be accelerated. As with innovation in other fields, innovation here will require tenacity and a focus on influencing others, to embrace the opportunity. There is a need to develop the institutions and infrastructure that will support diversity and maturity.<sup>30</sup>

Targeted strategic initiatives can bring the pieces together and make real breakthroughs possible. If the opportunity is missed, our communities and economy will be the poorer for that. If the opportunity is seized, impact investment in Australia can become a material additive driver of capital and innovation focused on delivering positive impact contributing to Australian society.

<sup>29</sup> McClure, P et al, 2015, *A New System for Better Employment and Social Outcomes*, Commonwealth of Australia; FSI *Financial Systems Inquiry: Final Report*, 2014, Commonwealth of Australia; see also Productivity Commission, 2010; Senate Economics References Committee, *Investing for Good*, 2011; Harper et al, 2015, *Competition Policy Review: Final Report*

<sup>30</sup> Mulgan, G et al, 2007, *Social Innovation: What it is, why it matters, how it can be accelerated*, Said Business School, Oxford

## Achieving breakthrough: a new type of institution to drive market development

Action from all sectors is required to ‘prime the pump’ and achieve the potential for impact investment to make a significant material contribution. Proactive steps are required to unlock capital and encourage new market participants to enter what they see as uncharted waters.

‘Unfortunately, relatively few appear willing to step up to the hard and uncertain work of sparking and nurturing the innovations that ultimately generate a robust flow of investable, high-return impact investments. It is as if impact investors are lined up around the proverbial water pump waiting for the flood of deals, while no one is actually priming the pump!’

### Priming the Pump, 2012

The need to ‘prime the pump’ has many parallels in other aspects of financial markets such as venture capital, infrastructure investment, corporate bond markets and, more recently, clean energy, community investment and microfinance. Lessons from the early stages of development across financial markets point to the need to support intermediaries, demonstrate investment performance and overcome information asymmetries.

There is significant precedent across the OECD for governments to play a market building role, particularly in fields that involve innovation and enterprise development.<sup>31</sup> Regular surveys across OECD countries have identified leadership and capital as crucial to building confidence and mobilising capital and participation.<sup>32</sup>

‘Government intervention can play a catalytic role both in facilitating the functioning of the ecosystem and targeting actions to trigger its further development. However, these actions should provide incentives for the engagement, not the replacement, of the private sector and should be conducted in a manner conducive of the market.’

### OECD Survey Report, 2013

The Social Impact Investment Taskforce and related initiatives across a range of countries<sup>33</sup> have reinforced what commentators have said consistently since the Monitor Institute report in 2009. To catalyse the global and local markets for impact investment, Australia will need a focus on market development and government leadership, as well as catalytic capital that is clearly designed to create leverage, develop intermediaries and bring a concerted focus to market building.<sup>34</sup>

31 Wilson, K & Silva, F, 2013, *Policies for Seed and Early Finance: Findings from the 2012 OECD Financing Questionnaire*, OECD

32 Addis, R, [publication pending], *The Role of Governments and Policy in Social Finance* in Nicholls et al (eds), Oxford University Press

33 See, for example, Social Impact Investment Taskforce, 2014, National Advisory Board reports for Taskforce Countries, 2014, Portuguese Taskforce Report, 2015

34 Freirich, K & Fulton, J, 2009, GIIN Issue Brief #1; Impact Assets Issue Brief #10, UK Cabinet Office, 2013, *Achieving social impact at scale: case studies of seven pioneering co-mingling social investment funds*; Saltuk, Y, 2011, *Counter (Imp)acting Austerity: the Global Trend of Government Support for Impact Investing*, JP Morgan; Addis, R [publication pending] in Nicholls et al (eds)

‘In the nascent but growing impact investment market, some investment opportunities that have strong potential for social or environmental impact are perceived as having high financial risk. While some are seen as not producing sufficient financial returns for their level of risk, others suffer from a lack of information or track record given the novelty of either the market or a particular type of investment opportunity.’

#### **Global Impact Investing Network Issues Brief #1, 2013**

In this context, the public value from catalytic government investment is not limited to economic market effects. There is an additional multiplier effect through the outcomes and impact achieved for people and communities, and from the focus brought to more diverse and effective approaches to issues affecting society.<sup>35</sup> It can contribute to addressing expensive externalities such as loss of jobs, can enable new solutions to address old problems that have defied resolution and can finance more of what works.

‘It has been mission-oriented State investments that have, time after time, and over national boundaries, proved effective in driving individual sectors in the innovation economy...writ large, the strategic State interventions that have shaped the market economy over generations have depended on grander themes – national development, national security, social justice, liberation from disease – that transcend the cultures of welfare economics and the logic of market failure.’

#### **Doing Capitalism in the Innovation Economy, 2012**

The Social Impact Investment Taskforce and its National Advisory Boards, including Australia’s, recognised that without governments, progress in growing impact investment will be slower and less impactful.<sup>36</sup> The UK Government explicitly acknowledged that creation of public goods to support market development for impact investment is a key function for governments.<sup>37</sup> The Australian Financial System Inquiry expressly agreed with the OECD’s assessment of the role of governments and concluded it ‘sees merit in Government facilitating the impact investment market’.<sup>38</sup>

They concluded that key pieces of market infrastructure that ground and accelerate development of impact investment will be required in all local markets. First among these is a wholesale institution to support and grow intermediaries and act as market champion.<sup>39</sup> Such an institution can be even more effective and accelerate development further when combined with other complementary initiatives such as tax incentives or additional support for enterprise and capacity development.

The Australian Advisory Board on Impact Investment, after market consultation, reached the same conclusion. It identified a cornerstone social impact fund as the key breakthrough action to deliver demonstrable impact, meaningful practice and attract greater numbers of informed entrants into the field.<sup>40</sup> Previous Australian research by leading practitioners had also suggested a new form of financial organisation would be most likely to succeed in meeting needs for capital and encouraging renewal, innovation and impact from a dynamic social sector.<sup>41</sup>

35 Addis, R [publication pending] in Nicholls et al (eds)

36 Social Impact Investment Taskforce, 2014; National Advisory Reports, see in particular reports for the United States, United Kingdom and Australia, 2014 <[www.socialimpactinvestment.org](http://www.socialimpactinvestment.org)>

37 UK Cabinet Office, 2013

38 *Australian Financial System Inquiry Report*, 2014, Appendix 1

39 Social Impact Investment Taskforce, 2014, and Notes of Plenary Meeting, London, July 2015 [unpublished]

40 Addis, Bowden & Simpson, 2014, *Delivering on Impact: The Australian Advisory Board Strategy for Catalysing Impact Investment*, Impact Investing Australia

41 Lyons, M et al, 2006

The importance of such a catalyst goes beyond the one institution to what it will enable more broadly. Most directly, that is enabling capacity for specialist intermediaries and instruments crucial to any developing market.<sup>42</sup> Intermediaries already active in the market cannot fulfil this role. They need to focus primarily on fulfilling their missions and developing their businesses. They cannot, on their own, encourage and support other intermediaries and market infrastructure. Without the benefit of scale, they may also struggle to invest in significant development of new investment products or complex large transactions without some support being available.

*‘To develop the market through early stages, there needs to be interplay between competitive forces and collaborative drive to develop the market, provide capital and liquidity. That is, while some actors in the market need to focus on their “slice of the pie” there need to be institutions in the market whose role it is to grow the overall size of the pie.’*

#### **Social Investment Wholesale Banking, 2009**

The most prominent example of such a market champion and wholesale funder in impact investment is Big Society Capital in the UK (Case Study 5). Established formally in 2011, it was the product of initiatives led through successive UK Governments. It has sufficient capital to signal potential to the market and enable it to carry on market building activity in addition to its investment activity and work towards being self-sufficient. It was capitalised with contributions from Government (in the form of capital from unclaimed assets) and major financial institutions. Work is also underway in Portugal, Japan, Israel, India and Canada on design and government engagement for a wholesale institution to drive development of the impact investment market.<sup>43</sup>

Precedents in Australia for a similar approach include support for venture capital and innovation and in impact investment with the Australian Social Enterprise Development and Investment Funds (SEDIF).<sup>44</sup> SEDIF reinforced that the availability of capital and the signalling effect of government involvement can mobilise the market, bring parties together and stimulate demand. It also demonstrated a multiplier effect unlocking private capital from a variety of sources and enabling enterprises to access finance and expand their reach and impact.<sup>45</sup>

Other precedents for catalytic funding from government and private sources point to key design factors for achieving a catalytic effect (Figure 4) in the market.<sup>46</sup>

*‘The different structures share the same policy intention of making available capital at a scale that can support the development of retail funds and products. This type of approach can provide “anchor funding” for market builders, which was one of the policy measures recommended recently by the World Economic Forum to mobilise more mainstream investment capital for social finance.’*

#### **The Role of Government and Policy in Social Finance, publication pending**

<sup>42</sup> Lyons, M et al, 2006, Burkett, I, 2013, Addis, McLeod & Raine, 2013

<sup>43</sup> See, for example, Portuguese Taskforce report, Reports of the National Advisory Boards on Impact Investing of Canada, Japan and Australia <socialimpactinvestment.org>; The Canadian Task Force on Social Finance, 2010, recommended a similar approach

<sup>44</sup> SEDIF combined Government grant funding with private investment to seed three new investment funds in the Australian market offering financial products to social enterprises

<sup>45</sup> Cullen, A and Addis, R, [unpublished 2013], *The Social Enterprise Development and Investment Funds: Lessons from the Implementation Process*; Australian Department of Employment, 2013, *The SEDIF Funds: first year progress report*, Australian Department of Employment

<sup>46</sup> Scottish Social Investment Fund, the Social Investment Fund in Ghana and Bridges Community Ventures Sustainable Growth Fund in the UK, the European Social Impact Accelerator and the New York City Acquisition Fund <socialinvestmentscotland.org>; <bridgescommunityventures.com>; <.eif.org>; <venturecapitalghana.com.gh>

## Case Study Four: Social Impact Accelerator – building market infrastructure for social impact

The Social Impact Accelerator (SIA) is a first step in the EIB Group's (European Investment Bank and EIF) strategy to catalyse impact investment.

Launched in 2013, SIA establishes a pan-European partnership with a vision to build up the existing market infrastructure for impact investing and place it on a path to long-term sustainability.

Its initial focus is addressing the growing need for availability of equity finance to support social enterprises. It recognises that social enterprises are increasingly instrumental in promoting inclusion, providing alternative sources of employment for marginalised groups, and contributing to growth.

At the end of 2014, the outstanding amount SIA invested totalled €46m in five funds: Bridges Social Impact Bond Fund; Impact Partenaires III; Impact Ventures UK; Oltre II; and Social Venture Fund II.

### Impact:

Investing in a range of social purpose funds which are providing finance in sectors as diverse as employment, the environment, public health and education.

### Market development:

To serve as a fund of funds and stimulate financing for social enterprise. Focus is on knowledge tools including impact metrics and reporting frameworks.

### Catalytic capital:

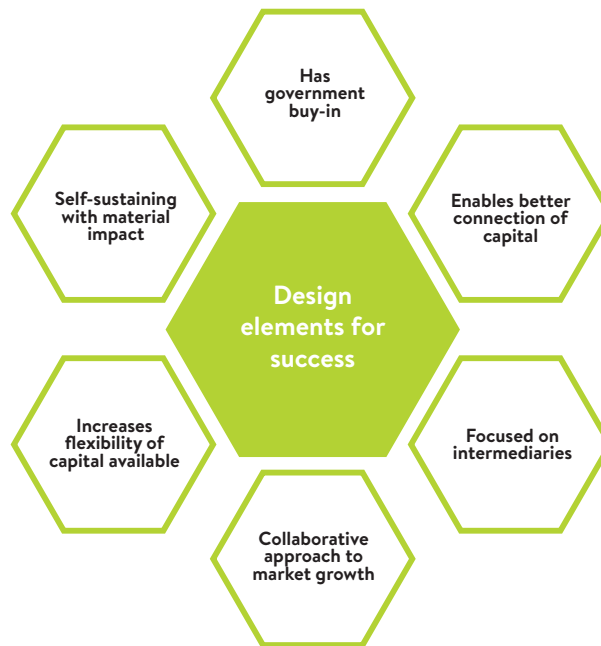
European Investment Bank Capital provided the cornerstone to unlock and attract capital from a range of other sources across Europe, including Credit Cooperatif, Deutsche Bank, Finnish group SITRA and the Bulgarian Bank of Development. After initial pilot with €52m, the fund has now closed with €243m of capital.

Source: Adapted from EIF website, viewed October 2015 and EIF Annual Report 2014

The international and Australian experience demonstrates that where someone takes the lead others will follow. It also reinforces that where the capital comes from matters. Where government takes a leadership role, it has an additional signalling effect that is powerful in mobilising both capital and action.

Other sectors and organisations also have a role. This includes banks and other financial institutions that would benefit from new market opportunities. Established community sector organisations can also send a powerful signal by investing in platforms that can support dynamism and capacity for the sector and promote impact. Philanthropy is uniquely placed to assist in providing the catalytic capacity for innovation and impact. Across the board, a contribution to shared market platforms can provide economies of scale and a multiplier effect greater than what individual transactions or activity can achieve alone.

Figure 4. Designing a catalytic fund for success



Source: Impact Investing Australia, 2015 adapted from Addis in Nicholls et al (eds), publication pending

There is the opportunity now for a breakthrough in the Australian market with a flagship social impact investment institution, designed for our unique context and circumstances. Exploring the role for a flagship social impact fund or institution has already received support from a broad range of stakeholders.

Established to operate transparently for the public good, through the investment decisions it takes and through its broader focus on social purpose, growth and diversity, such an institution can play a pivotal role in market development. It has potential to drive impact investment as part of the financial system and demonstrate the role of finance that encourages social innovation and provides access to capital for social purpose organisations on appropriate terms.<sup>47</sup> A Blueprint for how this can be achieved is outlined in Part 2.

Delivered through collaborative leadership from governments and the community and private sectors, a flagship social impact investment institution can send powerful signals to participants. Such an organisation could dramatically accelerate progress towards the vision for a dynamic market for investment, delivering measurably improved outcomes for society, and operating at scale with a diversity of participants and investment products. The time for that is now.

<sup>47</sup> For example, see Productivity Commission draft report in Childcare and Early Childhood Learning 2014, Box 8.9

## Case Study Five: Big Society Capital – championing impact and driving market growth

Big Society Capital (BSC), created in 2011, is an independent financial institution with a social mission, set up to help grow the social investment market in the UK. It operates based on 4 key founding principles: independence, transparency, self-sufficiency and wholesale investment.

BSC plays two roles:

- It is a champion for the social investment market increasing awareness of, and confidence in, social investment; and
- It is an investor that provides capital to social investment intermediaries that in turn provide finance and support to charities and social enterprises.

Its strategic goals are to drive:

- Strong uptake of appropriate finance for **small & medium-sized charities** & other social sector organisations;
- **Innovation** to target specific social outcomes or issues and enable growth and replication;
- **Mass participation** in social investment, including for more grassroots organisations to access appropriate finance and more retail investors to have socially impactful options;
- Greater financial **scale** in order to finance social issues.

BSC's initial capital of £330m is sourced from dormant bank accounts and the 4 major high street banks.

### Impact:

BSC has convened investors and social sector organisations around specific social issues enabling investment with a clear focus on the outcomes for individuals and communities. Efforts to help grow innovative organisations and interventions include 7 Social Impact Bond vehicles, and investments into funds such as Nesta Impact Investment Funds and Impact Ventures UK.

### Market development:

A focus on collaboration in promoting best practices, sharing information, improving links between the social investment and mainstream financial markets, and working with investees to embed impact assessment into their investment process have been key. Further market infrastructure activities include BSC's investments in Charity Bank, advocacy for social investment tax relief, and a cornerstone investment in the Threadneedle Social Bond Retail Fund.

### Catalytic capital:

Its initial capital of £330m is expected to grow to £600 m in coming years with increasing awareness and confidence in social investment. Strong leverage has already been achieved. As of June 2015, BSC had catalysed £370m of capital (own funds and matched) into the UK market across 39 different investments.

Source: Adapted from Big Society Capital Annual Review 2014, Big Society Capital Strategy, 2014



## **A broad cross-section of stakeholders have called for serious consideration of a wholesale fund to accelerate development of markets for impact in and from Australia**

‘The Australian Government can assist in the expansion of the market by establishing a dedicated wholesale social “investment bank” or fund similar to the UK’s Big Society Capital.’

**Social Ventures Australia**

‘A landmark step is critical to generate the changes in attitude and awareness needed to support and promote innovation in the financial system in this area...This is the kind of innovation that Australia’s financial system should support and promote as part of its mainstream business.’

**Property Council of Australia**

‘We believe that a Social Investment Bank could provide significant impetus for the development of this sector in Australia and would be the appropriate path to take if the government wished to demonstrate a very strong commitment to the space.’

**Christian Super**

‘[It has the] ...potential to dramatically increase the scale of the impact investment market in Australia and unlock funds from other sources.’

**Philanthropy Australia**

‘Social investment funds and banks are an important part of the infrastructure not only for impact investment but also for a financial system that encourages financial and social innovation and provides access to capital for social purpose organisations on appropriate terms. We support development of a social investment fund and/or bank for Australia... Such an initiative is a priority for and under active consideration by the Australian Advisory Board on Impact Investing.’

**Impact Investing Australia**

Source: Submissions of the named parties in response to the Financial System Inquiry Interim Report, 2014





## PART 2: BLUEPRINT FOR A MARKET CHAMPION

The Australian Advisory Board on Impact Investment recommended a flagship social impact fund, a market champion with a critical mass of capital to invest. This was seen as a key breakthrough action to catalyse impact investment in and from Australia. We have given such an organisation a name: Impact Capital Australia (ICA).

This Blueprint sets out a vision for what ICA would be and do, and how it could operate to develop the market for impact at scale in the Australian context. The Blueprint is intended to be:

- detailed enough to be concrete and stress test what is needed for this type of organisation to be both financially sustainable and successful in delivering social value in the Australian market;
- flexible enough to allow for further commentary and input from the leaders and stakeholders who have not yet been part of the process;
- ambitious enough to have genuine impact at scale and encourage participation in the impact investment market; and
- modest enough to be appropriate for the current stage of Australia's market development, and also capable of implementation in the near term.

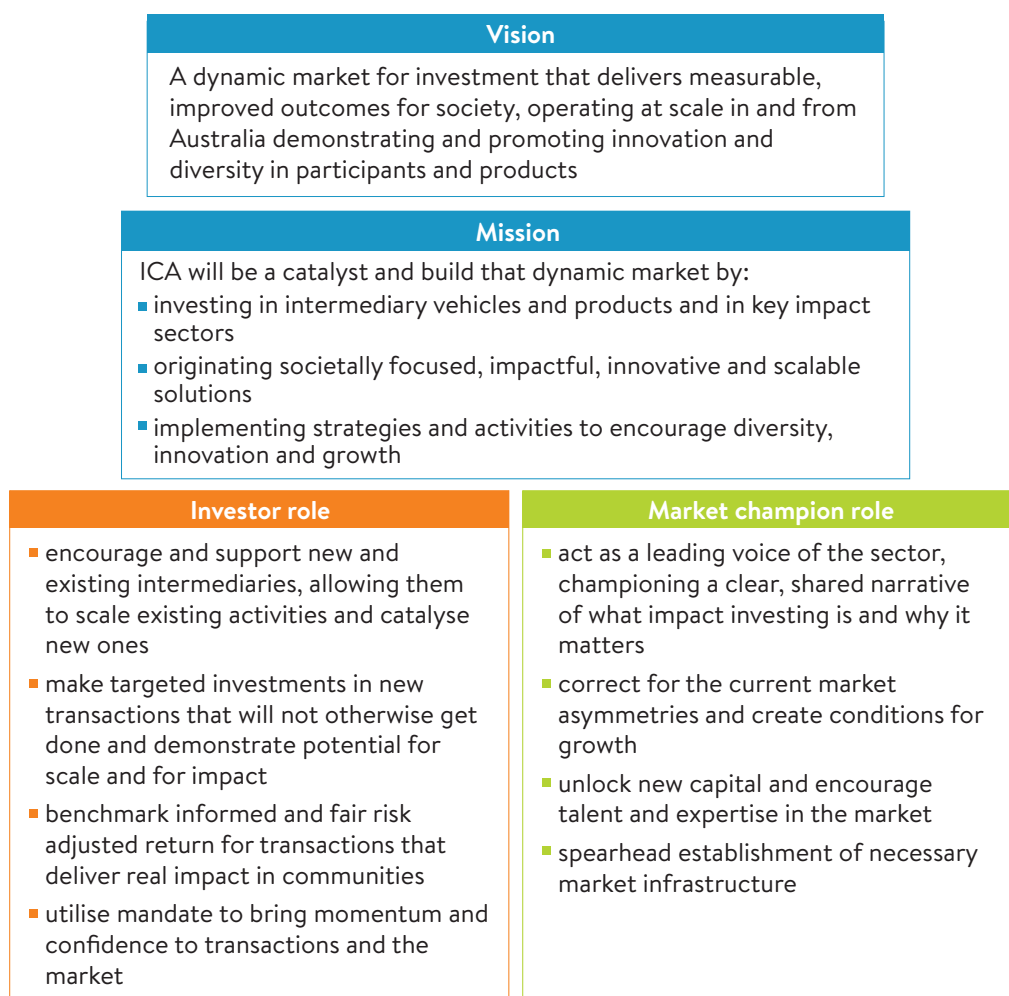
## The vision, mission and mandate for ICA

ICA would be an agile and independent financial organisation with a unique mix of capital, mission and mandate to drive market development through its investment activity and a broader role as market champion (Figure 5). It would function as a flagship institution that signals potential and supports long-term growth of a dynamic and robust market for investments that deliver positive impact for society.

The vision for what ICA could achieve is ambitious and market-focused. The proposed mandate reflects the catalytic nature of ICA's role as both investor and market champion. ICA would have a clear mandate to look beyond individual transactions to establish scale and encourage participation in the impact investment market as a whole.

ICA would be defined by what it is not as much as by what it is. It would not be a competitor to existing or potential intermediaries. It would not be an investor in transactions where other capital is readily available. It would not be a provider of cheap finance at the expense of its longer term self-sustaining viability.

**Figure 5. ICA would have a vision and mission to drive development of a dynamic market that generates impact through innovation, diversity and scale**

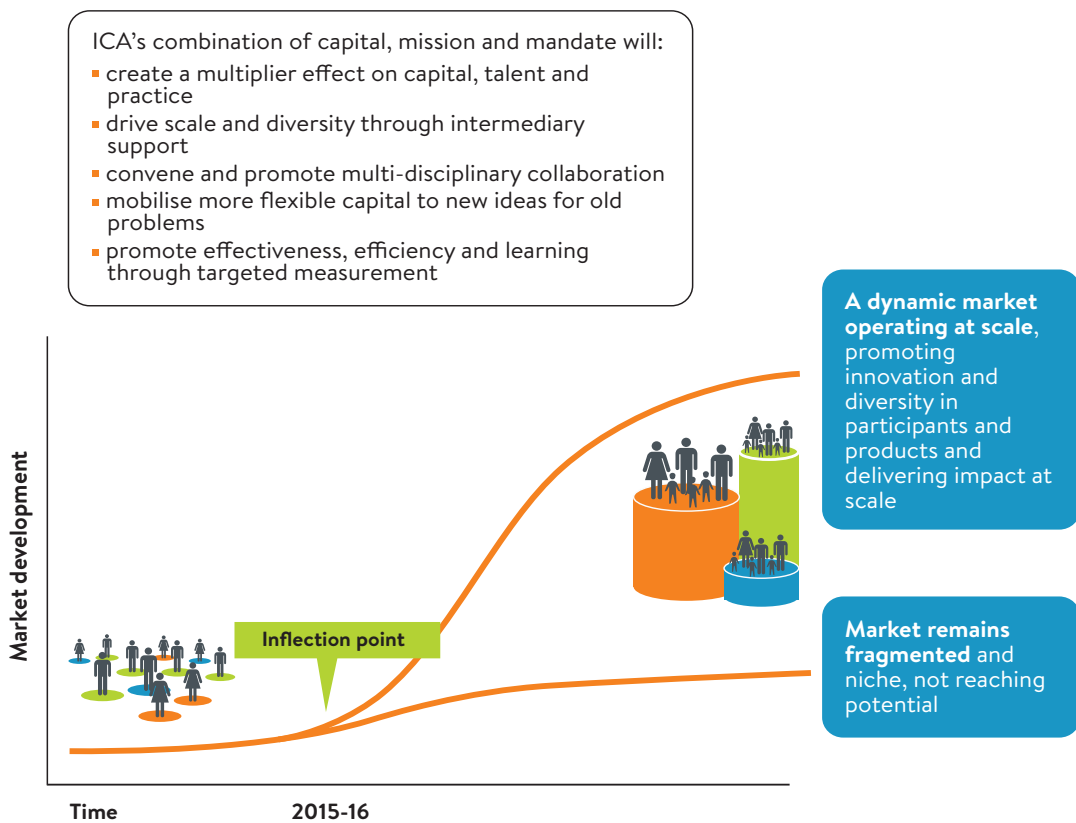


Source: Impact Investing Australia; A.T. Kearney, 2015

ICA's success would be measured in a range of ways: as an organisation; as an investor; and by the market development that ICA is able to achieve. Success factors would include the multiplier effect achieved, impact delivered, resources unlocked and the demonstration effect of new types of transactions and capacity for impactful transactions at scale. An important measure of success would be whether benchmarks for informed and appropriate risk adjusted return for particular types of impact investment are adopted more broadly by the market to reduce the need for credit enhancement over time.

Measures of market development (Figure 6) would also include the extent of confident and informed demand for impact oriented investment, growth and leverage achieved by existing intermediaries, the number and diversity of new intermediaries, and the variety of investment vehicles and products and sources of capital. Critically, it would include the number and range of beneficiaries, the range of outcome areas to which investment is directed and the impact achieved.

**Figure 6. ICA would drive market development through its investment activity and a broader role as market champion**



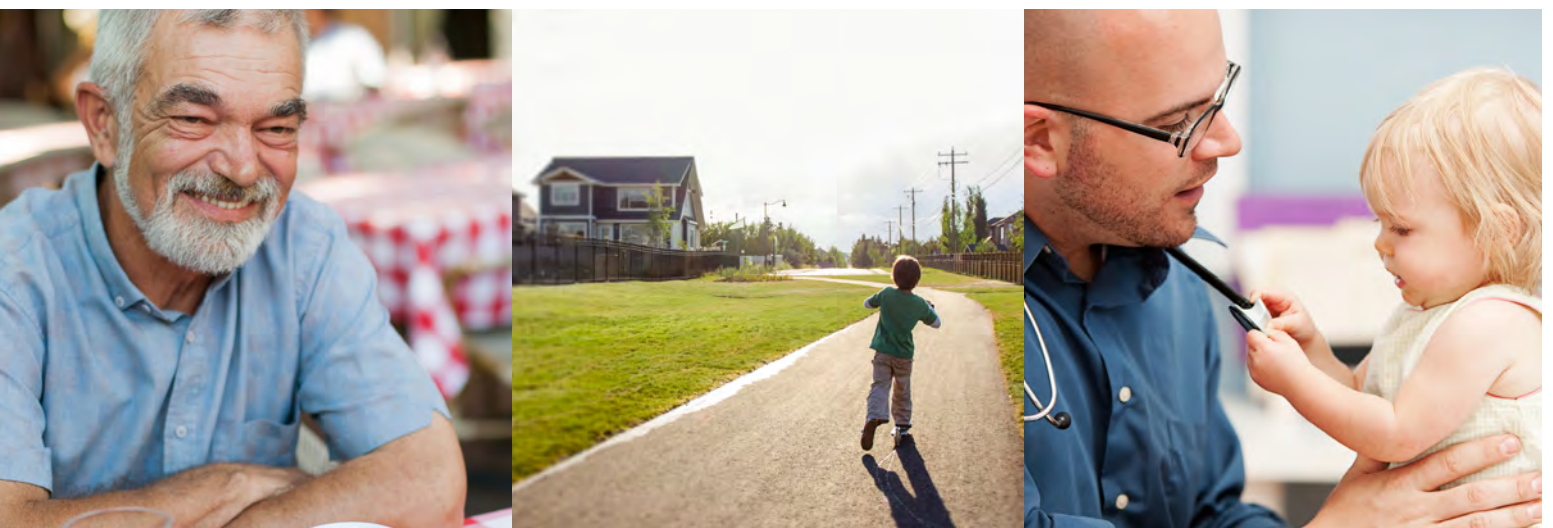
Source: Impact Investing Australia, 2015, adapted from references including Bannick & Goldman, 2012

The design of ICA as an institution (Figure 7) reflects the strategic focus on building the market and ‘growing the pie’.

**Figure 7. Design objectives reflect a focus on becoming a market builder in impact investing**



Source: Impact Investing Australia; A.T. Kearney, 2015



## Case Study Six: Bridges Ventures - a multi-fund portfolio for impact

Bridges Ventures has adopted a multi-fund approach to driving societal change.

Established in 2002, Bridges Ventures is a specialist impact fund manager with approximately £600m under management across Sustainable Growth Funds, Property Funds and Social Sector Funds.

The multi-fund platform provides a range of tools to deliver societal change and invest as effectively as possible.

Its strategy is to focus on growth opportunities where investments can generate attractive financial returns through helping meet pressing social or environmental challenges.

This includes backing businesses that generate jobs in areas of high unemployment, building environmentally-friendly care homes for the elderly to sustain an ageing population, or providing flexible financing for innovative youth employment programmes.

Bridges Impact+ provides an investor led advisory function combining practical tools with applied investment experience. Contributions include the de-risking toolkit and Impact Methodology.

### Impact:

Clear focus on underserved markets and issue areas of health & well-being, education & skills and sustainable living. As at the 2014 report, Bridges Ventures' cumulative impact included: 3,271 direct jobs supported; 100k first time gym users primarily in underserved communities; 7,483 qualifications gained by students and trainees; 1.23m hours of quality in home care, 1.5m tonnes of waste diverted from landfill; and 840k cumulative tonnes of CO<sub>2</sub> equivalent emissions averted.

### Market development:

Bridges Ventures demonstrates a variety of business models for creating impact and attracting different investors with different requirements. Impact+ division contributes analysis and tools. To date 80% of portfolio companies operate in underserved UK locations, with over a third located in the most deprived 10%. Catalysed spend of £505m in underserved markets implies an economic multiplier of 4.7x

### Financial viability:

Bridges' targeted an initial IRR on its CDV funds of 15%+. It indicated an IRR of +20% on property funds in May 2014.

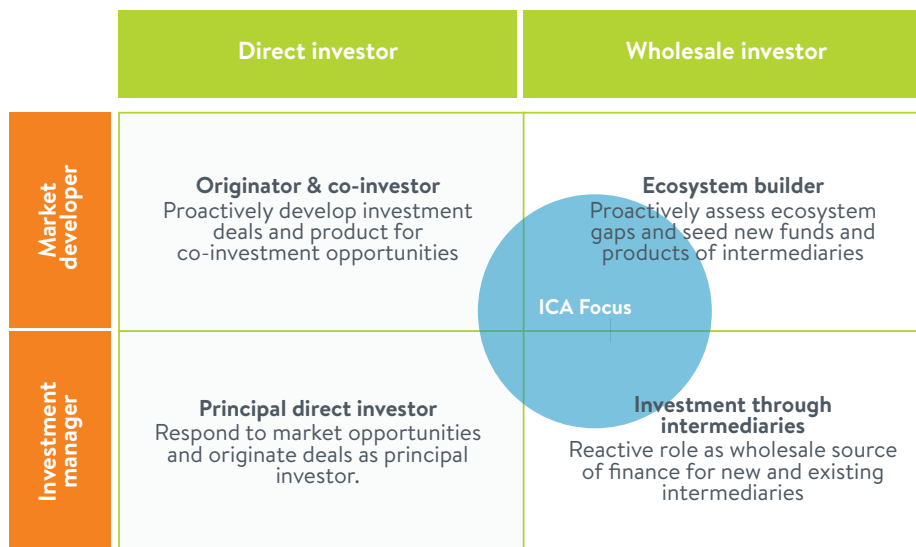
**Source: Bridges Ventures Impact Report 2014, Bridges and Parthenon: Investing for Impact, Bridges Press Release May 2014**

## What ICA would do

Consistent with its mission, ICA would have two key roles: investor and market champion.

As an investor (Figure 8), its primary role would be to act as a significant wholesaler to encourage existing and new intermediaries. These would not just be finance intermediaries but a range of organisations that contribute to a robust and dynamic ecosystem to deliver socially impactful, innovative and scalable solutions and ways of funding and financing them. ICA would also make direct investments targeted to transactions that would not happen in the market without its participation.

**Figure 8. ICA's targeted investment activities to stimulate and build the market**



Source: Impact Investing Australia; A.T. Kearney, 2015

ICA's unique mandate as a market champion would extend beyond excellence in how it executes as an investor. ICA would promote the market, enable new market opportunities and remove barriers to development. This would include targeting barriers to growth by contributing information, encouraging development of market infrastructure and acting as a leading voice of the industry with governments, relevant agencies and in appropriate forums.

Its activities would include engaging with governments in areas of policy priority, including to unlock the potential of commissioning for outcomes. It would seek to identify communities and sectors where potential for impact has not yet been developed, for example, community investment to generate jobs and reverse cycles of disinvestment, and then create sustained programs of investment.

As a market champion, ICA would also seek to extend the breadth of expertise to other market participants. It would shape a clearer shared narrative of what impact investing is. It would spearhead the establishment of necessary infrastructure including outcome frameworks and measurement systems. Adapting an open source approach, it would actively develop and openly share expertise, knowledge and tools.

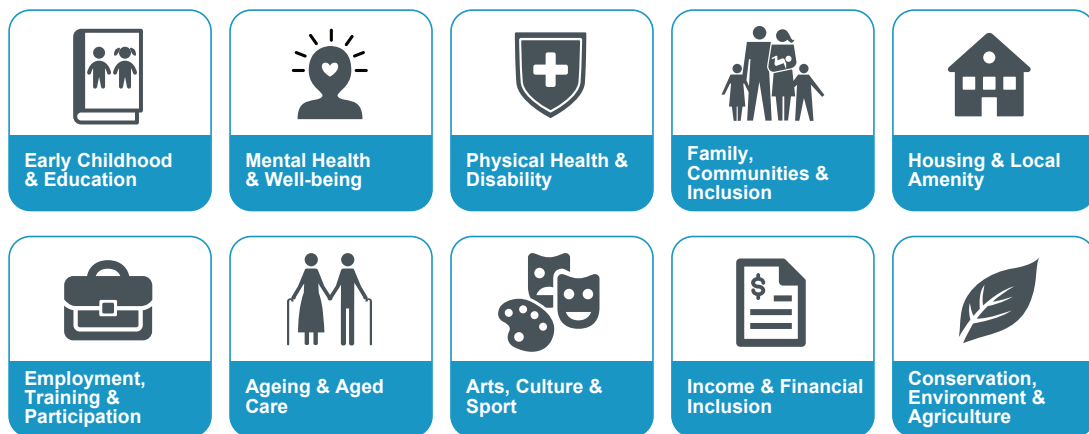




## A portfolio designed for impact

ICA would have a broad approach to outcome areas of social impact across its portfolio (Figure 9). It would, however, prioritise its work to target investment in specific sectors or segments where the evidence and market conditions suggest potential for impact at scale to be achieved more quickly than the overall market. Factors influencing priority would include: projected segment growth, forecast government spending, need and readiness for new models, potential for impact and scale, and likely capacity to develop and attract investors.<sup>48</sup>

**Figure 9. ICA would prioritise outcome areas that benefit society**

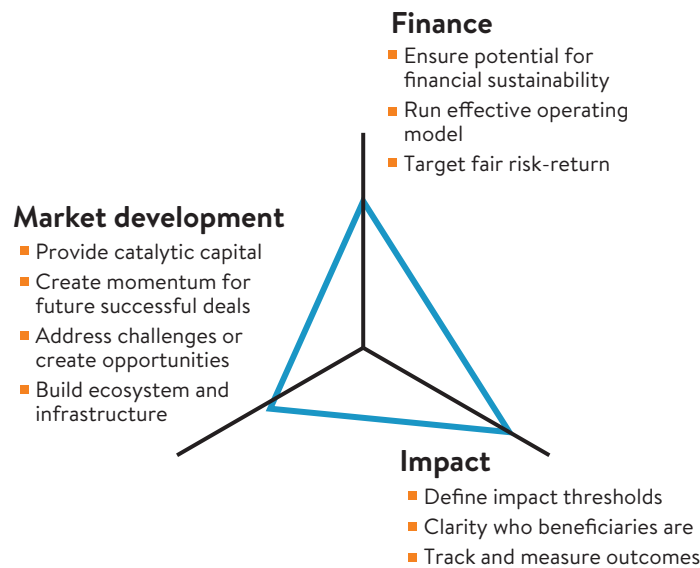


Source: Impact Investing Australia, 2015

48 A.T. Kearney analysis for the Blueprint

ICA would build its portfolio around the three core elements of clear impact, financial viability and contribution to market development (Figure 10). While each of these needs to be present for a transaction to occur, their respective weightings would be managed across the portfolio. The funding sources modelled for this Blueprint anticipate a return profile for ICA consistent with these three core elements.

**Figure 10: ICA’s portfolio would focus on clear impact, financial viability and market development**



Source: Impact Investing Australia; A.T. Kearney, 2015

The impact element would be fundamental to ICA’s investment methodology. It would bring a clear focus to the beneficiaries of a given investment proposition or pool. And it would go further to look at how the investment will meet particular challenges, tap into underutilised or unrealised opportunities and achieve impact (Figure 11). These impact filters are intended to go beyond the selection process and inform the engagement with investees and the measurement of outcomes across ICA’s portfolio.

When selecting investments, ICA would actively apply these impact filters to determine the outcome and impact targets being sought and ensure processes are in place for measurement and reporting. Beyond specific impact objectives, ICA would also look for strong environmental, social and governance standards in the organisations in which it invests and with which it partners.

**Figure 11. ICA would keep its sights on clear beneficiaries and impact generation**

<b>Beneficiaries</b>	Does this benefit individuals, communities, society at large? To what extent does it reach those at risk, in need, or experiencing disadvantage?
<b>Challenges</b>	What social challenges are being addressed? Does benefit extend to those most in need or for whom issues are most entrenched?
<b>Opportunities</b>	Does this tap into underutilised, unrealised, underserved potential property, demand, talent or markets?
<b>Impact generation</b>	What is the reach, scale and depth of impact? What improvement in quality, access, affordability or choice is to be achieved? Is it adding potential impact that would not otherwise occur? Do the outcomes have broader or longer term impact?

Source: Impact Investing Australia, 2015

ICA would develop deep expertise about impact, and the assets and needs of relevant sectors and local communities to enable it to identify and target opportunities, assess risk and return across all three elements, and deliver outcomes that challenge established perceptions of risk and return relating to investment that includes a focus on impact.

The market development element is designed to: ensure that ICA does not undertake transactions that others in the market could do; and that the transactions it does undertake provide a broader benefit, for example in demonstrating effect or scale that is greater than would otherwise be achieved.

The financial viability element is designed to ensure viability of individual investments and to achieve the ultimate portfolio objective of ICA delivering projected returns and becoming self-sufficient and sustainable over time.

## Types of investments

ICA would utilise a range of investment tools and approaches in each of the key areas of activity.

As a wholesale investor, ICA would invest in impact vehicles being taken to market by intermediaries. These are expected to take a range of forms across impact investment types. There are a number of nascent proposals in the market already, but they have not yet been developed because the wholesale funding source is not clearly available.

The diversity of investment propositions that could come forward once capital is available could include:

- a fund to invest in aspirational small and medium enterprises in communities that have experienced lack of, or withdrawal of, investment to generate impact in jobs and local economic activity;
- a social impact bond fund focused on social service based investments across a range of outcome areas;
- a social housing investment bank or fund to create purpose built accommodation for people with disabilities;
- a fund that makes debt, equity and quasi-equity investments, including unsecured loans and private equity-like investments, to support new business models that enable new approaches to tough social issues or enable social purpose organisations to do more of what works; or
- investment vehicles aggregating a new financing mechanism for the social sector possibly including ‘secured and unsecured notes, debentures and debenture stock permitted under Associations Incorporation legislation but not yet utilised in any systematic way.’<sup>49</sup>

### Case Study Seven: California FreshWorks – achieving significant leverage in providing access to healthy food and economic development

The California FreshWorks Fund targets well-being and disease prevention through access to fresh healthy food.

A US\$270+ million loan fund created to finance new and upgraded grocery stores and other healthy food retailers in underserved communities to influence healthier long term eating habits.

The Fund was created as a market-oriented response to the limited availability of healthy food in many Californian communities, sometimes dubbed ‘food deserts’, which contributes to chronic disease such as obesity, diabetes and heart disease, and other public health problems.

The Fund provides access to finance to expand access to healthy, fresh food providers. Its 3 primary goals are: access to healthy food, economic development in the community and innovation for the future.

#### Impact:

The Fund has financed 22 food projects, impacting more than 2.3m people, and aims to fund a total of 50-60 new grocery businesses by end 2015. In addition to healthier food, impacts include new jobs and improved property values in neighbourhoods with new stores.

#### Market development:

The Fund has engendered collaboration between a diverse range of market participants across government, not-for-profit, industry and investors. The investors include the California Endowment Fund, JP Morgan Chase, The Calvert Foundation, Citibank, Met Life Community Health Councils, Kaiser Permanente and NCB.

#### Financial viability:

The California FreshWorks Fund has raised more than US\$270 million, well over its original US\$200 million goal.

Source: California FreshWorks fund website, viewed October 2015

<sup>49</sup> Lyons, M et al 2006; Associations Incorporation Act 1991 (ACT), Associations Incorporation Act 2009 (NSW), Associations Act (NT), Associations Incorporation Act 1981 (QLD), Associations Incorporation Act 1985 (SA), Associations Incorporation Act 1964 (TAS), Associations Incorporation Reform Act 2012 (VIC)

If there is a strong case to do so, ICA may make direct investments in intermediaries or opportunities they propose for co-investment. While this is not expected to be a significant part of ICA’s investment portfolio, there may be instances where the case is compelling from a market development and impact perspective. As part of its direct investment approach, ICA would be proactive in originating impactful, innovative and scalable solutions. Specifically, it would bring together potential parties and design fit-for-purpose investment structures capable of delivering clear impact as well as appropriate financial return.

In addition to capital, ICA would lend expertise to assist intermediaries with capital raising, refinancing and liquidity as part of building the market.

In its origination and market development roles, ICA would create new models with a focus on sector development. Once models are validated, scale would be achieved through replication in other locations or areas, ideally through intermediary adoption. Areas of focus could include community development finance and targeting gaps in services and impact at the local level.

### Case Study Eight: Living Cities – demonstrating access to services and jobs from leverage and scale in social infrastructure

Living Cities demonstrates how combining different types of capital can deliver leverage for social change and community infrastructure.

Living Cities is a fund manager established in 1991. The fund is a partnership involving 22 of the world’s largest foundations and financial institutions. They pool different types of capital to enable fit-for-purpose finance on behalf of low-income individuals in cities across the US.

Living Cities works with leaders from across sectors to develop and scale new approaches to bring about significant improvement in the economic well-being of people with low incomes living in US cities. Innovative capital is one of the key tools, utilised in combination with other innovations, research, networks and convenings to accelerate the uptake of promising solutions to social problems.

Its Catalyst Fund is ranked as one of the top 50 Impact Funds in the ImpactAssets50. Its portfolio of investments ranges from affordable housing to social impact bonds.

**Source:** Living Cities website, Issue Brief #10

#### Impact:

Financing has helped build schools, affordable housing, clinics, childcare and job training facilities, and other facilities and services for low-income communities across the US.

#### Market development:

The structure allows participation of different investors and different types of capital from grants to commercial capital. Living Cities capital has been leveraged nearly 30 times, resulting in over US\$16B of financing. Capital is utilised in combination with other tools and innovations for impact at scale.

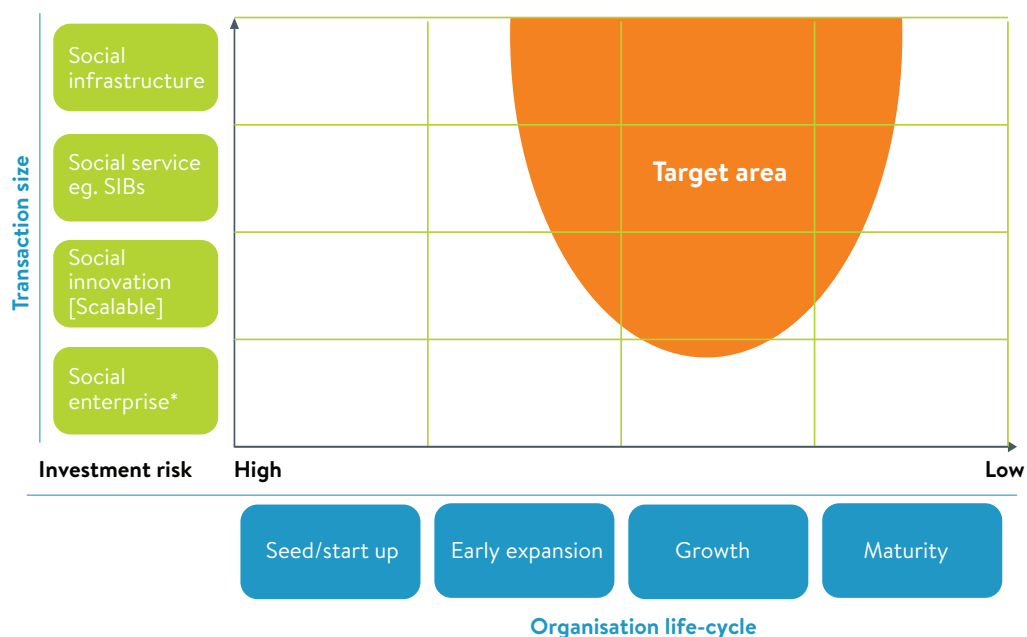
#### Financial viability:

No details are available on IRR but longevity illustrates sustainability.

From a whole of portfolio perspective, it is expected ICA's investments would target early expansion and growth in transactions with potential for scale (Figure 12), with ultimate investments (often through intermediaries) including a range of the following:

- social service based investments (including Social Impact Bonds or Social Benefit Bonds) to enable innovation, prevention and better outcomes, by linking financial performance to measurable social outcomes;
- social infrastructure based investments – debt secured over an asset that may be the property or asset with an impact focus targeting quality services and better outcomes, not just more assets;
- social innovation – debt, equity and quasi-equity, including unsecured loans and private equity-like investments, to support new business models that enable new approaches to tough social issues; and/or
- social sector investments – direct investments in organisations or to provide working capital to meet the needs of a diverse and dynamic social sector.

**Figure 12: ICA would screen for impact investment types and maturity at portfolio level**



\* Anticipated majority of social enterprise investments will be into scaling solutions, therefore represented within social innovation

Source: Impact Investing Australia, 2015

ICA may make a small number of investments that provide higher risk capital for earlier stage investments. To balance the risk profile of the portfolio and potentially facilitate greater scale in transactions and impact, ICA may also make some investments in more mature models.

## How ICA would operate

ICA's structure and governance would embed its mission to ensure its independence and capacity to fulfil the mandate for market building and genuine impact. How ICA would be funded, governed and run, and by whom, all matter a great deal.

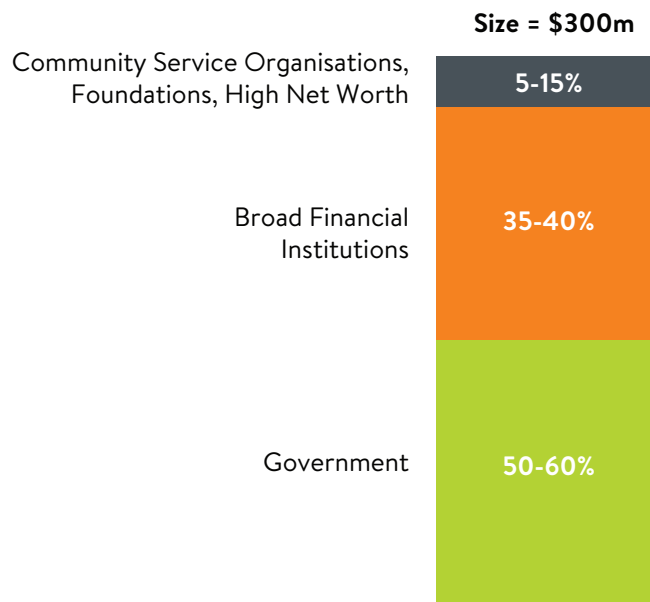
### Sources of funding

Underpinning ICA's operating model would be the principle of maximum social impact per dollar of capital allocated in the context of a sustainable business. This would require initial capital that: can offset necessary costs of its mandate, particularly market championing activity; allows for it to be patient in its investments; and, contributes to infrastructure development. The operating model is designed on the basis that ICA would achieve financial returns that enable it to become self-sustaining over time.

To be effective, ICA would require a capital base of \$300 million. The model anticipates it would become self-sustaining within 7 years. An overview of the indicative financial model is included at the back of this Blueprint.

For the purposes of this Blueprint, initial capital contributions to ICA have been modelled as follows (Figure 13): government 50–60%; mainstream financial institutions 35–40%; community sector, philanthropy and other investors 5–15%. ICA's income stream, including interest earned on seed funding would support the origination function and fund market building activity and the establishment and operating costs.

**Figure 13: ICA invites a range of founding partners, including capital from governments, financial institutions and active investors**



Source: Impact Investing Australia; A.T. Kearney, 2015

The proposed funding mix is important for the signalling and market effect from the involvement of the different parties. The terms of funding would also need to support the business model and are likely to be different for each of the categories of capital

provider. The current modelling anticipates: grant funding from governments; debt or hybrid contributions from major financial institutions on terms that include preservation of capital but with a return slightly below full commercial rates and which could be committed and drawn down as ICA makes investments; and debt or hybrids from community sector and philanthropic investors on terms that meet their fiduciary duties.

Over time, ICA would seek to demonstrate capacity to provide an inclusive and resilient platform for investment from a diverse range of actors in the market.

## Governance and accountability

Clear, transparent and accountable governance would be a minimum requirement. The governance principles for ICA are designed to enable it to execute its unique mission and mandate effectively and for impact, financial return and the benefit of the market as a whole (Figure 14).

ICA's mission and mandate for the public good would be embedded in its Constitution and in the policies that govern its operations. ICA also needs to be independent and not be reactive to, or inhibited by, shorter-term drivers, vested interests or political agendas of the day.

ICA would have policies and processes in place to ensure it is compliant with relevant licensing and regulatory requirements. It would seek to be transparent and accountable to the public and market. It would operate collaboratively and seek to be an agile organisation that is not bound in process and is equipped to take appropriate, managed risk.

**Figure 14. Structure and governance will ensure conformity to ICA's mission and mandate**



Source: Impact Investing Australia; Ashurst, 2015





Legal advice has been obtained on regulatory and compliance considerations and structuring and governance.

ICA would be constituted as a public company with a Constitution that embeds and safeguards its mission and mandate. The Board of the organisation would have responsibility under the Corporations Act for its stewardship. The Board would comprise up to 10 members to include different expertise on the dimensions of impact and investment. A majority of the Board would be non-executive directors to safeguard the independence of the organisation. ICA would initially have two types of members: Governing Members, who would be the Board of the Company in the first instance; and Financial Members, who would be investors in the Company. Financial Members would not be able to vote on Board appointments or other matters that could affect the mission of the organisation.

A committee structure would be put into place to oversee key aspects of governance and operations. Additional expertise may be sought, in particular to ensure that expertise and evidence on social impact, on investment and on markets are brought together in appropriate combinations.

ICA would also be accountable for performance as an organisation, as an investor and as a market champion. It would have structured and rigorous processes for measurement and reporting. It would report on impact achieved, financial performance and market development outcomes. Those processes would embed accountability for impact achieved, financial performance and market development effects.

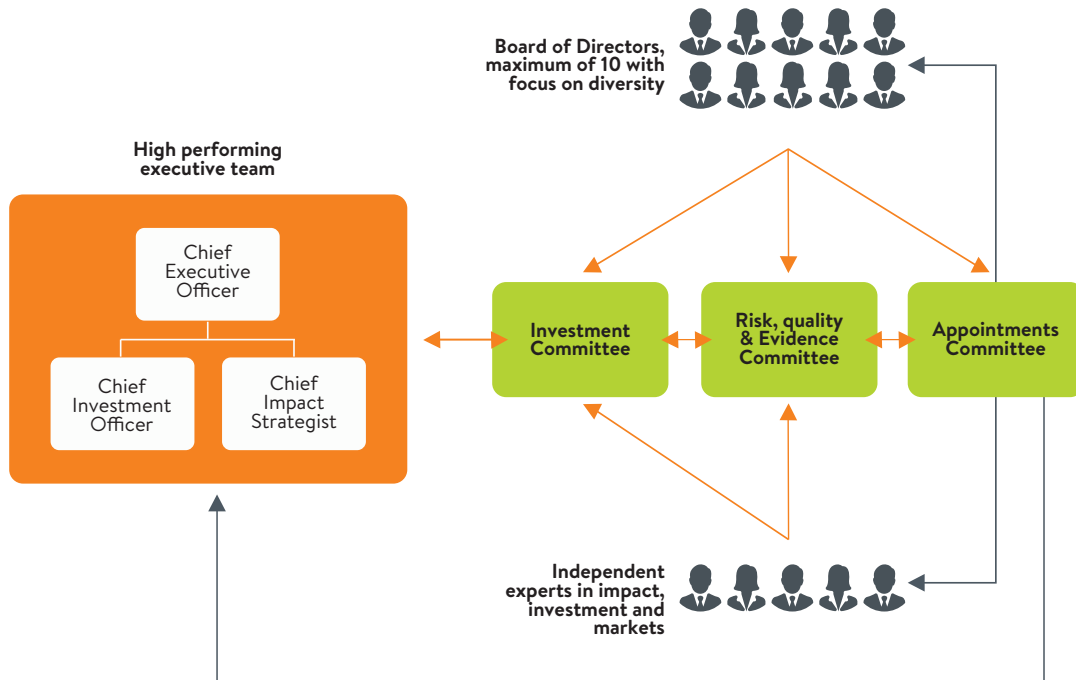
In addition, ICA would seek to establish in the market a reputation for excellence, integrity and transparency; and operate on a basis where transactions with which it is involved reach the market with effective execution and monitoring of impact.

## Leadership

ICA would have a first rate Board of committed Australian leaders that combines diversity of experience and perspectives with individual credentials, providing ICA with stewardship to operate with excellence, integrity and impact (Figure 15).

A highly effective team led by a first rate executive will be critical. Based on the lessons from other impact funds, the team would be constructed to integrate investment professionals, impact strategists and systems expertise for maximum capacity to deliver across the three core elements of impact, financial viability and market development. Over time, ICA would become an important training ground for talent.

Figure 15. ICA would have a leadership structure to support effective execution and to act with integrity



Source: Impact Investing Australia; Ashurst, 2015



ICA would recruit people with clear values-alignment with its mission, excellent track record, skills, experience and reputation to satisfy expectations of government, regulators, and other investors and to build confidence with the social and impact investment sectors. Across the team, there would need to be capacity to deliver against all dimensions of the mission and mandate.

An Appointments Committee would be responsible for nomination of Board members and key executive positions including Chief Executive Officer, Chief Investment Officer and Chief Impact Strategist. This would comprise members of the Board, once appointed, and may include appropriately qualified external parties that bring particular expertise. For the purposes of establishing ICA, leadership from the Australian Advisory Board on Impact Investing would work with key stakeholders including government and other founding capital providers to establish an appropriately credentialed committee to make initial appointments.





## PART 3: TIME FOR ACTION

**This is a concrete proposal for a catalytic institution.** A Blueprint for an independent financial institution with a mandate clearly linked to our future productivity and prosperity. ICA would change the game by mobilising more resources and talent for the transition through fragmentation to coherent market development for impact investing. It would be a lynchpin in creating scale for the benefit of Australian communities.

**And the time for action is now.** There is potential in the Australian market today to create impact investment solutions at scale. Too often scalable transactions are not getting done. The lack of cohesion typical of new markets presents real challenges. Without coordinated effort and infrastructure to bring together different strands of activity within a coherent frame of market development, valuable opportunities will not be realised and interest will wane. Now is the time before budget pressures leave little room for adjustment. ICA would provide a breakthrough because frameworks and infrastructure for the market are still evolving and a competitive Australian approach can be shaped to intersect with and influence global practice.

There is a concerted focus from leaders globally and the opportunity to create common platforms and infrastructure linking Australia's market to the region and to global markets. Leaders have already mobilised in Australia to bring focus and attention to the opportunity. They have done the groundwork on what will work for the Australian context, and what action and infrastructure can have the most significant impact. Enough has been trialled elsewhere to know what is required for the market to act with confidence.

**A dynamic process of collective action is already apparent.** The Australian Advisory Board on Impact Investing and the Working Group do not want to stop at this Blueprint; they are ready and willing to collaborate further to deliver on this vision.

Achieving the ambitious mandate for ICA will require a clear signal from government. This includes a relatively modest amount of grant funding or other risk-taking capital that will fund aspects of the mandate and attract private investment. With the mandate in place and supported in this way, market development and impact can be accelerated significantly.

With willing collaboration from governments and key financial institutions, these leaders commit to the work of translating the Blueprint for ICA to a dynamic addition to the Australian financial system working for the benefit of our society.

**This is an invitation to Australian leaders from across government, community sector and major financial institutions to join those already involved and together move from Blueprint to market.**

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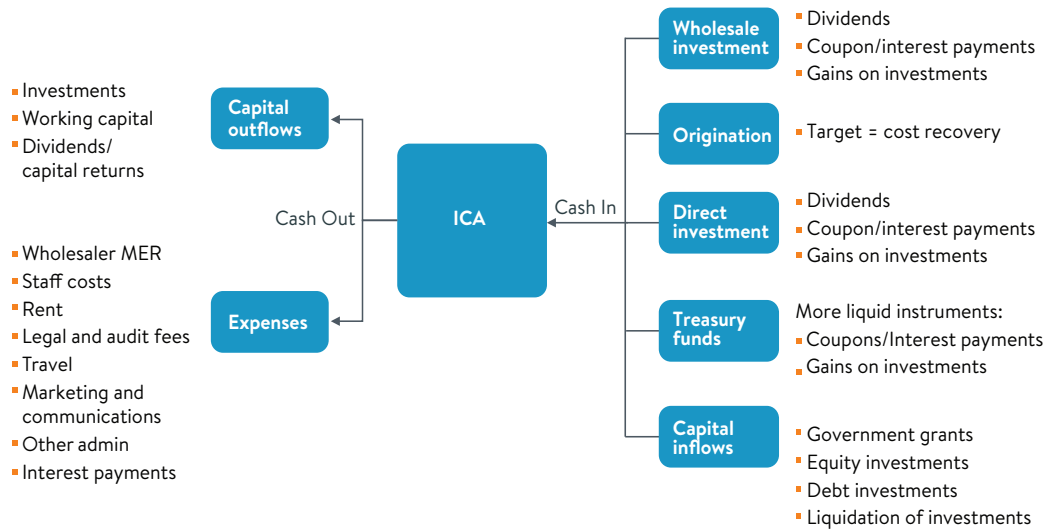
# APPENDICES

## Indicative business and financial model

Together with the Working Group and A.T. Kearney, Impact Investing Australia has taken the proposed business model and developed financial forecasts for ICA.

The first step in this process was the construction of an economic model (Figure 16) to better understand the key financial levers of the business across the elements of revenue, capital and expenses. The economic model also considers the tangible and intangible drivers of value, such as brand and government policy changes, to enable appropriate risk recognition and assessment across these dimensions.

**Figure 16. ICA Economic model**



### Tangible drivers of economic value

#### Controllable factors:

- Social impact outcomes and measurability
- IRR of investments

#### Non-controllable factors:

- Government policy changes, including tax related economic conditions

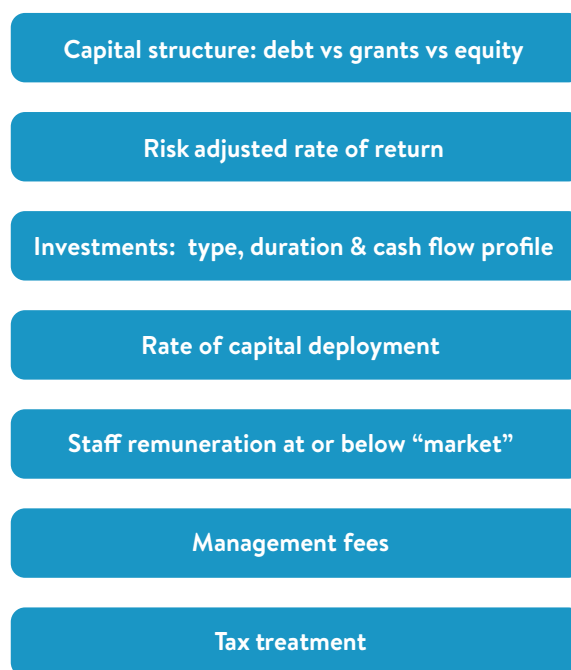
### Intangible drivers of economic value

- Brand
- Public perception of intention Independence and governance

Source: Impact Investing Australia and A.T. Kearney (2015)

The economic model was further broken down and a table of key sensitivities was developed (Figure 17). These identified sensitivities form the basis of the most significant variables and assumptions around which the financial model is built.

**Figure 17. Key sensitivities in ICA's financial model**



Source: Impact Investing Australia in collaboration with the Working Group

Once the initial financial model was constructed, a sub-committee of the Working Group was formed to rigorously examine assumptions and understand the magnitude of sensitivities. The financial model went through extensive revision as part of this process.

ICA's steady state cashflow, (Figure 18) is expected to be reached in year 10, following achievement of positive net operating cashflow in year 7. The relatively long period to steady state reflects the duration of ICA's investments, which is assumed at 7 years.

The sources and uses of funds shows the \$300m of capital required to achieve this outcome. The first 5 years of cumulative net income will result in a deficit which will need to be supported by ICA's initial capital. Over a 10 year period, this deficit becomes a surplus as ICA reaches self-sufficiency. Capital contributions to ICA will need to be patient to correspond with the underlying investment profile.

**Figure 18. Overview of financial statements (indicative) modelled for ICA based on founding capital of \$300m**

ICA - Steady State Projections			
<b>Operating Cashflow [A\$m]</b>			
Return on capital and investments		32.3	
...Less			
Operating expenses		(6.2)	
Interest expense		(6.6)	
Tax		(3.5)	
<b>Net operating cashflow</b>		<b>16.0</b>	
<hr/>			
Cumulative Sources and Uses of Funds [A\$m]		To Year 5	To Year 10
<b>Sources</b>			
Initial capital		180	180
Capital received from debt/hybrid investors		72	120
Projected operating surplus		-	12
<b>Total</b>		<b>252</b>	<b>312</b>
<b>Uses</b>			
Investments		180	255
Uninvested capital and other capital expenditure		60	57
Projected operating deficit		12	-
<b>Total</b>		<b>252</b>	<b>312</b>

Source: Impact Investing Australia in collaboration with the Working Group, 2015

In addition to the economic and financial models, other work to inform further development and implementation of the business model has commenced. This includes development of a draft Constitution for ICA and mapping out the leadership roles that would need to be filled.

Work has also commenced on fleshing out a due diligence screening process for investments that will work across the elements of impact, market development and financial viability as well as map to the impact and outcomes framework as set out in the Blueprint.

## Introduction to impact investing

### What is impact investing?

Impact investments intentionally target specific societal objectives along with a financial return *and measure the achievement of both*.<sup>50</sup> By definition, it is a proposition that combines social and economic value.

Impact investing is a growth story globally although the market is still in development. The global potential is estimated at between US\$600 billion and US\$1 trillion<sup>51</sup> within a decade.

### Who benefits from impact investing?

Impact investing benefits entrepreneurs, communities, social purpose organisations, philanthropy, private sector and governments. It combines finance with a clear focus on better outcomes for people that break ongoing cycles of poverty and dependence.<sup>52</sup>

It is fundamentally about directing more resources to addressing issues for society, and using financial innovation to direct resources to prevention and better outcomes. Utilised well, impact investment can increase the effectiveness of government and donor initiatives and provide incentives for new private investment.<sup>53</sup>

Impact investment is having a positive impact across sectors ranging from local jobs to health, education, energy, sanitation and agriculture.<sup>54</sup> The best available information<sup>55</sup> suggests that most funds under management are being directed towards housing, financial services including microfinance, energy, with smaller proportions in healthcare, education, food and agriculture.

### Who are impact investors?

Impact investors represent a broad church and include progressive foundations and family offices, companies, banks, insurance companies, pension and investment funds, governments and private individuals.

They often have different priorities and varying appetites for risk and return (both social and financial). A common feature of impact investments is collaboration between different market participants and the forms of capital they control. For example, some impact investments combine modest amounts of government or philanthropic grant capital with private capital to encourage investors to enter new markets or reduce the (actual or perceived) risk. Particularly in early market stages, this allows for ‘co-mingling’ of funds to enable investments that would not otherwise occur.

Governments participate in the market as funders and investors. Grant funding remains an important and powerful tool to fuel development of impact investment and to encourage private investment into particular areas of social need. It is most effectively utilised to promote the positive societal impact through investment rather than investment as an end in itself.<sup>56</sup>

50 Social Impact Investment Taskforce 2014; societal is used to refer to social and environmental impacts

51 Social Impact Investment Taskforce 2014; Saltuk, Y et al, 2014

52 Schwab Foundation et al 2013; Addis, R [publication pending] in Nicholls et al (eds)

53 Social Impact Investment Taskforce, 2014

54 Jackson & Harji, 2012; Saltuk, Y et al 2015

55 Saltuk, Y et al, 2015

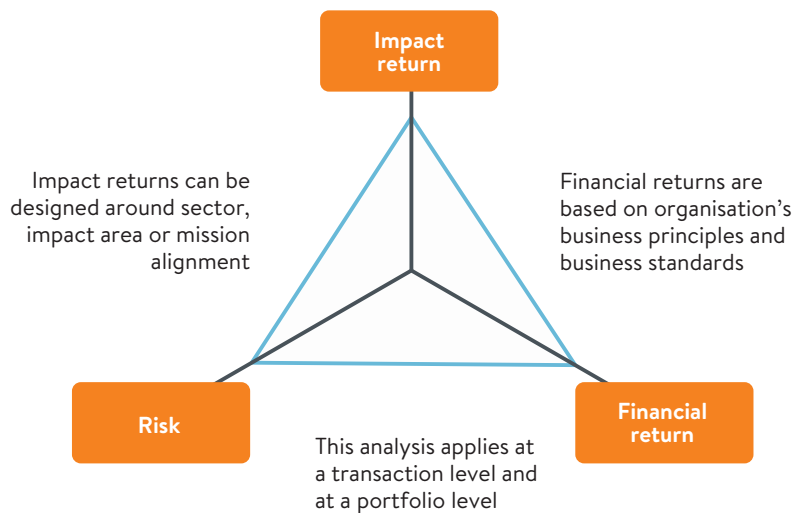
56 Addis, R [publication pending] in Nicholls et al (eds); Bannick & Goldman 2012

Philanthropy has a powerful role to play in developing impact investment. Its flexible grant funding can play an important role de-risking investments; developing and scaling enterprises; enabling new intermediaries; and funding market and sector infrastructure. Philanthropic trusts and foundations can also make investments from their corpus that align with or support their mission.

### Types of impact investments

Impact investments can be found across all financial product types. The difference is that a third dimension – impact – is added to the more conventional dimensions of risk and return employed in investment decision making (Figure 19).

**Figure 19: Impact investing's three dimensions**



Source: Impact Strategist, 2014; adapted from Saltuk, Y, 2012 and Social Impact Investment Taskforce, 2014

Like other investments, impact investment products stem from three basic categories: cash, debt and equity. Different structures and conditions further segment the product types. Different investment products carry different expectations of risk and return.

Impact investing has also contributed financial innovation, most notably social and development impact bonds. These instruments (often not technically bonds, despite the name) link financial performance to achievement and improvement of targeted social outcomes. While much of the focus so far has been on commissioning in domestic policy contexts, application in development contexts is growing.

Impact investing can also be categorised through the assets and activity they finance. Broadly, this can be grouped as: enterprise, services and infrastructure. Each category lends itself to different outcomes, and attracts different market players and investors.

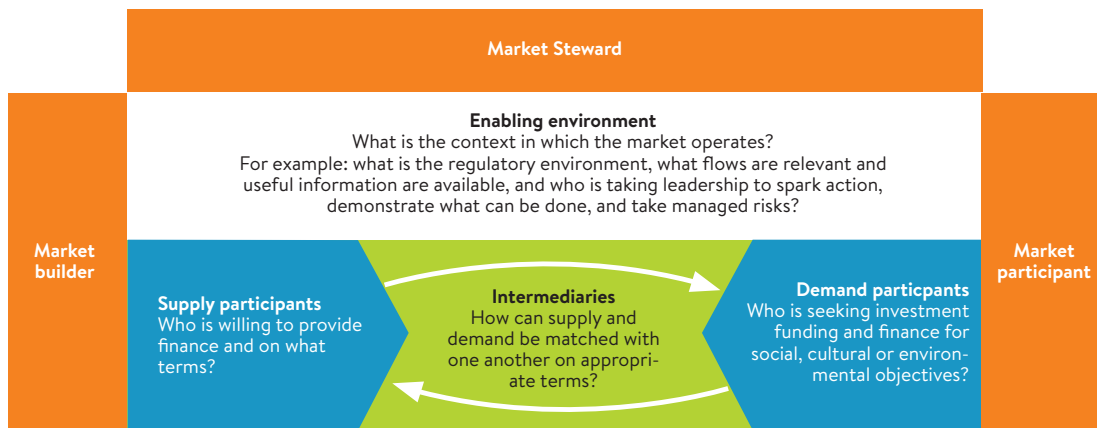
## Market context

Like mainstream investment, impact investment has a market context (Figure 20). Key features of a well-functioning market include: confident and informed demand; efficient matching of supply and demand; a variety of investment mechanisms; and resilient supply of capital.

Governments have a role in building the market to encourage growth and participating in the market to leverage more private capital in priority areas, and as market steward, setting standards and removing barriers. These roles echo established principles and practice in economic policy.

Targeted policy and prudent investment can catalyse activity, reduce risks for new entrants, build track records, and enhance investor confidence. To be most effective, government action and policy need to focus attention across dimensions of the market: demand, supply, intermediation and the enabling environment.

**Figure 20: Market context for impact investing and the role of governments**



Source: Impact Investing Australia; adapted from IMPACT-Australia, 2015

Encouraging and establishing intermediaries is important in the early stages of field development to develop pathways for connecting supply and demand and, in the longer term, to achieve scale.

Impact investment is still a field in development. Market building is critical to further development to encourage participation and support diversity and growth is critical.

\*\*\*\*\*

# ACKNOWLEDGEMENTS

Generous in kind support has been provided for development of this Blueprint by A.T. Kearney who has collaborated on research, analysis and strategy and by Ashurst who has provided advice on legal requirements, structuring and governance.

Support has also been provided by Big Society Capital who has been generous in sharing its insights and experience as a market building organisation. Big Society Capital is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable and increase their impact on society. It is doing this by building a diverse social investment market: encouraging investors to lend or invest money to achieve a social as well as a financial return.

Thanks to the Capital Growth Working Group, membership of which is set out in the final pages.

Particular thanks also to the following people for their contributions: Krassy Alexandrova, Alex Clifton-Jones, Carly Hammond, Sophie Newby, Michael Ryland, Donald Simpson and Ivo Thijssen.



## Australian Advisory Board on Impact Investing

To inform the work of the Social Impact Investment Taskforce (2013–2015) and to drive implementation into the future, eight National Advisory Boards were created. These Boards provide the opportunity for each country to explore the opportunities, challenges and ways of accelerating the growth of impact investment domestically. As the Taskforce passed the baton to the Global Social Impact Investment Steering Group in 2015, at least 6 more countries had established National Advisory Boards and several more had plans in progress to do so.

The Australian Advisory Board on Impact Investing was established in 2013 comprising leaders from the financial, community, philanthropic and corporate sectors. The Board was tasked with the role of formulating a strategy to support the development of an impact investing market in Australia.

### Australian Advisory Board members\*:

Rosemary Addis (Chair)	Impact Investing Australia
Sandy Blackburn-Wright	Social Outcomes
Richard Brandweiner	First State Super
David Crosbie	Community Council of Australia
Stephen Dunne	AMP Capital
Carolyn Hewson AO	Non-Executive Director
Steve Lambert	National Australia Bank
Paul Peters	GVP Capital Advisors
Carol Schwartz AM	Trawalla Foundation
Paul Steele	Donkey Wheel Foundation; Benefit Capital
Peter Shergold AC	University of Western Sydney
Christopher Thorn	Evans & Partners

These leaders have given their time and expertise over two years to inform the vision for what impact investment could be and how it can be advanced in concrete terms for the benefit of Australia and as part of our contribution to issues faced by people and communities across our region.

This Blueprint brings into clear relief one of the key action planks of the strategy the Australian Advisory Board launched in September 2014.

\*Stephen Fitzgerald and Michael Traill AM were members through to release of the Australian strategy.

## The Working Group

This Blueprint reflects 12 months of focused strategy and design effort by leading practitioners in impact investment, the community sector, social enterprise and financial markets, and is also informed by expert advice in strategy, legal requirements and overseas experience.

Strategy has been led by Impact Investing Australia in collaboration with A.T. Kearney and Ashurst. Significantly, Big Society Capital provided insight from their experience in the UK market: what has worked and what they would do differently. This has been stress-tested for Australian market conditions and applied to enable the design for ICA to start further along the curve and move even more quickly to impact.

This process of strategy, design and analysis has built on a wide-ranging engagement process that informed the earlier publications, IMPACT-Australia and Delivering on Impact. The focus of that engagement was to identify pivotal strategies and actions for a robust and dynamic market in and from Australia for investments that deliver positive impact for society as well as financial return.

Rosemary Addis (Chair)	Impact Investing Australia
Wendy Haigh (Deputy Chair)	The Benevolent Society
David Bennett	SEFA, Macquarie Foundation
Kylie Charlton	Australian Impact Investments; Unitus Capital
David Crosbie	Community Council of Australia
Stephen Dunne	AMP Capital
Mark Joiner	Independent
Steve Lambert	National Australia Bank
Ian Learmonth	Social Ventures Australia
Peter Munro	A.T. Kearney
Paul Peters	GVP Capital Partners
Craig Shapiro	Blue River Group
Christopher Thorn	Evans & Partners
Andrew Tyndale	Grace Mutual
David Ward	Australian Philanthropic Services

Sincere thanks to these leading practitioners who have given their time and expertise to the work underpinning this Blueprint and the economic, strategic and financial modelling, enabling it to be translated from Blueprint to market.

## About Impact Investing Australia

Impact Investing Australia was established in 2014 to grow the market for impact investing for the benefit of all Australians.

Our focus is on enabling more people and organisations to participate in the market for impact investing, from social enterprises and not-for-profit organisations in need of capital, to investors looking to make a social or environmental impact alongside a financial return.

Impact Investing Australia was created in response to an industry-identified need for dedicated leadership, facilitation and capacity building. We provide a focal point for market development, collaborating with and bringing together leaders in the field to build the infrastructure needed for impact investing to thrive.

We lead Australia's participation in the Global Social Impact Investment Steering Group (GSG). We established the Australian Advisory Board on Impact Investing to stand alongside similar National Advisory Boards in each of the countries participating in the global process, initially through the Social Impact Investment Taskforce and now through the GSG, all focused on how to drive impact investment to take off, locally and as part of the global market.

As part of that process, the Australian Advisory Board developed an ambitious strategy to grow the impact investing market in and from Australia, *Delivering on Impact*, in 2014. A significant part of our work is driving the implementation of this bold strategy.

## Partners and supporters

Impact Investing Australia's work is made possible through generous support from our partners and supporters.

### Foundation Partner



### Anchor Partners



### Anchor Partner - not for profit consortium



### Supporting Organisations



A dynamic group of skilled volunteers have contributed their time and experience to delivering this and other elements of the Australian Advisory Board on Impact Investing's strategy and the market building efforts of Impact Investing Australia.

\*\*\*\*\*

If you or your organisation are interested in partnering opportunities to grow impact investing in and from Australia, please contact the Impact Investing Australia team.

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