

IMPACT INVESTING

Submission to the Australian Government
on Social Impact Investing Discussion Paper

27 February, 2017



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The Australian Advisory Board on Impact Investing (AAB) provides leadership and strategy for accelerating the growth of the impact investment market in Australia, as well as informing global market development through the Global Social Impact Investment Steering Group (successor to the Social Impact Investment Taskforce established under the UK Presidency of the G8).

Established in 2014, the Board comprises a number of Australia's most experienced leaders spanning the finance, business, not for profit, philanthropic and community sectors; each committed to growing the opportunities for investments that deliver measurable social and environmental outcomes alongside financial returns.

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Impact Investing Australia was established in 2014 in response to an industry-identified need for dedicated leadership, facilitation and capacity building. Responsible for driving the implementation of the Australian Advisory Board on Impact Investing's strategy to catalyse the market for impact investing, Impact Investing Australia provides a focal point for market development in Australia, as well as participating in international efforts to grow the market globally.

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Impact Investing Australia's work is made possible through generous support from our partners and supporters and contributions of time and experience of a dynamic group of skilled volunteers.

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27 February 2017

The Hon. Scott Morrison
Treasurer
Parliament of Australia
Canberra ACT 2600

Dear Treasurer,

Developing the Market for Impact Investment in and from Australia

The Australian Advisory Board on Impact Investing (AAB) welcomes the opportunity to respond to the Australian Government Social Impact Investing Discussion Paper. The AAB, like its peers across 12 other countries, brings together leaders of organisations active in the impact investment field, foundations, social enterprises, investment organisations and others who share a vision for what impact investment can contribute to our future prosperity.

More than just money, impact investment is a means of unlocking serious problem solving capacity through data, collaboration, applying new tools to existing problems and established tools to different problems.

Since 2014, the AAB's work has mapped and informed understanding of the ecosystem, identified obstacles for development of impact investment and highlighted the steps needed to remove these obstacles and to provide powerful incentives for capital to flow to impact driven organisations, for the infrastructure and assets for social, environmental and cultural progress and improved service delivery.

In September 2014, we launched a strategy to catalyse impact investment in and from Australia, *Delivering on Impact*. Since then, we have worked with over 50 senior leaders from across sectors and across the country to deliver the actions identified by stakeholders and practitioners as critical for breakthrough.

There is potential in the Australian market today to create impact investment solutions at scale. Australia, like other countries, needs robust market infrastructure to 'grow the pie' and create a multiplier effect.

The Discussion Paper adds to the growing interest and activity. The Australian Government has a critical role to play through constructive engagement and action to enable a robust impact investing market. The window of opportunity is open to create common platforms and infrastructure that realise the potential of impact investing here and position Australia to be competitive in the region and global markets.

This Submission provides a synthesis of the leading global thought and practice on the role of governments and policy tools. The AAB welcomes the opportunity to work with you and the Government to enable the market and deliver the benefits for Australian communities.

Yours sincerely



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Executive Summary

The Australian Advisory Board on Impact Investing (AAB) and Impact Investing Australia welcome the opportunity to respond to the Australian Government Social Impact Investing Discussion Paper released 29 January 2017 (Discussion Paper).

Impact investing creates new opportunities to tackle social and budgetary issues, now and into the future, by driving achievement of better outcomes for people and communities and mobilising more private capital for public good.

For the Australian Government, this means unlocking serious problem solving capacity by applying new tools to existing problems and established tools to different problems. Impact investing can provide powerful signals for action and create incentives to move capital where it is needed rather than where it will readily go or where it is usually applied.

The existing Federal and State Government activity, including the initiatives outlined in the Discussion Paper, are a welcome start. They add to growing activity in the market, across asset classes, investment types and impact areas. Other stakeholders have also been taking proactive steps to develop impact investment, including through the collaborative effort led by the AAB.

This Submission outlines the context in which impact investment is developing, the role of the Australian Government, opportunities for collaboration with State and Territory governments and other parties, and proposes policy tools and actions to meet the stated objective of developing Australia's impact investing market. Specific questions raised in the Discussion Paper are addressed in the body of the Submission.

State of the Impact Investing Market

Impact Investing is a global growth story, exhibiting 18% compound annual growth in assets under management from 2013 – 15. Investors are placing capital in investments designed for positive social, environmental and cultural impact across the globe. This is occurring across sectors including housing, health, education, financial inclusion, sustainable energy, agriculture and the arts.

The trends indicate the market is no longer nascent, though there are still a number of challenges to address before its full potential is reached. Estimates are impact investment could reach between US\$500 billion and US\$1 trillion within a decade and \$32 billion in the Australian domestic market by 2022.

Investor appetite in Australia is growing. The Impact Investing Australia 2016 Investor Report indicates many Australian investors expect the field to continue to grow over the next 5 years and those already active would like to increase their allocations to impact by up to threefold. There is significant potential in the Asia-Pacific region, which is a growth destination for impact capital.

The impact investing market in Australia has reached an inflection point. Proactive and targeted steps now to address market gaps, promote efficiency and scale will enable significant social and economic impact to be delivered to the benefit of Australia's productivity and communities. Without action, impact investing may remain more fragmented and progress is likely to be incremental and niche.

The challenges and strengths of the impact investing eco-system are well-documented, and common to emerging fields of market based activity and innovation. Market development will require encouragement for participants and transactions *and* attention to infrastructure and institutions to support more, and more effective, participation. Particular action is required to:

- provide social capital that de-risks the transaction and facilitates the entry of investors who have capital at scale to bring to the problem; and
- develop and grow intermediaries that can stimulate latent demand and connect, on appropriate terms, those who understand the social need and those with resources.

The role of government

The Australian Government has a critical role to play. It is a necessary partner in realising the potential for impact investment in Australia. Some platforms and actions need national focus and scale. Much market regulation is the province of the Commonwealth.

The Australian Government plays a large role in social service delivery and innovation policy. Without its constructive engagement, progress in growing impact investing will be slower and less impactful. Opportunities may also be missed to bring increased focus to prevention and innovation rather than dealing with their consequences of social, environmental and cultural issues.

The Australian Government also has much to gain from impact investment and could miss the opportunity to deploy policy tools that expand the pool of available resources and generate more sustainable solutions. This would also risk Australia's opportunity to be competitive in this growing global market.

Targeted Government policy and action can catalyse activity, reduce risks for new entrants, build track records and enhance investor confidence. The Australian Government has three important roles to catalyse and enable a robust impact investing market:

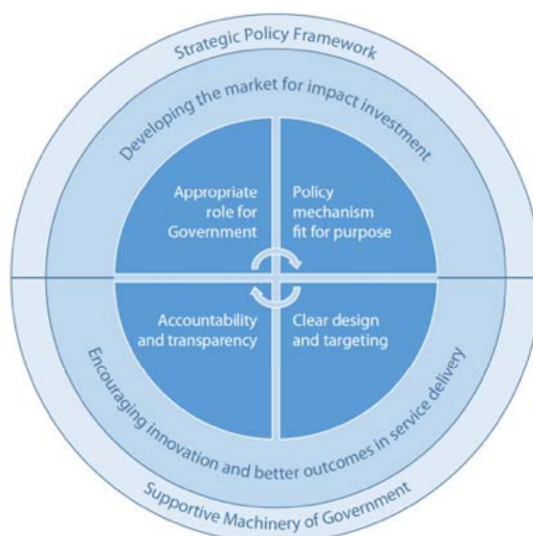
- **building the market:** provide leadership, contribute to development of market infrastructure and platforms and provide catalytic capital to mobilise additional resources and impact.
- **market stewardship:** exercising the role of regulator and legislator to remove unnecessary regulatory barriers and create incentives for participation.
- **participating in the market:** to influence where capital is directed, in particular to priority policy areas, and orient more commissioning to achievement of better outcomes.

Impact investment principles

The Principles as drafted in the Discussion Paper have some important strengths. There are also some critical gaps which need to be addressed. The Principles also need to be grounded in a strategic policy framework and an authorising environment that provide the foundation for the stated purpose of informing action across agencies to develop the impact investment market.

A suggested approach and framework that embeds the strengths of the Principles and addresses the gaps is proposed in this Submission. Each of the four central elements of this framework are developed further in the body of the Submission.

Figure I. Proposed framework for developing the market for impact investment



Call to action

Recognising the role of constructive engagement from the Australian Government and the need to address challenges in the eco-system for impact investing, a number of priority actions are proposed.

These actions, detailed in the Submission, are designed to realise potential in the Australian market today to create impact investment solutions at scale. They go directly to the robust market infrastructure needed to 'grow the pie' and create a multiplier effect. They are additive to work at State level and other proposed measures, including the bond aggregator to direct capital to affordable housing recommended by the Working Group of the Council on Federal Financial Relations.

The flagship action recommended is partnership with banking and community leaders to implement Impact Capital Australia. In the AAB's view, this is a game-changer that will accelerate the pace and scale of development. It has been designed through extensive collaboration with stakeholders and reference to learning globally to:

- Provide a 'go to' institution and market champion with mission, mandate and capital to grow the market for impact investing to scale capital and impact.
- Mobilise additional resources and demonstrate and promote innovation and diversity in participants and products.
- Enable existing intermediaries to grow and encourage new ones to enter the market.

The proposal for Impact Capital Australia is complemented by measures designed to grow enterprising activity to tackle social issues, remove regulatory barriers, build government capacity and leadership, and develop capacity to improve outcomes and reduce costs over time.

With respect to regulatory barriers in particular, this includes clarification of fiduciary duties for trustees, introducing straightforward, permissive regulation for program related investment and amending the Corporations Act to recognise Benefit Corporations.

The priority actions called for link with the Australian Government's policy agenda. In particular, they support objectives of investment for jobs and growth, focus on costs and outcomes in areas of social spending with a focus on welfare reform, identifying opportunities with a positive effect on the structure of the Budget, the Innovation & Science Agenda and foreign affairs focus on development investment and private sector engagement.

The AAB welcomes opportunities to engage with the Australian Government to develop the market for impact investment as a positive driver of the prosperity of Australian communities.

Introduction

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**

The need, and the opportunity, for more and different resources to tackle issues affecting society and contribute social and economic value has never been greater. Across the Organisation for Economic Co-operation and Development (OECD), the need for new and innovative approaches to social and economic challenges has been observed.¹

Australia's prosperity has twin pillars of a strong economy and a fair society. While the overall standard of living is relatively high, there is considerable room to do better. Social services and infrastructure are under increasing pressure to deliver on future demand, there are areas of deep disadvantage, and the gap for those being left behind is growing. The cycles of disadvantage have consequences for the individuals affected and for the broader community.²

The urgency of action to tackle issues critical to future prosperity has been reinforced by leadership from across Australian business and society. The National Reform Summit in 2015 concluded 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.'*³

Governments cannot pay for everything and philanthropy cannot fill all the gaps. All governments in Australia are projecting deficits and Commonwealth net debt is at the highest levels since the mid-1990s.⁴ The Australian Government's spending grew faster than GDP over the decade to 2012-13,⁵ so further increases in government borrowing and spending is unlikely to be the answer. Philanthropic giving from individuals and corporates is growing in dollar terms, but fewer people are giving large amounts.⁶

Social impact investment (referred to in this Submission as impact investing) can and should be an addition to the toolbox, including for governments. Governments can also take a significant role in developing the market.

Impact investment is not an end in itself. It is a means to bring more resources to the table on appropriate terms, re-align incentives to tackle issues differently, and encourage innovation, scale and prevention as required.

This is about much more than money. Impact investment is a means of unlocking serious problem solving capacity through data, collaboration, applying new tools to existing problems and established tools to different problems. It is a lever for sending signals for action and changing incentives to move capital where it is needed rather than where it will readily go or where it is usually applied.

This is not a blank slate. A lot has been done and achieved already. Australia's engagement in the G8 Taskforce helped identify the infrastructure, tools and capacity needed in each local market to get to take-off. Things have been trialled in this market by State Governments, at Federal level and elsewhere.

¹ Wilson, K & Silva, F, Social Impact Investment: Building the evidence base, OECD, 2015

² Addressing Entrenched Disadvantage, CEDA, 2015; Productivity Commission, 2013, Deep and Persistent Disadvantage in Australia

³ National Reform Summit, August 2015

⁴ Daley, J, and Wood, D, Fiscal Challenges for Australia, Grattan Institute, 2015,

⁵ Ibid

⁶ Giving Australia, 2016, <https://www.qut.edu.au/research/research-projects/giving-australia-2016>

Groundwork in the field has been directed to pressing issues of meeting basic needs for housing, food and water, and to social cohesion focusing on strengthening communities, delivering jobs and ‘wealth beyond welfare’.⁷ Australian data indicates that over 60,000 people have been helped in some way in just a few years.⁸ The available data indicates the market is growing, following trends across the globe.

The Financial System Inquiry recommended that the Australian Government act to develop the market for impact investment and encourage innovation in social service delivery.⁹ There are immediate, concrete opportunities for the government to act on the recommendations of the Financial System Inquiry.

Enough has been learned and developed to act now and act with confidence. The window of opportunity is open to drive innovation and scale in the local market and for Australia to step forward to be competitive in this growth area in the region and globally.

⁷ Enterprising Communities: Wealth Beyond Welfare, (UK) Social Investment Task Force, 2000, updated 2003, 2005; Mobilising Private Capital for Public Good, Canadian Task Force on Social Finance, 2010.

⁸ Castellás, E, Findlay, S & Addis, R, Benchmarking Impact: Australian Impact Investment Activity & Performance Report, Impact Investing Australia, 2016

⁹ *ibid*

Global shifts set the context

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. Schwab Foundation et al, 2013

Impact investment is occurring in the context of broader global trends. At a macro level, there is increasing focus on links between social issues and economic growth. There is growing support for the proposition that social progress influences economic development, overturning recent conventional wisdom in fields from economics to development. This reflects that there is a genuine re-thinking underway of the economic impact of social issues and ‘...of how capital markets can support value creation’.¹⁰

Leading commentators, including Harvard Professor Michael Porter, are emphasising that *societal needs and not just conventional economic needs define markets*.¹¹ Professor Porter has stated that leaving the social and environmental out of measures of economic growth, including GDP, was a serious mistake.¹²

Major initiatives such as the Social Progress Index¹³ are establishing macro measures across a broader range of factors. These reflect the health and advancement of a society: meeting basic human needs, foundations of wellbeing and creating opportunity.¹⁴ As Professor Porter reinforces: ‘*There is nothing soft about the concept of shared value... [it represents] the next stage in our understanding of markets, competition and business management*’.¹⁵

The changing dynamics are not just about business. The social and public sectors are facing new challenges shaped by calls for greater agility and responsiveness, for evidence-based practice, greater transparency and accountability for results.¹⁶ There is increasing pressure for governments to ‘*make meaningful progress in tackling the social problems facing their countries*’¹⁷. There is a move away from ‘purchaser-provider’ models employed by governments to a focus on commissioning where government is a catalyst and aggregator of resources.¹⁸

The focus on social *and* economic value is bringing into question the dominant approach over recent decades that treats social, economic, cultural and environmental values as separate, sector driven and, in many respects, mutually exclusive. It takes the focus away from sectors and silos to the core, cross-cutting issues. This includes: objectives, capital, cross-disciplinary collaboration, measurement and metrics, capacity and infrastructure for delivery, and the regulatory and policy environment.¹⁹

¹⁰ Porter, M and Kramer, M, The New Capitalists, Harvard Business Review, 2011.

¹¹ Ibid; Beinhocker, E and Hanauer, N, Redefining Capitalism, McKinsey Quarterly, 2014

¹² Porter, M, launch of Social Progress Index, at Skoll World Forum, 2012

¹³ Social Progress Index, <http://www.socialprogressimperative.org/global-index/>

¹⁴ <http://www.socialprogressimperative.org/global-index/>

¹⁵ Porter, M and Kramer, M, The New Capitalists, Harvard Business Review, 2011

¹⁶ Addis, R, The Role of Governments and Policy in Social Finance in Nicholls, A et al (eds), Social Finance, OUP, 2015 citing Australian Productivity Commission, 2010, Adams, D and Hess, M, Social Innovation and Why It Has Policy Significance, Australia: Economic and Labour Relations Review, 2010; Drexler, M and Noble, A, From the Margins to the Mainstream, World Economic Forum, 2013

¹⁷ Social Impact Investment Taskforce, 2014

¹⁸ Thornley et al, Breaking the Binary, World Economic Forum and Schwab Foundation, 2013; Shergold, P, My Hopes for a Public Service for the Future, Australian Journal of Public Administration, 72(1):2013; Eggers, W and Macmillan, P, The Solutions Revolution, 2013; Addis, R, Bowden, A and Simpson, D, Delivering on Impact: the Australian Advisory Board, Strategy to Catalyse Impact Investment, 2014, Social Impact Investment Taskforce Mission Alignment Working Group, 2014, Addis, R, The Role of Governments and Policy in Social Finance in Nicholls, A et al (eds), Social Finance, OUP, 2015

¹⁹ Emerson, J., 2004, The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Creation, <http://www.blendedvalue.org/media/pdf-bv-map.pdf>

The view through the social *and* economic lens, has major implications for all sectors. There are concrete opportunities to mobilise more resources and different combinations of actors to tackle some of the challenges society faces in new ways. This involves working differently to address the very real challenges of funding and financing delivery of services and infrastructure that are fit-for-purpose, for governments and for community.²⁰

The starting point for social innovation is necessarily purpose; a focus on improving outcomes for people. Social innovation is agnostic as to sector, embracing a range of mechanisms to achieve better results. Research is showing that the best results are being achieved where there is ‘multi-lingual’ leadership,²¹ That is, where the leaders can work across a diverse range of stakeholders with fluency and proficiency in the vocabularies, networks, and culture of the private, public and non-profit sectors.

The first global summit on innovation for social purpose took place over a decade ago. It called for new sources of finance focused specifically on innovation, more open markets for social solutions, new kinds of incubator and accelerators to develop and advance promising models, and new institutions to help orchestrate more systemic change.²²

Much has been achieved since this first summit. There has been a groundswell of activity and talent across the globe, and it is growing in Australia, where new approaches and capacity to social, environmental and cultural challenges are being applied. Entrepreneurial activity, new business models, demand for investments that look beyond financial return have merged. Social enterprise, social business,²³ new investment structures and products are all increasing the dynamism and diversity for how we can create public value and tackle social issues.²⁴

Impact investment is emerging from existing institutional contexts, including established capital markets and philanthropic traditions, to provide the capital to drive these new opportunities. Forward thinking leaders are already exploring different ways of working. Community leaders are exploring new ways of approaching service delivery, scaling what works for funding and financing their work to deliver social value. Conservation is gaining from different approaches that enable water to be allocated and used in ways that benefit the environment and provide supply for agriculture. In the investment and business communities, there is more focus on strategies that approach value creation and risk management as more than a financial issue. A number of institutional investors are actively developing strategies that take a longer-term view to value creation.²⁵ The United Nations Principles for Responsible Investment (UNPRI)²⁶ and other forums across the globe are asking what the United Nations’ Sustainable Development Goals (SDGs) mean for investors.

Without capital, promising solutions cannot get off the ground or do not reach scale when they do. Capital is one of the most powerful incentives available to direct action. Where capital is available for initiatives with positive impact and where social value creation is rewarded, that will drive activity.

²⁰ Mulgan, G, Tucker, S, Rushanara, A, and Sandars, B, *Social Innovation: What It Is, Why It Matters, How It Can Be Accelerated*, London: Young Foundation 2007, Adams, D and Hess, M, *Social Innovation and Why It Has Policy Significance*, Australia: Economic and Labour Relations Review, 2010; Addis, R *The Role of Governments & Policy in Social Finance* in Nicholls et al (eds), *Social Finance*, OUP, 2015

²¹ Clark, C., Thornley, B. and Emerson, J. ‘A Market Emerges: The Six Dynamics of Impact Investing’. The Impact Investor Project Research Collaboration, 2012, Clark, C., Emerson, J., and Thornley, B. ‘Impact Investing 2.0: The Way Forward—Insight from 12 Outstanding Funds’. InSight at Pacific Community Ventures, ImpactAssets, and Duke University’s Fuqua School of Business, 2013. Clark, C., Emerson, J., and Thornley, B. *The Impact Investor: Lessons in Leadership and Strategy for Collaborative Capitalism*. San Francisco: Jossey-Bass. 2014.

²² Mulgan, G, reported in ProBono News, February 2017

²³ See <http://www.yunussb.com/>

²⁴ Eggers, W & MacMillan, P, *The Solution Revolution*, 2013; Addis, R, *The Role of Governments and Policy in Social Finance* in Nicholls, A et al (eds), *Social Finance*, OUP, 2015

²⁵ See, for example, published investment strategies of CalPERS and Australian Super

²⁶ <https://www.unpri.org/about>

The IMPACT-Australia initiative²⁷ concluded: *'fundamentally, this is about expanding the total pool of economic and social value, not redistributing what already exists. Impact investment is already having a positive effect globally in catalysing new markets and encouraging entrepreneurship and innovation for the benefit of society.'*

Governments are a critical partner in realising the potential of these broader shifts and have much to gain, as outlined in this Submission.

²⁷ Led by the (now) Department of Employment in 2012-13, see Addis, R, McLeod, J and Raine, A, IMPACT-Australia: investment for social and economic benefit, Department of Employment, 2013

Impact Investment defined

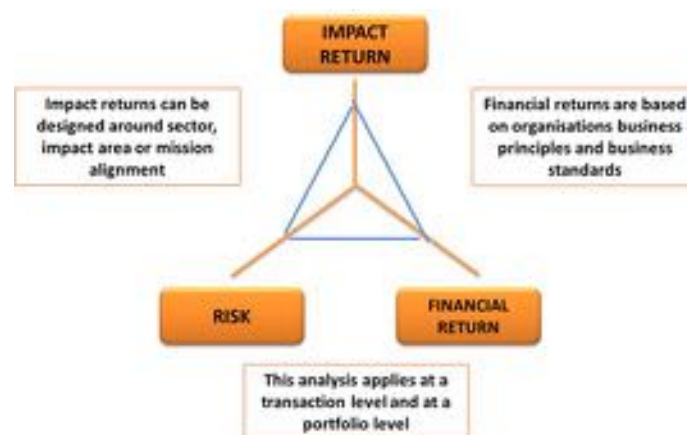
The distinguishing feature of impact investing is the intention to achieve both a positive social, cultural and/or environmental benefit and some measure of financial return...Financial return distinguishes impact investing from grant funding; intentional design for positive benefit to society distinguishes it from traditional investments. IMPACT-Australia, 2013

Impact investments can be found across all financial product types and a variety of sectors. Impact investments can be made in both emerging and developed markets. They target a range of returns from below market to market rate, depending upon the circumstances. Essentially, impact investment is defined by three key characteristics:²⁸

- **Intentionality:** The intent of the investor is to generate social, environmental or cultural impact
- **Investment:** They are financial instruments designed to generate a financial return on capital and, at a minimum, a return of capital
- **Measurement:** A commitment to measure and report the social and environmental performance and progress of underlying investments

The key point of difference is introducing a third dimension, namely impact, to the more conventional investment decision making framework of risk and return. The impact dimension, opens up a range of areas and ways in which capital can be applied to increase resources and drive different results for public benefit.

Figure 2: Impact as the third dimension of investment



Source: Addis, R adapted from Saltuk, 2012 & Social Impact Investment Taskforce, 2014

Impact investments can be developed across all investment types. As in the rest of the investment market, impact investment products ultimately 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.

²⁸ Global Impact Investment Network, www.thegiin.org; Wilson, K and Silva, F, Social Impact Investment: Building the evidence base, OECD, 2015

Impact investing has contributed financial innovation, most notably impact bonds, sometimes called social impact bonds. These instruments, often not technically bonds, despite the name, link financial performance to achievement and improvement of targeted social outcomes. These instruments are being applied in domestic policy and development investment. They are an important for a range of reasons referred to in this Submission. However, impact bonds are only one type of impact investment product and currently represent a small proportion of the overall market²⁹.

Fund structures bring together a number of investments in one investment vehicle. This enables investors to place capital with a fund manager who then makes the individual investment decisions. Fund structures leverage fund manager expertise and processes that can create efficiencies and better enable scale.

Impact investing opportunities can also be categorised through the lens of the assets and activity they finance. Broadly, this can be grouped as: organisations and enterprise, services and program delivery, and real assets and infrastructure. Each classification lends itself to different investment products, different results and different market players, including different investors.

Figure 3: The forms of social impact investment



Source: Impact Investing Australia, 2016

Impact investments carry different return expectations based on a number of factors, including the type of investment product and the assets or activity being financed. The available evidence confirms that there is no necessary trade-off between financial return to achieve impact.³⁰ However, one or more parties may choose to trade off return for greater impact or to achieve a result that would not otherwise occur.

Impact investors range from progressive foundations and family offices to companies, banks, insurance companies, pension and investment funds, to governments and individuals. Different groups often have varying priorities and appetites for impact, risk and return.

Collaboration between different groups and the forms of capital they control is a common feature of impact investments. In particular, impact investments can combine modest amounts of government or philanthropic grant capital with private capital. This can encourage investors to enter new markets or reduce the (actual or perceived) risk and enable demonstration of investments and impact that would not otherwise occur.³¹

²⁹ Social Impact Bonds: The Early Years, Social Finance, 2016 <http://socialfinance.org/social-impact-bonds-the-early-years/>

³⁰ GIIN and Cambridge Associates, Introducing the Impact Investing Benchmark, 2015; Wharton Social Impact Initiative, Great Expectations: mission preservation and financial performance in impact investing, 2015; Castellás, E, Findlay, S & Addis, R, Benchmarking Impact: Australian Impact Investment Activity & Performance Report, Impact Investing Australia, 2016

³¹ UK Cabinet Office, Achieving Social Impact at Scale: Case Studies of Seven Pioneering Co-mingling 2013, GIIN Issues Brief #1, 2013, ImpactAssets Issues Brief #10, 2012

The advantage in combining different groups of investors and capital is capacity to bring together their different needs and interests in new combinations to design something which is fit for the purpose. As noted in IMPACT-Australia: *'The advantage of having different types of investors involved is that it allows the needs and capacity of different investors to combine to match the overall investment requirement. Not all investors want or need the same type or rate of financial return from an investment. Not all investors may have the same appetite or capacity to take on risk. Layered investments can be structured so that each layer meets the needs of a particular investor group.'*³²

When considering risk in relation to impact investment, it is useful to break down the different elements of risk that come into play.

Figure 4: Categories of Risk in Social Impact Investments



Source: Benchmarking Impact, Castellás, E et al, 2016, adapted from De-risking Impact Investment, Bridges Impact+ and Bank of America Merrill Lynch, 2015

This process of breaking down the risk assessment helps to assess where risks are actual or perceived, where the market may not yet be mature, where market failures, particularly information asymmetries are occurring, and to target risk mitigation strategies accordingly. For example, catalytic capital and other credit enhancement such as guarantees can mitigate capital risk. Availability of administrative data and constructive, proportionate impact management may also help mitigate impact risk.

More detail on the typology of impact investments and a range of case studies is provided in **Appendix 1**.

Market Context: the ecosystem for impact investment

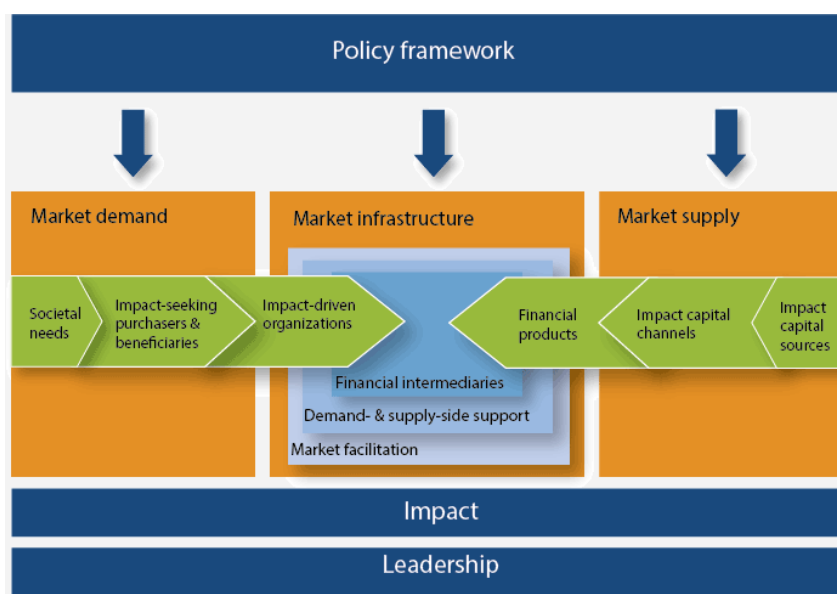
Like mainstream investment, impact investment has a market context. This extends the focus from the investments themselves to the purposes and entities to which they are directed, the infrastructure and organisations that help intermediate bringing supply and demand together on appropriate terms, and the enabling environment.

³² Addis, R, McLeod, J and Raine, A, IMPACT-Australia: Investment for social and economic benefit, Australian Department of Employment, 2013

OECD work on financing has for some time reflected the importance of focusing on the market: *It is important to focus on development of the market, rather than solely on provision of financing. This requires creating proper incentives and supporting the development of the necessary quality, skills and experience ... to match international norms.*³³

Key features of a well-functioning market include: confident and informed demand, efficient matching of supply and demand, a variety in investment mechanisms, and resilient supply of capital.³⁴ The broader ecosystem encompasses a range of elements including data, research, knowledge and tools, enterprise, regulation, reporting, convening and capacity building.

Figure 5: Social Impact Investment Market Context



Source: Koenig, A 2014

Intermediaries who can focus on bringing together capital and investment opportunities on appropriate terms are a vital component of a well-functioning market. A critical part of the role of intermediaries is matching opportunities to investors. Intermediaries contribute to opportunity development, and educate market participants in the process.³⁵ Developing this expertise helps streamline activity and promote participation, scale and effectiveness.

This creates efficiencies because it helps direct the transactions to the appropriate type and source of capital. For example, superannuation funds are more likely to invest in asset backed investments at scale; foundations and family offices are often attracted to investment in enterprises or innovation, but even then, targeting the right type of capital for the stage of development and scale of opportunity is required.

The market context also underscores that developing impact investment requires constructive engagement from government and is about more than the actions governments initiate. Enabling and developing of the market requires attention to the whole ecosystem and catalytic action to prime the pump.

Directing capital to priority areas for government and encouraging more innovative social service delivery will include things that a well-functioning market can do and things that are appropriate and necessary for governments to initiate, including different ways of commissioning for outcomes. That is examined further in this Submission with respect to the role and policy tools for governments.

³³ Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard, 2013

³⁴ Goodall, E and Kingston, J, Access to Capital: A Briefing Paper'. Charities Aid Foundation.2009

³⁵ Addis, R, McLeod, J and Raine, A, IMPACT-Australia: Investment for social and economic benefit, Australian Department of Employment, 2013

State of the Impact Investment Market

*The market for impact investment is no longer nascent, but it is also far from being fully formed or matured. Amit Bouri, CEO, GIIN, 2016*³⁶

Impact Investing is a global growth story. While the market is still in development, activity is evident across sectors from housing to health, education to financial inclusion, sustainable energy, and agriculture solutions.³⁷

Global snapshot

The G8 Social Impact Investment Taskforce concluded there is enormous potential for a global market for impact investment to reach US\$1 trillion.³⁸ In Australia, JBWere modelling suggests a \$32 billion domestic market by 2022. There is great potential for Australia to be a hub and destination for capital flowing into the region.

The sixth annual survey of impact investors was published by the Global Impact Investment Network in July 2016.³⁹ The 156 respondents collectively manage a total of US\$77b in impact investing assets. In 2015, \$15b was invested in the sector by the respondents, with plans to increase this by 16% to US\$17.7b in 2016.⁴⁰

Between 2007 and 2012, the number of impact funds nearly doubled from 181 to 354.⁴¹ 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.⁴²

Impact bonds reflect a small proportion of the impact investment market, but have played an important role in exploring the link between social and financial value and changing the dynamic between governments and service providers. Since the first (social) impact bond was launched in the UK in 2010, over 60 projects have been launched across 15 countries with different demographics, political environments and income levels.⁴³ Collectively they have attracted approximately US\$200m in private capital and affected approximately 90,000 lives.⁴⁴ Of the first 22 initiatives: 21 have reported positive outcomes, of which 12 have made payments to investors or recycled capital into additional service delivery and 4 have fully repaid investors.⁴⁵

³⁶ Impact Investing Trends: Evidence of a Growing Market, 2016

³⁷ Jackson, T & Harji, K, Accelerating Impact: Achievements, Challenges and What's Next Building the Impact Investing Industry. New York: Rockefeller Foundation, 2012; Saltuk, Y et al, Eyes on the Horizon, The Impact Investor Survey, JP Morgan and the GIIN, 2015; The GIIN Annual Impact Investor Survey, GIIN, 2016; see also case studies in Appendix 1.

³⁸ Social Impact Investment Taskforce 2014; Saltuk, Y, et al Spotlight on the Market: The Impact Investor Survey, JP Morgan and the GIIN, 2014

³⁹ The GIIN Annual Impact Investor Survey, GIIN, 2016

⁴⁰ Social Impact Investment Taskforce, 2014; Saltuk, Y et al, 2014, Spotlight on the Market: The Impact Investor Survey, JP Morgan and the GIIN, 2014

⁴¹ Addis, R, McLeod, J and Raine, A, IMPACT-Australia: Investment for social and economic benefit, Australian Department of Employment, 2013

⁴² Social Impact Investment Taskforce, 2014; The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy, Barclays Bank, 2015

⁴³ See interactive map of activity at <http://www.socialfinance.org.uk/database/>

⁴⁴ Gustafsson-Wright, E et al, The Potential and Limitations of Impact Bonds: Lessons from the first five years of experience, Brookings Institute, 2015; Social Impact Bonds: The Early Years, Social Finance, 2016; <http://socialfinance.org/social-impact-bonds-the-early-years/>

⁴⁵ <http://socialfinance.org/social-impact-bonds-the-early-years/>

The available data suggests impact investment will be materially additive to existing social service delivery, microfinance and development aid and investment activity. Mobilising even 1% of the US\$7 trillion that exchanges hands in capital markets each day represents meaningful additional capacity to tackle challenges that affect society.

In its 2016 report on impact investing trends,⁴⁶ the GIIN reflected:

- Impact investments are made across the world, in a diverse range of sectors and using various financial instruments, reflecting a wide variety of impact strategies and theses.
- Impact investors are demonstrating strong growth with assets under management growing by 18% compounded annually from 2013 to 2015
- Impact investors are consistently satisfied with both impact and financial performance
- The industry is making progress against several key indicators of market growth, despite there being remaining barriers to industry development⁴⁷

Global initiatives, in particular the G8 Social Impact Investment Taskforce 2013-15, and its successor, the Global Social Impact Investment Steering Group (GSG), have galvanised focus on the global market and built greater confidence for engagement from governments and leaders in a broader range of countries.

Broadening the focus of, and engagement in, the global conversation to more countries, particularly emerging and developing economies, is a key focus for the next stage of global market development. The GSG has 13 member countries and is targeting an additional 6-7 in 2017. Each participating country has a national advisory board comprised of leaders from across sectors. These boards are committed to leading development of impact investment as a tool for social benefit in, and from, their country and contributing to the development of a global market.

The OECD is actively engaged as a partner organisation to the G8 Taskforce and now the GSG, leading work on the evidence base for impact investment. The first stage of this work was concluded in 2015 with release of *Social Impact Investment: Developing the evidence base*.⁴⁸ The second phase, currently underway, includes work streams on transparency and comparability of data through data standards and linking the evidence base to the SDGs.

More on the G8 Social Impact Investment Taskforce, the GSG and its work plan and recommendations is set out in **Appendix 2**.

Since 2015, Brazil, Mexico, Israel, India and Portugal have joined the G7 countries and Australia as members of the GSG. Other countries actively developing strategies include South Africa, Finland, Argentina, South Korea and Bangladesh. This reflects that: *'In a G-20 world, the leadership, funds and entrepreneurs from the new economic powers and from the developing world more broadly must have a strong voice and choice in impact investing as a market and as a field.'*⁴⁹

Multi-lateral agencies are taking action. The UN has launched impact funds through both UN OPS and UNDP. The United Nations Social Impact Fund was established in January 2015. Its mandate is to focus on improving the efficacy and efficiency of policy and market frameworks to better address social, environmental and economic barriers to inclusive growth and, establishing new measurement and evaluation frameworks.⁵⁰

⁴⁶ Impact Investing Trends: Evidence of a Growing Industry, GIIN, 2016

⁴⁷ Ibid

⁴⁸ Wilson, K & Silva, F, Social Impact Investment: Building the evidence base, OECD, 2015

⁴⁹ Jackson, T & Harji, K, Accelerating Impact: Achievements, Challenges and What's Next Building the Impact Investing Industry. New York: Rockefeller Foundation. 2012

⁵⁰ United Nations Social Impact Fund Feasibility Report: establishing an international research consortium, unpublished, 2016

There are a growing number of platforms and connectors operating in individual countries, across regions and globally. The GIIN is one of the better known⁵¹ and works primarily with the investor community. Its current geographic focus is primarily on North America and Western Europe. Organisations including the Aspen Network of Development Entrepreneurs and Ashoka focus on development of enterprises and entrepreneurs around the globe. Several leading academic institutions, such as the Case Centre at Duke University and Said Business School at Oxford, play roles in research to build the evidence base and, in some cases, provide technical assistance.

Local Momentum

Much has already been achieved by early adopters and pioneering leaders. There is a dynamic range of transactions of different sizes and characteristics evident and emerging across the Australian impact investing market.

The foundations are in place for a uniquely Australian approach that adapts the best of local and global experience and builds on considerable local strengths and talent. The pool of skilled and talented professionals attracted to the sector continues to grow further unlocking the potential for social innovation. Australia is already recognised as having made a significant contribution to global leadership. This ranges from the leadership role in the GSG to the practitioners and transactions based here that are cited globally among leadership in the field.

Momentum continues to build and investor interest is high. Over 120 organisations in the domestic market collectively managing more than \$333b in funds under management participated in the first Australian impact investor survey.⁵² Over the next five years, active impact investors aim to triple the size of their impact investment portfolios and those investors not yet active in the field strongly expect to consider social or environmental impact as a metric in investment decisions.⁵³

Data collected for Australia's first benchmarking report of impact investments revealed a steady increase in the number of impact investments over recent years. The data provided for the year to 30 June 2015 also confirmed further growth in the year to 30 June 2016, although a full data collection for that year has not been undertaken. The bulk of investment transactions in the year to 30 June 2015 comprised debt finance to social enterprises. The largest transactions by dollar value were green bonds issued by major Australian banks.⁵⁴

The data also showed the diversity of the impact investment market across multiple asset classes, investment types and impact areas. Positive financial returns have been delivered and the lives of over 60,000 people have been impacted. Positive impacts include: 126 schools supported, 319 jobs created, 1072 people with disabilities supported, 669 mental health sessions delivered, and 11501 MWh of renewable energy generated.⁵⁵

⁵¹ Freireich, J, and Fulton, K, Investing for Social and Environmental Impact: A Design for Catalysing an Emerging Industry, Monitor Institute, 2009.

⁵² Impact Investing Australia 2016 Investor Report, Impact Investing Australia, 2016

⁵³ Ibid

⁵⁴ Ibid

⁵⁵ Castellás, E, Findlay, S & Addis, R, Benchmarking Impact: Australian Impact Investment Activity & Performance Report, Impact Investing Australia, 2016

Significantly, the market is mobilising across sectoral boundaries:

- There is already activity at Federal level including in development policy through the Department of Foreign Affairs and Trade, as noted in the Discussion Paper, and extending to private sector engagement and innovation. Over the last 5 years, a number of initiatives have now been considered by enquiries of the Productivity Commission⁵⁶ and Senate Economics References Committee⁵⁷ and/or evaluated, for example the recent evaluation of the Social Enterprise Development and Investment Funds.⁵⁸ The first comprehensive field scan of impact investment was led out of the (now) Department of Employment in 2012-3.⁵⁹
- State Governments have been active in NSW, Queensland, South Australia, ACT and Victoria. Much of the focus has been on Social Impact and Social Benefit Bond initiatives. NSW released its Social Impact Investment Policy in February 2015 and launched the Office of Social Impact Investment. Victoria released a dedicated social enterprise strategy in February 2017.
- Existing intermediaries have increased their activity. Each of the social enterprise development and investment funds have been indicating increased business and is seeking new capital in the market. Social enterprise incubators such as The Difference Incubator have also expanded their offerings. Intermediaries have entered the market such as Impact Investment Group (incubated by Small Giants), Australian Impact Investments (an initiative of Ethinvest), Brightlight Impact Advisory, Impact Generation Partners and a specialist law firm, Social Impact Law. Established firms including the big 4 accounting firms have started to enter the impact investment advisory and measurement markets. However, the activity and capacity remains concentrated in a few, highly specialised groups and is a critical area for development.
- Increasing financial services sector interest is evident in initiatives such as the National Australia Bank's commitment of \$1.75m to enterprise investment readiness. Westpac and Commonwealth Bank of Australia were active participants in structuring and placing one of the NSW Social Benefit Bond transactions. The large banks have also led on green bonds.
- Other parts of the financial system have also mobilised. Leading examples at the institutional end of the market include the \$100m commitment from QBE to impact investment in 2014-15 and Hesta's \$30m investment to cornerstone an impact investment fund managed by Social Ventures Australia. Foundations and Public and Private Ancillary Funds have also entered the market, primarily in social enterprise investment and housing.
- There is a growing impact measurement practice and industry body, Social Impact Measurement Network Australia.

Australia's sector led strategy

An Australian Advisory Board on Impact Investing (AAB)⁶⁰ was established in 2013 to inform Australia's contribution to the G8 Social Impact Investment Taskforce and develop a strategy to catalyse impact investment in, and from, Australia. The AAB, like national advisory boards in the other 12 countries, is comprised of leaders drawn from across sectors. They share a common vision for, and commitment to, seeing impact investment grow as a powerful force for Australia's future prosperity.

The Australian strategy, *Delivering on Impact*⁶¹, prioritises a small number of concrete headline goals designed to deliver significant market infrastructure that can quickly stimulate different parts of the impact investment market and accelerate its development.

⁵⁶ Australian Productivity Commission, Contribution of the Non-Profit Sector, 2010

⁵⁷ Investing For Good, Senate Economics References Committee, 2011

⁵⁸ SEDIF Evaluation Report, Centre for Social Impact, for Department of Employment, 2016

⁵⁹ Addis, R, McLeod, J and Raine, A, IMPACT-Australia: Investment for social and economic benefit, Australian Department of Employment, 2013

⁶⁰ www.australianadvisoryboard.com

⁶¹ https://impactinvestingaustralia.com/wp-content/uploads/0109Delivering_on_impact.pdf

This strategy was developed based on extensive consultation with a wide range of practitioners in the Australian and international markets. It built upon contributions, insights and engagement demonstrated through previous enquiries including those conducted by the Productivity Commission (2010), Senate Economics References Committee (2011) and the consultation for IMPACT –Australia (2012-13). It was further informed by a growing body of international literature, thought leadership and research.

Over 50 senior leaders from across sectors took an active part in the work to scope, design and deliver these initiatives in collaboration with global leaders, including Big Society Capital (UK), the UK Cabinet Office and OECD team.

The strategy to catalyse impact investment combines aspirational goals and practical action, designed so that people and organisations can get behind them, from wherever they are in the eco-system. The actions were designed to have a catalytic and amplifying effect and focus on those things it is difficult or unlikely any one organisation alone could deliver. Key aspects of the strategy include:

- Grow capital and encourage intermediaries: a blueprint has been developed for the flagship infrastructure, Impact Capital Australia. A \$300m independent institution intended to provide a long-term platform encouraging diverse investor participation.
- Enable and incentivise better outcomes and innovation through enterprises and commissioning. The Impact Investment Ready Growth Grant was launched in 2015, seeded by National Australia Bank. The Grant has enabled 16 organisations to access funding for capital raising. Eight have closed on capital raising, achieving more than 20x leverage on grant funding. There is scope to build on this initiative. *A Practical Guide to Understanding Social Costs: Developing the Evidence Base for Informed Social Impact Investment, 2016*, developed by Deloitte Access Economics in association with the AAB, is a second initiative that aims to bring greater transparency to the fiscal costs of social issues and encourage a focus on outcomes.
- Develop performance data and benchmarks to facilitate participation for a range of investors. Two key initiatives have been delivered. The *Impact Investing Australia Investor Survey, 2016* which provides the first data on investor interest, activity and intentions for impact investment. *Benchmarking Impact, 2016*, the first set of aggregated market data.

The AAB provides an authoritative entry point and unique opportunity for market engagement. Its strategy provides a frame for governments to engage, support and collaborate without all the activity needing to be driven by government.

Momentum from across the Australian corporate and social community, and from the financial and philanthropy sectors, reinforces that the time for the Australian Government to act is now. Engagement is critical for the development of an ecosystem capable of driving impact at scale.

Barriers and Challenges

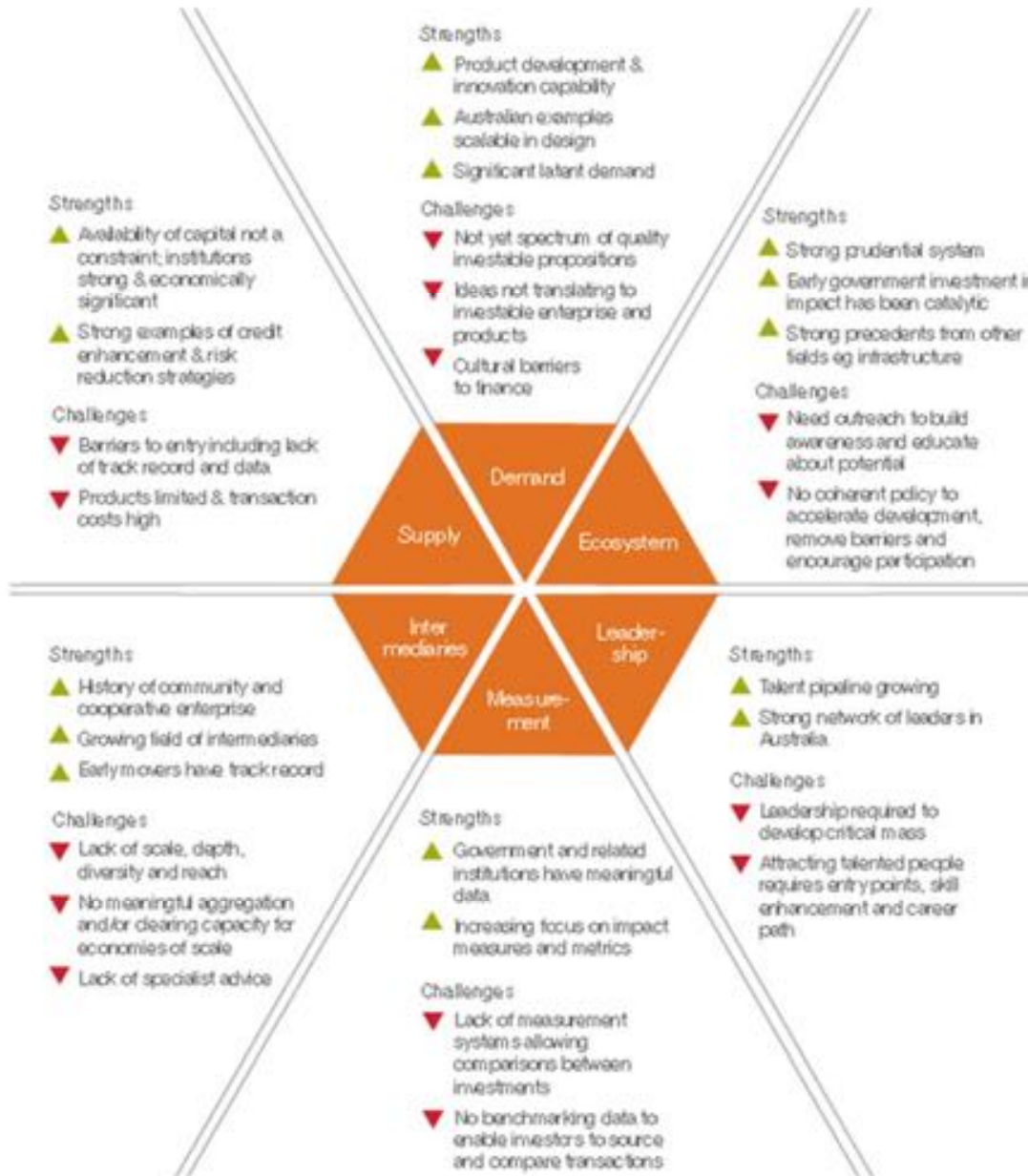
Question 1 of the discussion paper asks about the main barriers to the growth of social impact investing in Australia.

As discussed above, detailed work on the state of the impact investment market in Australia was undertaken by the AAB in 2014 to inform its first strategy. Stakeholder consultation undertaken in 2014 built upon a similar engagement process conducted in 2012. It was further informed by stakeholder input into the Productivity Commission Inquiry into the contribution of the not for profit sector and the Senate Economics References Committee inquiry, *Investing for Good*.

In 2012 and 2014, a range of stakeholders were consulted for their views about the strengths and challenges of the market and the strategies and actions to tackle barriers and challenges. The 2014 feedback from the market was synthesised as follows, by reference to the perspectives of investors, service providers, and intermediaries.

There is relatively high consensus about what the barriers are although, priorities of different groups can differ based on their role in the market and organisational objectives.

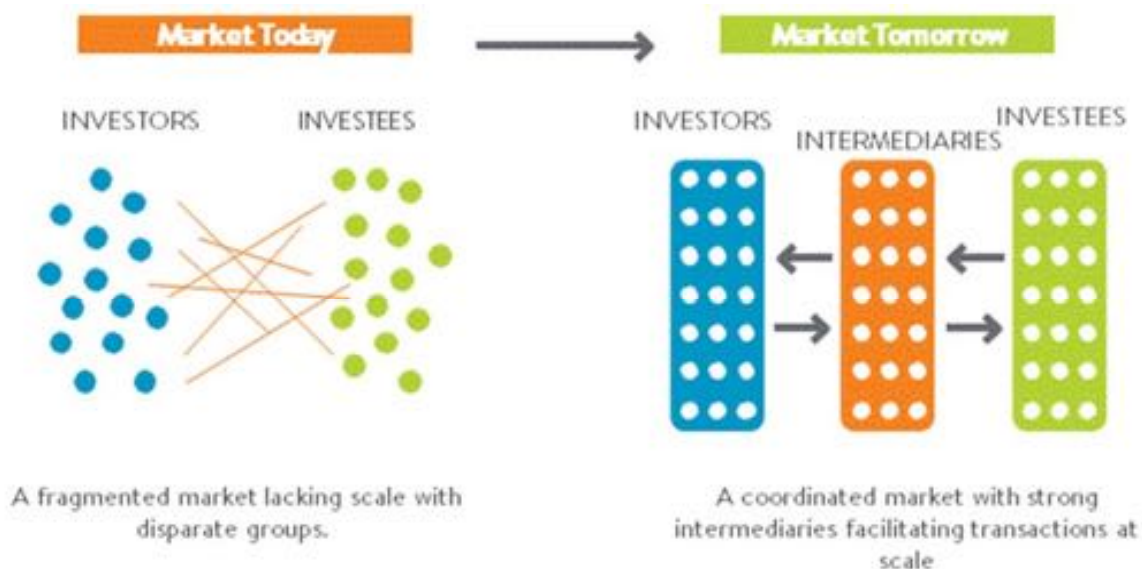
Figure 6: Strengths and Challenges in the Australian market for Social Impact Investment



Source: Australian Advisory Board Strategy: *Delivering on Impact 2014*

In addition to the feedback from stakeholders in Australia, the AAB also analysed available global data to determine where practical actions and focused policy could help address the challenges of Australian market development. The actions set out in its strategy were designed to provide the first stage of coordinated effort to move the market toward greater coherence.

Figure 7: Developing the market from fragmented to functional



Source: Impact Investing Australia, 2016

While impact investment has matured as a market in recent years from uncoordinated innovation to greater cohesion there are remaining challenges for market development. They are real and not insignificant. They are also able to be addressed through targeted strategy with a focus on market building.

The challenges also reflect opportunities for action. They point to where the work remains to be done and areas where relatively modest investment can have a significant impact. This includes:

- Strengthening qualified demand. Specifically, encouraging and building an enterprise's capabilities that enable attraction of capital and management of investments. This includes, over time, strengthening technical expertise and developing scalable models, to achieve variety and scale in the market.
- Strengthening the business case for investment, building awareness, developing and documenting track record, and encouraging shifts in culture and practice to unlock capital.
- Serious attention to developing talent, tools, knowledge and sector leadership as part of the enabling environment.
- Practical steps to raise awareness, reduce transaction costs and develop data to inform decision making.

A key opportunity, often overlooked is creating and growing intermediaries. While the debate often focuses on whether there is sufficient supply or demand, the key is organisations and experts that can design transactions that mobilise latent demand and that bring together investors and investment opportunities *on appropriate terms*. This can include encouraging existing intermediaries to broaden their focus and capacity.

Lack of coherent policy to accelerate development, remove barriers and encourage participation is also commonly identified as a challenge for impact investment. Where policy incentives do exist to encourage investment, lack of consistency and longer term commitment are also factors that can discourage private sector commitment.

Learnings from the recent Impact Investor Survey⁶² and ongoing discussions with market participants highlight the need for go-to points within government and more broadly in the market. Investors already active in the market almost unanimously consider more investable deals, evidence of social impact and evidence of financial performance or longer track record as factors needed to increase their organisations' allocation to impact investments. Reliable information, research and benchmarks and more commonly accepted investment frameworks are required to convince more of those not active to become active impact investors.

The feedback from investors does not directly address the issue of how to accelerate this development. The G8 Taskforce and AAB have addressed this directly with a focus on market infrastructure and key areas for action and policy. The global and Australian strategies were developed against the local and international evidence base. Extensive research, consultation and engagement has been involved in and beyond Australia.

The critical missing pieces are:

- the social capital that de-risks the transaction and facilitates the entry of investors who have capital at scale to bring to the problem; and
- intermediaries.

What is observable globally is that where these issues are addressed, many transactions which would have failed on current market terms have succeeded.

The establishment of an appropriately funded independent wholesale institution in the market would provide the go to point and convener for this necessary social capital layer. It would also pump prime the intermediaries and encourage new entrants. Thus enabled, community sector organisations, housing organisations, other service providers and impact driven organisations would have an expanded range of options for funding and finance. This could include borrowing from a funded social lender to grow their reach or leasing assets from a social property fund.

Australia and the Global Market

Connection to global developments and leadership in other countries enables the market here to learn and adapt more quickly, shorten the runway for new initiatives, and move more quickly overall. This also provides opportunities to direct investment to areas such as foreign development priorities and position Australia as a destination for impact investment capital.

There are already leaders based in Australia working across the region such as Kylie Charlton (Unitus Capital) and Andrew Kuper (Leapfrog Investments). Other examples, include organisations with deep roots in Australia but with appetite to shift their business models from donor base to investment, such as Opportunity International and The Nature Conservancy. There is a broader range of development organisations including World Vision and Oxfam who are exploring what impact investment could mean for their operating models and partnerships.

The work of the AAB is having an impact in countries across the region including South Korea and Bangladesh and contributing to the OECD and UN initiatives. However, Australia's positioning is not yet matched by volume of investment. The potential for investment from here, including into the region, has not yet been taken up in a meaningful way. Currently, most of the impact investment into the region is coming from the US and Europe.

⁶² Impact Investing Australia Investor Survey, 2016

Australia is an active participant in, and contributor to, several global initiatives seeking to develop greater convergence in data collection, measurement tools and frameworks and how these translate to impact measurement. These initiatives include the second stage of OECD work and the Impact Management Initiative led by Bridges Impact+ which is developing the first convention for impact measurement and management. The AAB led initiative to capture the first aggregated market based data in 2016⁶³ has contributed a set of Apex Impact Measures, representing the top 3-5 metrics being used across the most commonly reported outcome areas.

The way forward

Question 2 asks about the future for social impact investing in Australia.

Impact investment in, and from Australia, has significant potential. It is highly likely that new investment structures will be developed. The timing of this, could be significantly accelerated with constructive market infrastructure in place.

Innovations so far illustrate the potential; with regular examples of new structures. Bridges Ventures and community development investment institutions have developed mechanisms to direct capital to place, revitalising communities and creating jobs.⁶⁴ These models can be readily adapted for Australia and the preliminary design work has been done.⁶⁵

The International Finance Facility for Immunisation (known as GAVI) bonds,⁶⁶ has raised billions of investor capital to finance immunisation programs, enabling over 300m more children to be vaccinated against preventable disease today than would otherwise have been the case. The recent establishment of the Murray Darling Basin Balanced Water Fund is a local example of a new structure. Large multi-nationals Danone and MARS launched a fund to invest in developing small-hold farms in their supply chain. The range of models reflected in different impact bond structures around the world are, in effect, new investment structures being developed.⁶⁷ The first social impact bond fund is operating in the UK.⁶⁸ Recent work has highlighted opportunities to link investment to achievement of the SDGs.⁶⁹

The market is at an inflection point where the choices made in the near term will determine whether the potential for Australian impact investing is reached.

⁶³ Castellas, E, Findlay, S & Addis, R, Benchmarking Impact: Australian Impact Investment Activity & Performance Report, Impact Investing Australia, 2016

⁶⁴ See potential outlined in Burkett, I, Place Based Impact Investment in Australia, Department of Employment, 2012

⁶⁵ Ibid

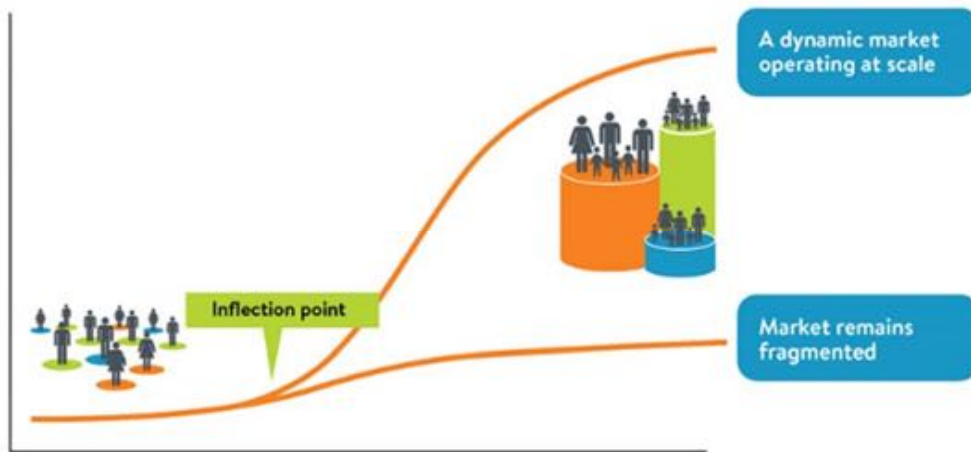
⁶⁶ <http://www.iffim.org/>

⁶⁷ Gustafsson-Wright, E et al, The Potential and Limitations of Impact Bonds: Lessons from the first five years of experience, Brookings Institute, 2015; Social Impact Bonds: The Early Years, Social Finance, 2016; <http://socialfinance.org/social-impact-bonds-the-early-years/>

⁶⁸ Bridges Community Ventures Social Impact Bond Fund, <http://bridgesventures.com/social-sector-funds/social-impact-bond-fund/>

⁶⁹ Achieving the Sustainable Development Goals: The role of Impact Investing, GIIN, 2016, What do the Sustainable Development Goals mean for investors, UNPRI, 2016

Figure 8: The market is at an inflection point where targeted initiatives can drive scale in impact and investment



Source: Addis, R, McCutchan, S & Munro, P, Blueprint to Market, Impact Investing Australia, 2015 adapted from Bannick, M & Goldman, P, Priming the Pump, Omidyar Network, 2012

There is no doubt there has been a shift in the last 3 – 5 years in awareness, interest and action. In addition to domestic development, there is a significant social and economic opportunity to increase the regional focus and commitment to impact investment from Australia as a potential growth market.

The market is moving but with government support it could be moving faster. There is still more to do to achieve breakthrough include a small number of targeted pieces of infrastructure and ecosystem development.

The ground work already done has created conditions in which critical pieces of infrastructure can shift fragmented, niche activity and incremental progress to much greater scale. This in turn can direct capital to areas of real need, translate interest to action, and deliver benefits to government and the community.

Alongside this market development, there is critical work for government to develop its capacity to commission for outcomes and encourage greater innovation in social service delivery.

The policy case for action

Impact investing matters because it increases the options we have for approaching societal issues, increases the capital available to encourage and finance new and existing approaches that work, and improves the impact and outcomes achieved. **Delivering on Impact: The Australian Advisory Board Strategy for Catalysing Impact Investing, 2014**

There is a substantial body of international evidence and thought leadership on the development of capital markets for the social economy. This work spans more than a decade and includes substantive pieces from the United States, the UK and Canada. Work in the United States such as *The U.S. Non-Profit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Mechanisms*⁷⁰ dates back to the late 1990s. Examples in the UK since 2000 include the work of the government auspiced Social Investment Task Force: *Enterprising Communities – Creating Wealth Beyond Welfare*⁷¹ and *Financing Civil Society: A Practitioners View of the UK Social Investment Market*.⁷² While in Canada, the Task Force on Social Finance produced: *Mobilizing Private Capital for Public Good*.⁷³

Since 2010, more concerted focus has been brought to policy for impact investment in particular.⁷⁴ The literature points to two key benefits:

- Real breakthroughs in how we tackle issues affecting society; and
- Increasing the pool of resources available for that task beyond the limits of government budgets and philanthropy.

Government is an important actor in both delivery of social services and markets. Other benefits include:

- More effective targeting of resources
- Mobilisation of a broader range of actors to tackle social issues and invest in public goods;
- Greater focus on efficacy and outcomes
- New ways to incentivise innovation and prevention to tackle difficult and costly social issues
- Expanded options to build local capacity and promote sustainable social and economic development in communities of high need domestically and internationally
- Advancement of foreign policy goals including new opportunities for the private sector in growth markets
- Promotion of opportunities and trade connections in growth markets that have traditionally been donor countries in a shift from ‘aid’ to ‘investment’

The Financial System Inquiry found that: *‘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... 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.’*⁷⁵

⁷⁰ Emerson, J, *The U.S. Non-Profit Capital market: An Introductory Overview of Developmental Stages, Investors and Funding Mechanisms*, 1999, REDF Box Set, Vol:2 Ch:10 and Ryan, W., *Non-profit Capital: A Review of Problems and Strategies*, Rockefeller Foundation and Fannie May Foundation, 2001.

⁷¹ *Enterprising Communities: Wealth Beyond Welfare*, Social Investment Task Force, 2000.

⁷² Mitchell, L, Kingston, J, and Goodall, E., *Financing Civil Society: A Practitioners View of the UK Social Investment Market*, 2008, Charities Aid Foundation.

⁷³ *Mobilizing Private Capital for Public Good*, Task Force on Social Finance, 2010 and *An Overview of Impact Investing*, 2010, Phillips, Hager & North.

⁷⁴ Jackson, E. T. and Harji, K. *Unlocking Capital, Activating a Movement*. New York: Rockefeller Foundation, 2012.

⁷⁵ Financial System Inquiry Report, 2014, Appendix 1

The Discussion Paper points to benefits for governments, investors and service providers. There is a broader range of groups through society that benefit from impact investment:⁷⁶

- Socially motivated entrepreneurs and organisations gain access to appropriate finance and support in ways akin to that available to commercially focused entrepreneurs
- Mainstream financial markets benefit from access to appropriate finance for initiatives and services that create positive impact in the community
- Communities benefit when they can finance new opportunities to develop services and infrastructure, and generate jobs – increasing the flow of capital into communities towards more positive cycles of employment and economic activity
- Small to medium sized enterprises gain access to appropriate investment capital and business support that helps them grow their businesses, create jobs, and ride out difficult times
- Philanthropists benefit with options to generate greater impact and leverage through their activities
- Investors have greater choice and new opportunities to put their money to use in ways that make a financial return and benefit society
- Institutional investors have more options for fulfilling their duties as fiduciaries and diversifying their portfolios
- Governments achieve better outcomes and greater flexibility to target spending and encourage more private capital into areas where there is a need for new solutions.

To realise the potential, all sectors need to move beyond what have been '*presumed trade-offs between economic efficiency and social progress*'.⁷⁷ Government can influence and accelerate progress in a range of ways, including by signalling interest, encouraging a focus on value creation and removing barriers to market development.⁷⁸

Mobilising resources: market development

Impact investment opens potential for governments to access not just more, but different resources, and in new combinations. It also provides mechanisms for governments to direct and channel resources to priority areas. This needs to involve more than cost and risk shifting between the public and private sectors. It can and should be directed to areas where working together achieves more and better results than government or other sectors can achieve alone;⁷⁹ more than either grants or current capital markets can achieve alone.⁷⁹

Governments routinely use policy levers to shape markets, correct for market failures, create incentives for investment and disincentives for harm, and influence where capital is directed. This includes setting the regulatory environment and fiscal policy addressing market failures and stimulating new market opportunities. In Australia, as in other countries, the role of Government as regulator is well developed. Commentators argue good regulation furthers good governance and co-operation that enhances market effectiveness.⁸⁰

The roles for government can be applied to the essential components for a well-functioning market. For impact investment, the role includes ensuring that market conditions promote investments with explicit social or environmental benefits.⁸¹ This needs specific attention to ensure that the focus on the societal as well as financial dimensions that are required for effective impact investment can be developed.

⁷⁶ Addis, R, Bowden, A and Simpson, D, Delivering on Impact: the Australian Advisory Board, Strategy to Catalyse Impact Investment, 2014

⁷⁷ Porter, M and Kramer, M, The New Capitalists, Harvard Business Review, 2011.

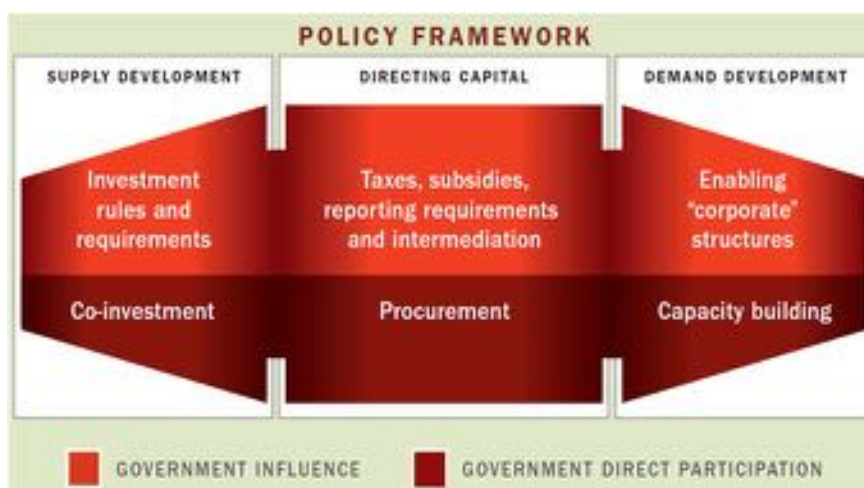
⁷⁸ Addis, R, The Role of Governments & Policy in Social Finance, in Nicholls, A et al (eds), Social Finance, OUP, 2015

⁷⁹ Ibid

⁸⁰ Ibid, citing Thornley et al, Impact Investing: Policy Analysis and Design, InSight at PCV and Initiative for Responsible Investment at Harvard, 2011; Beinhocker, E and Hanauer, N, Redefining Capitalism, McKinsey Quarterly, 2014.

⁸¹ Ibid

Figure 9: Framework for Policy Design and Analysis



Source: **Impact Investment: Policy Design & Analysis**, Thornley, B & Wood, D et al, 2011

Policy considerations for market intervention typically include⁸²:

- Structural barriers to investment
- Information asymmetry
- Uncertainty and other constraints on market development
- Appropriate balance between stimulus and free market operation
- Support for individual initiatives relative to sector development
- Whether interventions will distort the operation of the market or result in other 'harm'

There is evidence that the Australian market is not yet responding in a coherent way to the needs of community sector organisations and other impact driven enterprises. The Productivity Commission found there is a significant unmet need for capital (and in particular growth capital) for not-for-profit organisations in Australia.⁸³ The Commission also concluded that such organisations often struggle to obtain secure income streams and working capital to undertake new programs, to replicate what works, or take good ideas to scale. As a result, it can be difficult for not-for-profit organisations to plan beyond short term funding cycles and much time and resources are invested in securing grants. Public support for community organisations engaged in preventative activities is limited relative to crisis response.⁸⁴

This is consistent with international evidence documenting lack of stable and sustainable funds and barriers to securing growth capital, and particularly risk capital, which impedes the capacity for impact driven organisations to develop, scale and grow.⁸⁵

Markets develop where there is the willing involvement from a range of actors prepared to act and interact to build the enabling environment within which a range of activities and transactions can occur. Many impact driven organisations face issues common to scaling and commercialisation of other research and development and new models which, are familiar to the innovation landscape.

⁸² Goodall, E and Kingston, J, 'Access to Capital: A Briefing Paper'. Charities Aid Foundation.2009, Thornley et al, *Impact Investing: Policy Analysis and Design*, InSight at PCV and Initiative for Responsible Investment at Harvard, 2011; see also *Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard*, OECD, 2012, *Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard*,

⁸³ Ibid.

⁸⁴ *Contribution of the Not for Profit Sector*, Australian Productivity Commission, 2010

⁸⁵ Young Foundation and Social Innovation Exchange, 2010, p 93; and Hartigan, P., 2006, 'Delivering on the Promise of Social entrepreneurship: Challenges Faced in Launching a Global Social Capital Market', 2006, in *Social Entrepreneurship: New Models of Sustainable Social Change*, ed. Alex Nicholls, Oxford University Press.

A more active role for governments as a catalyst could be an essential element in realising the potential innovation and its social and economic value: *'...if we have a broader theory of what the state is actually doing, value creation, the next period of growth will not only be smart, not only green, but also inclusive...'*⁸⁶

Achieving breakthrough: an innovation paradigm

The policy case for State action to promote innovation is also relatively well established, although not yet as routinely applied in the social policy domain. That includes priming the pump for appropriate capital, encouraging new enterprises and talent, sharing data, promoting collaboration, and addressing barriers to the emergence of growth and new industries. The OECD position is that: *'The financial system has a central role in fostering innovation and growth. Policies and reforms of financial institutions and markets can facilitate financing of entrepreneurial firms...Often the regulatory system is complex and/or has hidden disincentives for young innovative firms and/or investors.'*⁸⁷

Internationally and in Australia there is a track record for government action underpinning the emergence of growth and new industries. In Australia, this has included venture capital, research and development, green and renewable technology, and business model innovation for structural adjustment.

In many respects, development of impact investment is an innovation paradigm, as are a range of activity this investment enables. The AAB concluded: *"What is unique now is the rapid ascendance of financial innovations for social impact. There is enough capital and talent to make a significant difference to social issues; they need to be deployed differently to achieve a better result. We can use the best of our resources and resourcefulness to find new ways of working and increase the focus on improving quality and efficacy of services, encourage innovation to break cycles of need and dependence, and create capability and new opportunities."*⁸⁸

The policy case for State action to promote innovation can and should be applied to tackling the most pressing issues for society. The Financial System Inquiry agreed, particularly as it relates to mobilising private capital as a vital enabler of the innovations addressing social, environmental and cultural challenges.

Commentators and practitioners agree there is currently systematic under-investment *'...in creating the conditions under which innovations – and entire new sectors – could be sparked and scaled'*.⁸⁹ Sir Ronald Cohen, Chair of the G8 Taskforce, and Harvard Professor William Sahlman stated that: *'Just as the formation of the venture capital industry ushered a new approach and mindset toward funding innovation within the private sector, impact investment has started to bring opportunities to harness entrepreneurship and capital markets to drive social improvement. This, in time, will bring much needed change to the social sector.'*⁹⁰

Question 6 raises questions about how impact investment can promote more effective and efficient policy outcomes.

The potential for breakthrough extends to building capability and new processes that move away from more traditional government contracting. Traditional practice has defined the nature of services to be delivered, measured performance based on inputs and outputs and been based on either grant funding or a fee for service. This limits scope for even the best quality providers because they have to go where the money is rather than focus on impact, targeting and, where appropriate, scale.

⁸⁶ Mazzucato, M. *The Entrepreneurial State: Debunking Public vs Private Sector Myths*. London: Anthem Press, 2012

⁸⁷ *Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard*, OECD, 2012,

⁸⁸ Addis, R, Bowden, A and Simpson, D, *Delivering on Impact: the Australian Advisory Board, Strategy to Catalyse Impact Investment*, 2014

⁸⁹ Bannick, M, and Goldman, P, *Priming the Pump: The Case for a Sector Based Approach to Impact Investing*. San Francisco: Omidyar Network, 2013.

⁹⁰ Cohen, R., and Sahlman, W. A. 'Social Impact Investing Will Be the New Venture Capital', *Harvard Business Review*, 2013

Impact investment is opening different options for partnering to finance and deliver services and public goods. It can promote cross-sector collaboration, harness specialist expertise, and improve efficacy of spending with greater clarity on agreed milestones, measures, and accountability for results. For providers, this can open new sources of funding and finance, with greater flexibility to respond to social needs instead of programme constraints. Designed well, it can enable greater focus on evidence-based service delivery and improve the data and evidence base for what works.

The experience in the field already suggests that the process of developing, implementing and managing impact investments is delivering concrete opportunities for change in how the public, private and community sectors execute roles and interact with one another. The design and negotiation process around a transaction or initiative provides a platform to work through effective process and understand new models. Parties to transactions report material learning and process improvements. They also report better understanding of available data, what the gaps are, and where the real value is achieved in a combination of different skills and experience.⁹¹

With appropriate encouragement, impact investment can be a driver for more and different activity and innovation to deliver better outcomes for people, and break ongoing cycles of dependence.

⁹¹ For example, Proceedings of the NSW Forum on Social Impact Bonds 2 December 2013 (unpublished)

The roles of governments

There is no market from which government is completely absent, whether as a direct participant providing and purchasing resources, or as an enforcer of standards and rules.

Impact Investment, Policy Design and Analysis, 2011

Question 4 of the Discussion Paper goes to the role of the Australian Government in developing the social impact investing market. The response is in two parts: the role of governments and the role of Federal Government.

As the Discussion Paper highlights, governments will be significant beneficiaries of a flourishing impact investing market. There is no doubt the market is likely to develop to scale more quickly where government is also an actor. Beyond scale, it will add substance where experience of policy makers and data held by governments plays a role.

International evidence and local experience demonstrate the powerful effect of government leadership in developing impact investment. Relatively modest and targeted initiatives, often re-purposing existing spending, can have a significant positive impact.

The G8 Social Impact Investment Taskforce concluded that policy is a central pillar of market development. The central importance of government's role was reflected in an entire report: *Impact Investment – Policy Levers and Objectives*. This was reflected in the strategy of the AAB for catalysing the market in and from Australia, and in reports from National Advisory Boards of other countries participating in the G8 process.

Roles for government

The Financial System Inquiry agreed with the role for government as set out by the OECD.⁹² The Inquiry concluded that there is '*merit in government facilitating the impact investment market*' and in encouraging more innovation in social service delivery and tackling social issues. These two objectives reflect the need for both targeted initiatives *and* a focus on the market.

The role description for governments was refined by the G8 Social Impact Investment Taskforce in practical terms as: market builder, market participant and market steward. This reflects the leading analysis on the role of governments and policy in development of both new markets⁹³ and a market for impact investment.⁹⁴

- **Market Builder:** This role involves providing leadership that signals interest and legitimacy, giving more actors confidence to participate, contributing to development of early infrastructure and de-risking activity to encourage market development. It includes providing incentives for new and different activity, for innovation and efficacy.
- **Market Steward:** This role reflects governments' position as regulator and legislator. A suite of policy levers can be used to shape markets, remove unnecessary regulatory barriers, create disincentives for harm and influence where capital is directed.
- **Market Participant:** This role recognises that government is a legitimate actor in the market. It can target its activity to mobilise others, including holders of private capital, to act constructively in priority policy areas. It can encourage better results and more integrated service delivery, as well as collaboration between non-traditional partners.

⁹² Financial System Inquiry, Appendix 1, 2014

⁹³ Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard, OECD, 2012, Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard, 2013, Janeway, W. H. Doing Capitalism in the Innovation Economy: Markets, Speculation and the State. Cambridge: Cambridge University Press, 2013

⁹⁴ Thornley et al, Impact Investing: Policy Analysis and Design, InSight at PCV and Initiative for Responsible Investment at Harvard, 2011; Social Impact Investment Taskforce Report 2014; Australian Advisory Board Strategy 2014, Addis in Nicholls et al (eds), 2015

While the goals, levers and tools are slightly different for facilitating the market compared with encouraging innovation in social service delivery, the roles for government are the same.

Figure 10: Roles for Government to facilitate Market Development and Encourage Innovation in Social Service Delivery

Facilitate Market Development			
Role	Market Builder	Market Participant	Market Steward
Policy Objective	<ul style="list-style-type: none"> ▪ Increase resources to impact driven organisations ▪ Develop impact investment system with a range of participants ▪ Provide incentives to encourage greater participation and scale in early stages of market development 	<ul style="list-style-type: none"> ▪ Better targeted government spending and direct capital to policy priorities ▪ Increase flow of investment to social purpose organisations and social objectives 	<ul style="list-style-type: none"> ▪ Remove barriers to investment ▪ Reduce red tape preventing greater participation by investors
Encourage Innovation in Social Service Delivery			
Role	Market Builder	Market Participant	Market Steward
Policy Objective	<ul style="list-style-type: none"> ▪ Increase resources to impact driven organisations ▪ Encourage willing talent to tackle issues affecting society and build and grow effective social purpose organisations 	<ul style="list-style-type: none"> ▪ Increase focus on efficacy and outcomes ▪ Orient funding to provide incentives for innovation and effective solutions 	<ul style="list-style-type: none"> ▪ Ensure regulatory frameworks enable a range of impact – driven organisations ▪ Remove red tape that impedes sustainable blended models of profit and purpose

Source: Adapted from Social Impact Investment Taskforce, 2014 and Addis, R The Role of Governments & Policy in Social Finance in Nicholls, A et al (eds), Social Finance, OUP, 2015

Taking a market view

Focused strategy will be required to drive effective measures that help build confident and informed demand, efficient matching of supply and demand, a variety of investment mechanisms, and resilient supply of capital.⁹⁵

There is no silver bullet. A central lesson from the international experience and from other fields with a market dimension is that government action to facilitate market development is most effective where there is balanced and strategic development across dimensions of demand, supply, intermediation and the enabling environment (London Principles, IIPC 2013). Increasing the flow of capital without attention to the role of intermediaries, the availability of investment ready enterprises and deals, or the context within which they operate, is likely to be less successful than an integrated strategy.⁹⁶

These factors are inter-related, even inter-dependent. Consider, for example:

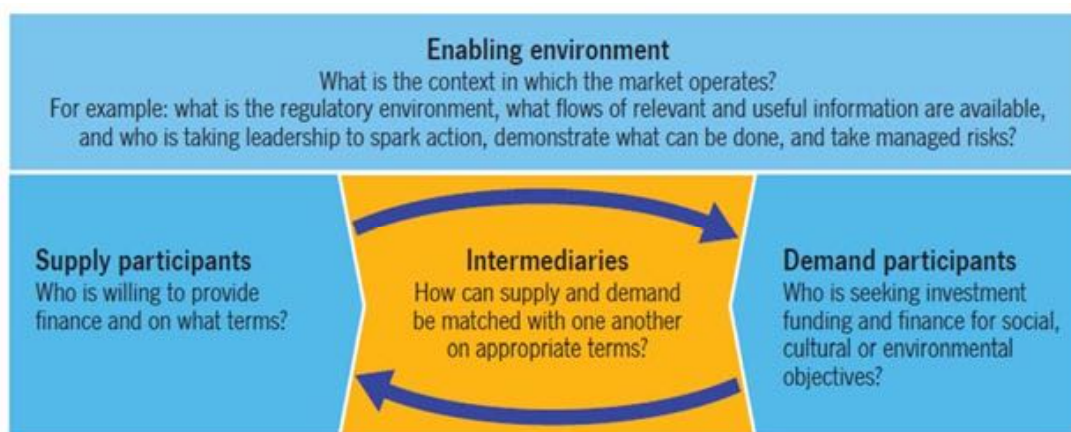
- Investors may be encouraged to invest greater amounts where effective systems are in place for measuring the impact of their investments.
- The demand from impact driven organisations for capital to expand successful programs may increase if they are able to access specialist financial advice and are supported to develop organisational tools and capacity to support expansion.

⁹⁵ Goodall, E and Kingston, J, Access to Capital: A Briefing Paper’. Charities Aid Foundation.2009

⁹⁶ Addis, R, The Role of Governments and Policy in Social Finance, in Nicholls et al (eds), Social Finance, OUP, 2015

- Existing and potential new intermediaries are more likely to invest time in understanding social, environmental and cultural needs and related assets and develop new types of products where supply of capital for impact funds is available.
- Private capital is more likely to move from traditional asset allocations where government has signalled its entry to the field, and there is policy stability and clear regulatory guidance.

Figure 11: Developing a market requires attention to interrelated dimensions of the market



Source: Addis, R, McLeod, J & Raine, A, IMPACT-Australia, Department of Employment, 2013

Government’s role in promoting intermediary development is critical. It is not enough to focus on supply and demand. Encouraging and establishing intermediaries is even more important in the early stages of market development when there are fewer established pathways for connecting supply and demand.⁹⁷ Over time, as was illustrated by the development of micro-finance, intermediaries are also key to achieving scale.⁹⁸

The regulatory environment and fiscal policy are important drivers, or disincentives, for development of markets.⁹⁹ Government has a role in addressing market failures and can also productively use regulatory mechanisms and incentives to stimulate new market opportunities, including for impact investment. Particulars of the regulatory barriers to impact investment are considered in this Submission.

Government clearly has more than money and regulation to contribute to the enabling environment. It can use a number of levers including its capacity for convening and taking a longer-term view. Government can also provide value in data and through research and evaluation.

Governments can use their role to open up opportunity, to signal where there is particular need or demand, and to direct and encourage private capital to those areas. For example, recent discussion about affordable housing has sparked interest and activity in new models through the Council on Federal Financial Relations, including the proposed bond aggregator, and the Social and Affordable Housing Fund in NSW. Governments have the opportunity to design policy to promote approaches that embed better services as well as more infrastructure. For example, public funds that provide credit enhancement cannot only mobilise more private capital, they can also extract a ‘price’ of clearer and more effective service integration.

⁹⁷ Jackson, T & Harji, K, Accelerating Impact: Achievements, Challenges and What’s Next Building the Impact Investing Industry. New York: Rockefeller Foundation. 2012, Addis, Raine & McLeod 2013; Burkett, I, Place Based Impact Investment in Australia, Australian Department of Employment, 2013

⁹⁸ Cheng, P. The Impact Investors Handbook: Lessons from the World of Microfinance, 1st ed. Charities Aid Foundation (CAF) Venturesome, 2011

⁹⁹ Thornley et al, Impact Investing: Policy Analysis and Design, InSight at PCV and Initiative for Responsible Investment at Harvard, 2011

Practical Challenges

Question 9 is directed to the challenges for implementing the role of Government.

The challenges for government’s role relate primarily to the practical aspects of the change in mind-set and process that impact investment represents.

The potential for breakthrough is matched with the need for change, to take up new processes that move away from more traditional government contracting. In some areas, particularly where service provision is involved, this involves greater flexibility in how things are done, coupled with greater accountability for results.

It starts with recognising that addressing the challenges will be as much about what government enables others to do as what it does itself. Part of that is targeting action within the market building and stewardship roles. This includes translating or extending existing approaches to market and innovation policy to social, environmental and cultural policy. Essentially, to develop the ecosystem so that more things can occur, over time, without the need for government involvement.

There is a shift to government as a facilitator of public value by a broader range of means.¹⁰⁰

One potential challenge in terms of the dominant paradigm is that catalysing markets involves a role for subsidy. Policy design will need to include consideration of where that is appropriate. In general, the greater the likelihood that an investment will: enable an important demonstration of models unlikely to attract finance on their own; or enable the refinement of successful models that can be scaled and replicated for high impact; or contribute important public good for an industry sector; the greater the case for a catalyst or subsidy.¹⁰¹

Figure 11: Relationship between public and private value

Table 4.4. Social Returns and Economic Efficiency

Impacts at the individual or societal/systemic level

Degree of publicness	Individual efficiency gains	Systemic efficiency gains
Social impact on the individual	PRIVATE	Possible SII
Social impact on the society	Possible SII	PUBLIC

Source: OECD.

Source: OECD, Impact Investment: Building the Evidence Base, 2015

Commissioning is key to the objective of encouraging innovation in social service delivery. What and how governments procure and commission can have a significant effect on the type of activity, range of providers and capacity to deliver. In particular, the G8 Social Impact Investment Taskforce found that *‘a decisive move to focus on purchasing outcomes (by governments and other commissioners) is the clearest way of stimulating the flow of revenue to impact-driven organisations that rewards them more directly for the social value they create. This can have a profound effect on the way impact is delivered as well as ensuring that innovation and effectiveness are incentivised.’*¹⁰²

¹⁰⁰ Wilson, K & Silva, F, Impact Investing: Building the Evidence Base, OECD, 2015

¹⁰¹ Addis, R, The Role of Governments & Policy in Social Finance, in Nicholls, A et al (eds), Social Finance, OUP, 2015 citing, see Bannick, M, and Goldman, P, Priming the Pump: The Case for a Sector Based Approach to Impact Investing. San Francisco: Omidyar Network, 2013.

¹⁰² Social Impact Investment Taskforce, 2014

This is complementary to, but different from, development of the impact investment market. This requires a very different approach to deploying current procurement and contracting of programs.

Existing processes, used effectively, can be powerful tools in developing initiatives with confidence in probity, accountability and value for money. For example, the Social Enterprise Development and Investment Funds initiative was highlighted by the Australian Public Service Commission as an example of innovative policy executed well.¹⁰³

There are a number of ways the challenge of developing capability and accessing relevant expertise can be addressed. For example, seeking targeted advice as well as building areas of expertise within government.

Developing a specialist team, or designating an existing team to build capability and drive early initiatives and capability development, is also helpful. As outlined in this Submission, that should include Ministerial ownership to provide the appropriate authorising environment.

Without a clear focus on what is different from what has been business as usual and attention to capability, there are risks to effective delivery and to achieving the objective of market development. Particular risks and challenges that will need to be managed include:

- Insufficient resources and focus to develop capability across Departments
- Lost opportunities to develop and share understanding of principles that can be applied universally and those which need to be adapted for local conditions or particular cases
- No ownership of integrating benchmarks for assessing value for money and common risks, and appropriate management and mitigation strategies into policy design and delivery
- No line of sight to opportunities and relationships internally and externally, including with subject matter specialists, finance and legal teams
- Lost opportunities for proof of concept and knowledge sharing

¹⁰³ Australian Public Service Commission, State of the Service Report, 2010; SEDIF Evaluation Report, Centre for Social Impact, 2016

The roles of government in Australia's Federal system

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 2012, 2013¹⁰⁴

Question 5 of the Discussion Paper goes to whether there are different roles for different levels of government.

A role for the Australian Government to encourage and support impact investment has been reinforced by the Productivity Commission,¹⁰⁵ the Senate Economics References Committee,¹⁰⁶ the AAB,¹⁰⁷ the Joint Standing Committee on Foreign Affairs, Defence and Trade,¹⁰⁸ and the Financial System Inquiry.¹⁰⁹

The two key objectives reflected in the Financial System Inquiry recommendation shape the role for the Australian Government as facilitating development of the impact investment market *and* encouraging innovation in funding social service delivery.

Each level of government has a role as market builder, market participant and market steward. While the components of the roles are the same, the emphasis and execution will be different.

Roles and responsibilities

Question 7 relates to areas of Australian Government policy or service delivery that hold potential for impact investment.

The Australian Government has a leadership role in its capacity as market steward with legislative or effective control of a number of key regulatory areas and levers such as taxation.

As Australia largely has national markets for goods and services linked with global markets, the Australian Government has an active role in market building. The Australian Government can also be a market participant in areas within its Constitutional remit.

Areas identified as high potential for impact investment that have both Commonwealth and shared responsibility, and growing community demand include: early childhood education and care, aged care, education, health, and local job creation.

¹⁰⁴ Policies for Seed and Early Stage Finance: Summary of the 2012, OECD Financing Questionnaire, 2013; endorsed in the Financial System Inquiry Report, 2014

¹⁰⁵ Contribution of the Not for Profit Sector, Australian Productivity Commission, 2010,

¹⁰⁶ Investing for good Report, Senate Economics References Committee, 2011

¹⁰⁷ Addis, R, Bowden, A and Simpson, D, Delivering on Impact: the Australian Advisory Board, Strategy to Catalyse Impact Investment, 2014

¹⁰⁸ Inquiry into Private Sector Contribution to Development in the Indo-Pacific, 2015

¹⁰⁹ Financial System Inquiry Report

Figure 13: Social, Environmental and Cultural areas with high priority for impact investment



Source: Addis, R, McCutchan, S & Munro, P, Blueprint to Market, 2015

There are clear opportunities in the market currently for the Australian Government. The Call to Action in this Submission includes measures the AAB have recommended and developed in collaboration with practitioners and stakeholders that are ready for action.

The recommendations for action in this Submission provide a solution for a whole of government approach to impact investment opportunities, including those already being considered across portfolios. They focus on the infrastructure for market development.

The consultation in 2016 on affordable housing has led to policy recommendations that can be actioned. This would be a positive development, though only in one part of the market and one area of need. Other work has been done that points to concrete potential in the market today in areas as varied as meeting energy and infrastructure requirements for aboriginal communities to road safety and health.¹¹⁰

Questions 8 relates to opportunities for collaboration between the Australian Government and State and Territory Governments.

There are a range of areas for productive collaboration between the Australian Government and States and Territories. These include regulatory coordination on areas of overlapping jurisdiction, co-funding of platforms and funds.

In areas of shared delivery responsibility between the Commonwealth and State Governments, the principle of subsidiarity should apply with Australian Government action facilitating State based activity and service delivery. This should facilitate each State's capacity to make progress from what it has already achieved, provide incentives for more action, and ensure barriers at the national level do not discourage or hamper participation at State level.

Local governments may also have a role, individually or collectively, in areas within their service delivery remit. There may also be a role for State and/or Federal Governments facilitating activity at local level.

Well designed and executed strategy and policy for impact investment can contribute to effective operation of Australia's Federal system. For example, a national platform with funding to incentivise more commissioning for outcomes at State level could accelerate progress, streamline learning and enable more efficient sharing of data and measurement across State boundaries and with other market participants. The aim would be to incentivise, enable, and then scale solutions with strongly demonstrated outcomes.

¹¹⁰ For example, Indigenous Business Australia presentation to the AAB, 2015, First Nations Capital presentation to the AAB, 2015, , Impact Strategist & Social Finance UK, Breaking the Deadlock, FIA Foundation, 2015; Impact Strategist & Social Finance UK, Investing to Save Lives, FIA Foundation, 2016

The Australian Government would benefit from the data collected and lessons learned, and all jurisdictions could benefit from opportunities for replication and scaling of what works. In addition to the multiplier effect of increased focus on efficacy and innovation, this would provide a structured opportunity for collaboration with State Governments.

A concrete outline for how this could work is set out in this Submission and was included in the Pre-Budget Submission of the AAB and Impact Investing Australia. See in particular **Appendix 5**.

While States have been active in developing social impact bonds, there is significant further work to scale effective solutions and to encourage other types of impact investment. NSW, which has been at the forefront of State-led activity, is working through the next stages for growth and scale. This applies to impact investment initiatives and to amplifying the positive effects for operation of the public and community sectors.

The institutions of the Federal system, including the Council of Australian Governments, Council for Federal Financial Relations, Heads of Treasury, and Senior Officials forums can be utilised to scope and drive policy that could be rolled out across jurisdictions or, where appropriate, at national level. The work already underway on affordable housing is an example of the role these bodies can play.

Infrastructure for a Market

The Australian Government has a particular role connected with market building in developing the infrastructure for an effective impact investment market.

The OECD, World Economic Forum, and Monitor Institute have all supported the important role for governments in creating infrastructure and building capacity critical for development of the market.¹¹¹ The OECD further considered that: *“The general framework conditions in a country can have a significant impact on the development of financial markets in general and the social impact investment market in particular.”*¹¹²

To enable market development, there is a need to encourage not only participants and transactions, but also to build the infrastructure and institutions that will support more people to participate, and to do so more effectively.

This includes supporting platforms that can raise awareness and help people and organisations interested in the field translate that interest to action. Support for appropriate and relevant platforms can accelerate ecosystem and opportunity development.¹¹³

This rationale expressed is that: *‘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.’*¹¹⁴ And: *‘LACK [original emphasis] of infrastructure can disrupt an otherwise burgeoning sector, and that many times infrastructure needs to be developed at a national level.’*¹¹⁵

¹¹¹ Wilson, K and Silva, F, Impact Investment: Building the Evidence Base, OECD 2015; The Role of Governments and Policy in Social Finance, Addis, R in Nicholls et al, OUP, 2015, Drexler, M and Noble, A, From the Margins to the Mainstream, World Economic Forum, 2013; Bannick, M and Goldman, P, Priming the Pump, Omidyar Network, 2012

¹¹² Wilson, K and Silva, F, Impact Investment: Building the Evidence Base, OECD 2015

¹¹³ For example, Jackson, T & Harji, K, Accelerating Impact: Achievements, Challenges and What’s Next Building the Impact Investing Industry. New York: Rockefeller Foundation. 2012; Addis, A and Koenig, A, Catalysing a Global Market: why the Social Impact Investment Taskforce work matters and what comes next, in Global Snapshot, Impact Investing Policy Collaborative, 2014

¹¹⁴ Cheng, P, Social Investment Wholesale Banking, Charities Aid Foundation, Venturesome, 2009

¹¹⁵ Bannick, M, and Goldman, P, Priming the Pump: The Case for a Sector Based Approach to Impact Investing. San Francisco: Omidyar Network, 2013

The G8 Social Impact Investment Taskforce and GSG 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.¹¹⁶

Such an institution can be even more effective and accelerate development further when combined with complementary initiatives such as tax incentives or additional support for enterprise and capacity development. McKinsey described the entry of Big Society Capital into the UK market in 2012 as representing a decisive shift in market development.¹¹⁷

The AAB reached the same conclusion after market consultation. 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.

Previous Australian research 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.¹¹⁸

There is the opportunity now for a breakthrough in the Australian market with targeted infrastructure. The key call to action is for Government to partner in Impact Capital Australia, which will direct private capital to priority areas such as affordable housing. It will focus on service innovation as well as infrastructure and target investment in jobs and growth for communities doing it tough through place based investment strategies.

Further material on the blueprint for Impact Capital Australia is included in this Submission and in the Pre-Budget Submission of the AAB and Impact Investing Australia. Other initiatives undertaken by government, including in affordable housing, can be designed to complement and amplify this.

The impact of catalytic infrastructure goes beyond the one institution, to enabling a more dynamic, effective market and impact at scale.¹¹⁹

Alignment with Australian Government policy priorities

Targeted policy to build the impact investment market expands the policy and financing toolbox for the Australian Government. Impact investment supports jobs, growth and productivity by providing access to appropriate investment capital for small and medium enterprises tackling social issues and operating in communities that need employment opportunities and economic resilience.

Building the evidence base and improving outcomes is central to delivering innovative and collaborative approaches that increase effectiveness of services and reduce demand and costs over time. Together with the focus on innovative investment, this can direct capital and innovation toward tackling issues where better outcomes are needed; for example: breaking cycles of disadvantage by tackling long-term unemployment and creating pathways for many young people.

There are strong synergies across the Australian Government's National Innovation and Science Agenda leading with access to capital to support innovation and scale through ICA. The policy levers for impact investment to succeed also feature enterprise development (including incubator support), data sharing, incentives to mobilise investment, collaboration, and government leadership. More explicit focus on social innovation and the impact investment to fuel it will enable more benefits from the innovation agenda to accrue to the public good because community benefit and social outcomes is part of the design.

¹¹⁶ Social Impact Investment Taskforce, 2014, and Notes of Plenary Meeting, London, [unpublished] July 2015

¹¹⁷ www.mckinsey.com/industries/social-sector/our-insights/from-potential-to-action-bringing-social-impact-bonds-to-the-us

¹¹⁸ Lyons, M, North-Samardzic, A & Young, A, Mobilising Capital for Australia's Non-profits: Where is it needed and where can it come from? National Roundtable of Non-profit Organisations Limited, 2007

¹¹⁹ Ibid and Burkett, I, 2013, Reaching Underserved Markets, The Role of Specialist Financial Intermediaries in Australia 2013, Addis, R, McLeod, J and Raine, A, IMPACT-Australia: Investment for social and economic benefit, Australian Department of Employment, 2013, Addis, R, McCutchan, S and Munro, P, Blueprint to Market: Impact Capital Australia, Impact Investing Australia, 2015

ICA will provide significant stimulus to unlock private capital for housing and social infrastructure. This would encourage a range of intermediaries and approaches to meet growing demand for affordable stock and in key areas of reform where demand is growing, such as aged care and disability support. The proposed removal of regulatory barriers to enable the market to operate more freely, including to mobilise philanthropic and institutional capital, support the deregulation agenda. Measures to encourage market-based approaches can also encourage competition and facilitate access to quality services for all parts of the community.

Beyond domestic policy, as recognised by the Joint Select Committee on Foreign Affairs, Defence and Trade, developing engagement of the private sector in Australia in investment will support the foreign affairs policy of private sector engagement, and put greater focus on development investment.

Policy Tools

Government action and policy are often considered as one. However, there are key distinctions between policy design and its implementation, and between policy and politics. Policy is a broad domain with a range of levers and options for implementation, some of which can be fluid, or even contradictory. Moreover, policy development and implementation occurs within a dynamic context, both within government and in the interactions between government and other actors.

The Role of Governments and Policy in Social Finance

Governments have a dynamic, but also relatively well defined toolbox at their disposal for developing the impact investment market and encouraging innovation in service delivery. Not all elements of this toolbox require regulatory or policy change. Some are very practical in their orientation. Further material on policy tools, including specialist instruments such as impact bonds, is included in **Appendix 3**.

High level policy principles for impact investment have been developed by thought leaders and policy advisers globally. These principles recognise the need to focus attention on different parts of the ecosystem.

Criteria for policy analysis and design were first published by *InSight and the Initiative for Responsible Investment at Harvard University* in 2011. This work emphasised the need for policy to be targeted to objectives, transparent in substance and mechanism, coordinated with existing policy, and designed with the institutional context and infrastructure for implementation in frame.¹²⁰

This approach was developed further in the *London Principles* released by the *Impact Investing Policy Collaborative* in 2013 to guide and evaluate policy. The London Principles are framed in terms of clarity of purpose, stakeholder engagement, building institutional capacity for the market, consistency and transparency.

The *Framework for Government Action* developed for the *Schwab Foundation and World Economic Forum 2013* is framed around similar elements: engaging market stakeholders, developing government capacity for action, building market infrastructure and capacity, preparing enterprises for growth, growing and directing private capital, and reviewing and refining policy.

Some policy tools for impact investment are applied already in other contexts; in particular, tools used routinely for economic policy that can be applied to social, environmental and cultural policy. There are also some new tools that can better align incentives for achieving social outcomes and bring different resources and experiences together (and in new combinations).

Among the policy tools are a range of high value (often low cost) contributions to make such as experience, data, and research that are sometimes overlooked. In other cases, some funding is required, though, targeted well, it can leverage significant market activity and impact.

Question 6 refers to potential for impact investment to deliver more effective and efficient outcomes.

There is clear potential for impact investment to contribute to the delivery of more effective and efficient outcomes. Success will depend on whether the approach embeds the appropriate role for government, whether policy tools are fit for purpose, targeted to objectives, and there is appropriate transparency and accountability.

Targeted policy coupled with investment can catalyse activity, reduce risks for new entrants, build track records, and enhance investor confidence. The policy tools for impact investment can be organised by reference to the different policy levers available and the dimensions of the market.

¹²⁰ Thornley et al, *Impact Investing: Policy Analysis and Design*, InSight at PCV and Initiative for Responsible Investment at Harvard, 2011

Figure 14: Policy tools mapped by the levers for action and market dimensions

	Mandate	Enable	Partner	Endorse
Supply development	<ul style="list-style-type: none"> <input type="checkbox"/> Procurement rules <input type="checkbox"/> Regulatory of 'fiduciary' investments <input type="checkbox"/> Mandate in underserved communities <input type="checkbox"/> Mandatory disclosures 	<ul style="list-style-type: none"> <input type="checkbox"/> Tax incentives <input type="checkbox"/> Clarify fiduciary duty <input type="checkbox"/> Aggregation of small scale investments <input type="checkbox"/> Innovative contracting <input type="checkbox"/> Guarantees & first loss positions 	<ul style="list-style-type: none"> <input type="checkbox"/> Co-investment <input type="checkbox"/> Initiate social impact bonds <input type="checkbox"/> Highlight policy priorities where new solutions needed <input type="checkbox"/> Cross-sector collaboration on product design <input type="checkbox"/> Facilitate collaboration <input type="checkbox"/> Risk assessment & due diligence tools 	<ul style="list-style-type: none"> <input type="checkbox"/> Cluster institutions <input type="checkbox"/> Demonstrate & disseminate case studies <input type="checkbox"/> Showcase investor practice <input type="checkbox"/> Showcase financial innovation
Demand development	<ul style="list-style-type: none"> <input type="checkbox"/> Outcomes focus as requirement for funding 	<ul style="list-style-type: none"> <input type="checkbox"/> Social enterprise strategy & support <input type="checkbox"/> Support for investment readiness & incubation capacity <input type="checkbox"/> Funding for 'pioneer gap' <input type="checkbox"/> Organisational forms that embed mission <input type="checkbox"/> Publish fiscal data on cost of social issues <input type="checkbox"/> Certification marks 	<ul style="list-style-type: none"> <input type="checkbox"/> Cross-sector collaboration for new solutions 	<ul style="list-style-type: none"> <input type="checkbox"/> Recognise diverse business models supporting impact <input type="checkbox"/> Publish data <input type="checkbox"/> Co-sponsor research on successful and scalable models
Intermediary development	<ul style="list-style-type: none"> <input type="checkbox"/> Dedicated social finance institutions 	<ul style="list-style-type: none"> <input type="checkbox"/> Invest directly in intermediaries & their capacity <input type="checkbox"/> Support hubs that connect investors and enterprises/other opportunities with one another 	<ul style="list-style-type: none"> <input type="checkbox"/> Support & encourage professional education <input type="checkbox"/> Support development of tools <input type="checkbox"/> Utilise cross-sector partnership brokers 	<ul style="list-style-type: none"> <input type="checkbox"/> Social stock exchanges <input type="checkbox"/> Clearing house <input type="checkbox"/> Case studies of good practice <input type="checkbox"/> Model value of brokers & intermediaries through engagement
Infrastructure & enabling environment	<ul style="list-style-type: none"> <input type="checkbox"/> Market development policy, strategies & frameworks <input type="checkbox"/> Regulators with expertise in social sector and social needs 	<ul style="list-style-type: none"> <input type="checkbox"/> Review regulatory barriers to investment <input type="checkbox"/> Establish dedicated "go to" office with capability to design policy & drive collaboration <input type="checkbox"/> Support peak bodies & market building institutions <input type="checkbox"/> Centres of Excellence to promote practice & accelerate development of what works <input type="checkbox"/> Create new options matching risk/return profiles with investee businesses 	<ul style="list-style-type: none"> <input type="checkbox"/> Appoint champions within government <input type="checkbox"/> Encourage & practice outcome & impact measurement <input type="checkbox"/> Participate in forums & organisations that build & harness expertise & set direction <input type="checkbox"/> Support educational institutions to develop specialist programs 	<ul style="list-style-type: none"> <input type="checkbox"/> Support leaders & champions <input type="checkbox"/> Enable education <input type="checkbox"/> Support market analysis & research

Source: Adapted from Addis, R *The Role of Government & Policy in Social Finance*, in Nicholls, A et al (eds), 2015

Grant funding and impact investment

Question 6 refers to areas where funding through an impact investment lens may generate more effective outcomes than grant funding.

In addressing this question it is also relevant to consider the role of grant funding in impact investment.

Grant funding can be a significant feature of and a powerful tool for impact investment. It plays a critical role including for:

- De-risking investments and encouraging private sector participation
- Funding for incubators and accelerators to develop enterprise capacity
- Seeding new approaches and platforms
- Supporting transition over a period to more sustainable business and operating models for traditionally donor dependent organisations
- Investing in development of market infrastructure, including data to inform the market

Grant funding can be utilised to achieve both market building and participation objectives, including by: de-risking investments; creating incentives for new solutions; developing and scaling enterprises; enabling new intermediaries; and building market and sector infrastructure including at the local level.

Grant funding in a market context can fuel debate about subsidy. There is a role for grant funding to provide incentives for investment and this is commonly utilised in the economic policy context.¹²¹

Microfinance received nearly USD\$20bn in support over two decades to refine its model. This enabled the pioneers like Grameen Bank to establish new business models, accelerated scale and adaptation by new firms and shortened the runway to profitability for later entrants into the market.

There is also a strong *but for* case for incentives. That is, looking at what value and innovation the incentives will enable, relative to other ways the funding could be deployed. There is also a timing issue; the case for incentives is stronger in the early stages of market development and where innovation will create new value.¹²² The case for incentives is also stronger where the result will be additive, attract and build confidence for investment that would not otherwise occur, and avoid inappropriate distortion.

Such measures can only be interim steps in market development to provide a buffer to early stages of development and test the market. Succinctly put by the Monitor Institute, *'someone needs to go first'... 'Without some catalytic, risk-taking funding...the deals may not provide sufficiently attractive returns for social investors; without commercial investors, it may be more challenging to invest the volume of funds required to make a difference.'*¹²³

How grant funding is utilised is important. Where the grant is designed to attract private sector investment and the investors stand to make a profit, the grant funding should provide a risk buffer or offset costs but ideally not provide or generate a windfall gain to private investors.

This can be handled in the design and structuring of initiatives. Safeguards can be included, such as a purpose test for which grant funds are to be applied that relates back to the objectives of the initiative. For example, if grant funding is provided as first loss capital for an impact investment fund, the contract may provide for how the grant funding can be applied including to provide for first loss. However, such requirements should be aligned with the requirements for effective operation of the fund so as not to unduly constrain operational flexibility, otherwise goals of attracting private sources of investment are likely to be undermined.

¹²¹ Wilson, K & Silva, F, Social Impact Investment: Building the evidence base, OECD, 2015

¹²² Addis, R, The Role of Governments & Policy in Social Finance, in Nicholls, A et al (eds), Social Finance, OUP, 2015 citing, see Bannick, M, and Goldman, P, Priming the Pump: The Case for a Sector Based Approach to Impact Investing. San Francisco: Omidyar Network, 2013, Wilson, K and Silva, F, Impact Investing: Building the Evidence Base, OECD, 2015

¹²³ Freireich, J, and Fulton, K, Investing for Social and Environmental Impact: A Design for Catalysing an Emerging Industry, Monitor Institute, 2009

Grant funding has a critical function in accelerating sector development. With the right policy levers in place, limited public funds can encourage private sector engagement and produce a multiplier effect, significantly extending reach of critical services such as health, education, housing or sustainable agriculture to many more people than could be achieved through individual firms.¹²⁴ For example, a study in 2011 found that accelerating industry infrastructure for medical services in India by 3 – 4 years could enable more than 2 billion additional treatments per year for poorer consumers.¹²⁵

Grant funding has a critical role in supporting local development, enabling infrastructure development, funding research and evaluation, and encouraging new models to be developed and tested. Investment will come behind this to scale and diversify the market once the right scaffolding is in place.

Other policy tools for impact

A number of other policy tools are also emerging as particularly useful for development of impact investment:

- **Challenges** are increasingly being utilised to identify promising new approaches and enable business model development.
- **Co-design** is being utilised as a policy tool. It can be used to enable different stakeholders to contribute to effective policy and transactions or, to develop the best of breed options after narrowing alternatives through challenge or expression of interest processes.
- **Enterprising solutions:** Encouraging a range of market based enterprising innovation including through incubators, accelerators and incentives for corporate engagement.
- **Increasing the range of financial tools**, including guarantees and insurance to reduce the risk of private sector investment in growth markets or sectors not yet developed and investing in new fund managers and new products such as impact bonds.
- **Linking impact investment with innovation** through labs and targeted initiatives to identify better solutions to particular social, environmental and cultural issues.
- **Procurement** which utilises purchasing power to influence the development of markets from the perspective of government as a consumer,¹²⁶ encouraging new approaches to develop with confidence there will be a market for their product.

Governments can influence and show leadership on other enablers such as convening dialogue, building resources, practice and networks, and developing measurement tools. Governments can also provide incentives for collaboration and investment around policy priorities such as health or education.¹²⁷ In appropriate cases, governments can 'go first', providing the drive for social innovation¹²⁸ and catalysing action to encourage others into the market and build investor confidence.¹²⁹

Experience, data, research, and policy content all add value. Collaboration, partnering and brokering connections are all ways in which governments can work with other sectors to develop the knowledge and evidence base, and create formal and informal networks that promote dialogue and knowledge sharing about what works and what does not. Governments are also well placed to act as a convenor. The

¹²⁴ Bannick, M, and Goldman, P, Priming the Pump: The Case for a Sector Based Approach to Impact Investing. San Francisco: Omidyar Network, 2013

¹²⁵ Ibid

¹²⁶ See, for example, Mazzucato, M. The Entrepreneurial State: Debunking Public vs Private Sector Myths. London: Anthem Press, 2012; Janeway, W. H. Doing Capitalism in the Innovation Economy: Markets, Speculation and the State. Cambridge: Cambridge University Press, 2013

¹²⁷ Shanmugalingam, C., Graham, et al, Growing Social Ventures, 2011, The Young Foundation

¹²⁸ Mulgan., G., 2006, The Process of Social Innovation, The Young Foundation

¹²⁹ For example, the United Kingdom Social Investment Task Force and the Canadian Task Force on Social Finance played this role.

Productivity Commission noted the importance of the broader role for government,¹³⁰ highlighting this can be of greater value than the financial resources, though the funding is always valued by the sector.¹³¹

Access to data

Questions 9 and 10 of the discussion paper relate to data, in particular the Australian Government's public data policy.

Data is a fundamental building block for impact investing. It plays a significant role in identifying opportunity, targeting effort and measuring both financial and social impacts. Improved access and availability of data is critical to enabling new solutions to pressing issues and expanding the toolkit to deliver public value. Data collection and building the evidence base is ultimately a shared responsibility. Governments have a valuable role to play, including in providing leadership, contributing data and standard setting.

Data plays a role in each of the following aspects of impact investment:

- building and informing an effective and efficient market for investment designed to deliver positive benefits to society, including by addressing market failures;
- incentivising innovation, entrepreneurship and scale in addressing social issues; and
- enabling effective commissioning for outcomes.

Data also contributes to building an evidence base that can inform transparent and comparable evaluation of what works, and assessment of value for money.

Building data and information infrastructure is critical for market development and to enable more consistent delivery of better outcomes for society. There is a clear opportunity to create common platforms and infrastructure to link Australia's market to the region and to global markets. Development of this infrastructure will need to be a collaborative exercise to attract both data and users. Measures could include:

- Support for development of market building infrastructure, such as IT systems to collect, analyse, and aggregate relevant data
- Contributions to developing data protocols for greater standardisation and comparability including guidance and frameworks
- Regulation and policy support that guide the development of information sharing systems and associated data sensitivity and privacy protection norms

Access to quality, linked-up data will position governments and impact investors to make cost-effective investment decisions, and to commission for impact. Over time, more robust and widely shared data can contribute to greater focus on prevention rather than dealing with the symptoms and effects of issues affecting society. At a minimum, the areas of data need to be capable of informing a cost benefit analysis on a financial as well as economic and impact basis.

To promote innovation and better outcomes, governments need to play a greater role in capturing and sharing data relating to social issues and spending. Recent commitments by governments to make more data available, including the Australian Government's commitment to *'making appropriately anonymised and non-sensitive public data openly available by default so the private sector can use it to create new products and business models'*, are welcome, but they are just a start. More needs to be done to make useful and comparable data available that can transparently inform design and evaluation for efficacy and impact.

¹³⁰ Contribution of the Not for Profit Sector, Australian Productivity Commission, 2010, Ch 13

¹³¹ Ibid. See also Shergold, P, My Hopes for the Public Service for the Future, 2011

It is not just public data that is important. Other service providers and market participants also need to focus on good data gathering to drive better performance and to contribute to the evidence base for pre-empting problems and increasing impact. Relevant and accessible infrastructure can make this more achievable and more readily shared.

Unlocking data

Data availability, including data relating to the cost of social services, can highlight where there is room to do better, sending signals to the market for more entrepreneurial approaches to tackling issues. This is recognised in the data sharing elements of the National Science and Innovation Agenda.

Initiatives around the world are putting greater focus on measurement of the efficacy of social initiatives. For example, Inspiring Impact (UK) is a collaborative initiative between the UK Cabinet Office and others to drive more effective measurement and evidence based decision making.

The UK Cabinet Office, in another example, published the unit cost of over 600 areas of service provision to send signals to the market, promote innovation and encourage new financing mechanisms based on results. An initiative is underway to develop similar measures as a collaboration between Portuguese governments, The Carlos Gulbenkian Foundation and a number of other stakeholders. And the OECD has data frameworks as a central pillar of the second stage of its work on building the evidence base for impact investment.¹³²

Related work underway in NSW as part of its Social Impact Investment Policy will publish cost and performance data. A Statement of Opportunities including data on four areas of service delivery was published in February 2015 to inform market soundings and expression of interest design for impact investment opportunities. The Queensland Government has also taken recent steps to make more data available to inform the market.

The Australian Government holds significant amounts of data. Well-designed action to identify key high-level metrics useful to the market and agencies would encourage more open engagement about the relationship between the investment in prevention and the true costs of dealing with the effects of social issues. This could be designed to address sensitivities about privacy.

Mandating greater transparency and data sharing, subject to appropriate protocols, would provide powerful market signals and promote greater focus on effectiveness, and encourage innovative approaches to tackling difficult issues affecting society. Such measures could also encourage other actors to collect and share data.

The applications for data are about much more than impact bond models and commissioning. For example, recent work on improving health outcomes and creating more sustainable cities through addressing road trauma illustrates data driven investment in prevention through improved roads and targeted enterprise solutions as well as impact bonds.¹³³

Government's central role in supporting infrastructure extends to data infrastructure and market based data. The AAB has made a start on this, overseeing development of the first market based data sets on investor awareness, activity and intentions over the next 5 years¹³⁴ and the volume and performance of Australian impact investments¹³⁵.

Question 10 refers to potential for data sharing platforms between the Australian Government and State and Territory Governments, intermediaries and/or service providers.

Data sharing platforms would be a very positive development, particularly if they enabled sharing of data between the other participating parties. This is part of the infrastructure for the market and can make a

¹³² Wilson, K Updates on OECD Working Groups of Social Impact Investment Experts, OECD, unpublished, 2017

¹³³ Impact Strategist & Social Finance UK, Breaking the Deadlock, FIA Foundation, 2015; Impact Strategist & Social Finance UK, Investing to Save Lives, FIA Foundation, 2016

¹³⁴ Impact Investing Australia 2016 Investor Survey, Impact Investing Australia, 2016

¹³⁵ Castellás, E, Findlay, S & Addis, R, Benchmarking Impact: Australian Impact Investment Activity & Performance Report, Impact Investing Australia, 2016

positive contribution in a number of areas beyond access to the data itself. Such an initiative, well-designed could:

- provide consistent access to administrative data
- assist the process of convergence and comparability
- reduce costs and streamline measurement and reporting
- identify patterns and trends in relation to needs and performance
- allow for more consistent reporting and evaluation of delivery and outcomes
- enable identification over time of more opportunities for scaling what works.

Policy Design

Design is important. Poorly designed policies can inhibit or distort market development.¹³⁶ The questions that underpin quality design for policy more generally, and for market design, apply to impact investment also.

- Who are the key participants that can be mobilised?
- Are there structural barriers to investment?
- Are there regulatory barriers to investment?
- Is there information asymmetry and uncertainty constraining market development?
- Can government action assist in overcoming a short-term lack of track record?

The process by which policies and initiatives for impact investment are designed and implemented is critical. The following are particularly important:

- Clarity about policy objectives including a focus on improved social outcomes as well as investment
- Attention across market dimensions of demand, supply, intermediation and the enabling environment
- Stimulating action and investment from sources other than government
- Transparency
- Removing rather than adding to regulatory burden
- Additionality, so that policy action builds on market activity and 'crowds in' further activity and investment

Stakeholder engagement in the process is essential to ensure design and implementation that works for the market as well as to achieve the stated social impacts and operate within appropriate government probity and value for money requirements. Seemingly straightforward considerations (for example indexation rates) can affect the extent to which the market can and will engage. Political risk is also a significant consideration for investors. Therefore, where possible, initiatives that either provide some degree of certainty or deliver structures or processes (for example, new social impact investment funds) that can operate with a degree of independence, are helpful in building market confidence and engagement.

Implementation strategies, including relevant capability, within and outside of government, are critical. This can require skills that currently sit across boundaries within government as well as between government and other sectors.

¹³⁶ Impact Investing: A Framework for Policy Design and Analysis, 2011, p 17.

Impact Investment Principles

We are at an inflection point where smart policy can scale smart capital for social benefit.

Private Capital, Public Good: United States National Advisory Board on Impact Investing, 2014

Question 11 seeks feedback on the Social Impact Investment Principles set out in the Discussion Paper.

Feedback is provided in this section on the Social Impact Investing Principles (the Principles) included in the Discussion Paper.

Having a set of Principles within a broader framework of strategic policy and an appropriate authorising environment is supported.

The Principles, as drafted, include some welcome strengths and draw upon experience relating to outcomes based commissioning and social impact bonds in particular, which have been a focal point for much of the policy discussion relating to impact investment.

However, this is only one type of activity in one part of the market. The global practice and work led by State Governments has evolved practice beyond some of what is reflected in the document currently. Other policy mechanisms have an important role to play and are being used by governments, including the Australian Government, although the different pieces of the policy picture have not yet come together within the political narrative or approach to policy.

Achievement of the stated objectives will require restructuring of the Principles to encompass a range of policy levers that can be applied flexibly across different dimensions of the market and ecosystem development. Issues with the current framing and content need to be addressed to promote effective policy development, achieve value for money, and mitigate risks to the achievement of the objectives.

A suggested approach is provided in this Submission, which builds on positive aspects of the Principles as drafted. To be effective, the Principles need to:

- Be purpose driven and forward looking
- Provide guidance on what government will do to both engage in the market and enable and incentivise more market activity overall
- Reflect the stated objective by encompassing the range of actions relevant to develop different parts of the market eco-system
- Be sufficiently flexible to recognise that different mechanisms will be fit for different purposes. Action on regulation will need to meet different requirements than expenditure; action to catalyse the market will need to meet different requirements than commissioning for outcomes; action to encourage and build capacity for impact driven businesses and social enterprise will need to meet different requirements again.
- Demonstrate a coherent and targeted strategy for developing the market
- Meet and promote required standards of public governance and accountability and be functional for other counterparties and stakeholders including intermediaries, investors, service providers and beneficiaries

The following also reflects that Principles alone are unlikely to be sufficient to ensure agencies act or are equipped to act effectively. Principles will need to be complemented with machinery of government to provide an authorising environment and practical measures supportive of the intent.

Measures to achieve this should include a clear strategy, a designated 'go to' place and Ministerial ownership for development of the market and, over time, mechanics in the budget rules and commissioning processes.

The Australian Advisory Board on Impact Investment would be pleased to work with the Australian Government on developing a purposeful and practical strategic policy framework and robust principles for policy analysis, design and execution.

Establishing a strong framework for Government action

The stated purpose for the Principles in the Discussion Paper is to *guide action across Australian Government related to development of the social impact investment market.*

It would be useful to add a second objective: encourage innovation in social service delivery and better outcomes. This picks up on the two limbs of the Financial System Inquiry recommendation. This will also enable clearer definition of purpose for individual actions and policy measures, and separate the types of activity required to achieve the two related but different ends.

Achieving these objectives will require clear framing of the purpose and objectives, a broader orientation to the market and roles of government and some addition and changes to the content.

In addition, an appropriate authorising environment and capacity measures will be required to ensure agencies act and to equip them to act effectively.

Strategy and machinery of government

Principles will need to be complemented with machinery of government to provide an authorising environment and practical measures supportive of the intent.

This includes a clear strategy, a designated 'go to' place and Ministerial ownership for development of the market and, over time, mechanics in the budget rules and commissioning processes.

Meeting the objectives stated for the Principles will require a range of policy actions and a range of agencies will need to be mobilised. The effort will be more coherent and effective if the actions and policy are coordinated within a clear and purpose driven Australian Government strategy. That strategy should provide clear objectives and an authorising environment in which the Principles can operate. Other practical measures will also be important.

Enough has been trialled elsewhere to move with confidence. Some actions and policy measures are familiar in other areas of government activity, for example innovation and industry. A commitment to action in itself sends powerful signals to the market. It has been helpful in other jurisdictions to have a transparent framework.

In addition, a strategy can assist the government to place different actions and measures within a framework to communicate success across a broader narrative. The UK Government's Social Investment Strategy, updated in 2016 to include an international strategy, is a good reference point for a national approach.¹³⁷

A few low-cost measures would make a significant contribution to government capacity and leadership. This should include:

- nominating a designated Minister to champion development of impact investment, ideally supported by the Departments of Prime Minister and Cabinet and Treasury, who can lead engagement with banks and financial institutions, major corporations, venture capital providers, entrepreneurs, community sector, philanthropy and government agencies and encourage collaboration; and
- committing to an Office of Social Impact and Investment to provide a centre of excellence and capability and drive public sector capacity to engage with the market and private sector for a more efficient and effective allocation of existing resources to achieve social impact.

Linking the principles to guidance in the Budget Rules for particular mechanisms and to procurement and commissioning process would also be useful. For example, the Principles recognise that benefits may accrue across different agencies and over time. It may be necessary to provide guidance to agencies on how this can be reflected in new policy proposals within the Budget Rules. Guidance on established mechanisms, for example, guarantees may need revision to apply to a broader range of circumstances.

¹³⁷ UK Strategy 2011; UK Strategy 2016; see also the NSW Government Social Impact Investment Strategy, 2015

Other mechanisms such as impact bonds may require new guidance, for example on treatment of contingent payments over time.

Framing the principles for social impact investment

There are some clear and welcome strengths in the Principles as drafted. In particular:

- The stated objective of *development of the social impact investment market*. This is consistent with the recommendations of the Financial System Inquiry and reflects recognised international practice in developing new areas of activity in markets such as venture capital and experience from development of impact investment in other jurisdictions.
- Recognition of government's leadership role in encouraging accountability and transparency in practice where things are done in the name of impact
- Recognition that value from impact investment may take many forms, including that it can accrue across different agencies and levels of government, and that it may take time for the full benefits of actions to be realised
- Encouraging agencies to focus on execution as well as design and to develop their internal capacity

There are also issues that need to be addressed. *Action related to development of the social impact investment market* can, and will need to, take a number of forms. As contemplated in the Discussion Paper, that could include: regulatory measures and policy and program initiatives to develop the ecosystem and encourage activity such as innovation and social enterprise. It could also include: funding and investment in funds or other investments and; different ways of commissioning for outcomes for example social impact bonds. Many these activities are however not yet reflected within the framework of the Principles. For example, regulatory measures and other valuable contributions including data and convening are not yet covered at all.

The Principles as drafted focus on the government's role as a 'purchaser' of outcomes. This is a necessary element for some actions, but is narrowcast on several dimensions. That manifests in a focus on various aspects of purchasing services some of which are framed around considerations specific to social impact bonds. Social impact bonds are only one type of impact investment and one way of commissioning for outcomes.

The principles do not yet include considerations relevant for other types of impact investing activity or reflect the development of structures and practice that have taken place at State level and internationally.

A move to purchasing for outcomes and impact is a critical lever for government and should be part of the approach. The Principles should reflect and encourage this and encompass government's roles as market builder, market steward and market participant. They should also contemplate that agencies will utilise a range of policy levers and mechanisms, and that different considerations will apply in different cases. The key is that the policy mechanism is fit for purpose.

To achieve this, some elements will need to be refocused as applicable for only some policy responses. For example, payment only when outcomes are achieved may work for some instances of commissioning for outcomes, but will not work for other investment types such as development of impact funds or bonds for affordable housing.

The current framing of the Principles from a 'purchaser/provider' viewpoint puts the focus predominantly from the perspective of what the Australian Government will do and require. This is only one component for a successful market. A market orientation needs to include actions which will mobilise a broader set of actors so that more can occur without needing direct involvement from government.

The Principles should also include flexibility to develop and scale more grass roots and sector driven solutions. This is important for stimulating innovation and for ensuring approaches are relevant for beneficiary groups and communities.

There are concrete opportunities for the Australian Government to utilise the local and international experience to accelerate development of the market and mobilise significant resources and impact. It would be unfortunate if the effect of the Principles is to take other jurisdictions and market actors back over ground that has already been developed.

Purpose and objectives

To effectively encourage and guide action, the Principles will benefit from a clear statement of purpose and objectives. As mentioned above, it will be beneficial to agencies for this to separate two different, though related, intentions: developing the market for impact investment *and* encouraging innovation in social service delivery. This will assist definition of purpose for individual actions and policy measures and separate the types of activity required to achieve the two related but different ends.

This is about more than shifting focus to outcomes. Designed and executed well, impact investment provides a mechanism for re-aligning incentives toward creation of social value. Over time, this can contribute to reshaping roles and relationships across sectors and proactively transforming approaches to tackling social issues and delivering services.

To clarify the purpose and objectives, the Principles would benefit from an introduction that provides context, statement of purpose and some key definitions and examples. That includes an explanation of the objectives of engagement with impact investment and developing the market, and further explanation of the range of benefits for society included within social and environmental benefits. While those terms could still be used through the principles as a matter of convenience, it should be clear that it is shorthand for a broader range of benefits including cultural and community benefit.

The language of investment and the market can be new territory for those engaged in social and environmental policy and service delivery. Similarly, considerations of public value and social issues and measurement can be new ground for investors. Bridging the gap can start with basic glossaries. A glossary of impact investment terminology was commissioned and published by the Australian Department of Prime Minister and Cabinet in 2011. That material developed by the Centre for Social Impact could be updated and incorporated in the Principles.

The Principles would benefit from embedding elements of the frameworks for policy design and analysis outlined in this Submission into design and execution. The suggested approach provided is a starting point for that process.

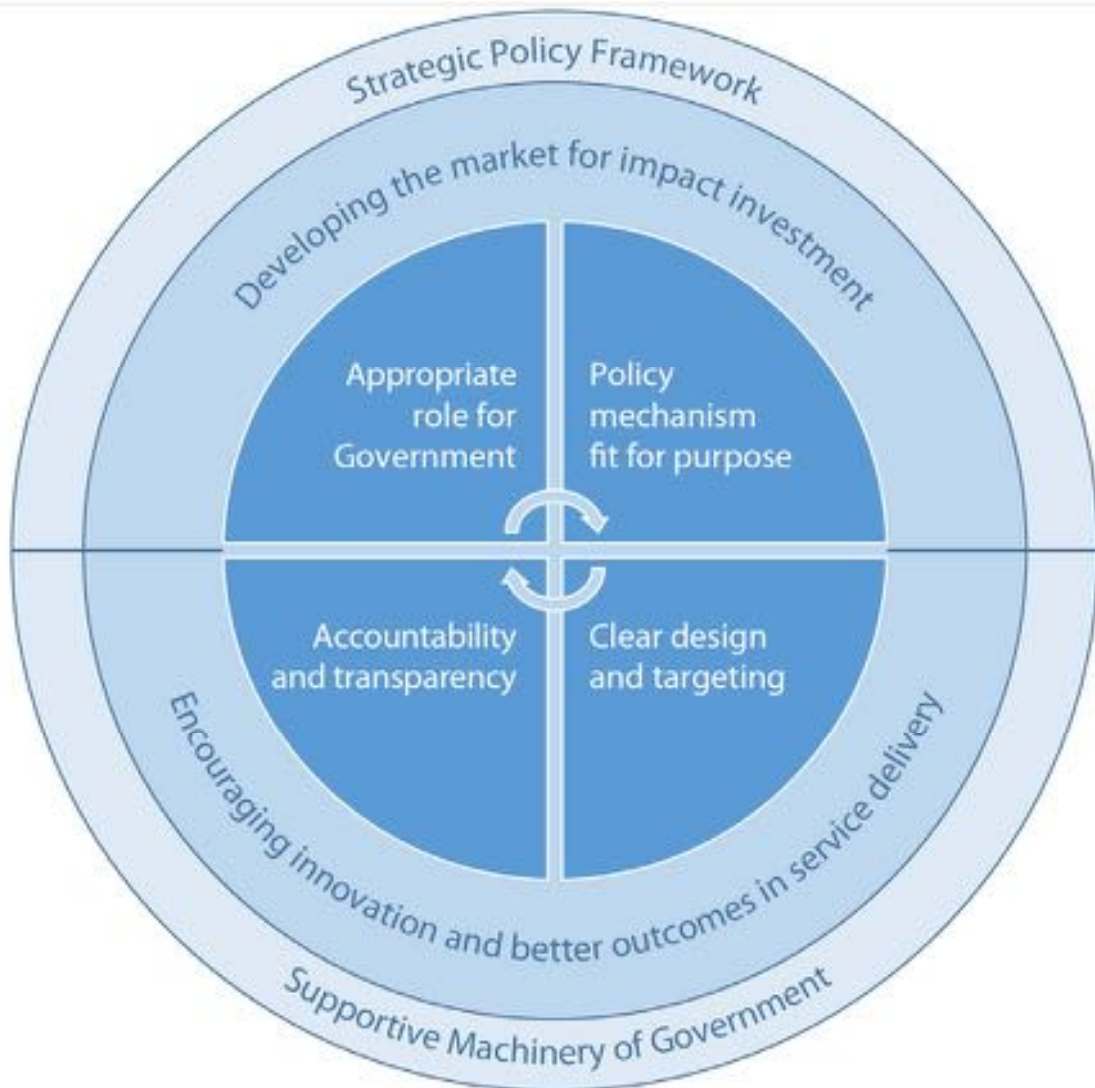
It would also be useful to include elements of the market ecosystem that could be targeted and developed by agencies.¹³⁸As outlined in more detail, in response to question 1 above, these include: strengthening qualified demand; strengthening the business case for investment; encouraging and creating intermediaries; removing barriers and incentivising; developing talent, tools, knowledge and sector leadership; and increasing awareness and data availability.

¹³⁸ Goodall, E and Kingston, J, Access to Capital: A Briefing Paper'. Charities Aid Foundation.2009, Thornley et al, Impact Investing: Policy Analysis and Design, InSight at PCV and Initiative for Responsible Investment at Harvard, 2011;; see also OECD 2012, 2013

Suggested Approach to Social Impact Investment Principles

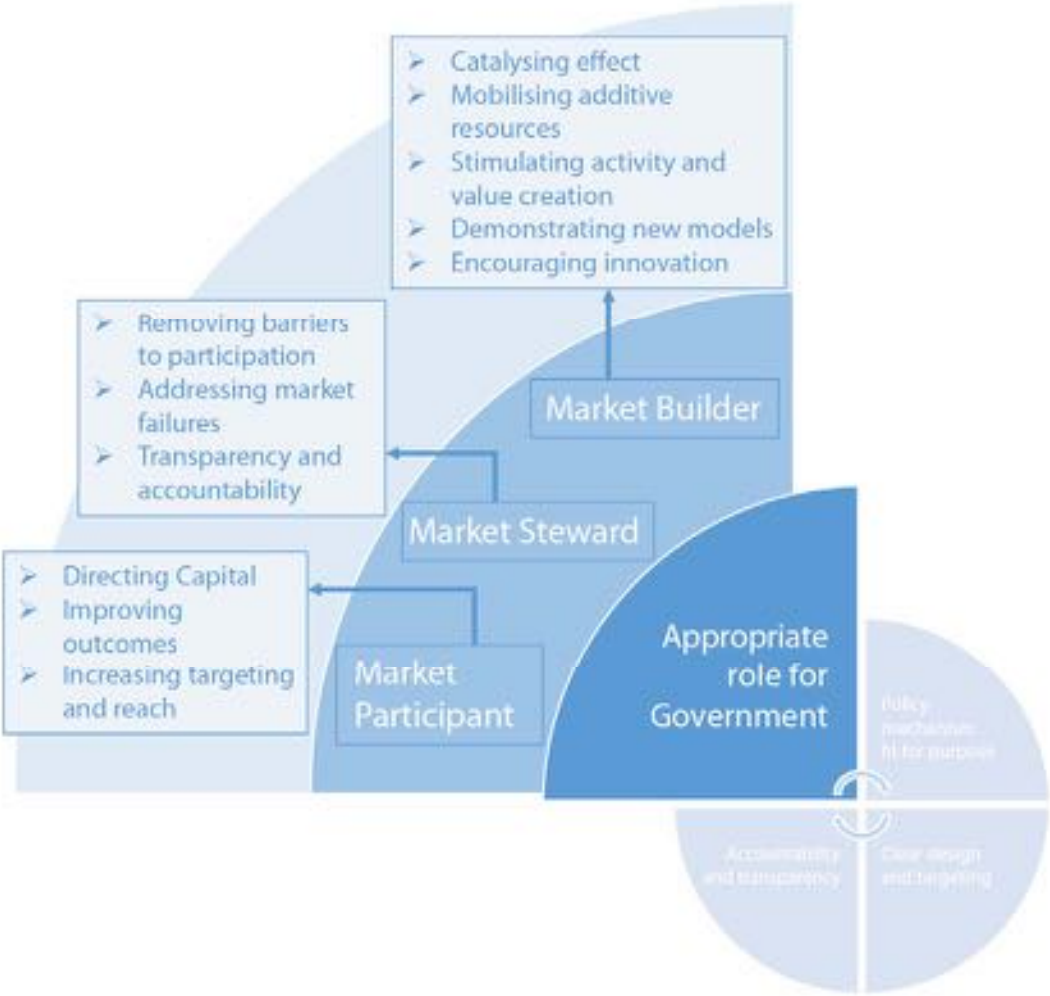
Taking into account the material in this Submission, including feedback on the draft Principles, an alternative structure is proposed for Principles.

Figure 15. Proposed framework for developing the market for impact investment



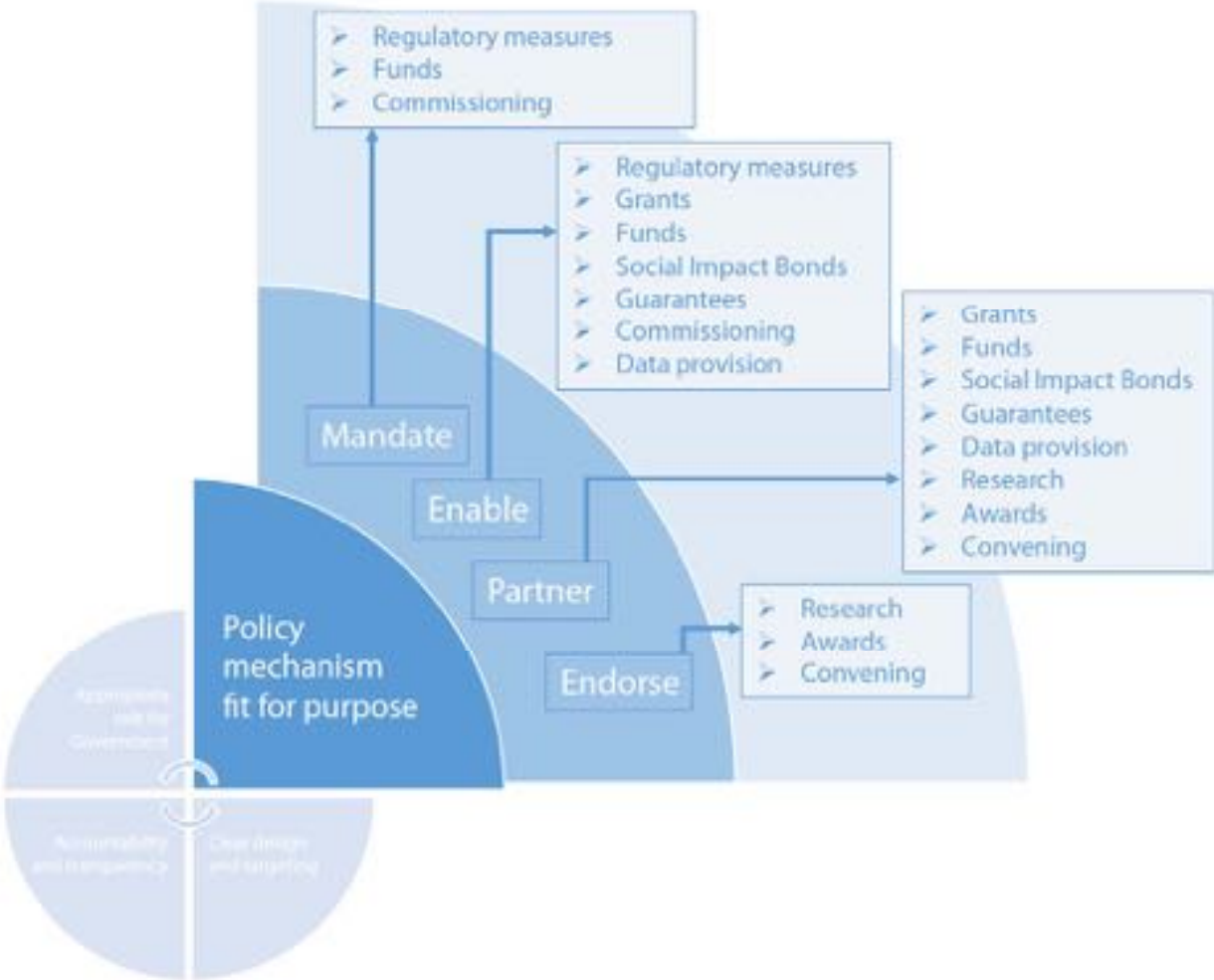
Source: Impact Strategist & Impact Investing Australia, 2017

Figure 16. Principle 1: What is the Appropriate Role for Government?



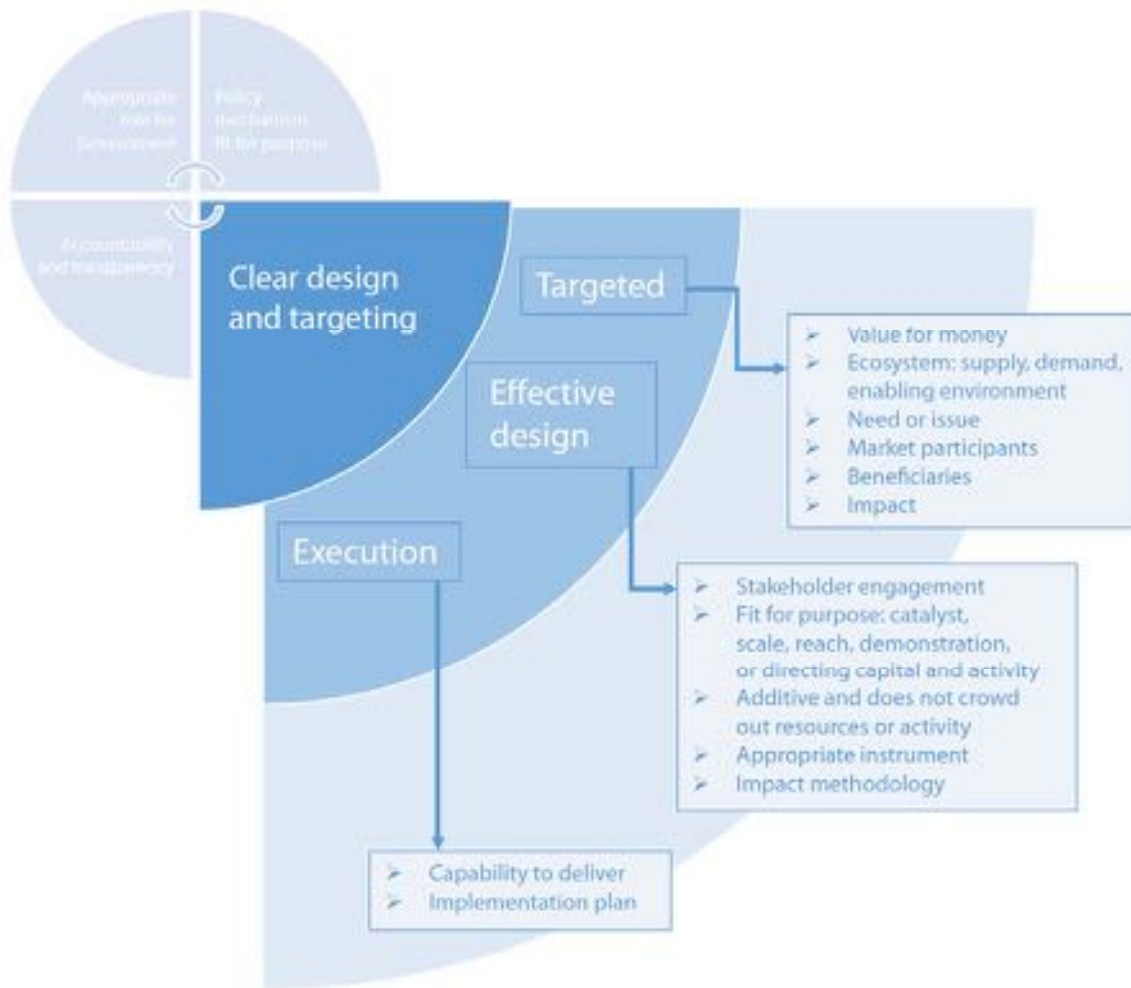
Source: Impact Strategist & Investing Australia, 2017

Figure 17. Is the policy mechanism fit for purpose?



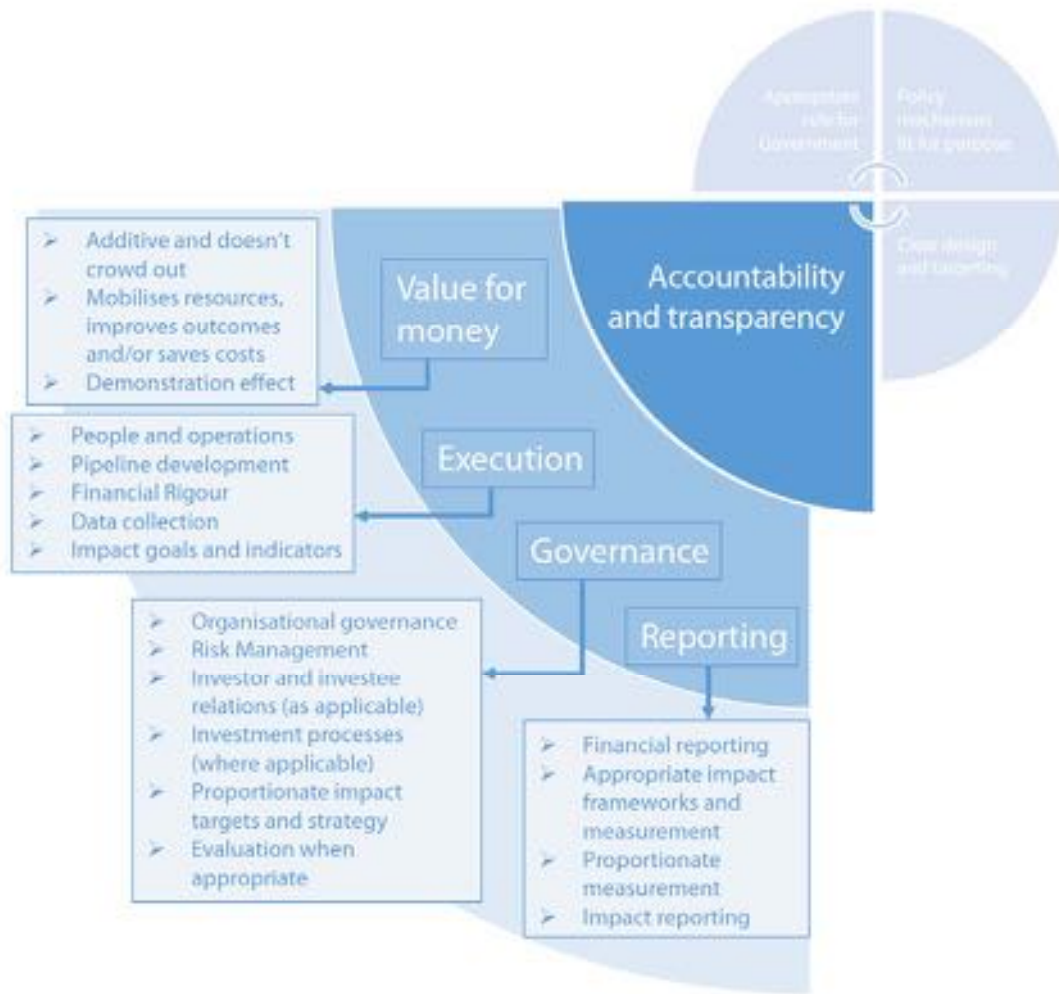
Source: Impact Strategist & Impact Investing Australia, 2017

Figure 18. Is the design clear and appropriate and targeted to impact?



Source: Impact Strategist & Impact Investing Australia, 2017

Figure 19. Is there accountability and transparency for delivery and results?



Source: Impact Strategist & Impact Investing Australia, 2017

Commentary on the Principles as set out in the Discussion Paper

In addition to the matters set out above, the following relates specifically to the material included in the Principles as set out in the discussion paper.

Principle 1: Value for money

Value for money must be a consideration where expenditure of public funds is involved. However, not all actions to develop the market will involve expenditure.

The recognition that value for money can include many types of measurable benefits is welcome and appropriate. The range of potential benefits needs to be expanded and expressed in terms of *one or more of...* Additional benefits could include:

- Demonstration of new models or refinement of successful models that can be scaled and replicated
- Incentivising activity for high impact or greater scale and reach
- Mobilising additional resources including private capital that would not otherwise be available
- Contribution of public goods or infrastructure for the market or to a priority sector to enable more to be achieved at scale
- Removing structural barriers to provision of important public goods

- Reducing future demand on services or providing services that reduce dependence on Government
- Stimulating research and development in targeted areas where new solutions are needed and building the evidence base of what works

In development of the market, actions that have catalytic effect to mobilise other actors and demonstrate new models are critical. Government has a critical role in incentivising other actors, recognising that: *'The private market alone often does not fully promote, and sometimes may prevent, investments with important social and environmental benefits'*.¹³⁹

One lynchpin group to be mobilised are providers of capital. In appropriate cases, public monies to mobilise private capital can direct capital to priority areas of policy or demand, or direct capital and activity to prevention and innovation.

The value may be derived from creating incentives for greater impact. For example, in relation to affordable housing, public funding can be utilised to mobilise private capital through credit enhancement and deliver public value through requirements for more integrated service provision, encouraging a dynamic that encourages better outcomes and not just more dwellings.

Public value may also be delivered through provision of market infrastructure. This is a form of public good which can accelerate development, without which market development can be hampered, and which is often something many will use but is not the responsibility of any individual actor.

Requirements for measurement and integral management of impact are appropriate. Greater flexibility in funding and finance matched with proportionate accountability for results is also encouraged. However, a requirement for measurement of outcomes to occur as a pre-requisite to payment is not functional for many actions. For example, capital to seed new investment funds cannot be provided after the fact; some activities require working capital; and some market building initiatives need to be funded.

Principles on the benefit of actions should cover what the benefits are and where they accrue. Benefits may accrue to governments. They may also accrue to the market as a whole or to particular groups of beneficiaries.

In some cases, government funding may be in the nature of a catalyst or subsidy, particularly where the objective is to build the market and crowd in new resources or encourage new activity. Guidance that acknowledges this would be useful. The policy literature in impact investment aligns with other areas of innovation policy.

In those cases where the focus is on outcomes based contracting mechanisms, the global benchmarks have evolved from direct savings. Social Finance, the architects of the original impact bond, look to the cost of the interventions relative to the benefit, including to funder(s).¹⁴⁰

There must be recognition that benefits may take time to achieve and continue to accrue after the period of a specific activity. However, care is needed to ensure that data collection, reporting and evaluation are proportionate to the need and the action. Data sharing and low cost options that facilitate transparency and accountability, such as public reporting, should be considered. Higher cost investment in longer term, aggregated and comparative research is a valuable role for government.

Principle 2: Robust outcomes-based measurement and evaluation

Transparency and accountability for results are critical. The recognition that the approach will need to vary to be fit for purpose is welcome. Social Impact Investment places the emphasis on impact, which can take a range of forms. While improving outcomes is a key area of focus, it will not be the direct focus for all actions within the scope of developing the market.

¹³⁹ Impact Investing: A Guide to Policy Design & Analysis, Thornley et al, 2011

¹⁴⁰ Social Finance UK, 2013

The goal should be:

- clear targeting of the policy measure and the intended response;
- robust impact methodology and management; and
- credible and reliable measurement.

In each case, proportionate to, and affordable in, the intent and context of the action or policy measure. With that in mind, the focus of the Principle should be framed around design, management and measurement for impact.

Structure is a relevant consideration for determining what meets these requirements, so is the purpose. Considerations for *how clients are selected* will be relevant only to some service delivery related initiatives, but not other actions to develop the market. Randomised control trials will meet those requirements in only some cases for specific types of impact investments.

Government action is needed to help develop impact measurement. This includes provision of administrative data on appropriate terms as well as contributing to international efforts toward development, convergence and comparability of impact measures, such as the work being led by the OECD and Global Impact Investing Network.

A significant initiative is in train at the global level to set conventions for impact management. This work, the *Impact Management Project* led by Bridges Impact+, is expected to set the international benchmark for strategy, management and measurement of impact. It will include grassroots input from beneficiary groups as well as perspectives from other stakeholder groups across a range of dimensions of design, measurement and management, and should also be a reference for the Australian Government.

Principle 3: Fair sharing of risk and return

It is fundamental to impact investment that risk, return and impact factor into the equation (see Figure 2). This reflects the change inherent in impact investment and its potential:

- for service providers to attract new forms of funding and finance on terms that provide flexibility and reward them for the social value created;
- for investors to value social, environmental and cultural principles often treated as externalities;
- for philanthropy to increase its focus on impact achieved rather than the act of giving;
- for governments to mobilise additional capital, innovation and enterprise for public good.

Risk and return considerations need to factor in the different elements of risk and applied in the context of the role that government is exercising. The impact risk and return will be at least as important as financial considerations in many cases. It also needs to be remembered that an impact investment approach is not inherently riskier than any grant funded program, just less familiar.

The following statement is incorrect: *“This accords with how social impact investments have been designed internationally. All of the financial risk is typically transferred to investors and governments have only paid when outcomes have been achieved.”* (Discussion Paper p 22)

Payment by outcomes is most relevant in relation only to commissioning for outcomes and has been in focus primarily for one instrument, social impact bonds. Even in the context of social impact bonds, different structures have been employed trialling different models with different allocation of risk and return.¹⁴¹ This approach does not apply at all in relation to many other investment types, for example funds, guarantees and notes, and is not the relevant framework for actions directed at other parts of the ecosystem.

¹⁴¹ Gustafsson-Wright, E et al, *The Potential and Limitations of Impact Bonds: Lessons from the first five years of experience*, Brookings Institute, 2015; *Social Impact Bonds: The Early Years*, Social Finance, 2016; <http://socialfinance.org/social-impact-bonds-the-early-years>

When government is acting in its role as market builder, risk and return needs to be applied to the market development context. For example, is the measure designed to deliver additionality, so that it builds on market activity and ‘crowds in’ further activity and investment? Where the intention is to have a catalytic effect on market activity or mobilise capital for areas of higher impact, government may accept greater risk to achieve a result that would not be likely to occur otherwise.

The public value from catalytic government investment includes the 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.¹⁴²

Where government is acting in its role as market steward, the risk and return assessment needs to balance appropriate incentives for action and innovation and removing barriers, with the risk of distorting the market. Other considerations relevant to regulatory reform and prudential standards may also need to be applied.

Political risk is a significant consideration for investors as well as for government, though it manifests differently. Primary considerations are relationship risk, policy coherence and consistency. Where possible, initiatives that either provide some degree of certainty or deliver structures or processes (for example, new impact investment funds) that can operate with a degree of independence are helpful in building market confidence and engagement.

Principle 4: A deliverable and relevant social outcome

The substance of this Principle is critical focus on internal and external aspects of policy implementation. However, the title appears to be a misnomer and would helpfully be recast with a broader focus on effective design and execution.

It would be helpful to provide an overview of the roles government can play and the tools for each within the market context.

Before issues of capability come into play, the Principles need to include focus on the design process, including some key design questions.

Impact investment is a multi-stakeholder issue. The complexity and interdependencies in a market and innovation context mean that no single sector, agency or organisation can develop robust and sustainable solutions in isolation. It is critical to access people, ideas and resources across traditional boundaries and in new combinations. Stakeholder engagement through the process is essential.

Recommending agencies that have internal capability is unlikely to be sufficient. As covered in this Submission, thoughtful and practical measures are likely to be necessary to identify capability gaps across government. It is strongly recommended to establish a team that can work across Government. The team would need a range of disciplines and experience, ideally incorporating experience in impact investing and applied and practical finance.

This would ideally have Ministerial sponsorship. This will assist in addressing critical skills gaps in an efficient way and build a centre of expertise. The UK Cabinet did this through the administrations of Prime Ministers Blair, Brown and Cameron under the stewardship of the Minister for Civil Society. NSW has the Office of Social Impact Investment with sponsorship from the Premier and Treasurer, and New Zealand recently established a social Investment Unit and appointed a Minister for Social Investment.

It would be helpful to anticipate some allocation of leadership on different roles across government. Responsibility for taking an overall market view and driving regulatory measures is likely to be best located with central agencies. The Principles could encourage action from other agencies to undertake activity relevant to their portfolio areas, in particular where that would direct new resources to priority areas and focus innovation on areas where there is the greatest need for better outcomes.

¹⁴² Addis, R in Nicholls, A et al (eds), *Social Finance*, OUP, 2015; Addis, R, McCutchan, S, Munro, P, *Blueprint to Market: Impact Capital Australia*, Impact Investing Australia, 2015. See also: *Achieving social impact at scale: Case Studies of seven pioneering co-mingling social investment funds*, UK Cabinet Office, 2013

Addressing Regulatory Barriers

We already know key areas where policy action and regulatory clarity could result in significant additional progress for impact investment and the social innovation it enables **Delivering on Impact: Australian Advisory Board Strategy for Catalysing Impact Investing, 2014**

Question 3 of the Discussion Paper considers the legislative or regulatory barriers constraining growth of impact investing. As set out in this Submission, providing an appropriate regulatory setting is a key aspect of the Government's stewardship role in the impact investing market.

There are a number of specific areas where relatively straightforward, concrete steps would have positive effect. Consultation and development of specific proposals has been led by industry bodies in relation to:

- Fiduciary duties of trustees, the Responsible Investment Association of Australia (Question 23)
- Governance of Private Ancillary Funds (PAFs) and program related investment for philanthropic trusts and foundations, Philanthropy Australia (Questions 12-22; 24-27)
- Benefit Corporations, BCorp Australia and New Zealand (Questions 28-29)

In addition to the material in this Submission, the Australian Government is referred to their Submissions on this Discussion Paper. Further background is provided in **Appendix 4**.

Fiduciary duty

Question 23 relates to clarification of fiduciary duties for superannuation trustees. Further investigation of the type of guidance required for superannuation trustees is welcomed.

Many of the considerations also apply to trustees of philanthropic trusts, although the specific regulations are different and administration is through the Australian Taxation Office.

Fiduciary duty is an important mechanism of stewardship in the position of trust held by those responsible for superannuation trusts. However, the interpretation of those duties can sometimes be narrower than the intent or the objectives required to ensure prudence and responsibility in the management of other peoples' money. Additional guidance can put the position beyond doubt that impact can be considered in addition to risk and return by fiduciary decision makers. Done well, this would build confidence and encourage mobilisation of capital.

The Australian position was examined recently in *Perspectives for Australian Superannuation Trustees*.¹⁴³ The Responsible Investment Association Australasia (RIAA) has also examined the issue in a paper on industry priorities,¹⁴⁴ and continues to advocate for further clarity for superannuation trustees in relation to consideration of ethical and impact investments. Specifically, RIAA has identified that further guidance from The Australian Prudential and Regulatory Authority (APRA) to 'make strong, clear statements that clarify the ability of trustees to consider these issues as consistent with their duties and as a key part of trustees fulfilling their requirement to be a 'prudent superannuation trustee'' and amend SPG530.¹⁴⁵

The changes sought include:

- Permission for superannuation trustees to consider environmental, social and governance (ESG) factors where these are deemed to be financially material, citing the current evidence that consideration of ESG factors is a clear duty of fiduciaries where these factors impact upon investment objectives, return, risk and other financial attributes.

¹⁴³ Charlton et al, *Impact Investment: Perspectives for Australian Superannuation Trustees*, 2013; Charlton et al, *Impact Investment: Perspectives for Australian Charitable Trusts and Foundations*, 2014.

¹⁴⁴ RIAA, unpublished, 2016

¹⁴⁵ As introduced by the Stronger Super Reforms that amended the SIS Act - Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Act 2012 Section 52(2)(b)

- Clear tests to guide when and how trustees can consider both ethical and impact investments following the guidance provided by both the UK Law Commission¹⁴⁶ and the US Department of Labor¹⁴⁷ to permit and enable such investments where:
 - there is good reason to believe beneficiaries share those values/beliefs, and
 - there is no risk of significant financial detriment.

Action to clarify fiduciary duties was one of the 8 high level recommendations of the G8 Social Impact Investment Taskforce for consideration by all jurisdictions. In response to the Financial System Inquiry, APRA stated that *“Working within the existing statutory framework APRA would, however, be open to considering the need for additional guidance regarding social impact investment, to the extent that a lack of clarity regarding APRA’s expectations was seen to be an unnecessary barrier to additional social impact investment by trustees.”*¹⁴⁸

In relation to Fiduciary Duties of superannuation trustees, please also refer to the Submission of RIAA.

Removing Obstacles for Philanthropic Trusts and Foundations

Questions 12-22 and 24-27 raise a number of issues regarding decision-making by philanthropic trustees and demand and design for program related investment.

Guidance for philanthropic trustees about their fiduciary duties would also help mobilise capital. Following a report of its Law Society, the United Kingdom Charities Commission has developed such guidance.¹⁴⁹

A number of the questions appear to assume that investment by Private Ancillary Funds (PAFs) would be limited to investment in organisations. That is only one type of impact investment. Philanthropic trusts have an important role to play in relation to other investment types and aspects of the impact investment ecosystem. For example, the Gates Foundation has made program related investments to create new funds for health solutions managed by JP Morgan¹⁵⁰ and the Kresge Foundation partnered with Morgan Stanley in the Healthy Futures Fund.¹⁵¹

The recent changes to PAF guidelines are welcomed as is the Australian Taxation Office’s demonstrated willingness to look at more creative approaches. For example, the AUSiMED Tax ruling which provides for Private Ancillary Funds to make loans on commercial terms to facilitate commercialisation of breakthrough research and treat the loss as a grant in certain circumstances if the venture is unsuccessful.

However, a number of constraints remain. In particular, limits on the capacity of PAFs to direct grant funding is an impediment to growing impact investment. Currently they can only make grants to organisations with certain categories of Deductible Gift Recipient (DGR) status. This limits the capacity of philanthropic trusts to provide what can effectively be angel and research and development capital to a broader range of organisations seeking to develop solutions to social issues or new financing mechanisms. For example, they cannot make a grant to a social enterprise without DGR1 status, cannot give to market building initiatives, accelerators or incubators which rarely gain DGR status, and cannot provide grant capital to seed new investment funds.

¹⁴⁶ <http://www.lawcom.gov.au/project/fiduciary-duties-of-investment-intermediaries/>

¹⁴⁷ <http://www.dol.gov/ebsa/newsroom/fsetis.html>

¹⁴⁸ The APRA response to the interim report of the Financial System Inquiry interim report, 2014 included a statement that the exercise of fiduciary duties pursuant to the Superannuation Industry (Supervision) Act 1993 “does not prohibit impact investment where appropriate risk and return considerations are met. Indeed, the standard does not make any distinction between different types of investments.”

¹⁴⁹ <https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14/charities-and-investment-matters-a-guide-for-trustees>

¹⁵⁰ <http://www.ghif.com/>

¹⁵¹ <http://www.healthyfuturesfund.org/>; see also the Living Cities Initiative <https://www.livingcities.org/>

This also entrenches limitations of the current system where programs designed for capacity development and to expand the range of funding and finance solutions for community and impact driven organisations are also constrained by the DGR requirement. For example, the recently launched Impact Investment Ready Discovery Grant is a welcome addition to the landscape, however it is limited by the nature of philanthropic contributions to organisations with DGR1 status.

There may be circumstances where the new tax concessions proposed in the *Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016* could be utilised to facilitate trusts and foundations making investments into social purpose enterprises. This is worth exploring as it would provide significantly greater certainty to the market if the position is put beyond doubt with straightforward guidance and clarification of the applicable regulations. This would allow greater flexibility for how capital is used to fulfill a trust or foundation's philanthropic and social mission.

Program Related Investment

Program related investment (PRI) is supported and would be a welcome and productive addition to the landscape in Australia. A well-designed, permissive regulatory framework that provides clarity and certainty is a necessary enabler. It would allow philanthropic trusts and foundations to mobilise capital from their corpus as an investment, even on below market terms, where that facilitates or amplifies their impact in areas aligned with their social and philanthropic mission.

PRI would help fill funding gaps between grants and commercial capital, encouraging the flow of more capital overall. Any discount on market rate could be attributed to grant making requirements. While PRI is consistent with current practice allowed by the Australian Taxation Office in some recent changes to PAF guidelines, a more streamlined and express PRI capacity would be a clearer signal from the government and, provided the design facilitates action, would be a welcome addition to the landscape. This was recently tested favourably with the market in Australia by Philanthropy Australia.¹⁵²

Mobilising this type of quasi-philanthropic investment capital would be a significant stimulus for social and financial innovation. Gates Foundation PRI approach adopted in 2009 involved allocation of more than \$1.5b by 2012.

PRI would enable a greater role for philanthropy in attracting more capital for social purpose and deploying its available capital for greater impact. Also, this approach would encourage foundations to work more collaboratively with the private sector to align their social goals and financial tools. Further, it would enable more effective and creative utilisation of the corpus of philanthropic trusts and foundations for the purposes for which those pools are created and already receive favourable tax treatment.

In relation to philanthropic trusts and foundations, please also refer to the Submission of Philanthropy Australia.

Corporate forms for impact driven business: Benefit Corporations and Enterprise

Questions 28-29 go to the need for different and more flexible corporate and organisational forms to enable impact driven businesses.

In Australia and internationally, developments and innovations are demonstrating that there are a range of ways in which organisations can deliver positive benefit for society. Social economy organisations in Australia take a variety of legal forms including co-operatives, community/voluntary associations, companies limited by guarantee or proprietary limited companies.

Legal forms entail duties for directors or other office holders, for example to make decisions in the best interests of the company and to act in the interests of shareholders and creditors.¹⁵³

¹⁵² An issues paper developed by Philanthropy Australia for the Department of Social services and Prime Minister's Community Business Partnership.

¹⁵³ Corporations Act 2001 (Commonwealth), Chapter 2D.

Question 28 goes to this issue, however, it does not reflect the way in which issues arise at the Board table or the range of issues faced by impact driven organisations and their stakeholders. The purpose of regulatory change is to provide more clarity about the considerations that can be taken into account, recognise that private markets alone often do not fully promote social, environmental and cultural benefit,¹⁵⁴ and provide clarity, transparency and choice for stakeholders.

Specially designed corporate forms can provide additional certainty on change of control to allow directors to make decisions consistent with purpose and ensure stakeholder interests in the impact of the organisation are preserved and:

- validate directors' decisions consistent with the corporation's purpose and motivated by creating value for stakeholders;
- provide protection for directors and officers from claims by shareholders that the company made decisions that took into account a broader range of criteria than financial alone;
- create accountability, specifically holding directors accountable to make decisions that take into account stakeholders through clear reporting requirements; and
- promote transparency in corporate decision-making about how social, environmental and cultural issues are taken into account in the course of responsible profit generation.¹⁵⁵

Another key consideration is the organisational capacity to raise and service different forms of finance, which is also affected by the parameters of the legal form. The Productivity Commission considered that providing impact driven organisational structures which would allow equity raising was less important than developing a sustainable market for debt financing.¹⁵⁶

Question 29 suggests a form of model constitution for social enterprise. This would be helpful however, it is not the whole story. Social enterprise is not the only form of impact driven organisation or model.

Other impact driven organisations pursue a variety of business and operating models, some for profit, some not for profit. Corporations can be a key contributor, including through creating jobs and economic activity. Social businesses (as developed by Nobel Laureate, Muhammad Yunus) focus on business models to solve social challenges and retain profits for growth and further development. Some community enterprises are structured as cooperatives; indeed, Australia has some very large cooperative structures in operation.

Benefit Corporations

Started in the United States, the Benefit Corporation movement has focussed on principles and structures for corporations that give shareholders more active choice to work with companies that seek to maximise the social and environmental good they deliver as well as being commercially viable.

Legislation for a new type of for-profit company limited by shares, The Benefit Corporation, has been developed which places both profit making and the public good at the forefront of the purpose of the corporation. The Benefit Corporation, has been enacted in more than half of all US states including Delaware, since first passing in Maryland in 2010.

The key elements of the Benefit Corporation are as follows:

- The purpose of the corporation is expanded to include having a positive impact on society and the environment.
- The duties of the directors are expanded to require directors to consider the interests of all the corporation's stakeholders.
- The corporation is subject to a new requirement to report on the pursuit of its expanded purpose.

¹⁵⁴ Thornley et al, Impact Investing: Policy Analysis and Design, InSight at PCV and Initiative for Responsible Investment at Harvard, 2011

¹⁵⁵ www.benefitcorp.net

¹⁵⁶ Contribution of the Not for Profit Sector, Australian Productivity Commission, 2010

The Board of B Lab Australia and New Zealand (the local office of B Lab) set up a Working Group including Professor Ian Ramsay of Melbourne University, Clayton Utz Lawyers, the AAB and Australian Ethical Investments to investigate the role for a Benefit Corporation structure in the Australian legal context. The Working Group concluded that introduction of this structure would be beneficial in Australia. Draft amendments to the *Corporations Act* to create Benefit Corporation form in Australia have been prepared. In relation to Benefit Corporations, please also refer to the Submission of BCorp Australia and NZ.

Other organisational forms

There is a case for a broader discussion on further types of structures that could better respond to the funding needs of the community sector. The Social Enterprise Legal Models Working Group has produced the most developed work on the issues faced by social enterprises and how these could be addressed through regulation to permit different organisational form.¹⁵⁷

¹⁵⁷ <http://www.employeeownership.com.au/social-enterprise-legal-models/>

What other governments are doing

*The National Advisory Boards' work highlights how policy issues manifest in individual markets and how policy actions can and need to be tailored for individual conditions. They underscore the importance of policy in each jurisdiction, though with differing degrees of emphasis in their country-specific recommendations and actions. Catalysing a Global Market, 2014*¹⁵⁸

A global field scan was undertaken for the Rockefeller Foundation in 2012.¹⁵⁹ A global overview of policy action by reference to the roles of government and dimensions of the market was published in 2015.¹⁶⁰

Since 2014, all 13 member countries of the GSG have mapped the ecosystem for impact investment in their countries, including the policy landscape, and committed to action. The country reports are publicly available on the GSG website.¹⁶¹ A further report following the Taskforce initiative highlighted policy developments across the globe.¹⁶²

Governments of all countries except Australia participating in the G8 Social Impact Investment Taskforce were directly involved with both government and sector representation on the Taskforce.

The United Kingdom Government was the first to release a whole of government strategy: *Growing the Social Investment Market: A Vision and Strategy* in early 2011. This was refreshed in early 2016 and an International Strategy aimed at establishing the UK as a destination for impact investment capital was launched.¹⁶³ The second government to develop a strategy was NSW, which released its Social Impact Investment Strategy in 2015; a dedicated Office of Social Impact Investment was established at the same time.

New Zealand's new Prime Minister has made social investment a priority for his government and appointed the first Minister for Social Investment. There is also a dedicated Social Investment Unit within the government.

The United Kingdom was also the first to establish a wholesale impact investment institution, Big Society Capital, a case study of which is included at **Appendix 6**.¹⁶⁴ Following the G8 Social Impact Investment Taskforce recommendation that all countries establish wholesale institutions for their local markets, work is underway in a number of countries. Portugal has established a fund with seed funding from European Union structural funds. Japan recently passed legislation to direct unclaimed monies to a social investment fund. Design work is also underway in Israel, South Africa and the United States. The AAB-led work to develop a blueprint for an Australian institution, Impact Capital Australia,¹⁶⁵ is being used as a reference point for other countries. For example, advisers to the Japanese Government on its fund will visit Australia this month.

There are a range of other examples of governments catalysing funds to encourage private investment or matching private investment in new funds. The focus of these funds has included growth capital for social enterprise, scale and replication of successful innovations, and new investment in under-served communities. Indeed, previous Australian Governments have utilised this approach, including to establish

¹⁵⁸ Addis, A and Koenig, A, *Catalysing a Global Market: why the Social Impact Investment Taskforce work matters and what comes next*, in *Global Snapshot, Impact Investing Policy Collaborative*, 2014

¹⁵⁹ Jackson, E & Harji, K, *Accelerating Impact*, Rockefeller Foundation, 2012

¹⁶⁰ Addis, R, *The Role of Governments and Policy in Social Finance*, in Nicholls, A et al (eds), *Social Finance*, OUP, 2015

¹⁶¹ www.socialimpactinvestment.org

¹⁶² *Impact Investing Policy In 2014: A Snapshot of Global Activity*, IIPC, 2014

¹⁶³ *Social Investment: A force for social change*, UK Cabinet Office, 2016; *Social Investment: the UK as a Global Hub*, 2016

¹⁶⁴ *Growing the Social Investment Market*, UK Cabinet Office 2011.

¹⁶⁵ See Appendix 5 and Addis, R, McCutchan, S and Munro, P, *Blueprint to Market: Impact Capital Australia*, Impact Investing Australia, 2015

the Social Enterprise Development and Investment Funds in 2011-12, the Clean Energy Finance Corporation and different iterations of innovation investment funds.

A number of jurisdictions across the globe have been experimenting with impact bonds, challenges and other policy tools for social innovation and investment. Helpful overviews have been provided by the Brookings Institute¹⁶⁶ and Social Finance group across the United Kingdom, United States and Israel.

Other countries have also introduced or refreshed legislation across the broader impact eco-system, including Quebec¹⁶⁷. The Council of the European Union adopted a package to reform public procurement, including to provide for '*common societal goods*' in the assessment and selection processes (2014). All member states were required to enact corresponding laws by April 2016.¹⁶⁸ The *UK Social Value Act, 2012* is another example that requires public commissioners to consider how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area.

Development agencies and donor organisations have reoriented policy from aid to focus on development investment and are actively developing capacity to increase private and cross-sector engagement and innovation. Many are investing in platforms that can support market building in their home nations to encourage private sector engagement in the other countries in which they work and across regional and global networks. This includes USAID, DFID ADB, the UK's Development Finance Institution (DFI), the European Investment Bank (EIB), IADB, OPIC and the French and German government agencies.

The Australian Department of Foreign Affairs and Trade (DFAT) has been developing innovation and investment strategies through a range of initiatives including those specifically mentioned in the Discussion Paper. This approach was endorsed by the Joint Standing Committee on Foreign Affairs, Defence and Trade, which also recommended that the Australian Government, through the Department, engage with the AAB to develop awareness and the market in and from Australia.¹⁶⁹

State Governments

State Governments have been steadily increasing focus on impact investment and the ecosystem.

NSW has had a leadership position, building on early success of the Social Benefit Bond initiatives. The Government released its Social Impact Investment Policy in February 2015. That policy has the stated intention of enabling delivery of better services and results for people as a key priority and puts innovation, outcomes and collaboration at the centre. The central objectives are delivering more impact investment transactions, growing the market and removing barriers, and building capacity of market participants. The 10 point strategy includes some very practical elements such as the creation of the Office of Social Impact Investment and commitments to publish unit cost data. The NSW Government has committed to working with the AAB and the working groups putting the AAB strategy into effect¹⁷⁰.

The South Australian Government, in partnership with Social Ventures Australia and not-for-profit organisations Hutt St Centre and Common Ground Adelaide, has recently commenced raising investment for its first social impact bond. The \$9m Aspire bond is targeted at homelessness.

¹⁶⁶ Gustafsson-Wright, E et al, *The Potential and Limitations of Impact Bonds: Lessons from the first five years of experience*, Brookings Institute, 2015; *Social Impact Bonds: The Early Years*, Social Finance, 2016; <http://socialfinance.org/social-impact-bonds-the-early-years/>

¹⁶⁷ *Social Economy Act, 2013*, Explanatory Notes and Chapter III, section 7

¹⁶⁸ See www.ec.europa.eu/EuropeanCommision/theEUsinglemarket/public procurement

¹⁶⁹ *Partnering for the Greater Good: The role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region*, Joint Standing Committee on Foreign Affairs, Defence and Trade, Parliament of Australia, 2015

¹⁷⁰ NSW Social Impact Investment Policy, p8

The Victorian Government is exploring Social Impact Bonds (SIBs) to “*trial innovative interventions in complex areas of social disadvantage*”. Within the 2016-17 Victorian Budget, \$700,000 has been allocated for market testing and procurement of the state’s first Social Impact bonds, focusing on adolescents leaving out-of-home care and the treatment of people with drug and alcohol problems. In July, 2016 Victoria also became the first government in Australia to issue a green bond and in February 2017 became the first State to release a social enterprise strategy.

The Queensland Government also has policy initiatives which increase the focus on outcomes, including a pilot program for three social benefit bonds launched in early 2016 targeting homelessness, reoffending, and issues affecting Aboriginal and Torres Islander people.

Call for Action

Government has an important role to play in the development of this world-leading market, not least in the creation of public goods that support social investment. However, a sustainable market is one which isn't dependent on Government investment. **UK Cabinet Office, Growing the social investment market: progress update, 2013**

The Australian Government has a critical role to play in enabling a robust impact investing market. Without government engagement, the potential for impact investment in Australia will not be realised.

Impact investing provides government with a powerful tool for delivering better societal outcomes for people and communities as well as relieving structural challenges to the budget through the leverage of government funds to attract private capital. While not relieving governments of their responsibilities, impact investing can help them direct capital more efficiently and effectively.

In the short to medium term, targeted policy and prudent investment can catalyse activity, reduce risks for new entrants, build track records and enhance investor confidence. There is potential in the Australian market today to create impact investment solutions at scale. Australia, like other countries, needs robust market infrastructure to 'grow the pie' and create a multiplier effect. There is a clear opportunity to create common platforms and infrastructure that links Australia's market to the region and to global markets.

Grant funding remains an important and powerful tool to fuel development of impact investment and to encourage private investment into targeted areas of social need. It is most effectively utilised to promote the positive societal impact through investment. It can also be utilised to achieve both market building and participation objectives, including by: de-risking investments; creating incentives for new solutions; developing and scaling enterprises; enabling new intermediaries; and building market and sector infrastructure including at the local level.

The AAB and Impact Investing Australia propose five specific measures for immediate implementation to drive the impact investing market in and from Australia. These measures are consistent with the Principles proposed in this Submission. Most do not involve government expenditure and those that do will deliver benefits, including mobilisation of private capital and impact far in excess of their cost.

The centrepiece is Impact Capital Australia, an independent engine for the market that is designed to:

- mobilise additional capital and make better use of existing government funds to address societal issues
- support the development of new and existing intermediaries in the impact investing market to accelerate the rate of growth and scale.
- act as a market champion to create a dynamic market for impact investment that delivers measurable, improved outcomes for society, demonstrating and promoting innovation and diversity in participants and products.

Impact Capital Australia's mandate has been designed to be broader than just one policy priority area. Its remit of developing the infrastructure and intermediaries within the impact investing market is expected to have a significant multiplier effect across a range of outcome and policy areas. This would change the game and drive innovation and scale within a 3-5-year period.

Detailed design work and modelling has been done to develop a model for ICA fit for the Australian context, but informed by the experience in other markets including the UK. This has been a collaborative process involving international colleagues and local leaders from across finance, business, community and philanthropy. A more detailed overview of this initiative is provided in **Appendix 5**.

Other complementary measures are designed to grow enterprising activity to tackle social issues, remove regulatory barriers, build government capacity and leadership, and develop capacity for commissioning that improves outcomes and reduces costs over time. The areas identified link with the government policy agenda, particularly the following: investment for jobs and growth, focus on costs and outcomes in areas of social spending with a focus on welfare reform, identifying opportunities with a positive effect on the structure of the Budget, the Innovation Agenda and foreign affairs focus on development investment and private sector engagement.

Figure 20: Policy recommendations for immediate action

Policy Priority	Government Action
Impact Capital Australia¹⁷¹	<p><i>Partner with Australian Advisory Board on Impact Investing to create Impact Capital Australia, an independent market champion that will invest to stimulate the intermediary market and create a multiplier effect by unlocking private capital and demonstrating efficacy. This includes providing cornerstone funding.</i></p> <p>The vision for Impact Capital Australia is to create a dynamic market for investment that delivers measurable, improved outcomes for society, operating at scale in and from Australia, demonstrating and promoting innovation and diversity in participants and products.</p> <p>Its mission would be to act as a catalyst and build a dynamic market by:</p> <ul style="list-style-type: none"> • Investing in intermediary vehicles and products in key impact sectors • Originating societally focused, impactful, innovative and scalable solutions • Implementing strategy to encourage diversity, innovation and growth
Other Policy Measures	Government Action
Support development of social purpose organisations & intermediaries	<p><i>Growing the social enterprise sector through support for incubators and investment readiness, linked with the measures set out in the National Innovation & Science Agenda.</i></p> <p>Support development of early stage investment in for purpose enterprises. Enact model legislation for B-Corporations to allow greater choice to invest in purpose oriented for profit business models. Support for social enterprise incubators and accelerators. Design & feasibility of tax incentives</p>
Remove regulatory barriers	<p><i>Clarify duties for trustees to allow consideration of risk, return and impact. Applies to Philanthropic & Superannuation trustees.</i></p> <p><i>Increase flexibility for Private and Public Ancillary Funds (PAFs and PuAFs, respectively) to enhance their capacity to use investment capital to support and complement their grant making and areas of social policy priority. Includes mission and program related investment strategies and capacity to give to non-DGR entities subject to appropriate purpose test.</i></p> <p><i>Investigate & remove barriers to social infrastructure investment.</i></p>

¹⁷¹ <http://impactinvestingaustralia.com/wp-content/uploads/Blueprint-to-Market-Impact-Capital-Australia.pdf>

<p>Reorient toward outcomes & effectiveness</p>	<p><i>Design and feasibility for a dedicated Outcomes & Innovation Fund to focus on outcomes based approaches. The intent is to incentivise State Governments to undertake more outcomes based commissioning, including social impact bonds to achieve proof of concept of innovative and preventative approaches and scale what works. The funding would cover feasibility and design and ‘top up’ outcomes payments for benefits to the Commonwealth Government.</i></p> <p><i>A related measure to design protocols for data sharing to promote greater focus on new innovative approaches to tackling outcomes and efficacy.</i></p>
<p>Government capacity & leadership</p>	<p><i>No cost and low cost measures to build government capacity and leadership and connect the Australian Government at the forefront of developments.</i></p> <p>Nominating senior officials as observers to the Global Social Impact Investment Steering Group and Australian Advisory Board on Impact Investment</p> <p>Include social innovation & investment in scope and expertise on Board to fulfil whole of Government remit of Innovation & Science Australia</p> <p>Appoint champions within Australian Government including a Minister in the Treasury or Finance portfolios and establish an Office for Social Investment.</p>

These measures draw upon extensive work already done to develop useful and actionable policy frameworks for impact investment. Together, they are intended to stimulate different parts of the market and set the conditions for unlocking private capital and incentivising solutions that deliver better outcomes. They complement work already underway, including the proposed bond aggregator for housing. They draw on the AAB strategy for development of the market in and from Australia, which in turn picks up key learning and recommendations from the global leadership in the field including the G8 Social Impact Investment Taskforce and GSG.

Additional background on the measures is provided in **Appendix 5**.

Conclusion

Governments have a clear and critical stake in both social and economic outcomes, have a pivotal role in social policy and the context for social service provision, and are significant contractors for, and providers of services. The impact in impact investing will be enhanced through their collaboration. The investing in impact investing will be accelerated through their participation in the market. **Delivering on Impact: Australian Advisory Board Strategy for Catalysing Impact Investing, 2014**

Momentum continues to build in Australia and globally. There are already many examples of successful impact investments in Australia and the challenge now is to build on these foundations of leadership, innovation and diversity.

The impact investing market in Australia is at an inflection point. Without scale, take-up of impact investing will remain fragmented and progress incremental and niche. This will limit the social and economic impact that could be delivered to the detriment of our productivity and our communities.

Investor appetite is growing. The Impact Investing Australia 2016 *Investor Report* shows that the vast majority of Australian investors – institutions, trusts/foundations, not for profits and individual investors – believe the field will grow.

In Australia, active impact investors aim to triple the size of their impact investment portfolios over the next 5 years and those currently not active in impact investing expect to consider social and environmental impact in investment decision making over the next 5 years.

Sector-led work has been done on focused, targeted strategy to drive growth, diversity and innovation. The AAB, together with more than 50 senior leaders from across sectors, has mobilised to grow impact investing. Informed by local and global experience, they have laid the groundwork on what is needed to accelerate the market for impact investments.

Without constructive government engagement, progress in growing impact investing will be slower and less impactful. The Australian Government could miss the opportunity to use an expanded range of policy tools to combat budget pressures, expand the pool of available resources and generate more sustainable solutions to issues. Australia could miss the opportunity to be competitive in this growing global market.

Developing the impact investment market and its potential to drive change will take time. The pace of development can and should be accelerated. Australia already has a global leadership role and strong foundations to build upon including leadership and interest from across sectors.

The AAB welcome opportunities to engage with the Australian Government in this process.

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APPENDICES

Appendix 1: Impact Investment further defined

Language and definitions

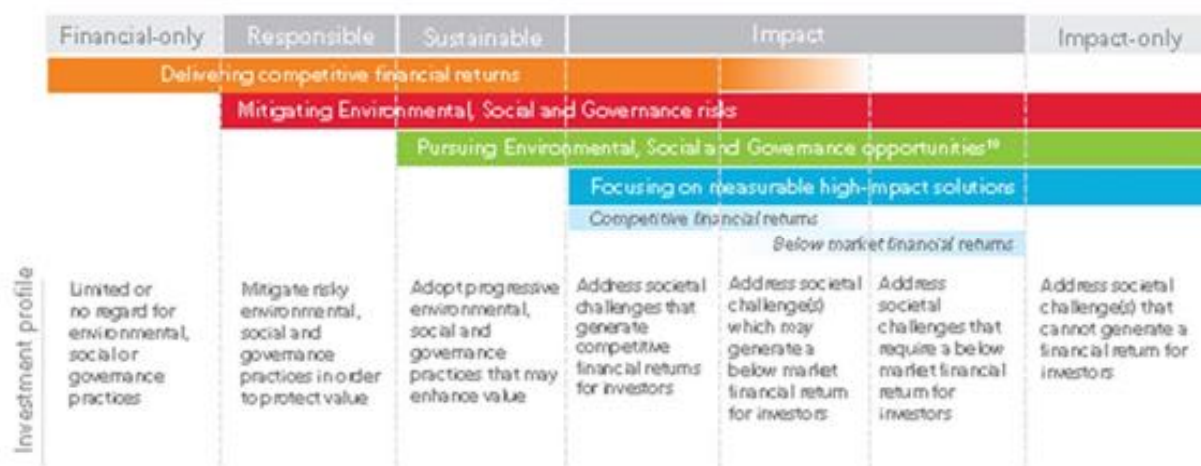
Impact investment involves a range of concepts and practices; some are from finance and some have developed specific to the field. As impact investment brings together stakeholders from different backgrounds and sectors, the language can be confusing.

A glossary of terms can be found on <https://impactinvestingaustralia.com/resources/glossary/>.

Typology of impact investment

The paradox that impact investing is both one thing and many things can be navigated in part by representing where it sits relative to more established fields within capital markets.

Figure 21: Spectrum of investment types



Source: Asset Allocation Working Group, Social Impact Investment Taskforce, 2014

It can also be helpful to organise the different actors involved on the supply and demand sides and how they connect to be mapped by reference to:

- **Impact-seeking purchasers** – these provide the sources of revenue that underpin investment in impact-driven organisations. Such purchasers can include governments, consumers, corporations or foundations.
- **Impact-driven organisations** – all types of organisations which have a long-term social mission, set outcome objectives and measure their achievement, whether they be social sector organisations or impact-driven businesses.
- **Forms of finance** – which are needed to address a range of different investment requirements.
- **Channels of impact capital** – to connect investors to impact-driven organisations in situations where the sources of impact capital do not invest directly in impact-driven organisations.
- **Sources of impact capital** – to provide the investment flows needed.

Figure 22: Social Impact Investment Ecosystem

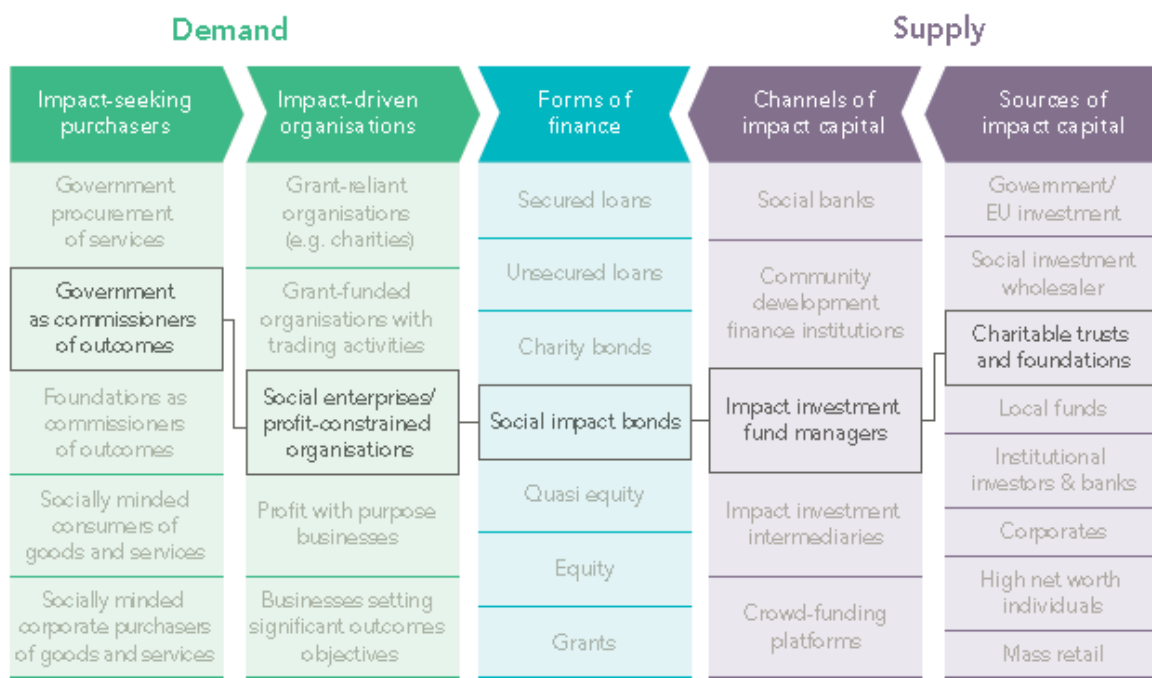


Source: Policy Levers & Objectives, Social Impact Investment Taskforce, 2014

This approach facilitates different ways of mapping supply and demand and the type of investments that may be appropriate in each case.

Figure 23: Mapping social impact investments in the market context

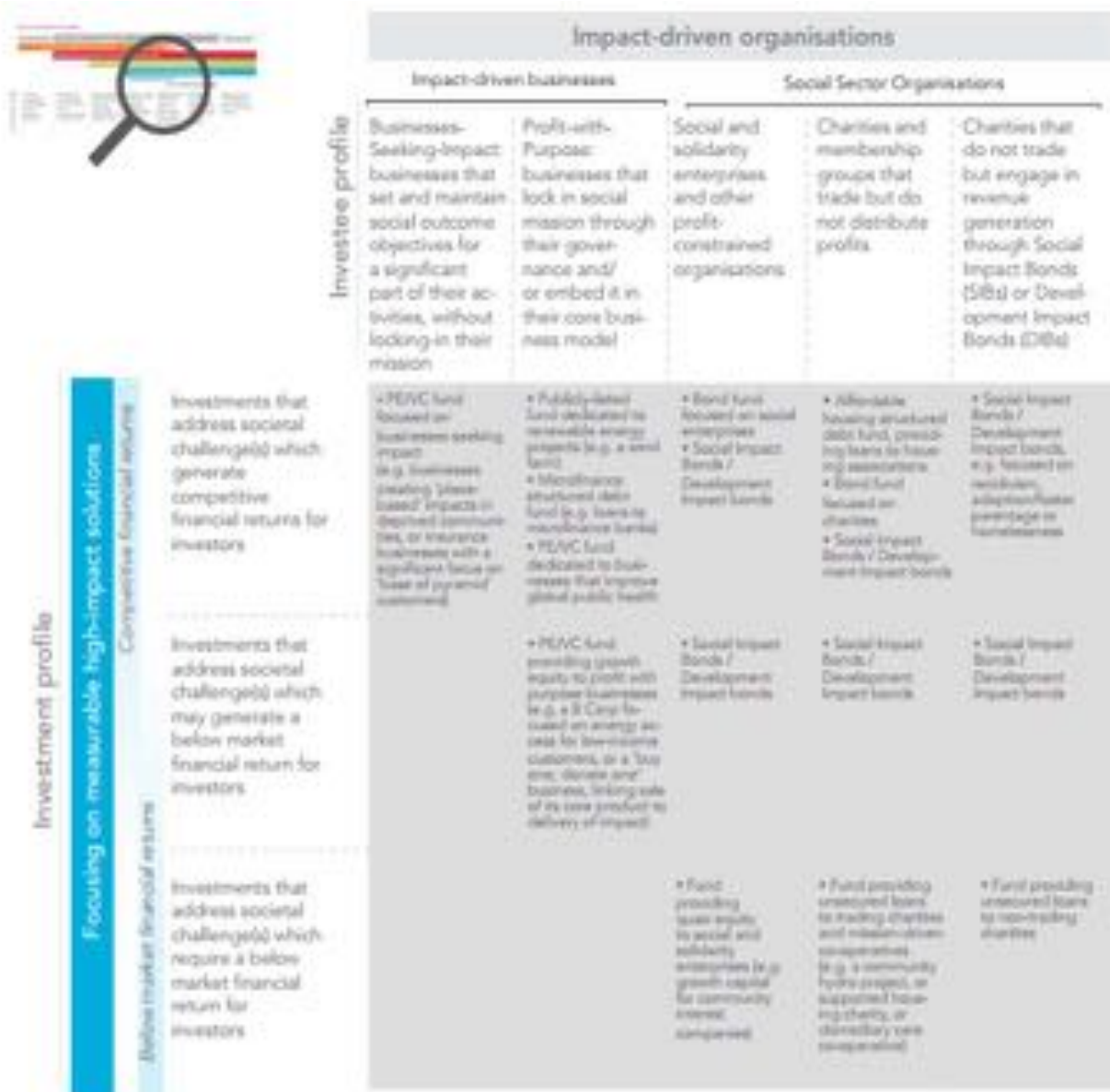
EXAMPLE SOCIAL IMPACT INVESTMENT SIGNATURE



Source: Asset Allocation Working Group, Social Impact Investment Taskforce, 2014

There are several ways in which this type of analysis can be represented.

Figure 24: Mapping examples of different investments by investment profile and organisation type



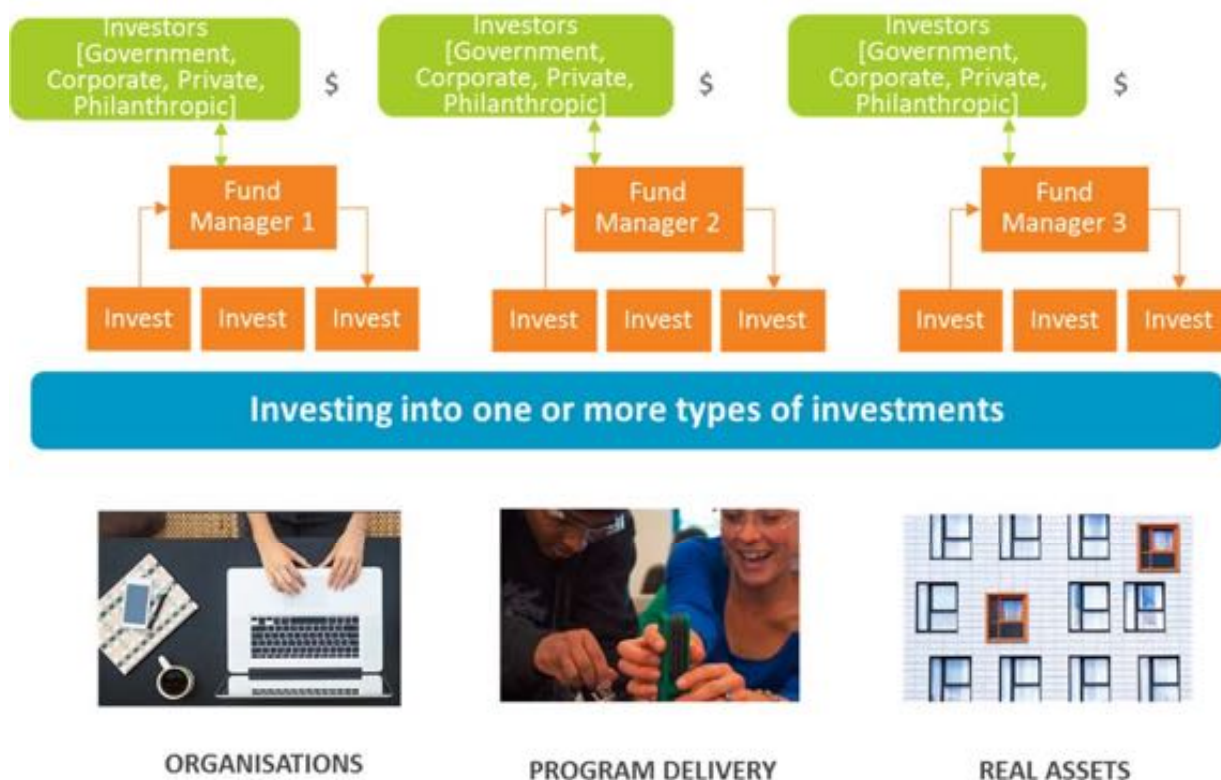
Source: Asset Allocation Working Group, Social Impact Investment Taskforce, 2014

Social Impact Funds

Pooled investment vehicles are a critical part of the intermediary landscape and necessary infrastructure for a market to develop scale. In the case of impact investing, they are also important vehicles to enable impact as well as financial return to be optimised across a number of investments or transactions.

Managing a pool of funds provides greater flexibility to diversify risk and impact. Critical mass of capital and investment opportunities is an important factor for fund design and sustainability.

Figure 25: How social impact funds work



Source: Impact Investing Australia, 2017

Case Studies

It is useful to illustrate the diversity of community benefit and investment approaches with concrete examples. The case studies provided in the following pages are drawn from Australia and the global market.

Additional case studies can be sourced at the following sites:

<https://impactinvestingaustralia.com/case-studies/>

<http://bridgesventures.com/wp-content/uploads/2016/03/Investing-for-Impact-Case-Studies-Across-Asset-Classes.pdf>

<https://www.bigsocietycapital.com/social-issues>

CASE STUDY

SEFA Loan Fund



Size of Fund: \$20 million (starting capital)

THE FUND

About the fund	<p>Social Enterprise Finance Australia (SEFA) is an Australian based entity that was established in August 2011 with a \$10 million grant from the Commonwealth Social Enterprise Development Investment Fund (SEDIF) matched with \$10 million raised from private investors. The SEFA Loan Fund provides loans to not-for-profit and commercial organisations that have a social, cultural or environmental mission to deliver a public or community benefit via services or selling goods. To obtain investment, the not-for-profit or social enterprise must have a clear social mandate with clear aims in one or more of the following areas:</p> <ul style="list-style-type: none"> • Community development • Environmental benefit • Indigenous enterprise <p>The fund provides direct secured and unsecured loans from \$50,000 to \$1½ million for purchasing a property, working capital, buying a franchise or funding a specific project. For transactions over \$1½ million SEFA partners with other like-minded investors.</p>
About the manager	<p>SEFA aims to lead the development of social impact lending in Australia using innovative solutions to build a stronger and more dynamic social enterprise sector. They are committed to fostering positive community, indigenous and environmental impact whilst achieving financial returns. They are a certified B Corporation.</p>
Area of impact	Community, environment, cultural and Indigenous.
Geography	Australia
Scale of impact	<p>SEFA's investments have created a range of social impacts including supporting disability services, community housing, mental health support and services, indigenous enterprises, and crisis accommodation.</p>

Investors	<p><u>Equity</u> Australian Government contribution - \$10 million NSW Aboriginal Land Council Triodos Bank NV, the Netherlands Community Sector Bank Private Investors</p> <p><u>Debt</u> Range of private investors – not disclosed</p>
Major investments	<ul style="list-style-type: none"> • Sustain Community Housing in NSW piloted a mixed development model that will provide social and affordable housing without a Government contribution • Upper Murray Community Bakery in regional Victoria is a bakery business and initiative by Corryong Neighbourhood House to increase employment and training opportunities • Central Coast ARAFMI in NSW offers respite and accommodation to carers and people with a mental illness • Lifestyle Solutions in NSW provide disability services including residential care, community access and personal support • Three Sista's, a social venture dedicated to providing affordable crisis accommodation plus linkages to support and health services for the long-term wellbeing of marginalised and indigenous people • MiHaven Pty Ltd provides training and employment opportunities for long term unemployed indigenous people in Northern Queensland <p>For further examples of loans please see www.sefa.com.au</p>
Asset class	Fixed Income and Alternative Assets
Fees	Nil
Liquidity	No liquidity guarantee for equity investors. Debt repaid on maturity.
THE IMPACT	
Social, cultural or environmental impact	<ul style="list-style-type: none"> • SEFA supports organisations with a range of community-benefitting missions. As at end of June 2015, the indirect impact created through their loans is over 14,000 people across Australia since inception. With SEFA's support, people were able to access training & long-term employment, crisis accommodation, disability services and outreach programs • SEFA also benefits the for-purpose community directly, by providing capacity building workshops, taking social enterprises through an in-depth due diligence process and running a mentoring program with seasoned professionals
FINANCIAL RETURNS	
Financial returns	Please contact SEFA directly.
MORE INFORMATION	
www.sefa.com.au	

CASE STUDY

Goodstart Early Learning



Size: \$95 million

Goodstart Early Learning is a not-for-profit social enterprise that aims to raise the quality of early learning, enable all children access to and inclusion in early childhood programs, and provide a financially secure business model to reinvest into quality, inclusion, advocacy and research initiatives. Goodstart Early Learning was created in 2009 as a solution to fill the gap left by the collapse of ABC Learning (once the world's largest provider of child care services). Led by a consortium comprising Social Ventures Australia, the Benevolent Society, Mission Australia and the Brotherhood of St Laurence, Goodstart Early Learning was successful in raising \$95 million to acquire 678 childcare centres, through a combination of bank debt, government loans, subordinated notes and private investment. Today, Goodstart employs over 13,000 staff and is a leader of early learning and care in Australia.

THE INITIATIVE

Purpose of capital	To provide long-day care and early learning services for children
Sector	Education
Geography	Australia (centres in all States and Territories)
Scale of impact	<p>Goodstart Early Learning is one of the largest social enterprises in Australia and provides</p> <ul style="list-style-type: none"> • early learning and care for approximately 73,000 children • access for disadvantaged families and communities to integrated family and children's services • economic benefits including increased female workforce participation, improved educational performance and long term human capital and social capital outcomes
Timeline	<p>ABC Learning provided approximately 15% of childcare in Australia until it went into voluntary administration in 2008. The financial viability of the distressed ABC assets meant that a proposition presented itself to create a social enterprise at scale. The Goodstart Consortium was formed in November 2008 and sought expert advice on early childhood evidence and frameworks to inform its social impact objectives. After sufficient funding was raised, Goodstart was announced as the preferred winner for the bid on 9 December 2009, and acquired 678 centres for \$95 million.</p>

THE INVESTMENT

Investors	National Australia Bank, Australian Government, Private investors, the Goodstart Consortium (Social Ventures Australia, the Benevolent Society, Mission Australia and the Brotherhood of St Laurence)
Investee	Goodstart Early Learning. Goodstart is a non-for-profit that invests all surplus generated into early learning initiatives, for the benefit of Australia's children.
Investment structure and terms	<p>Private investment</p> <ul style="list-style-type: none"> • Unsecured social capital notes: \$22.5 million over 8 years at 12 per cent (41 private investors) • Non-cash subordinated notes: \$10 million at 15 per cent for advisory services (Benevolent Society, Brotherhood of St Laurence, Mission Australia, Social Ventures Australia) • Unsecured subordinated notes: \$7.5 million over 20 years at 15 per cent (Benevolent Society, Brotherhood of St Laurence, Mission Australia) <p>Bank finance</p> <ul style="list-style-type: none"> • Secured Senior Debt: \$50 million over 5 years at 10 per cent (National Australia Bank) • Operational capital: \$70 million in various forms (National Australia Bank) <p>Other</p> <ul style="list-style-type: none"> • Australian Government Secured Debt: \$15 million over 7 years at market yield for treasury fixed coupon bonds
Arranger/Lead	Social Ventures Australia
Source of deal	To take advantage of the opportunity to create a flagship early learning organisation following the collapse of ABC Learning, the Goodstart Consortium was formed. Social Ventures Australia, the Benevolent Society and Mission Australia joined in November 2008, and the Brotherhood of St Laurence joined the consortium in September 2009. To raise further capital, the consortium also approached National Australia Bank and the Australian Government. Finally, in September 2009, members also began approaching individual investors (philanthropists, high net-worth individuals) and foundations, and Goodstart raised the remaining \$22.5 million from these social investors.

THE IMPACT

Social, cultural or environmental impact	<p>As at 30 June 2014:</p> <ul style="list-style-type: none"> • Goodstart operated 644 early learning centres caring for more than 72,500 children from 60,500 families and employs more than 13,000 staff • Goodstart had 174 centres located in communities with a Socio-Economic Index (SEIFA) in the bottom 30 per cent of communities • 130 centres are in communities where the percentage of children assessed as developmentally vulnerable through the Australian Early Development Index (AEDI) is one-and-a-half times higher than the national average • Over 1000 staff are involved in delivering social inclusion programs • 1,118 children with special needs were supported in Goodstart centres • Over 76% of centres assessed in 2014 met or exceeded National Quality Standards • Staff attrition rate fell to 14.2 per cent (down from 23.8 per cent when the enterprise commenced)
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FINANCIAL RETURN

Financial return	<p>For the year ending 30 June 2014:</p> <ul style="list-style-type: none"> • Goodstart recorded an underlying operating surplus of \$40.4 million • \$43.1 million of debt was repaid (last of the external debt), saving Goodstart \$12.4 million in interest repayments over the next five years
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OTHER

Future opportunities	Goodstart has made considerable progress on its goals of quality, inclusion and stability. With their external debt repaid and the business stable, Goodstart has been taking up opportunities for a slow expansion of their network. They plan to increase their social inclusion programs in all centres and target investment in 55 high priority centres by 2020, as well as continue to provide high quality early learning and care experiences for children in Australia.
More information	www.goodstart.org.au

CASE STUDY

The Murray-Darling Basin Balanced Water Fund



Size of Fund: \$27 Million

THE FUND

<p>About the fund</p>	<p>The Nature Conservancy Australia established the Murray-Darling Basin Balanced Water Fund in 2015 to provide water security for Australian farming families while protecting culturally significant wetlands that support threatened species. The Murray-Darling Basin Balanced Water Fund is the first water investment fund in Australia to allow investors to achieve the multiple objectives of securing water for agriculture, realising a financial return and restoring threatened wetlands through a single investment.</p> <p>The Fund invests through Water Entitlements which can be bought, sold or leased. They are a perpetual or ongoing entitlement to exclusive access to a share of water from a consumptive pool. The Fund generates financial returns through the annual lease of Water Entitlements, the trade of Water Allocations (specific volume of water allocated to a Water Entitlement) and through the long-term appreciation of the Fund's portfolio of assets. The Fund then sells, or leases the majority of the annual temporary Water Allocations back to the agricultural community, while donating the remainder of the allocations to the environment each year. Environmental and social objectives are achieved by returning water to wetlands. The Fund is open-ended, with no fixed term.</p>
<p>About the manager</p>	<p>Founded in 2004, Kilter Rural is a specialist asset manager, dedicated to investment in Australian real assets of farmland, water and ecosystem services. Kilter Rural is one of Australia's largest and most experienced third-party managers of Water Entitlements. As at 30 June 2015, the Portfolio Manager had \$110 million in water assets under management across the Southern Murray-Darling Basin.</p>
<p>Outcome area</p>	<p>Conservation, Environment & Agriculture,</p>
<p>Geography</p>	<p>New South Wales and Victoria</p>

Scale of impact	Increased irrigation in the Southern Murray-Darling Basin is projected to drive water use by cotton and fruit/nut growers by 65% and 18% respectively, while water use by dairy, rice and grapes will decline by between 8% and 16%. This ongoing transfer of water to higher value crops will support the continued appreciation of high security/reliability water entitlements with demand underpinned by growers looking to increase water security.
Investor/s	Besen Family Foundation McKinnon Foundation Purves Environmental Fund Miscellaneous organisations and High Net Worth Individuals National Australia Bank
Major investments	Southern Murray-Darling Basin. The Basin has a total market value of \$10.74 billion as of September 2015. The investment strategy of the Fund targets Water Entitlements that provide the greatest utility of use/trade and exposure to potential clients seeking to access Water Allocations across the nine major Southern Murray-Darling Basin water catchment trading zones.
Asset class	Alternative Asset Water rights are assets that are gaining interest in the broader investor community and are known for long-term capital growth, low correlation to other assets and capacity to generate yield. Water Entitlements are rights to access a share of a defined water resource such as a lake, river system or aquifer. They are issued, regulated and registered by State Governments. The rights of Water Entitlement owners are akin to the owners of land titles. The volume of water allocated each year to Holders of Water Entitlements can be either used or sold to other agricultural, urban or commercial water users.
Fees	The Nature Conservancy Australia charges a Water Portfolio Establishment Fee which is equivalent to 2.5% of the value of Units allocated, to cover costs associated with the development, design and establishment of the Fund, including the legal and financial analysis and modelling for structuring the water trading and environmental activities. Kilter Rural, the Portfolio Manager, has a management fee as follows: 0.85% of assets under management if Fund size < \$50 million 0.765% of assets under management if Fund size > \$50 million up to \$75 million 0.595% of assets under management if Fund size > \$75 million up to \$100 million
Liquidity	Liquidity in the Southern Murray-Darling Basin Water Entitlement market varies from year to year and by security or reliability class.

THE IMPACT

Social, cultural or environmental impact	<ul style="list-style-type: none"> The first watering program by the Fund commenced on 4 April 2016 on Tar-ru Traditional Lands approximately 45km west of Wentworth in south-western New South Wales. Commonwealth water totalling 950 megalitres flowed back into wetlands in the region. The environmental water is expected to benefit the environment and a range of wildlife including fish and waterbirds in particular. The Fund aims to provide meaningful employment and engagement opportunities for the Traditional Owners of the targeted wetlands. Support irrigation communities within the Southern Murray-Darling Basin by ensuring irrigator access to the majority of the Fund's water portfolio and providing irrigators with the flexibility to respond to cyclic ebbs and flows in water availability.
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FINANCIAL RETURNS

Financial returns	2.3% Net Operating Profit and Distributions (since inception, after fees)
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MORE INFORMATION

[The Nature Conservancy Australia](#)
[Kilter Rural](#)

CASE STUDY

LeapFrog Fund II



Size of Fund: US\$400 million

THE FUND

About the fund	The LeapFrog Fund II closed in September 2014, raising US\$400 million for investing in high-growth companies that provide affordable insurance, savings, pensions and payments products for emerging consumers in Asia and Africa. The fund makes equity investments of approximately US\$10-\$50 million in LeapFrog's priority markets of Ghana, Kenya, Nigeria, South Africa, India, Indonesia, the Philippines and Sri Lanka.
About the manager	LeapFrog Investments is the world's largest dedicated equity investor in emerging markets financial services, with over half-a-billion dollars assets under management. LeapFrog invests in high-growth companies across Asia and Africa that offer empowering tools such as insurance, savings and investment products to emerging consumers.
Area of impact	Financial Services for emerging consumers (i.e. those earning under \$10 USD a day)
Geography	Africa and Asia
Scale of impact	LeapFrog's portfolio companies currently reach more than 48 million people, with a potential market of more than 2 billion through emerging market consumers in Asia and Africa
Investors	Global insurance companies, pension funds, investment firms and development finance institutions including AIG, AXA, Zurich Insurance, HESTA, Christian Super, MetLife, JP Morgan, Swiss Re, Prudential, EIB and FMO
Major investments	<ul style="list-style-type: none"> • Resolution Insurance, Kenya: Resolution Insurance is Kenya's fourth largest health insurer, operating in Kenya, Tanzania and Uganda. It partners with a robust network of medical service providers across East Africa to reach emerging consumers in the health insurance space. • Magma, India: Magma is a well-known NBFC (Non-banking Financial Company) in India whose vision is to provide finance for the masses that have been excluded by traditional finance systems. Across its 238 offices it offers finance for vehicles, construction, SMEs and housing.

- **Syn Mun Kong Insurance (SMK), Thailand:** SMK is a rapidly growing general insurer. It is noteworthy for its deep reach into Thailand's rural and semi-rural population.

Asset class	Alternative Assets
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Fees	Undisclosed
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Liquidity	Undisclosed
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THE IMPACT

Social, cultural or environmental impact	The Fund's investments aim to improve financial services access to under-served emerging market consumers. Consumers with financial services access can begin lending, start small businesses, gain access to insurance and create savings, which all contribute to economic growth and capital market expansion.
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FINANCIAL RETURNS

Financial returns	The Fund pursues top-tier financial and social returns.
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MORE INFORMATION

[LeapFrog](#)

CASE STUDY

Australia Chamber Orchestra Instrument Fund



Size: \$4.6 million (as at March 2015)

The Australian Chamber Orchestra Instrument Fund is a world first. It was created in 2011 to purchase high-quality stringed instruments which are lent to the Australian Chamber Orchestra (ACO) for use by its players. The Fund is a unit trust, with some units owned by the ACO and others by wholesale investors. The Fund owns Australia's only Stradivarius violin, purchased in 2011 for \$1.79 million, and a 1714 Joseph Guarneri filius Andreae violin, purchased in 2014 for \$1.65 million. Unit-holders have experienced increases in the unit price in 2013, 2014 and 2015.

THE INITIATIVE

Purpose of capital	To purchase high-quality stringed instruments for ACO players' use, and to achieve long term capital gain for investors.
Sector	Arts & Culture
Geography	Australia
Scale of impact	Instruments are used by the ACO both domestically and internationally in regular concert programs. Students and audiences in metropolitan and remote regional areas have access to the highest quality sound via the ACO's Regional Touring and National Education Programs.
Timeline	The Fund was established in 2011. The Fund purchased its 1728/29 Stradivarius violin the same year, and a 1714 Joseph Guarneri filius Andreae violin in 2014.

THE INVESTMENT

Investor/s	Private wholesale investors and the ACO
Investee	Australian Chamber Orchestra Instrument Fund
Investment structure and terms	<p>Private investment</p> <ul style="list-style-type: none">• Cornerstone investment by the ACO with some units retained by it on behalf of donors, and remaining units available for sale to private wholesale investors (minimum investment of \$50,000)• New units are issued for the purchase of each new instrument.• The investment objective is to achieve long term capital gains for investors.• The Fund will be terminated after 10 years (in 2021) or at 5 year intervals subsequently, unless 51% of unitholders (excluding the ACO) vote to continue the Fund at specially convened meetings.• JBWere Ltd is the Australian Financial Services Licence holder. <p>Corporate capital</p> <ul style="list-style-type: none">• N/A <p>Bank finance</p> <ul style="list-style-type: none">• N/A <p>Impact fund Investment</p> <ul style="list-style-type: none">• N/A
Arranger/Lead	None
Source of deal	The idea for a Fund originated from within the ACO

THE IMPACT

Social, cultural or environmental impact	The Fund's instruments contribute to Australia's cultural landscape, providing thousands of people with the opportunity to attend performances enhanced by these instruments, helping to support the future of music in Australia. The instruments enhance the reputation of the ACO so it can attract the highest calibre of musicians from all over the world. The instruments are also played as part of the ACO's National Education Program which educates and inspires students and teachers at every level of the educational system across regional and metropolitan Australia.
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FINANCIAL RETURN

Financial return	Units in the Fund have gained 40% in value since the Fund's launch in 2011, from \$1.00 a unit to \$1.40 (31 March 2015). Instruments are formally re-valued at least every 3 years with informal valuations occurring at least every 2 years.
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OTHER

Future opportunities	The Fund hopes to purchase additional instruments in the future.
More information	Australian Chamber Orchestra

CASE STUDY

Melbourne Montessori School Community Finance Fund



Size of Fund: \$1,800,000

THE FUND

About the fund	The Melbourne Montessori School Community Fund (MMS Community Finance Fund) was established to provide financial support for the Melbourne Montessori School, a not-for-profit charitable entity that provides education using the Maria Montessori method. In 2014 the School purchased its Brighton Campus and adjoining grounds from the Uniting Church for \$5,000,000 to provide for the growing student program. The School purchased the property by borrowing \$2,500,000 from Commonwealth Bank, as well as receiving a Commonwealth government grant of \$500,000 and private investment by members of the School community. To repay these bridging loans and costs associated with the property purchase, the School established the Fund and offered investors '3 year fixed unsubordinated education notes' during an offer period from 1 September to 16 October 2015. The trustee of the Fund raised \$1,800,000 from the offer, and loaned that money to the School so that the School could transfer the property to the Fund. As at 3 June 2015, the property was valued at \$6,500,000 and was the Fund's major asset.
About the manager	The trustee of the Fund is MMS School Pty Ltd
Area of impact	Education
Geography	Melbourne, Victoria, Australia
Scale of impact	The Melbourne Montessori School currently provides education to 400 students across pre-primary, primary and secondary.
Investors	Private investors
Major investment	The funds raised from the offer will be loaned by the trustee of the Fund to the School for repayment of bridging loans and costs associated with the School's purchase of property in Brighton, Victoria so that the School can transfer the property to the trustee of the Fund. As at 3 June 2015, the property was valued at \$6,500,000 and the trustee of the Fund will earn income leasing the property to the School. It is proposed that the rental income will at least cover the coupon payments accruing on the educational notes.

Asset class	Alternative Assets
Fees	The set up costs for the Fund were paid for by the School. Investors could acquire notes issued by the trustee of the Fund for \$10,000. There is no management fee associated with holding the notes.
Liquidity	The educational notes issued by the trustee of the Fund were not listed or quoted on any stock exchange. There was also no established secondary market and no withdrawal rights, so investors had to commit for the three year term.

THE IMPACT

Social, cultural or environmental impact	<p>Montessori is a scientifically developed non-religious education system used in over 22,000 schools and education centres world-wide. Developed by Maria Montessori, the system is based on a deep understanding of child development from birth to adulthood and involves four planes of development. Before the land at Brighton was purchased by the School, Melbourne Montessori School was outgrowing its Caulfield campus and there was uncertainty of tenure at the Brighton campus.</p> <p>By purchasing the Brighton campus and the adjoining property under a time sensitive offer in 2014, the School was able to provide more space and facilities for its growing student base. The establishment of the Fund then enabled the broader community to invest in the future of the School and provide flexibility in financing options for the School to ensure its longevity. Additionally, the Fund ensures the impact created by purchasing the property can be maintained in a sustainable and affordable way, and also provides a mechanism for future growth as the School expands.</p>
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FINANCIAL RETURNS

Financial returns	The offer to subscribe to the educational notes closed in October 2015 and \$1,800,000 was raised through this issue. Investors will receive a fixed return of 5.75% per annum over three years.
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MORE INFORMATION

[Melbourne Montessori School Community Finance Fund](#)

CASE STUDY

Bridges Social Impact Bond Fund



Size of Fund: £25m

THE FUND

About the fund	The Bridges Social Impact Bond Fund, the first of its type, was launched in April 2013 with Big Society Capital as the cornerstone investor, alongside Omidyar Network and Panahpur, and a co-investment agreement with the Bridges Social Entrepreneurs Fund. By investing in 'Social Impact Bonds' (a type of 'payment by outcomes' funding mechanism that engages private capital), the fund provides investment and support to charities and social enterprises that are delivering intervention programs with social outcomes
About the manager	Bridges Ventures, founded in 2002, is a specialist fund manager dedicated to sustainable and impact investment. As at December 2015, it has almost £600m in funds under management. Bridges Ventures focuses on opportunities where investments can generate investor returns through helping meet pressing social or environmental challenges, such as job creation in underserved markets or provision of environmentally friendly care homes for the elderly. Bridges Ventures is majority owned by its senior management team, who donate the equivalent of 10% of their own profits to the Bridges Charitable Trust (a minority shareholder of Bridges Ventures) for philanthropic activities.
Area of impact	Prevention of youth unemployment, preventing entry into care, supported adoption, therapeutic fostering, support for young homeless people, and social prescribing for patients with long-term conditions.
Geography	The UK
Scale of impact	As at December 2015, the Fund has positively impacted approximately 10,000 beneficiaries to varying degrees. For example, some of their programs assist a comparatively low number of beneficiaries but at a deep and transformative level (e.g. finding a permanent adoptive family for a child), whereas other programs impact more beneficiaries with a lighter touch intervention (e.g. providing training or educational support to teenagers).

Investors	Big Society Capital, Omidyar Network, Panahpur, European Investment Fund, Great Manchester Pension Fund, Merseyside Pension Fund, Deutsche Bank, The Prince of Wales's Charitable Foundation, Trust for London and The Highwood Foundation.
Major investments	<ul style="list-style-type: none"> • It's All About Me: Finding families for children who otherwise would not have a home across the UK, delivered by a number of organisations including Action for Children, Caritas Care and Adoption Matters. • Community Links: Supporting disadvantaged young people into work in East London. • Fusion Housing: A multi-disciplinary team approach to reduce youth homelessness and unemployment in West Yorkshire. • Career Connect: Providing mental toughness support to teenagers on Merseyside.
Asset class	Alternative Assets
Fees	The fees are in line with an alternative investment fund of its size.
Liquidity	10 year fund
THE IMPACT	
Social, cultural or environmental impact	The fund's investments aim to improve life outcomes for children, young adults and elderly patients in areas such as employment, homelessness, therapeutic care and foster care.
FINANCIAL RETURNS	
Financial returns	Given the nascent stage of the payment by outcomes market, it is too early to comment on the returns of the fund. However, Bridges Ventures believes the social impact bond market has the potential to deliver attractive risk-adjusted returns as a track record is established.
MORE INFORMATION	
Bridges Ventures Social Impact Bond Fund	

CASE STUDY

New York City Acquisition Fund



Size of Fund: \$200 million

THE FUND

<p>About the fund</p>	<p>The New York City Acquisition Fund (the Fund) is an industry-leading fund that leverages private, public and foundation capital to provide below-market rate loans for property acquisition to overcome the shortage of property available for the development of affordable housing in New York City.</p> <p>It provides flexible, advantageous capital to affordable housing developers to acquire property.</p> <p>The City of New York, major foundations, and members of the banking industry established the fund in 2006, over an initial ten year term. As a structured fund, the Fund brings together capital with different risk and return requirements.</p> <p>In this case, public and philanthropic investment dollars are used to create a guarantee fund to provide security for the banks which provide the loan capital. For each dollar that the government has invested in the fund, an additional \$7 has been raised from other investors.</p> <p>For-profit developers are eligible for loans up to 95% loan to value ratio while non-profit developers are eligible for increases to 130% loan to value ratio. The maximum loan amount is \$20 million for the acquisition of existing occupied buildings and \$10 million for the acquisition of vacant land although the Fund has the flexibility to provide exceptions to these limits. Inclusive of extensions, the maximum loan term is three years.</p>
<p>About the manager</p>	<p>Forsyth Street is the contracted Fund Manager responsible for all Fund operations including portfolio management, investments and fiscal operations. Forsyth Street is an advisory and asset management firm, focusing on affordable housing, real estate and municipal and impact investment. Forsyth was founded in 2003 and has a team of 17 professionals, and have executed over \$3.5 billion in transaction volume on behalf of clients.</p>
<p>Outcome area</p>	<p>Housing and Local amenity</p>
<p>Geography</p>	<p>New York City, USA</p>

Scale of impact	This fund aims for social impact, specifically to provide affordable housing in NYC for individuals and families who otherwise couldn't afford to live in NYC's five boroughs.
Investor/s	<p>Originating lenders: Corporation for Supportive Housing, Enterprise Community Loan Fund, Low Income Investment Fund, Local Initiatives Support Corporation</p> <p>Senior lenders: Bank of America, Capital One, Citibank, Deutsche Bank, HSBC, JPMorgan Chase, M & T Bank, Morgan Stanley, Signature Bank, Wells Fargo Bank</p> <p>Foundations: Enterprise Community Partners, Inc., Ford Foundation, Heron Foundation, MacArthur Foundation, Robin Hood Foundation, Rockefeller Foundation, Starr Foundation</p> <p>City of New York: NYC Department of Housing Preservation and Development, NYC Housing Development Corporation</p>
Major investments	<ul style="list-style-type: none"> • Ocean Towers Project: On May 16, 2013, The Fund successfully financed the acquisition of an occupied 360-unit property located in Coney Island. Through this acquisition, Proto Property Services and Community Development Trust will reinstate affordable rents for all 360 units by leveraging public subsidies to carry upgrades to heating and electrical systems, full elevator replacement and other building improvements. • On January 30, 2008, the Fund successfully financed the Atlantic Development Group's acquisition of a parcel located at 80-88 Bruckner Boulevard in the Port Morris neighbourhood of the Bronx. Through this acquisition, Atlantic was able to develop 428 units of low income rental housing with 22,940 square feet of ground-floor commercial. • On January 15, 2014, the Fund successfully financed the acquisition of two vacant sites. Through this acquisition, Common Ground will construct 418 units across two buildings, including a live-in superintendent's unit.
Asset class	Real Assets
Fees	Management compensation is not structured as a percentage of commitments but rather is a fixed and variable structure that is volume dependent. This can range from between 0.25% to 0.5% on interest.
Liquidity	Senior Capital: 3 year investment period with 3 year maximum term for 7 year commitment. No liquidity:- Opportunity to recommit every 3 years Foundation & City capital: 10 year commitment. No liquidity.
THE IMPACT	
Social, cultural or environmental impact	The Fund has provided approximately \$300 million of capital, resulting in the preservation or creation of other 7,700 units of housing.
FINANCIAL RETURNS	
Financial returns	Undisclosed.
MORE INFORMATION	
http://www.nycacquisitionfund.com/	

FAQs about Impact Investment

Isn't it government's role to pay for and deliver social services?

Impact investing is about helping governments do more with the money they have.

Governments have a critical role to play in providing delivery of social services. As commissioners of social services and impact, they have huge potential to help scale investment and innovation for impact.

However, resources are limited and it is genuinely difficult for governments to be nimble and innovative.

Used responsibly, impact investment can mobilise private capital for public good, supplementing what Governments and philanthropy contribute. It can also play a role in encouraging innovation, paying for successful interventions and driving down the cost of achieving more successful and efficient outcomes.

Doesn't impact investing raise an ethical issue with people making money off the back of helping those less fortunate?

Success for impact investing will ultimately be measured by whether it helps deliver better outcomes and improve people's lives.

There will always be a role for both unconditional philanthropy and for government funding.

And what is the alternative? – Government resources are limited and philanthropy cannot fill all the gaps. Impact investing enables more capital and reach than could be achieved otherwise. And the focus is on outcomes; not just more services but financing approaches that will help tackle and prevent the issues at the cause. Impact Investment can also reverse cycles of disadvantage and underinvestment that prevent communities from building a brighter future.

Isn't there a necessary trade-off between profit and purpose?

No. This is one of the unique things about impact investing. There are opportunities across different types of investments.

A range of factors influence the approach of any given impact investor. These include: their motivations for investing, the types of investments they can make within their organisational and capital structure, their appetite for risk and their expectations with regard to social outcomes and financial returns.

A real opportunity is to bring together those investors willing to prioritise impact with those that need a certain level of financial return. This allows innovative models that mobilise more capital and create a multiplier effect.

For example, in Australia \$20m of government funding into new investment funds was more than matched by other investors in three social enterprise investment funds. The \$40m in pooled capital is used to provide tailored financial products, primarily loans, to social enterprises to help them purchase premises and equipment, develop new services, or expand existing services for the benefit of their communities. In the US, the Living Cities initiative has leveraged philanthropic capital by ~30 x to mobilise over US\$16bn to build schools, provide affordable housing and healthcare, childcare and job training in low-income communities across the US.

All the examples seem to be small scale? How can that make a difference to the Budget?

The market is at an inflection point. There is a concrete opportunity to take the market toward scale. That needs a combination of focus, capital and mandate to bring together deals and encourage new intermediaries and create a multiplier effect in terms of capital, activity and impact. Impact Capital Australia has been designed to do that.

Now is the time when the market is still maturing and a relatively modest initiative like ICA can make a big difference. It can also create the conditions for a unique partnership between government, the banks and others to demonstrate what's possible and really explore the opportunities at scale.

How is Impact Capital Australia different to the existing intermediaries in the Australian impact investing landscape?

Impact Capital Australia is unique. Its role will be to enable the existing intermediaries in the market and encourage new ones, including by offering wholesale finance.

All ICA's activity would be driven by the intention of impact, financial viability and market development. It will not compete with the existing intermediaries. Its role will be to develop the market and encourage more actors and capital in.

ICA's focus will be '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

Appendix 2: Global Social Impact Investment Steering Group

The Global Social Impact Investment Steering Group (GSG) was established in August 2015 as the successor to the G8 Social Impact Investment Taskforce. The GSG is continuing the work of the Taskforce to catalyse a global market for impact investment. It does this by working to increase momentum by promoting a unified view of impact investment, facilitating knowledge exchange and encouraging policy change in national markets.

Its members currently include 13 countries plus the European Union with plans to extend membership to up to 20 countries in 2017. Participating countries are: Australia, Brazil, Canada, France, Germany, India, Israel, Italy, Japan, Mexico, Portugal, the United Kingdom, and the United States of America.

The GSG is Chaired by Sir Ronald Cohen, a pioneer of financial markets since the 1970s and of social impact investment since 2000. The GSG brings together leaders from the worlds of finance, business and philanthropy across the globe, as well as government officials and network organisations active in supporting the impact investment sector. Participation by member countries is through their National Advisory Boards. The Chair of the National Advisory Board represents their country on the GSG Executive. Australia participates in the GSG via the Australian Advisory Board on Impact Investing, and is represented by Chair, Rosemary Addis.

The GSG meets regularly and continues to focussing on implementation of the taskforce recommendations. The progress in each country is being monitored with regular updates provided.

The G8 Social Impact Investment Taskforce

The Social Impact Investment Taskforce was established by UK Prime Minister David Cameron under the UK Presidency of the G8. When announcing formation of the Taskforce, he said: *'I want to use our G8 presidency to push this agenda forward. We will work with other G8 nations to grow the social investment market and increase investment, allowing the best social innovations to spread and help tackle our shared social and economic challenges.'*

The Taskforce, led by Chair, Sir Ronald Cohen, was made up of representatives from G7 countries, Australia and the European Union. Australia was the only country outside the G8 invited to participate. Each had a government and sector representative, except Australia which has had sector representation only. The Taskforce was supported by four expert working groups and National Advisory Boards in each participating country.

The Social Impact Investment Taskforce reported publicly on 15 September 2014. Its ground breaking report: *Impact Investment: The Invisible Heart of Markets* calls on all sectors, including governments and the financial sector to take action that will unleash investment for tackling social problems. The report includes eight high level recommendations (tabled below) focused on stimulating a successful global market for impact investment, all of which have policy relevance. Since 2014, the focus has been on implementation of the work, adapted for local conditions in each market.

The Taskforce's work has engaged leaders from around the world as diverse and influential as His Holiness Pope Francis I and former US Treasury Secretary, Lawrence Summers.

It is urgent that governments throughout the world commit themselves to developing an international framework capable of promoting a market of high impact investments and thus to combating an economy which excludes and discards. **His Holiness, Pope Francis I, June 2014**

This is ground zero of a big deal. **Lawrence Summers, former US Treasury Secretary, May 2014**

The Social Impact Investment Taskforce Reports and Recommendations

The G8 Social Impact Investment Taskforce delivered its report in September 2014. At the same time reports were delivered by each of the working groups to the Taskforce, and by each country with respect to Policy Levers and Objectives. In all, 14 reports were developed that presented: a mapping of the ecosystems in participating countries; a common view on key infrastructure and actions to develop the market and; setting out actions each country would pursue. All reports can be accessed at www.socialimpactinvestment.org

LETTER TO LEADERS OF TASKFORCE GOVERNMENTS

In June last year Prime Minister David Cameron announced, during the UK's presidency of the G8, the launch of an independent Taskforce and set it the ambitious objective of reporting on 'catalysing a global market in impact investment' in order to improve society.

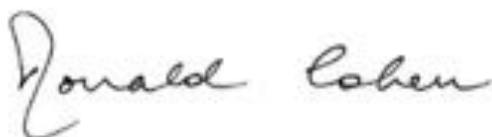
It has been a remarkable experience since then to lead an exceptionally talented and committed group of more than 200 people across the world in achieving this inspiring mission and I thank them most warmly for all they have done. The Taskforce itself comprises some twenty-two people, including one government official and one representative of the social or private sector from seven countries and the EU, as well as one observer from Australia. But to inform our work and to drive its implementation in the future, we created eight National Advisory Boards. We also established four international expert Working Groups to address in depth the particular challenges of measuring impact, asset allocation, mission in business and international development, all of which are critical to the success of our endeavour.

We are honoured to deliver to you this report together with four subject papers that provide supplementary detail on important elements of our work. Each of the National Advisory Boards also launches today its own report on what is required in its country if it is to bring impact investment to take off. Our reports have all been written with the aim of attracting as wide a readership as possible, to include all audiences interested in impact investing.

Our investigations have benefitted greatly from the insights of numerous impact-driven organisations and entrepreneurs, foundations and philanthropists, investors, businesses, government ministers and officials who have contributed their expertise and their experience to our deliberations. We are most grateful to them all. As a result, we can confirm the tremendous potential of impact investment to improve society and the environment. We note that it is already shifting the paradigm in how we think about and tackle social and environmental issues in the 21st century, in developed and in developing countries alike. The Taskforce will now continue its work for a second year to drive the take-up and implementation of our recommendations.

Our recommendations are critical to the success of impact investment. They define what is needed from all actors in our society: government, business, the social sector and foundations, institutional and private investors, and most importantly impact entrepreneurs. The role of each of these groups is addressed in this report. Impact investment is emerging as a new unifying force among them in dealing with social issues, driving innovation and prevention to improve lives. It harnesses the forces of entrepreneurship, innovation and capital and the power of markets to do good. One might with justification say that it brings the invisible heart of markets to guide their invisible hand.

Yours sincerely,



Sir Ronald Cohen
Taskforce Chair

Figure 26: Social Impact Investment Taskforce: 8 High Level Recommendations



Source: Social Impact Investment Taskforce: The Invisible heart of Markets 2014

Appendix 3: Policy Tools and Levers

The Submission refers to a range of policy tools. The table below provides the rationale and benefits for the key policy levers in more detail.

Levers for Government and Policy Action	Rationale and Benefits
<p>Catalytic investment and incentives</p>	<p>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. The particular initiative under the Australian Strategy, ICA is intended to provide a long-term committed platform that can:</p> <ul style="list-style-type: none"> ▪ Efficiently consolidate and direct capital; ▪ Encourage diverse investor participation, including from institutional investors over time; ▪ Provide a broad suite of investment products; and ▪ Promote scale and efficiency. <p>A number of organisations supported development of such a flagship as part of the Australian financial system in their submissions to the Inquiry.</p> <p>In general, catalytic funding de-risks investments, particularly in the early stages of market development where track record is building. Done well, this can also overcome issues of bridging silos and capability gaps within Government.</p> <p>Significant private capital can be leveraged on appropriate terms into areas of social need where it would not otherwise be directed, including communities in need of investment for jobs and economic activity, housing, health outcomes and education.</p> <p>Not all catalytic action by government will involve direct funding. Much can be achieved within existing budget envelopes. Appropriately designed and targeted mechanisms such as guarantees and tax incentives can also play a catalytic role.</p>

Levers for Government and Policy Action	Rationale and Benefits
	<p>Some catalytic investment can be directed to stimulating demand and intermediaries. This can not only promote a robust pipeline but also help build the social capital of networks and other connections the OECD has identified as critical drivers of market development and dynamism.</p> <p>The extent of direct catalytic investment required to stimulate the market should be expected to reduce over time.</p> <p>Other catalytic action includes tax incentives and guarantees.</p>
Clarification of duties for superannuation and philanthropic trustees	<p>The objective is to go beyond what can be differing interpretations of the regulatory environment to put beyond doubt that impact can be considered in addition to risk and return by fiduciary decision makers. Done well, this would build confidence and encourage mobilisation of capital.</p>
Greater flexibility for how philanthropic Capital is directed	<p>Well-designed policy could reduce constraints and help fill funding gaps between grants and commercial capital, encouraging flow of more capital overall.</p> <p>This type of investment capital could be a significant stimulus for social and financial innovation.</p> <p>There are several concrete areas of high potential, which if implemented would have the following effects.</p> <ul style="list-style-type: none"> ▪ Enable a greater role for philanthropy in attracting more capital for social purpose and deploying its available capital for greater impact. ▪ Allow the foundation to work in close collaboration with the private sector to align the social goals financial tools and goals ▪ Enable more effective and creative utilisation of the corpus of philanthropic trusts and foundations for the purposes for which those pools are created and already receive favourable tax treatment. ▪ Promote the extension of the philanthropic investments, for example to provide risk capital for new investment funds and seed capital for purpose driven organisations. ▪ Facilitate access to capital by organisations to which they would otherwise be permitted to make grant funding available.
Support development of social purpose organisations and intermediaries	<p>For a robust market to develop, there need to be incentives for a range of market participants.</p> <p>As with other markets, experience suggests that new entrants often need a measure of support and capacity development, particularly in early stages.</p>

Levers for Government and Policy Action	Rationale and Benefits
	<ul style="list-style-type: none"> ▪ This includes extending access support for the broader entrepreneurial ecosystem to social purpose initiatives and organisations and investment in them. ▪ This can also put an emphasis for government agencies on funding enterprises and capacity rather than programs. ▪ Intermediary support is a critical component of market development. Without it, those in need of finance and those with capital cannot find one another on appropriate terms.
<p>Reorient toward outcomes and efficacy</p>	<p>Increasing focus on outcomes and efficacy and aligning the availability of capital can incentivise those with solutions that work to develop scale and those with ideas to innovate to develop new solutions.</p> <ul style="list-style-type: none"> ▪ Increased transparency of the fiscal cost of social issues show where there is room to do better ▪ Promotion and practice of effective outcomes measurement and providing incentives for innovation, efficacy and prevention. ▪ Encourage more open engagement about the relationship between investment in prevention and true costs of dealing with the effects of social issues. ▪ Innovative mechanisms for service delivery such as social impact bonds should be considered. ▪ Re-orientates existing funds to create incentives for State and Local governments and the community sector to focus on outcomes, efficacy and innovation and encourage scale.
<p>Appoint champions and develop capability</p>	<p>Leadership from government has an important signalling effect in the market. Champions, including at Ministerial level serves two purposes: a clear contact point for stakeholders and, for government, a line of sight to the nature, range and volume of impact investment opportunities.</p> <ul style="list-style-type: none"> ▪ This can encourage a more coherent approach among departments and tiers of government and collaboration across sectors. ▪ Champions should be linked with sector leadership to drive market development efforts collaboratively. ▪ Concentrating expertise and ‘making it someone’s job’ has been recommended by the Social Impact Investment Taskforce for governments and for other sectors. The focus is on building familiarity and capability relating to the different aspects of impact investment, including design, structuring, measurement and cross-sector collaboration.

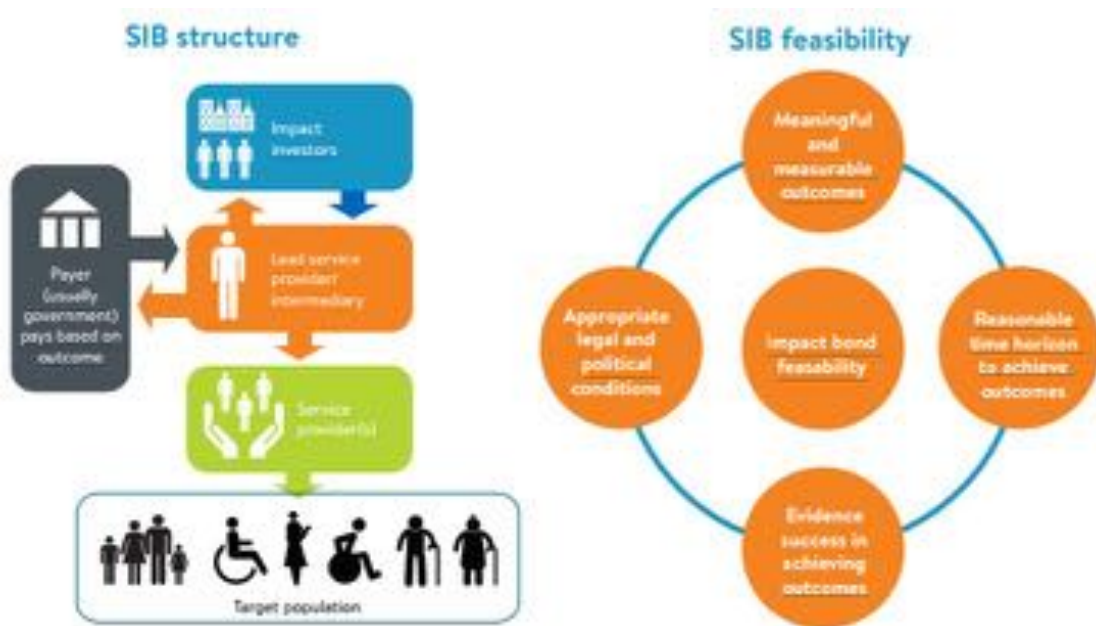
Levers for Government and Policy Action	Rationale and Benefits
<p>Use convening power to facilitate development of products and opportunities for investment</p>	<p>Government convening provides leadership and signals interest that Increase confidence of other actors in the market.</p> <ul style="list-style-type: none"> ▪ In areas where significant change is underway (e.g. social sector) and/or government budgets are under particular pressure, more diverse tools are needed. ▪ Provides opportunities to showcase good practice, encourage more of what is working and encourage contestability of ideas and approaches.

Impact Bond Design

As impact bonds (sometimes referred to as social impact bonds or social benefit bonds) have attracted significant attention, in Australia and globally, the further information about how impact bonds work and the feasibility and design process is provided here.

Impact bonds provide an opportunity to focus more explicitly on who currently bears the cost of social issues and who benefits from improved outcomes. The funding and contracting mechanisms involved in impact bonds align incentives differently to increase the likelihood of improved outcomes and improve the capability and flexibility for delivery organisations.

Figure 27: Generic Structure of an Impact Bonds



Source: Blueprint to Market, 2015 adapted from Social Finance, 2011 and Brookings Institute, 2014

Essentially, a SIB involves a contract(s) between parties that share an intention to improve outcomes for a particular population group. Investors provide the working capital, and if targeted outcomes are achieved, within certain timeframes, the party that commissioned the bond (usually government) repays the investors their capital and an agreed financial return.

Impact bonds can offer benefits for all parties as follows:

- Governments utilise expertise and knowledge from the community about what works to improve people’s lives, at lower risk to the tax payer.
- Service providers have greater flexibility and creativity in how they work and deliver programs.
- Investors can invest in issues they care about, and drive improvements in service delivery and greater accountability for results.

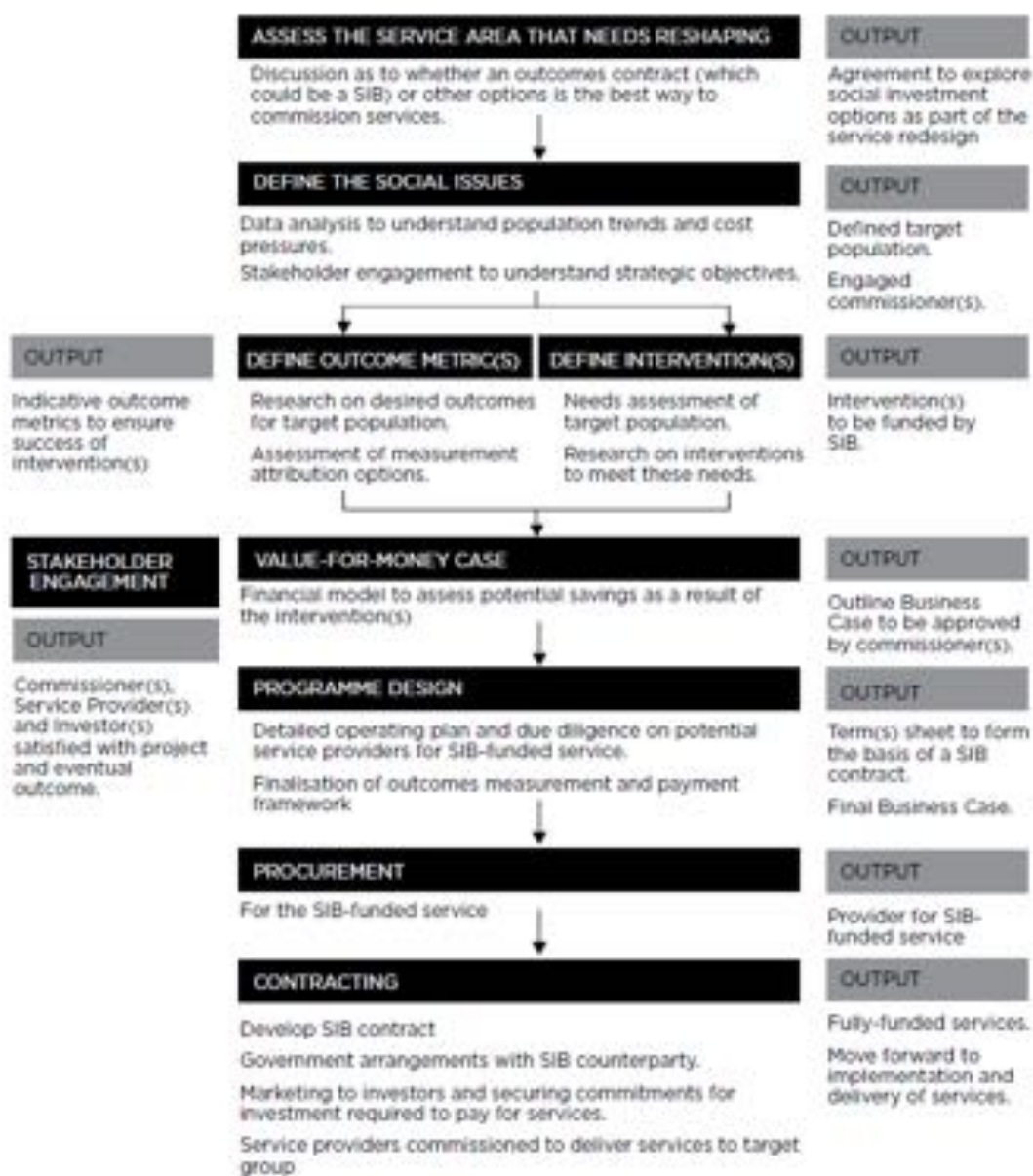
Figure 28: What Social Impact Bonds Achieve for Different Stakeholders



Source: Bridges & Bank of America: Social Impact Bonds: A Practitioners’ Guide 2014

The process requires careful analysis and negotiation, including of the data that will provide baseline and performance benchmarks and to inform a fair risk adjusted return for investors.

Figure 29: Stages of Feasibility for a SIB



Source: Social Finance UK, 2013

Appendix 4: Regulatory Measures

Regulatory Challenges and Opportunities	Points of Reference: Australia and Globally ¹⁷²
<p>Clarification of duties for superannuation and philanthropic trustees</p>	<p>The fiduciary duties of trustees in Australia were reviewed in 2014/15 in: <i>Impact Investments: Perspectives for Australian Superannuation Funds</i> http://sydney.edu.au/business/_data/assets/pdf_file/0005/186863/bus10006_superannuation_report_2013_WEB.pdf</p> <p><i>Impact Investment: Perspectives for Australian Charitable Trusts & Foundations</i> http://sydney.edu.au/business/_data/assets/pdf_file/0004/199768/BU_S10008_Impact_Investments_web_sml_3.pdf</p> <p>The Financial Services Council provided comment to the Responsible Investing Association of Australasia (RIAA) in regards to the move to develop a joint industry body position clarifying fiduciary duties around ESG issues on 13 May 2016 http://www.fsc.org.au/downloads/file/SubmissionsFile/2016_0513RIAAresponserpolicybriefer.pdf</p> <p>The Social Impact Investment Taskforce established under the UK Presidency of the G8 made 8 high level recommendations including a shift toward investment decisions based on risk, return and impact (Recommendation 2) and clarification of the fiduciary duties of trustees (Recommendation 3) http://socialimpactinvestment.org/report-findings.php</p> <p>The US National Advisory Board on impact investing recommendations included clarification of the requirements under the ERISA legislation. http://socialimpactinvestment.org/reports/US%20REPORT%20FINAL%20250614.pdf</p> <p>The US ERISA Regulations were amended by the US Department of Labor in 2015. The amendments allow for economically targeted investments that take into account the benefits they create in addition to investment return for the retirement plan. https://s3.amazonaws.com/public-inspection.federalregister.gov/2015-27146.pdf</p> <p><i>Impact Investment at Scale: Policy Innovation for Institutional Investment with Social & Environmental Benefit</i>, 2012, Wood D, Thornley, B & Grace, K outlined the regulatory approaches taken across US State Pension Plans https://www.rockefellerfoundation.org/app/uploads/Impact-at-Scale_Full-Report.pdf</p>

¹⁷² This is a list of selected reference points and not exhaustive of the policy and regulatory measures proposed or implemented. A more comprehensive review of the actions taken across jurisdictions globally can be found in Addis, R, 2015 *The Role of Government and Policy in Social Finance* in Social Finance, Nicholls, A, Paton, R, and Emerson, J (eds), Oxford University Press

Regulatory Challenges and Opportunities	Points of Reference: Australia and Globally ¹⁷²
	<p>In France the 90/10 rule mandates that employees with access to a Plan d'Epargne Enterprise have opportunity to invest in funds that place 5-15% of their capital in social purpose organisations. Over time, this has had the effect of growing capital in these funds for €404 million in 2006 to €2.6 billion in 2012. An overview of the rule and its operation is set out in the following report. https://www.pacificcommunityventures.org/2015/07/28/2014-impact-investing-global-policy-report/</p> <p>The duties of Philanthropic trustees were considered in the UK by the Law Commission http://www.lawcom.gov.uk/wp-content/uploads/2015/06/cp216_charities_social_investment.pdf</p> <p>This has been followed by legislative change in the Charities (Protection and Social Investment) Bill 2015-16 http://services.parliament.uk/bills/2015-16/charitiesprotectionandsocialinvestment.html</p>
<p>Greater flexibility for how philanthropic capital is directed</p>	<p>Philanthropy Australia report - <i>Program Related Investments – An Opportunity for Australia</i>, developed for Department of Social Services and Prime Ministers Community Business Partnership, 2015 http://www.communitybusinesspartnership.gov.au/wp-content/uploads/2016/01/program_related_investments_report.pdf</p> <p><i>Impact Investment: Perspectives for Australian Charitable Trusts & Foundations</i> http://sydney.edu.au/business/_data/assets/pdf_file/0004/199768/BU_S10008_Impact_Investments_web_sml_3.pdf</p> <p>The US Program & Mission related investment schemes (MRI and PRI, respectively)¹⁷³. These are being utilised to powerful effect by foundations including the Gates Foundation and FB Heron Foundation. A report on the growth and impact of program related investment in the US was conducted by the Lily Family School of Philanthropy https://philanthropy.iupui.edu/files/research/complete_report_final_51713.pdf</p> <p>This role for Trusts & Foundations was considered in the OECD Report <i>Impact Investment: Building the Evidence Base</i>, 2015</p> <p>The duties of Philanthropic trustees were considered in the UK by the Law Commission http://www.lawcom.gov.uk/wp-content/uploads/2015/06/cp216_charities_social_investment.pdf</p>

¹⁷³ Note that the US National Advisory Board on Impact Investment has recommended further streamlining of these measures.

Regulatory Challenges and Opportunities	Points of Reference: Australia and Globally¹⁷²
	<p>This has been followed by legislative change in the Charities (Protection and Social Investment) Bill 2015-16</p> <p>http://services.parliament.uk/bills/2015-16/charitiesprotectionandsocialinvestment.html</p>
<p>Support development of social purpose organisations and intermediaries</p>	<p>Article by B Lab Australia Policy Working Group member, Sam Morrissy, Clayton Utz: <i>Benefit Corporations – A sophisticated & worthy reform</i></p> <p>https://www.governanceinstitute.com.au/knowledge-resources/publications/journal/?categoryid=18793&page=2</p> <p>Benefit Corporation model legislation for Australia in development by B Lab Australia Policy Working Group.</p> <p>Background on Benefit Corporation rationale, standard form legislation, enacted legislation by jurisdiction and related activity around the world is available at (www.benefitcorp.net)</p>
<p>Mandate greater data transparency to promote innovation, effectiveness and greater focus on outcomes</p>	<p>NSW Government Social Impact Investment Policy includes a commitment to make available more cost and performance data. Statements of Opportunities including data on areas of service delivery have been published at intervals since February 2015.</p> <p>http://www.dpc.nsw.gov.au/programs_and_services/social_impact_investment</p> <p>Deloitte Access Economics report: <i>A practical Guide to Understanding Social Costs: Building the Evidence Base for Social Impact Investment</i>, 2016, developed with the Australian Advisory Board on Impact Investing Working Group on Outcomes & Innovation</p> <p>http://impactinvestingaustralia.com/countriesandregions/australia-impact-investing/new-guide-to-drive-better-understanding-of-cost-of-social-issues/</p> <p>Other initiatives to develop on outcomes based contracting in Queensland, South Australia, ACT and NSW, including use of Social Impact Bonds.</p> <p>The UK unit cost database developed by that government with the New Economics Foundation publishes the unit cost of over 600 social services to incentivise effectiveness and innovation.</p> <p>https://data.gov.uk/sib_knowledge_box/toolkit</p> <p>Inspiring Impact (UK) is a collaborative initiative between the UK Cabinet Office and others to drive more effective measurement and evidence based decision making. http://inspiringimpact.org/</p> <p>The US Federal Government proposed a \$300 million Social Impact Fund to provide incentives for State and local governments. A Social Impact Bond Bill (US) is before Congress intended to promote more evidence based and innovative solutions.</p>

<p><i>Mandate that considerations of societal impact are included as factors in Government procurement, including under the Public Governance, Performance and Accountability Act 2013</i></p>	<p>There is precedent for procurement being used to drive market opportunity in Australia, including initiatives to promote procurement from Aboriginal owned business. https://www.dpmc.gov.au/sites/default/files/publications/indigenous_procurement_policy_0.pdf</p> <p>The Council of the European Union package to reform public procurement, including to provide for ‘common societal goods’ in the assessment and selection processes (2014). All member states were expected to enact corresponding laws by April 2016. www.ec.europa.eu/EuopeanCommiccion/theEUsinglemarket/publicprocurement</p> <p>The <i>UK Social Value Act</i> https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources</p> <p>Quebec <i>Social Economy Act</i>, 2013, http://www.assnat.qc.ca/en/travaux-parlementaires/projets-loi/projet-loi-27-40-1.html</p>
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Appendix 5: Priorities for Action

Impact Investing Australia Federal Budget Submission



IMPACT INVESTMENT

Pre-Budget Submission 2017-18

January 2017



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Executive Summary

Impact investing presents the Australian Government with an opportunity to mobilise and expand the role of private capital for public good. This submission proposes a package of five specific Budget measures designed for immediate impact and to inform longer term policy.

Impact investment combines the disciplines inherent in targeting a financial return and achieving positive societal impact. These investments could relieve Australian Government budgetary pressures and drive social and economic innovation in areas such as employment, health, housing, environment, agriculture, aged care, science and technology.

This is particularly significant given fiscal constraints on expenditure and the need for alternatives to relieve structural pressures on the budget. More than this, impact investment puts the focus on outcomes and innovation. Availability of impact-seeking capital encourages impact-focused enterprises and collaborations between entrepreneurs, business, philanthropy, community and government to improve the quality of life for people and communities.

Australia can realise significant value locally and be competitive globally. However, to implement impact investing in Australia at scale, a range of issues often seen in new markets need to be addressed: lack of co-ordination; infrastructure; intermediaries, and capacity shortfalls.

Now is the time for a breakthrough

This clear focus on market building, in Australia and globally, has grown momentum and interest and created an appetite for action. There has been significant progress, however, the market lacks scale and faces challenges common to many markets in early stages of development. There is insufficient data and information flow and market infrastructure, intermediaries are small in number and size, there are not yet the incentives for talented people to participate fully.

The market is at an inflection point. There is a clear opportunity to accelerate development of a market for impact investment. The Australian Advisory Board on Impact Investing¹ has made a start. Their strategy to catalyse the market in and from Australia² was developed with the G8 Social Impact Investment Taskforce,³ National Advisory Boards⁴ of other countries and cross-sector leaders and practitioners in Australia. Another 50+ leaders from across sectors have been engaged in the implementation effort since late 2014 which has delivered concrete outcomes against all of the committed actions to the extent possible without government engagement.

A more active role for the Australian Government is critical. Without a productive partnership with the Australian Government, progress in growing the market will be slower and less impactful and there is a real risk the market does not reach its potential in scale or for new solutions to issues that create demand for services. Australia could also miss the opportunity to play a significant role in the region in this growing global market and the associated benefits.

Relatively modest measures and the signalling effect of government leadership could create a significant multiplier effect, in capital and impact. In the short to medium term this may require some government investment to catalyse the market, reduce risks for new entrants, build track record and enhance investor confidence. Such investment should generate benefits over time that far exceed the cost.

Proposed Budget Measures

This budget proposal focuses on where that impact can be greatest. It complements the Australian Advisory Board strategy for the local market, which in turn aligns with key recommendations of the G8 Social Impact Investment Taskforce.

The package comprises five specific proposals:

1. A foundation partnership to bring Impact Capital Australia to market, which will enable a range of other activity without further direct government action. **Indicative Cost:** \$150 million in grant funding 2017-18 to provide cornerstone capital to be matched with private investment; \$150,000 in 2017-18 to fund project management for the implementation process, also more than matched with private investment in the design.
2. Growing the social enterprise sector through support for incubators and investment readiness, linked with the measures set out in the National Innovation and Science Agenda. **Indicative Cost:** Up to \$10 million in demand

¹ www.australianadvisoryboard.com

² Addis, R, Bowden A & Simpson, D, (2014) Delivering on Impact: The Australian Advisory Board Strategy to Catalyse Impact Investment in and from Australia

³ Social Impact Investment Taskforce (2014), The Invisible Heart of Markets

⁴ See www.australianadvisoryboard.com and www.socialimpactinvestment.org

based grant funding over 3 years, to be matched with private capital.

3. Low cost measures to remove regulatory barriers to market growth. **Indicative Cost:** no administered funding.
4. Design and feasibility for 2 initiatives to promote better outcomes, efficacy & innovation with a view to moving quickly to a decision on implementation in the out years of the Budget: a dedicated Outcomes & Innovation Fund to support proof of concept and scaling what works through outcomes based commissioning, including social impact bonds. A related measure to design protocols for data sharing to promote greater focus on new innovative approaches to tackling outcomes and efficacy. **Indicative Cost:** no administered funding required in the short term pending feasibility.
5. Low cost measures to build Government capacity and leadership and connect the Australian Government at the forefront of developments. Key opportunities include: nominating senior observers to the Global Social Impact Investment Steering Group and Australian Advisory Board on Impact Investment, appointing a clear Ministerial lead on impact investment, and developing the whole of government advisory remit of Innovation and Science Australia by including social innovation expertise on the Board. **Indicative Cost:** no administered funding required.

The biggest win

The centrepiece of the package, Impact Capital Australia (ICA), would change the game. The vision for ICA is to create a dynamic market for investment that delivers measurable, improved outcomes for society, operating at scale in and from Australia, **demonstrating and promoting innovation** and diversity in participants and products. It would have two key roles: (mainly wholesale) **investment to grow existing market participants and encourage new intermediaries to enter the market, and market champion.**

A detailed blueprint has been developed for ICA. ICA has been designed in collaboration with senior leaders in Australia and globally to deliver significant public value and is grounded in deep understanding of the local market and lessons learned internationally. There is a clear and accountable plan for implementation. **This is a unique opportunity for the Australian Government to collaborate with the private sector, philanthropy and community sector.** Meaningful progress is being made with other stakeholders and a commitment from the Australian Government would incentivise and accelerate commitments and action.

ICA will deliver a multiplier effect in investment and impact. ICA can bring the coherent focus needed for the scalable transactions to be delivered. That includes spearheading new funds to invest in local jobs, de-risk investment in housing and infrastructure and demonstrate models of financing in areas of high demand and growth such as disability.

Alignment with Australian Government policy priorities

Targeted policy to build the impact investment market expands the policy and financing toolbox for the Australian Government. **Impact Investment supports jobs, growth and productivity** by providing access to appropriate investment capital for small and medium enterprises tackling social issues and operating in communities that need employment opportunities and economic resilience.

Building the evidence base and improving outcomes is central to delivering innovative and collaborative approaches that increase effectiveness of services and reduce demand and costs over time. Together with the focus on innovative investment, this can direct capital and innovation toward tackling issues where better outcomes are needed; for example: breaking cycles of disadvantage by tackling long-term unemployment and creating pathways for many young people.

There are strong synergies across the Australian Government's National Innovation and Science Agenda leading with access to capital to support innovation and scale through ICA. The policy levers for impact investment to succeed also feature enterprise development (including incubator support), data sharing, incentives to mobilise investment, collaboration and government leadership. More explicit focus on social innovation and the impact investment to fuel it will enable more benefits from the innovation agenda to accrue to the public good because community benefit and social outcomes is part of the design.

ICA will provide significant stimulus to unlock private capital for housing and social infrastructure. This would encourage a range of intermediaries and approaches to meet growing demand for affordable stock and in key areas of reform where demand is growing such as aged care and disability support. The proposed removal of regulatory barriers to enable the market to operate more freely, including to mobilise philanthropic and institutional capital, support the deregulation agenda. Measures to encourage market-based approaches can also encourage competition and facilitate access to quality services for all parts of the community.

Beyond domestic policy, as recognised by the Joint Select Committee on Foreign Affairs, Defence and Trade, developing engagement of the private sector in Australia in investment will support the foreign affairs policy of private sector engagement and greater focus on development investment.

Introduction

Impact Investing Australia⁵ and the **Australian Advisory Board on Impact Investing**⁶ (Australia Advisory Board) welcome this opportunity to engage with the Australian Government.

This pre-Budget Submission proposes measures designed to deliver immediate impact and inform longer term, targeted strategic policy for development of the impact investment market.

Impact investment is a productivity issue with important implications for supporting Australia's future prosperity and expanding the pool of financial economic and social capital.

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...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.

Financial System Inquiry Report 2014

Delivering greater value for public money and unlocking other sources of funding and finance is critical to meeting demand in an environment where government budgets are under pressure and demand in some areas of social service is rising faster than GDP.

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. There are new possibilities emerging: opportunities focused on innovation and 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?

The opportunity to develop impact investment has two key benefits:

- ✓ Mobilise more resources toward positive social impact, in particular unlocking private capital for public good and creating a more significant multiplier effect for government expenditure; and
- ✓ More and better ways to tackle issues affecting society through improved efficacy, innovation, scale cross sector collaboration to tackle the really difficult challenges.

Our role in the G8 Social Impact Investment Taskforce and the opportunity it has provided to convene a cross-sector leadership group in an Australian Advisory Board provides a unique platform for a productive partnership with the Australian Government and upon which the Government can build a range of policy initiatives.

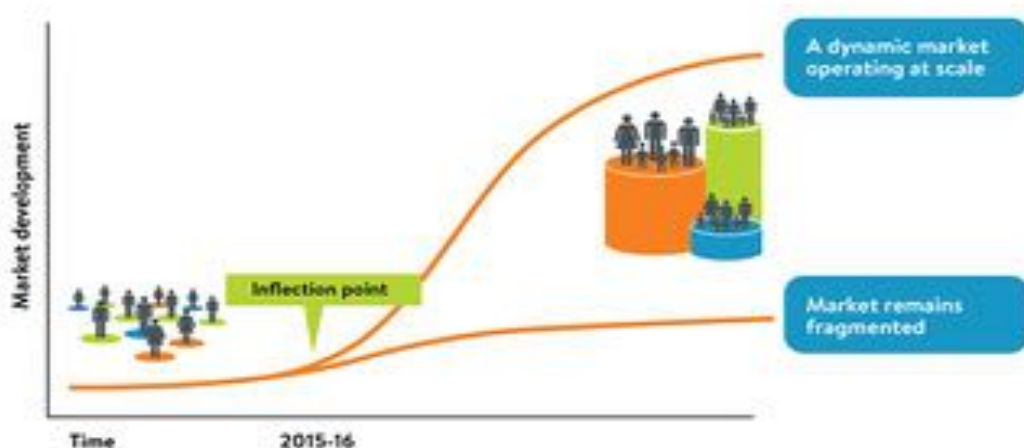
Impact investment can make a significant contribution to relieving budgetary pressures and improving social outcomes. The Social Impact Investment Taskforce concluded there is enormous potential for a global market for impact investment to reach US\$1 trillion. JB Were modelling (IMPACT-Australia, 2013) suggested the domestic market for impact investment could reach \$32 billion within a decade. Results of the first domestic survey of Australian investors on impact investing initiated by the Australian Advisory Board (March 2016), showed there is growing interest in impact investing among Australian investors. The report revealed that active impact investors would like to triple their allocation to impact investments over the coming five years, which provides an indicative baseline of \$18 billion available of willing capital if the right opportunities can be provided. Those investors not already active in impact investing indicate they are likely to consider the social, environmental and cultural impact as a metric for investment decisions in the next five years.

The time to act is now. Global momentum continues to accelerate and Australia has already established a leadership position in the global effort.

⁵ www.impactinvestingaustralia.com

⁶ www.australianadvisoryboard.com

Figure 1: inflection point in market development



Source: Blueprint to Market, 2015

The market is at an inflection point (**Figure 1**): there is a path toward scale, mainstream engagement and real impact. There are strengths in the Australian market and the challenges here are familiar to new markets and to the impact investment market in other jurisdictions. Enough has been trialled here and in other jurisdictions to move to the next stage with confidence to create and encourage infrastructure that will accelerate progress. The stage of market development still allows for relatively modest initiatives to have significant signalling effect and impact if targeted correctly.

Australia has a terrific opportunity to be competitive regionally and globally in this growth market. However, it risks being left behind if action to develop the eco-system is not taken in the near term. The gains that have been made, interest generated and willing capital and talent waiting on the side-lines will be lost without mechanisms to develop opportunities, demonstrate efficacy and connect the right opportunities with the appropriate capital and institutions. What happens next matters a great deal.

Government engagement counts. Fiscal and structural budget challenges and pressure to deliver greater efficacy and outcomes in key areas mean government has a critical interest in demonstrating and understanding what works. Government is the market steward and standard setter and key player in social services commissioning and delivery. Well-designed budget and policy measures can make the difference in realising the potential for impact investing.

This Submission outlines a package of first steps for the Australian Government to take towards a comprehensive whole of government approach to the development of impact investment, as a market and as a tool to deliver better outcomes for Australian communities. This is not a silver bullet; it is a focused, targeted approach to drive growth, diversity and innovation.

Policy Case for Action

Benefits of impact investment

Impact investment is a market in early stages of development. It can also be utilised as a tool to unlock private capital and tackle social issues.

There is enough capital and talent to make a significant difference to social issues; they need to be deployed differently to achieve a better result. We can use the best of our resources and resourcefulness to find new ways of working and increase the focus on improving quality and efficacy of services, encourage innovation to break cycles of need and dependence, and create capability and new opportunities.

Australian Advisory Board Strategy: Delivering on Impact 2014

Impact investing does not relieve governments of their responsibilities, but can help them fulfil them more effectively. Over time, impact investing can play a role in developing structural alternatives to mobilising finance for social purposes by enabling:

- ✓ More effective targeting of limited resources;

- ✓ Different combinations of public and private capital that create a multiplier effect;
- ✓ New ways to incentivise better outcomes, innovation and prevention to tackle difficult and costly social issues;
- ✓ More options to build local capacity and promote sustainable social and economic development in communities of high need; and
- ✓ Promotion of opportunities and trade connections in growth markets that have traditionally been donor countries in a shift from 'aid' to 'investment'.

Different groups benefit in different ways:

- *Socially motivated entrepreneurs and organisations gain access to appropriate finance and support in ways akin to that available to commercially focused entrepreneurs;*
- *Mainstream financial markets benefit from access to appropriate finance for initiatives and services that create positive impact in the community;*
- *Communities benefit when they can finance new opportunities to develop services and infrastructure, and generate jobs – increasing the flow of capital into communities towards more positive cycles of employment and economic activity;*
- *Small to medium sized enterprises gain access to appropriate investment capital and business support that helps them grow their businesses, create jobs, and ride out difficult times;*
- *Philanthropists benefit with options to generate greater impact and leverage through their activities;*
- *Investors have greater choice and new opportunities to put their money to use in ways that make a financial return and benefit society;*
- *Institutional investors have more options for fulfilling their duties as fiduciaries and diversifying their portfolios;*
- *Governments achieve better outcomes and greater flexibility to target spending and encourage more private capital into areas where there is a need for new solutions.*

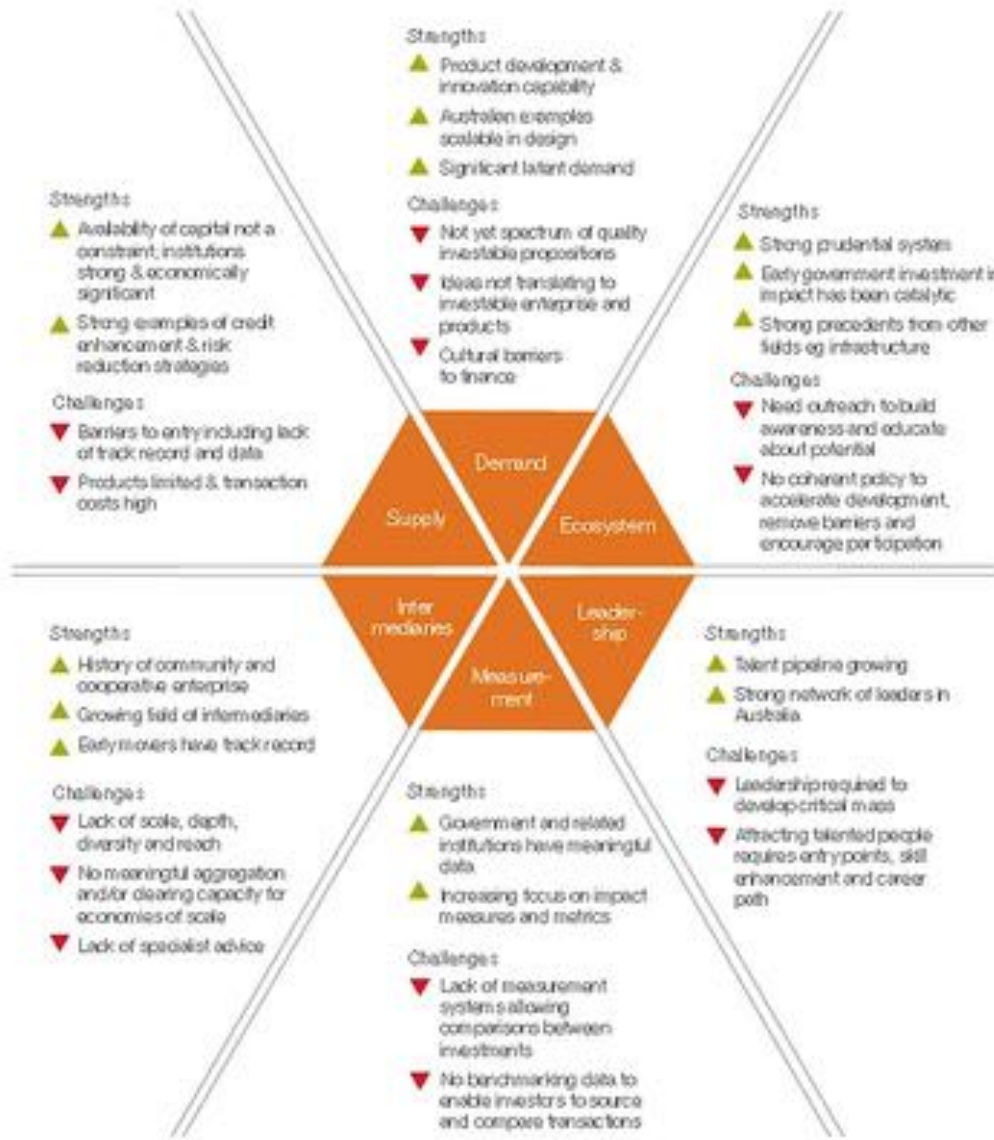
Australian Advisory Board Strategy: *Delivering on Impact 2014*

Market Strengths & Challenges

To ensure these benefits are realised, infrastructure for the market needs to be developed, the regulatory and enabling environment needs to be supportive and not present unnecessary barriers to effective participation. In the short to medium term this may require some government investment to catalyse the market, reduce risks for new entrants, build track record and enhance investor confidence.

An analysis of the strengths and challenges for the market to develop was led by the Australian Advisory Board on Impact Investing (2014). This built upon work of the Productivity Commission (2010) Senate Economics References Committee (2011) and stakeholder and market consultations (2012 and 2014). There are significant strengths upon which to build. Many of the challenges are familiar for new and developing markets. A summary of the analysis is provided as **Figure 2**.

Figure 2: Strengths & Challenges in the Australian Market



Australian Advisory Board Strategy: *Delivering on Impact 2014*

Government has a critical role to play

Internationally and in Australia there is a track record for government action underpinning the emergence of growth and new industries. In Australia this has included venture capital, research and development, green and renewable technology and business model innovation for structural adjustment. Enough has been tried - in other early markets and elsewhere in the world to develop impact investment - that we can proceed with confidence to build on the strengths and address the challenges.

A role for the Australian Government to encourage and support impact investment has been supported by the Productivity Commission (*Contribution of the Not for Profit Sector*, 2010), Senate Economics References Committee (*Investing for good: the development of a capital market for the not-for-profit sector in Australia*, 2011), the Australian Advisory Board (*Delivering on Impact*, 2014), the Joint Standing Committee on Foreign Affairs, Defence and Trade (2015) and the Financial System Inquiry (FSI) Report 2014:

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. FSI Report 2014

International evidence and local experience demonstrate the powerful effect of government leadership in developing impact investment. Relatively modest and targeted initiatives, often re-purposing existing spending, can have a significant positive impact.

The role of governments in financial markets is well established. That includes setting the regulatory environment and fiscal policy addressing market failures and stimulating new market opportunities. The role in promoting innovation is also relatively well established, although not as routinely applied in the social policy domain. That includes priming the pump for appropriate capital, encouraging new enterprises and talent, sharing data and promoting collaboration.

The FSI expressly agreed with the OECD’s assessment of the role of governments and concluded it ‘sees merit in Government facilitating the impact investment market’.

Proactive roles for government as market builder, market steward and, where appropriate, market participant were supported by the Social Impact Investment Taskforce and the National Advisory Boards across the G7 countries and Australia and the EU after examining the market ecosystems across those countries. That role has three dimensions (Thornley et al 2011; Social Impact Investment Taskforce Report 2014; Australian Advisory Board Strategy 2014, Addis in Nicholls et al (eds), 2015).

The policy objectives of government’s role in each of those functions is summarised in the tables below in relation to the twin goals identified by the FSI of facilitating market development and encouraging innovation in service delivery and to tackle social issues.

Facilitate Market Development			
Role	Market Builder	Market Participant	Market Steward
Policy Objective	<ul style="list-style-type: none"> ▪ Increase resources to impact driven organisations ▪ Develop impact investment system with a range of participants ▪ Provide incentives to encourage greater participation and scale in early stages of market development 	<ul style="list-style-type: none"> ▪ Better targeted government spending and direct capital to policy priorities ▪ Increase flow of investment to social purpose organisations and social objectives 	<ul style="list-style-type: none"> ▪ Remove barriers to investment ▪ Reduce red tape preventing greater participation by investors
Encourage Innovation in Social Service Delivery			
Role	Market Builder	Market Participant	Market Steward
Policy Objective	<ul style="list-style-type: none"> ▪ Increase resources to impact driven organisations ▪ Encourage willing talent to tackle issues affecting society and build and grow effective social purpose organisations 	<ul style="list-style-type: none"> ▪ Increase focus on efficacy and outcomes ▪ Orient funding to provide incentives for innovation and effective solutions 	<ul style="list-style-type: none"> ▪ Ensure regulatory frameworks enable a range of impact – driven organisations ▪ Remove red tape that impedes sustainable blended models of profit and purpose

Adapted from Social Impact Investment Taskforce, 2014 and Addis in Nicholls et al (eds) 2015

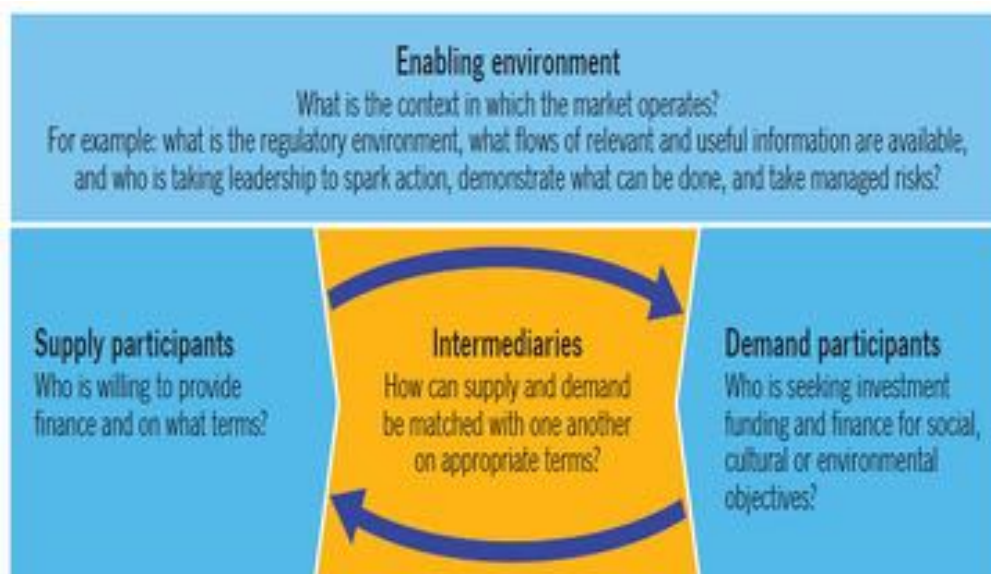
Measures needed to support development of impact investment ecosystem

The proposal draws on lessons from local and international experiences in impact investing from the development of other parts of the financial system. They reflect significant work that has already been done including the strategy and initiatives led by the Australia Advisory Board in the Australia market to build on the strengths and address the challenges.

The measures go to different dimensions of the market equation: demand, supply intermediaries and the enabling

environment (**Figure 3**). Increasing the flow of capital without attention to the role of intermediaries and the investment-readiness of investee organisations is unlikely to succeed on its own. Like other developing markets, impact investment needs intermediaries, demonstration of investment performance and platforms and channels to overcome information asymmetries.

Figure 3: The impact investment market equation



Addis, McLeod & Raine IMPACT-Australia, 2013

Growing public sector capacity to engage and utilise investment as a tool

Governments are faced with the dual challenges of tighter fiscal conditions in an increasingly more complex society where the demand for more responsiveness to local issues is increasing. The era of Government attempting to solve those problems alone is over. So too is a simplistic approach that uses the market to deliver pre-determined outputs through complex contractual arrangements that stifle innovation.

At the same time, market based approaches to tackling social issues are growing in size and sophistication. Entrepreneurs are finding innovative solutions to the complex social problems that have eluded governments, but they have not yet been able to scale these solutions or apply them in a wider variety of situations. Community sector leaders are seeking more creative ways to fund and finance their work and are willing to take more accountability for outcomes in return for reliable streams of working capital and investment.

To address these challenges, and find a more effective way of delivering public value, it is necessary for government to build its capacity to engage effectively and to partner with the private, community and philanthropic sectors. Through stronger connections with citizens, and the co-production of effective responses, there is an opportunity to leverage local knowledge through accountable and efficient mechanisms that achieve real and sustained social impact.

Alignment with Government Policy Priorities

Targeted policy to build the impact investment market expands the policy and financing toolbox for a number of policy priorities. There is an opportunity for relatively modest initiatives to have a significant impact. In some cases, this can be achieved as an extension of existing programs or measures, particularly the National Innovation & Science Agenda. Enabling ICA to enter the market would bring focus to a range of these benefits in the short term.

Impact Investment **supports jobs, growth and productivity** by providing access to appropriate investment capital and business support vital for small and medium enterprises to develop and grow. It targets enterprises tackling social issues and operating in communities that need employment opportunities and economic resilience.

There are strong synergies across the Australian Government's National Innovation & Science Agenda leading with access to capital to **support innovation and scale** through ICA. The overlapping areas of policy focus include encouragement for enterprise and innovation, for business led research and development, data sharing, tax incentives, incubator support and a role for government to lead by example. The key point of difference is expanding the focus more explicitly to include social innovation and the impact investment to fuel it. This will enable more of the benefits

to accrue to the public good rather than rely on spill over effects for community benefit and social outcomes. That is part of the design.

ICA will also provide significant stimulus to **unlock private capital for housing and social infrastructure**. This would encourage a range of intermediaries and approaches to meet growing demand for affordable stock and in key areas of reform where demand is growing such as aged care and disability support. This can be supplemented, potentially over time, with tax or other incentives to enhance the multiplier effect and bring new combinations of capital together with **a focus on innovative combinations of services and infrastructure to deliver more effective outcomes**.

The measures proposing removal of barriers to enable the market to operate more freely, including to mobilise philanthropic and institutional capital support the deregulation agenda. Measures to encourage market based approaches can also encourage competition and facilitate access to quality services for all parts of the community.

Measures proposing an Outcomes Fund and reorientation of current funding to promote evidence and outcomes focus link with the increasing focus, in Australia as elsewhere, on outcomes and efficacy in social services. For example, this has been central to welfare reform.

Beyond domestic policy, developing engagement of the private sector in Australia in investment **supports the foreign affairs policy of private sector engagement and greater focus on development investment**. The Joint select Committee on Foreign Affairs, Defence and Trade recognised this in their report on private sector engagement in the Indo-Pacific. They recommended that the Government, through the Department, engage with the Australian Advisory Board to develop awareness and action.

Budget Proposal

A more active role for the Australian Government in expanding impact investment is critical. In the short to medium term, targeted policy and prudent investment can catalyse activity, reduce risks for new entrants, build track records and enhance investor confidence. Without that, progress in growing the market will be slower and less impactful.

The Australian Government could miss the opportunity to use an expanded range of policy tools to combat budget pressures, expand the pool of available resources and generate more sustainable solutions to issues that create demand for services. Australia could miss the opportunity to be competitive in this growing global market.

The proposed package has five specific elements: A centrepiece to provide an engine to drive market growth and diversity, complemented by measures designed to build government capacity and leadership, remove regulatory barriers, grow enterprising activity to tackle social issues and develop capacity for commissioning of services that improves outcomes and reduces costs over time.

The Budget measures proposed draw upon extensive work already done to develop useful and actionable policy frameworks for impact investment. Together, these measures are intended to stimulate different parts of the market and set the conditions for unlocking private capital and incentivising solutions that deliver better outcomes. They include recognition that Government has important contributions to make to leadership and data that are often overlooked.

The measures proposed complement the Australian Advisory Board strategy for the local Australian market, which reflects key recommendations of the global G8 Social Impact Investment Taskforce.

Measure 1: Impact Capital Australia

Overview: The centrepiece of the package is **Impact Capital Australia (ICA)**. ICA will be the equivalent of an engine to drive the market, unlock private capital and demonstrate efficacy and impact. ICA would be a new, independent organisation equipped with capital, mission and mandate to drive the market towards impact at scale. It would have two key roles: investor and market champion.

Detailed design work and modelling has been done to develop a model fit for the Australian context, informed by the experience in other markets including the UK. This has been a collaborative process involving international colleagues and local leaders from across finance, business, community and philanthropy.

Introducing ICA into the market would have a significant effect spanning signalling to mobilise more participants, making crucial wholesale and cornerstone capital available to encourage more intermediaries to develop and encourage and enable existing intermediaries to grow and do new things. ICA is specifically designed to encourage, not compete with, other players. Without this kind of institution, it is likely that interesting, incremental steps continue to deliver niche activity and interest at the margins, but the market will not achieve scale and significant

opportunities will be missed.

ICA presents a unique opportunity for the Australian Government to collaborate with the private sector, philanthropy and the community sector. A Government commitment would incentivise and accelerate commitments from others. It will deliver immediate leverage through private investment into ICA and a larger multiplier effect in investment and impact over time. ICA is designed to become self-sustaining within 7-10 years. It is scalable from this base, but requires critical mass to fulfil its mandate and become independent.

ICA will direct private capital to priority areas including housing and aged care. It will focus on service innovation as well as infrastructure and target investment in jobs and growth for communities doing it tough through place based investment strategies. Other initiatives undertaken by the Australian Government in priority policy areas such as housing can be designed to complement ICA's and it can amplify their effect and impact through its work. However, action in one area will not have the same market impact as ICA in developing the market and creating a multiplier effect.

A number of organisations supported development of such a flagship as part of the Australian financial system in their submissions to the FSI. More have contributed to developing the detailed Blueprint for this institution and how ICA can be operationalised. That blueprint is grounded in deep understanding of the local market and lessons learned internationally. There is a clear and accountable plan for implementation. A copy of the detailed Blueprint is provided with this Submission as part of **Appendix 1**. Additional information on the financial model and the proposed governance and roadmap for implementation are also provided in **Appendix 1**.

Policy Case: Impact investment is at the stage of development where there is significant interest, but proactive steps are needed to unlock capital, bridge the gap between supply and demand 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!'

Bannick & Goldman, 2012

Leadership and action to 'prime the pump' is an important part of setting the culture and unlocking flows of capital for market growth, diversity and innovation. This approach has parallels in other areas of financial markets including venture capital and infrastructure investment, which are often referenced as precedents for development of impact investment. The added benefit from catalytic investment for impact investment, is that the value goes beyond economic market effects, not just as a result of spill over effects, but by design.

The Australian Government Social Enterprise Development Investment Funds (SEDIF) initiative is one example of the catalytic effect of such funding. The Australian Government's initiative seed funded 3 new investment funds and the selected fund managers secured private investment from a range of sources to more than double the Australian Government grant and make available new investment capital to social enterprises to grow their impact in communities. The lessons from SEDIF have been documented (2016) and the Senate Economics References Committee (2011) and Australian Public Service Commission (2011) encouraged such approaches as innovative policy for effective collaboration with the private sector and to achieve greater value for public funds. Such 'co-mingling' of capital from different kinds of funders and investors is a factor identified by the World Economic Forum (2013) and other commentators as critical to market development (see, for example, UK Cabinet Office 2013, Impact Assets Issue Brief #10, 2012, Addis, McLeod & Raine, 2013, Addis in Nicholls et al (eds), 2015 referencing examples from a number of jurisdictions).

The G8 Social Impact Investment Taskforce identified key pieces of market infrastructure to ground and accelerate development of impact investment that will be required in all local markets. First among these is a wholesale institution to support and grow intermediaries and act as market champion. Other jurisdictions already have work underway. In addition to the UK example, Big Society Capital, work is underway in Portugal with a capital contribution from the European Union, Japan has recently passed legislation to direct unclaimed assets to such an institution and design work is underway in Canada and Israel.

The Australian Advisory Board on Impact Investment, after market consultation, also identified a cornerstone social impact fund as the key breakthrough needed to take impact investment to a tipping point.

ICA is designed to be that institution. It will encourage long-term, market oriented responses at scale and develop delivery capacity. The design has been developed for local conditions shaped by the experience and learning already elsewhere and in development of other markets.

The proposal for the Australian Government to provide the cornerstone funding represents a serious, but relatively modest investment for significant catalytic effect, supported by rigorous design. ICA will deliver private sector leverage of 1:1 in its capital base and a significant further multiplier effect over time. That additional benefit will be achieved through additional private sector investment in intermediaries and transactions in which ICA invests and the benefits delivered in scale, reach and impact that could not be delivered without this type of vehicle to demonstrate what is possible with a focus on market development.

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 outcomes.
- The market, investors including banks, and intermediaries from ICA as a market champion that is prepared to go first, unlocks new capital and creates new opportunities for investment with impact.
- Governments through delivery of greater public value from improved outcomes, a more significant multiplier effect for funding they provide and from more capacity to target scarce public resources.
- The social and environmental sectors from greater access to a wider range of funding and finance options.
- Philanthropy from potential to achieve more impact from strategic use of its grants and investment capital.

Beyond this one institution, ICA will encourage and support specialist intermediaries and instruments crucial to market development. Intermediaries already active in the market cannot fulfil this role. They need to focus primarily on fulfilling their missions and developing their own 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.

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 affordable housing for people with disabilities or to integrate aged care accommodation in the community;
- a fund making 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.

The focus of ICA's mandate can be refined to complement and amplify other actions taken by Government and the market.

Indicative Costs: One –off grant funding of \$150 million in 2017-18 to be matched with private capital; \$150,000 in 2017-18 toward implementation, including secretariat to the ICA Board, also more than matched by private contributions to the development and implementation. Nominal departmental expenses for liaison, contract negotiation and monitoring.

Timeframe: 2017-18 – the implementation process (set out in more detail in **Appendix 1**) is expected to take 6 months from receipt of government and institutional capital.

Measure 2: Grow the social enterprise sector

Overview: This measure has two key components to grow the social enterprise sector.

- a. This measure proposes up to \$10 million in demand driven funding available to match private capital for incubators, accelerators and investment and contract readiness initiatives that target impact driven enterprises. It can be linked with the related components of the National Innovation & Science Agenda to provide structured support to build the pipeline of investable enterprise, and designed to ensure there is not overlap between the two.
- b. As a second stage, design of tax or other incentives for investment in impact driven organisations to ensure a level playing field. Consideration should include: tax credits and offsets, franking credits and specified deductions and could be linked with the mechanisms under the National Innovation and Science Agenda.

Policy Case: A particular overlap with the National Innovation & Science Agenda is the significance of encouraging entrepreneurial activity. Impact driven enterprises combine a social mission with a viable financial operating model. That can place them between the not for profit and private sectors. Support for impact driven enterprises to develop and grow can help attract some of the best and brightest talent to enterprising solutions to social issues.

As a growing sector of the economy, Australia's estimated 20,000 social enterprises are driven by the enthusiasm of entrepreneurs and creative leaders from the community and private sectors. This has created the potential for the development of new approaches to achieving policy priorities, including the generation of innovative models of service delivery and employment participation.

The ability of social enterprises to demonstrate economic responsibility through the creation of wealth and positive social and environmental change has been increasingly demonstrated over recent years. A UK report released in July 2013 found that in comparison to mainstream SMEs, social enterprises:

- ✓ are more innovative;
- ✓ have three times the start-up rate;
- ✓ are more concentrated in disadvantaged communities;
- ✓ are more likely to be led by women;
- ✓ have developed more new products and services in the last 12 months; and
- ✓ are more likely to have an increase in turnover.

However, there are challenges that the social enterprise sector continues to face. These have much in common with the challenges for enterprises elsewhere in the innovation ecosystem. They need access to appropriate capital for their stage of development, and on appropriate terms. They may need to bridge funding and capacity gaps to be able to attract investment (Productivity Commission 2010; Burkett, 2013). In some cases, structural issues increase the difficulty of attracting and securing equity finance.

Incubators and accelerators in and entering the market are showing promising results and will need further funding to bridge the gap in the Australian market that exists between mission-driven organisations in need of funding and investors actively seeking impact investment opportunities.

There is a need to scale up the investment readiness of enterprises and facilitate better connections to investors so that they are well placed to access the increasing capital becoming available through the developing impact investment market in Australia. An Impact Investment Readiness Fund was established as a key step towards growing the market for impact investing in Australia as a key plank of the Australian Advisory Board strategy to catalyse impact investing.

Cornerstone funding of \$ 1.75 million has been provided by National Australia Bank. The Fund opened in March 2015 and has seen a dynamic range of applications and funded 16 enterprises to secure advice they need to attract investment. Grants of up to \$100,000 are made through a rigorous selection process with a target of 2x – 10x the amount of grant funding in investment. The design for this initiative adapted learning, including from the UK Social Incubator Fund and Investment & Contract Readiness Fund.

Early funding recipients have secured investment well in excess of 20x leverage on the grant and demonstrated the potential for enterprise and innovation in areas as diverse as education, disability services and sustainable property. For example, Maths Pathway develops clouds based software for evidence –based teaching of maths in schools; an early stage enterprise, they received approximately \$35,000 from the Fund which enabled them to secure \$750,000 in debt and equity finance. HireUp, a web platform linking people with disabilities and qualified support workers raised over \$2.3 million in investment as a result of work enabled by a grant from the Fund of approximately \$75,000. The Australian Advisory Board target is to build the Impact Investment Readiness Fund to \$10 – 20 million.

Growing the funding available will enable more enterprises to fill a critical resource gap to grow and attract investment. It also helps to develop the adviser and intermediary sector. The approach can be extended beyond investment readiness to contract readiness assistance to enable enterprises to secure advice and support their need to develop more revenue options including through capacity to compete for government and corporate procurement.

The proposal for design of well-structured and sustainable incentives to encourage investments in impact driven enterprises is intended to ensure that they are not disadvantaged from receiving investment relative to other innovative enterprises. In the United Kingdom, the Social Investment Tax Relief introduced in 2014 is designed to provide an incentive for individuals to invest in community sector organisations and social enterprises. A policy driver for this initiative was that tax relief for investment into more traditional enterprises was not available to attract investment into impact driven organisations. In the United States, the New Markets Tax Credit was introduced in 2000 as an incentive for investment into certified community development entities investing in low-income communities.

Design of appropriate incentives for the Australian context should be investigated and requires further stakeholder consultation and consideration of the overall costs and benefits (Senate Economics References Committee, 2011). As in the United Kingdom, that design can include elements to ensure the impact is additive.

Indicative Costs: Up to \$10 million in demand driven funding over the forward estimates matched with private capital. Departmental expenses would involve liaison, contracting, monitoring and policy design but are not expected to be material. Some processes may already be in place for implementation of intersecting elements of the National Science & Innovation Agenda.

Timeframe: Across the forward estimates period commencing 2017-18 or 2018-19.

Measure 3: Remove regulatory barriers to facilitate growth

Overview: This is a series of low cost measures to remove regulatory barriers to market participation and encourage growth.

- a. Clarification of the fiduciary duties of philanthropic and superannuation trustees to put beyond doubt that impact can be considered in addition to risk and return by fiduciary decision makers
- b. Ensure program and mission related investment is enabled to provide greater flexibility for philanthropic trusts and foundations to direct capital toward achieving their social mission through mission related investment.
- c. Assess the extent to which regulatory issues, accounting and balance sheet treatment of social infrastructure assets, including housing, is limiting capacity to attract private capital to these assets. This could be linked with policy work underway through the Council on Federal Financial relations to explore innovative mechanisms to boost affordable housing.
- d. Extend provision for unsolicited proposals to be brought forward from current parameters to include a transparent framework for unique proposals to develop the impact investment market or leverage private capital for priority policy priorities at scale.
- e. Amend the Corporations law to enable a clear legal framework for Benefit Corporations in Australia and investigate the application and impact of other innovative for purpose organisational forms.
- f. Leveraging procurement to shift the way in which services are purchased by requiring that a broader approach to value creation be taken into account.

Policy Case: Regulation is an important element of the enabling environment. Removing barriers and identifying disincentives to participation is important. There are several no-cost or low cost options to improve the enabling environment in Australia.

Fiduciary duty is an important mechanism of stewardship in the position of trust held by those responsible for philanthropic and superannuation trusts. However, the interpretation of those duties can sometimes be narrower than the intent or the objectives require to ensure prudence and responsibility in the management of other peoples' money. Additional guidance can put the position beyond doubt that impact can be considered in addition to risk and return by fiduciary decision makers. Done well, this would build confidence and encourage mobilisation of capital.

The current Australian position was examined in a paper on Perspectives for Australian Superannuation Trustees

(Charlton et al, 2014). Responsible Investment Association Australasia (RIAA) has also been exploring this position.

The Australian Prudential and Regulatory Authority (APRA) response to the interim report of the FSI, (extract included as Appendix 2), included a statement that the exercise of fiduciary duties pursuant to the Superannuation Industry (Supervision) Act 1993: “does not prohibit impact investment where appropriate risk and return considerations are met. Indeed, the standard does not make any distinction between different types of investments.” APRA further stated that: “Working within the existing statutory framework APRA would, however, be open to considering the need for additional guidance regarding social impact investment, to the extent that a lack of clarity regarding APRA’s expectations was seen to be an unnecessary barrier to additional social impact investment by trustees.”

The Government response to the FSI stated guidance for Superannuation trustees is a matter for APRA. However, there is value in exploring the market view on the current position and what would be helpful clarification to the regulatory position, including guidance, to inform such consideration.

Other countries have been looking at the issues. Action to clarify fiduciary duties was one of the eight high level recommendations of the Social Impact Investment Taskforce for consideration by all jurisdictions. In the US, the Department of Labor has recently issued guidance regarding ‘economically targeted’ investments made by retirement plans covered by the Employee Retirement Income Security Act, [ERISA]. “The guidance includes acknowledgement that environmental, social, and governance factors may have a direct relationship to the economic and financial value of an investment, and when they do, these factors are proper components of fiduciaries’ analysis of the economic and financial merits of competing investment choices.”⁷

Removing Obstacles for Philanthropic Trusts & Foundations

Corresponding guidance for philanthropic trustees about their duties would also help mobilise capital. In the United Kingdom, recent amendments to the Charities Act have clarified that, subject to appropriate advice, trustees may consider the relationship of investments to the charity’s purpose as well as financial return.⁸

The Australian Taxation Office has demonstrated some willingness to look at more creative approaches. For example, the recent AUSIMED Tax ruling provides for Private Ancillary Funds to make loans on commercial terms to facilitate commercialisation of breakthrough research and treat the loss as a grant in certain circumstances if the venture is unsuccessful.⁹

Draft amendments to the Private Ancillary Fund Guidelines 2009 and Public Ancillary Fund Guidelines 2011 proposed by Treasury aim to provide more clarity regarding certain forms of concessional investments by private ancillary funds, and Philanthropy Australia has recommended ways the draft amendments could be further improved to provide additional clarity and encourage investment.¹⁰

Further, there may also be circumstances where the new tax concessions proposed in the Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016 could be utilised to facilitate trusts and foundations making investments into social purpose enterprises. This could be expanded to provide equivalent tax treatment for investments in social purpose enterprises, including those which are not for profit.

However, as with fiduciary duties, it would provide significantly greater certainty to the market if the position is put beyond doubt with straightforward guidance and clarification of the applicable regulations to allow greater flexibility for how capital is used to fulfil a trust or foundation’s philanthropic and social mission.

Program Related Investment

A proactive measure that should also be adapted for the Australian context is program related investment. In essence, this is a permissive regulatory framework that provides for philanthropic trusts and foundations to mobilise capital from their corpus as an investment where that facilitates or amplifies their impact in areas aligned with the social mission. These investments can be treated as grants, for the purposes of meeting the distribution requirements imposed on philanthropic trusts and foundations by relevant regulations.

⁷ See www.dol.gov/ebsa/

⁸ <http://www.legislation.gov.uk/ukpga/2016/4/enacted>

⁹ <http://law.at0.gov.au/pdf/pbr/cr2016-001.pdf>

¹⁰ <http://www.philanthropy.org.au/>

Under current rules, many philanthropic trusts and foundations, particularly Private Ancillary Funds, are also constrained in their capacity to direct grant funding. They can only make grants to organisations with certain categories of Deductible Gift Recipient (DGR) status. This limits the capacity of philanthropic trusts to provide what can effectively be angel capital and research and development finance to a broader range of organisations seeking to develop solutions to social issues or new financing mechanisms. For example, they cannot make a grant to a social enterprise without DGR 1 status, cannot give to market building initiatives, accelerators or incubators which rarely gain DGR status and cannot provide grant capital to seed fund new investment funds.

Well-designed policy to make clear that philanthropic trusts and foundations can mobilise a proportion of investment capital aligned with their mission even at rates regarded to be below market rate of risk adjusted return would reduce market constraints. Allowing greater flexibility in how these investments are treated, primarily through capacity to treat them as grants, would provide a greater incentive for philanthropic trusts and foundation to engage in them and provide more flexibility to help fill funding gaps between grants and commercial capital, encouraging the flow of more capital overall.

Mobilising these types of quasi-philanthropic investment capital would be a significant stimulus for social and financial innovation. It would enable a greater role for philanthropy in attracting more capital for social purpose and deploying its available capital for greater impact. Also, this approach would encourage foundations to work in close collaboration with the private sector to align their social goals and financial tools. Further, it would enable more effective and creative utilisation of the corpus of philanthropic trusts and foundations for the purposes for which those pools are created and already receive favourable tax treatment.

Similar approaches are being utilised in the United States and United Kingdom. These are being utilised to powerful effect by foundations including the Gates Foundation and FB Heron Foundation. For example, the Gates Foundation PRI approach adopted in 2009 involved allocation of more than \$1.5 billion by 2012. Examples include the Global Health Investment Fund and Aspire Public Schools investing in quality schools for low-income communities and students in the United States.

Proposals to adopt a more streamlined version of the (so-called) program investment frameworks have recently been tested favourably with the market in Australia by Philanthropy Australia, which undertook a project commissioned by the Department of Social Services to assist the work of the Prime Minister's Community Business Partnership. The project examined the program related investment framework operating in the United States, examined the demand for such a framework in Australia amongst philanthropic trusts and foundations, and made recommendations about how such a framework could be implemented here, including drafting relevant changes to regulations and legislation.

Enabling corporate forms and legal models for impact

In Australia and internationally, developments and innovations are demonstrating that there are a range of ways in which organisations can deliver positive benefit for society. The legal structures available are important to ensuring they can operate effectively and with certainty within the law and attract appropriate forms of funding and finance for their purpose.

Benefit Corporations

Corporations and the businesses they create and operate can be a key contributor, including through creating jobs and economic activity.

A movement, started in the United States has focussed on principles and structures for corporations that give investors more active choice to work with companies that seek to maximise the social and environmental good they deliver as well as being commercially viable.

A new type of for-profit company limited by shares known as the 'Benefit Corporation' has been developed.

A Benefit Corporation places both profitmaking and the public good at the forefront of the purpose of the corporation. The Benefit Corporation has been enacted in more than half of all US states including Delaware, since first passing in Maryland in 2010. The Benefit Corporation legal form in the United States has been led by B Lab, a not-for-profit organisation based in New York City.

The three key elements of the Benefit Corporation are as follows:

1. The purpose of the corporation is expanded to include having a positive impact on society and the environment.

2. The duties of the directors are expanded to require directors to consider the interests of all of the corporation's stakeholders.

3. The corporation is subject to a new requirement to report on the pursuit of its expanded purpose.

The purpose of a specific corporate form is:

- to validate directors' decisions that are consistent with the corporation's expanded purpose and motivated by creating value for stakeholders;
- Provide protection for directors and officers from claims by shareholders that the company made decisions that took into account broader range of criteria than financial alone;
- Create accountability, specifically holding directors accountable to make decisions that take into account stakeholders through clear reporting requirements; and
- Promote change to corporate norms of behaviours in favour of more responsible profit generation.¹¹

In Australia, the Board of B Lab Australia & New Zealand (the local office of B Lab) Policy Working Group comprising companies, investors, lawyers and academics, including Professor Ian Ramsay of Melbourne University, Clayton Utz Lawyers and Australian Ethical Investments concluded that for similar reasons to in the US, the introduction of a like structure would be beneficial in Australia.

Other legal models

Social purpose organisations in Australia take a variety of legal forms including co-operatives, community/voluntary associations, companies limited by guarantee as well as proprietary limited and public companies. The capacity to raise and service different forms of equity and debt finance is also affected by the parameters of the legal form.

Therefore, there is a case for a broader discussion on further types of structures that could better respond to the funding and financing needs of the community sector and other business models that do not generate profit. This would include considering the application of new legal forms established in a number of jurisdictions that aim to introduce greater flexibility for social purpose organisations and their investors. In some cases these have a focus of more explicit recognition of the social purpose of the organisation. In others they are intended to open up access to equity or other forms of capital. In some cases there is a hybrid purpose – or recognition of the hybrid purpose – of new social economy organisations.

Some work has been done by the Social Enterprise Legal Models Working Group to consider the relationship between social purpose organisation legal models and the needs of investors and enterprises in the Australian context (Social Enterprise Legal Models Working Group, 2015; see also Productivity Commission, 2010; Senate Economics References Committee, 2011).

Procurement

Governments can use their purchasing power to influence the development of markets too. A number of commentators and economists advocating governments' role as consumer as a powerful tool for enabling new markets and encouraging innovation (e.g. Janeway, 2013; Mazzucato, 2012)). This can encourage new approaches to develop with confidence there will be a market for their product and enable them to be demonstrated and evaluated.

Appropriately deployed, procurement can be a very practical means of shifting the way in which services are purchased by requiring that a broader approach to value creation be taken into account. This can also encourage market activity by making it clear that broader impact will be part of the criteria for selection.

The Council of the European Union adopted a package to reform public procurement, including to provide for 'common societal goods' in the assessment and selection processes (2014). All member states are required to enact corresponding laws by April 2016.6 The UK Social Value Act is another example that requires public commissioners to consider how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area. Other countries have also introduced or refreshed legislation in recent years, including Quebec (Social Economy Act, 2013, Explanatory Notes and Chapter III, section 7).

There is some precedent for procurement being used to drive market opportunity in Australia, including initiatives to promote procurement from Aboriginal owned business. This is another area where additional clarity in the regulatory environment, including on application of the principles under the Public Governance, Performance and Accountability Act 2013 would send an important signal and increase the pace and scale of activity.

¹¹ www.benefitcorp.com

Indicative Costs: No administered funding. Departmental resources may be available within the existing Budget envelope.

Timeframe: Review commencing 2017-18 for implementation by 2018-19.

Measure 4: Promoting outcomes focus, efficacy & innovation

Overview: Promoting better outcomes, efficacy & innovation starting with design and feasibility for 2 initiatives with a view to moving quickly to a decision on implementation in the out years of the Budget. The focus is building capacity to use market based mechanisms to attract capital to achieve strong social and economic outcomes, including through collaboration between the Federal and State Governments.

The development work relates to the following.

- a. A dedicated Outcomes & Innovation Fund to support proof of concept and scaling what works through outcomes based commissioning, including social impact bonds.
- b. Protocols for data sharing to inform efficacy and innovation and facilitate more efficient and effective allocation of existing resources to achieve social impact.

Policy Case: There is increasing focus on what is achieved with public funds to drive evidence based on innovative approaches to tackling social issues and service delivery. The aim is to incentivise and enable those with solutions that work to develop scale and those with ideas to innovate to develop new solutions.

More options for outcomes based contracting are being explored in a range of jurisdictions including Queensland, South Australia, ACT and NSW. That includes Social Impact Bonds (SIBs), a financial innovation that links financial performance to social performance and, in many cases, reduced cost to Government.

NSW was an early mover and has issued two bonds to improve outcomes for children in the out of home care system and their families. Further, a Request for Proposal (RFP) was issued in October 2016 seeking innovative proposals for social impact investments to deliver better services and/or infrastructure, and improved social and financial outcomes for individuals and communities in NSW.

Development work is underway for SIBs in Victoria, South Australia and Queensland. Social Impact bonds are developing across many other jurisdictions from the UK, and US to Ghana, Columbia, Israel and South Africa. A recent study on progress by the Brookings Institute (2015) highlighted the benefits and sensitivities of this rapidly developing area.

Achieving structural adjustment for the Budget will need to go beyond simply doing more with less. A focus on innovation, evidence and opportunities for collaboration is needed. There is an opportunity for the Australian Government to incentivise more of this activity and the innovative financing mechanisms to support it.

A powerful approach would involve a dedicated Outcomes & Innovation Fund to support State and even local Governments' activity through funding for feasibility, proof of concept and top up payments to account for benefits of overlapping responsibility between State and Federal Government.

Design is critical for such an Outcomes & Innovation Fund to be successful for the Australian federal system and yield credible evidence of program or policy impacts enabling direction of a larger share of resources towards evidence-based, outcomes oriented practice. Robust design will also help ensure the initiative builds capability, yielding better social impact measurement, better commissioning of services and stronger engagement with citizens and communities to reward innovative and scalable solutions to complex social challenges.

Well designed, such an initiative would solicit the strongest proposals from market nationally in areas of key social and service delivery challenges. It would enable the first concrete action at Federal level on SIBs in a manner that facilitates collaboration, investment and learning at a scale that cannot be achieved in a single transaction. The Australian Government would benefit from the data collected and lessons learned and all jurisdictions could benefit from opportunities for replication and scaling of what works. In addition to the multiplier effect of increased focus on efficacy and innovation, this would provide a structured opportunity for collaboration with State Governments.

The Social Impact Investment Taskforce (2014) concluded that *"a decisive move to focus on purchasing outcomes (by governments and other commissioners) is clearest way of simulating flow of revenue to impact-driven organisations that rewards them more directly for the social value they create. This can have a profound effect on the way impact is delivered as well as ensuring that innovation and effectiveness is incentivised"*.

Efforts are underway across a number of jurisdictions to incentivise more effort toward different models of

outcomes based contracting, including in Federal systems. For example, the US Federal Government proposed a \$300 million Social Impact Fund to provide incentives for State and local governments to fund feasibility and other approaches to outcomes based funding. A Social Impact Bond Bill (US) passed by the previous Congress¹² was also intended to promote more evidence based and innovative solutions. The European Union's European Investment Fund is developing an outcomes platform.

Data availability, including data relating to the cost of social services, can highlight where there is room to do better, sending signals to the market for more entrepreneurial approaches to tackling issues. The actuarial model being employed in the Department of Social Services and by some States is an illustration of data driven models for targeting policy. The significance of data is also recognised in the data sharing elements of the National Science & Innovation Agenda and the recent Productivity Commission reference on Data Availability and Use.

Initiatives around the world are putting greater focus on measurement of the efficacy of social initiatives. For example, Inspiring Impact (UK) is a collaborative initiative between the UK Cabinet Office and others to drive more effective measurement and evidence based decision making.

The UK Cabinet Office, for example, published the unit cost of over 600 areas of service provision to send signals to the market, and promote innovation and encourage new financing mechanisms based on results. Related work underway in NSW as part of its Social Impact Investment Policy has committed to publish cost and performance data.

The OECD work to build the evidence base on impact investing also has a significant focus on outcomes and data, as well as data to inform understanding and effective targeting of societal needs.

Feasibility for these initiatives would reduce establishment risks and costs, and may reduce any future quantum of seed funding required, although, if announced, also raise an expectation that they will be delivered and that the Government will provide funding.

Indicative Costs: Departmental resources to support the design and feasibility for the initiatives, some of which may be able to be allocated or planned for in connection with existing initiatives linked to the Government's data policy statement. Any proposal for administered funds to be brought forward as an outcome of the design and feasibility work.

Timeframe: 2017-18; policy design, stakeholder consultation, feasibility and development of policy proposal(s).

Measure 5: Government Engagement & Leadership

Overview: Low cost measures to building government capacity and leadership and connect the Australian Government at the forefront of developments.

- a. Nominate a designated Minister to champion development of impact investment, ideally supported by the Departments of Prime Minister & Cabinet and Treasury, who can lead engagement with banks and financial institutions, major corporations, venture capital providers, entrepreneurs, community sector, philanthropy and government agencies and encourage collaboration.
- b. Accept the invitation for an appropriately qualified senior Australian Government Official Observer to join Government Observers from other countries on the Global Social Impact Investment Steering Group and the Australian Advisory Board.
- c. Develop the whole of Government advisory remit of Innovation and Science Australia by including social innovation and including relevant expertise on its Board.
- d. Commit to an Office of Social Impact & Investment to provide a centre of excellence and capability and drive public sector capacity to engage with the market and private sector for a more efficient and effective allocation of existing resources to achieve social impact.

Policy Case: Up to this point, other countries in the G8 process have had engagement by their national governments, but Australia has not. The Australian Government is welcome and encouraged to nominate an appropriately qualified observer to the Australian Advisory Board and participate alongside other Governments in the activities of the Global Social Impact Steering Group.

This would send a clear signal to the market in Australia and across participating countries that the Australian Government is engaging to better understand the market and its options and is open to collaboration in

¹² As this Bill was not yet passed by the Senate, it will need to be re-introduced to the 115th Congress

particular with the private sector. It would also help accelerate the Australian Government's understanding of the market, capacity for effective action and development of networks and relationships.

Appointing a Ministerial Champion for impact investing is critical to provide a 'go to' point and champion as its potential as a policy tool and for impact cross a number of portfolios, so there are many interested parties but no-one owns the issue. The right person in this role could provide policy and political leadership for engagement with banks and financial institutions, major corporations, venture capital providers, entrepreneurs, community sector, philanthropy and government agencies and importantly encourage collaboration. It would also extend opportunities for the Australian Government and Ministers to lead public dialogue including on the opportunities for collaboration and local economic development, and new approaches to stimulate capital and business model innovation to tackle priority policy and social issues.

The Government is currently missing opportunities to develop and link priority policy issues to a more and more effective tools, to unlock private capital and talent. Focussed attention on impact investing and its role as an enabler of social innovation and enterprise would be a valuable extension to target and realise benefits of its agenda, in particular in innovation, across a broader range of policy areas.

The proposal for developing an Office of Social Impact & Investment for the next term of Government provides structure for a whole of government approach. For many in Government, a focus on measurable outcomes, an investment mindset and the involvement of private sector represents a new way of working. An Office would enable the development of a centre of excellence and capacity to achieve more targeted spending of government resources that maximises the contributions from market based solutions, facilitates engagement and collaboration with other actors, encourages innovation for social purposes and unlocks private capital. A dedicated function of this nature could work with the Treasury and agencies to develop guidance and tools to promote evidence and innovation.

This measure will provide an opportunity to link with other areas such as data effectiveness and the National Innovation & Science Agenda to raise awareness of opportunities for improved policy design and service delivery as well as an understanding of the mechanisms which facilitate investment. Creating a 'go to' place and hub to coordinate effort across Government will also provide a much more informed position for Government on the nature and extent of the opportunities and where the interest and appetite lies and can be developed in the market.

Administered Funding: none expected. **Departmental expenses:** not expected to be material and may be available within the existing Budget envelope.

Timeframe: 2017-18 can be implemented immediately with minimal design and process requirements.

Conclusion

The measures proposed in this Submission are intended to ground a whole of government approach to impact investment opportunities, including those already being considered across portfolios. Engagement through the Australian Advisory Board provides an existing platform for the Australian Government to engage with key stakeholders developing the impact investment market in Australia.

All of the measures can be delivered within the requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the *Commonwealth Grants Rules and Guidelines* (CGRGs).

The design for ICA and the proposed founding partnership in that for Government specifically meets all of the 7 key principles under the CGRC, including integrated governance arrangements to mitigate risk. An implementation plan is already in advanced stages of development; an overview is provided in **Appendix 1**. Performance monitoring is built into the design and would be reflected in contracting arrangements, including for impact reporting to be made publicly available.

Implementation of some of the measures proposed in this Submission can also be streamlined with other work underway across Government, including: implementation of the National Innovation & Science Agenda; the Treasury led working Group considering options to boost the supply of affordable housing; innovative design and evaluation work led by the Department of Social Services, including the 'actuarial' model, and; Treasury work to encourage greater focus on evidence based approaches and efficacy.

Developing the impact investment market and its potential to drive change will take time. The pace of development can

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

There is a clear opportunity to create common platforms and infrastructure to link 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.

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.

Well-designed policy can make a significant contribution. The Australian Advisory Board and Impact Investing Australia welcome opportunities to engage with the Australian Government in this process.

Appendix 1: Impact Capital Australia

About ICA

A detailed Blueprint has been developed for how ICA can and should be brought to market. A copy is included as part of this Appendix and has been provided as a separate document.

The strategy and design has been developed with leaders from across sectors. The work to date on ICA has drawn on a broad evidence base and cross-sector skill set both locally and globally. It is grounded in a deep understanding of the local market and lessons learned internationally. There is a clear and accountable plan for implementation.

The vision for ICA is to create a dynamic market for investment that delivers measurable, improved outcomes for society, operating at scale in and from Australia, **demonstrating and promoting innovation** and diversity in participants and products (**Figure 4**).

Its mission would be to act as a catalyst and build a dynamic market by:

- Investing in intermediary vehicles and products in key impact sectors
- Originating societally focused, impactful, innovative and scalable solutions
- Implementing strategy to encourage diversity, innovation and growth

Figure 4: Impact Capital Australia: vision, mission and mandate

Vision

A dynamic market for investment that delivers measurable, improved outcomes for society, operating at scale in and from Australia, **demonstrating and promoting innovation** and diversity in participants and products.

Mission

ICA will be a catalyst and build a dynamic market by:

- Investing in intermediary vehicles and products in key impact sectors
- Originating societally focused, impactful, **innovative and scalable solutions**
- Implementing strategy to encourage diversity, innovation and growth



Source: Impact Investing Australia, 2016

Its investment mandate would have three central elements: clear impact, financial viability and contribution to market development (**Figure 5**). 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 because capital is more readily available to them.

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.

Figure 5: Portfolio dynamics for impact



Source: Blueprint to Market, 2015

All investments would need to demonstrate impact in one or more of the outcome areas that define the portfolio as a threshold requirement (Figure 6).

Figure 6: Outcome areas



Source: Blueprint to Market, 2015

Examples of potential wholesale investments for ICA 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 fund to create purpose built accommodation for people with disabilities;
- a fund that makes 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.

Beyond its investments, ICA would have a clear role as 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.

This role in combination with its investment mandate would position ICA to 'grow the pie', creating a multiplier effect, by delivering greater value from public investment and unlocking private capital and talent, and expanding the potential for impact.

Financial Model for ICA

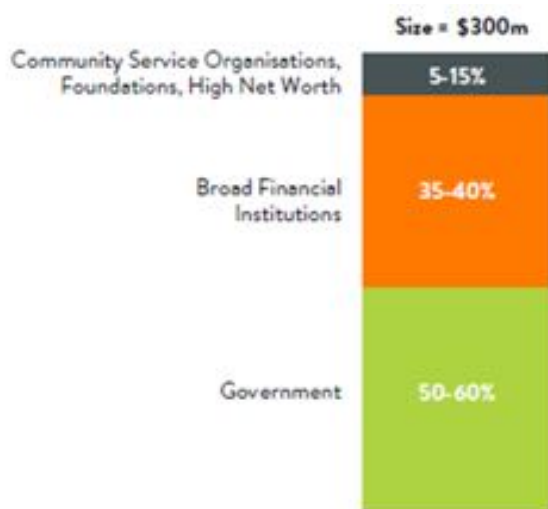
Impact Capital Australia, ICA would need sufficient capital to send a strong signal to the market and to operate self-sufficiently. Modelling indicates that **initial capital of \$300 million** would be required to achieve both of these objectives.

Initial capital contributions to ICA (**Figure 7**) have been modelled: Government 50–60%; mainstream financial institutions 35–40%; community, 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.

The terms of funding are likely to be different for each of the categories of capital provider: grant funding from governments; debt or hybrid contributions from major financial institutions on terms that include preservation of capital but with a return below full commercial rates; and debt or hybrids from community sector and other investors on terms that meet their fiduciary duties. Initial modelling anticipates ICA will have a self-sustaining cash flow profile within 7 years.

Figure 7: Initial Capital Structure for Impact Capital Australia



Source: Blueprint to Market, 2015

Initially conceived by the Australian Advisory Board as a \$350m fund, a rigorous process was put in place to validate the capital requirements for ICA thereby reducing this to \$300m. Underpinning this is a financial model developed by Impact Investing Australia together with a Working Group of senior leaders and A.T. Kearney, and predicated on ICA's proposed business operating model.

The first step in this process was the construction of an economic model 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. The economic model was further broken down and tested for key sensitivities. These identified sensitivities form the basis of the most significant variables and assumptions around which the financial model is built.

Once the initial financial model was constructed, a sub-committee of the Working Group with extensive experience in financial markets and analysis rigorously examined assumptions and sensitivities. The financial model went through extensive and iterative revision as part of this process.

The modelling indicates that \$300m is the total capital required to ensure a sustainable business model for ICA. 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 investments mature enabling ICA to self-sufficiency. It is anticipated ICA would reach net positive cash flow in 7 years with steady state cash flow in 10 years, based on an assumed life cycle of investments at 7 years. Capital contributions to ICA will need to be patient to correspond with the underlying investment profile.

A summary of the economic model, sensitivities and financial model are included in the full Blueprint document provided.

Governance & Leadership

Clear, transparent and accountable governance is a minimum requirement for ICA. Its governance principles 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 8).

ICA's mission and mandate for the public good will 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 changes in the political environment.

Legal advice has been obtained from Ashurst on regulatory and compliance considerations and structuring and governance. Policies and processes will be put in place to embed the requirements and ensure it is compliant with relevant licensing and regulatory requirements. It will be transparent and accountable to the public and market. It will operate collaboratively, including with its founding partners.

Figure 8: Structure and governance will ensure conformity to the agreed mission and mandate



Source: Impact Investing Australia, Ashurst, 2015

Source: Blueprint to Market, 2015

ICA will be constituted as a public company with a Constitution that embeds and safeguards its mission and mandate. The Board of the organisation will have responsibility under the Corporations Act for its stewardship. A majority of the Board would be non-executive directors to safeguard the independence 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.

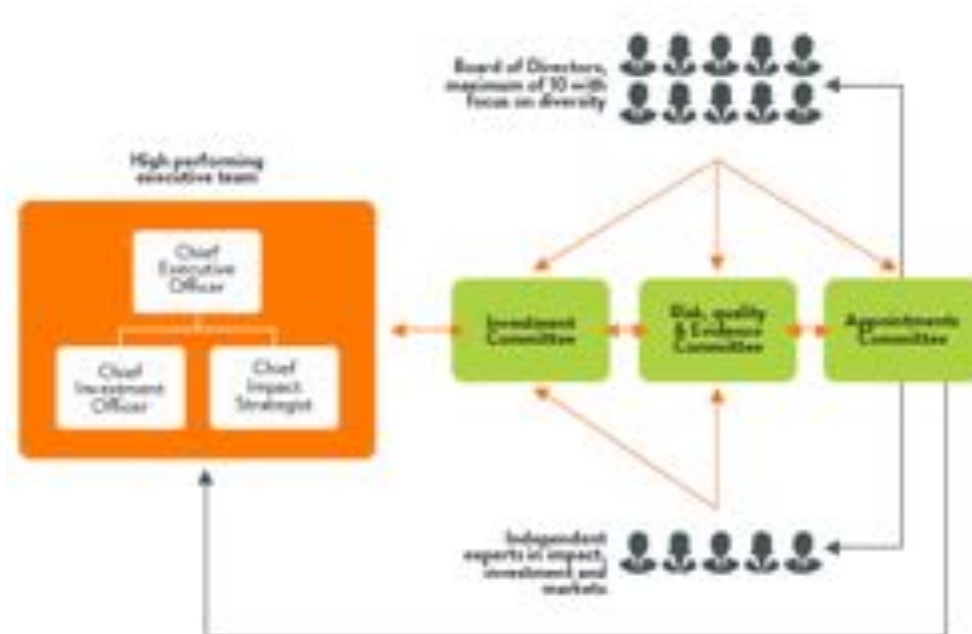
ICA would also be accountable for performance as an organisation, as an investor and as a market champion. It would have structured and rigorous processes for measurement and reporting. It would report on impact achieved, financial performance and market development outcomes. Those processes would embed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

In addition, ICA will proactively seek to establish a reputation in the market 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.

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 9).

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 9: ICA would have a leadership structure to support effective execution & accountability



Source: Impact Investing Australia, Ashurst, 2015

Source: Blueprint to Market 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.

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 Board to make initial appointments.

Once operations are established, an Appointments Committee of the Board will be responsible for nomination of future Board members and key executive positions including Chief Executive Officer, Chief Investment Officer and Chief Impact Strategist. Board Committees will comprise members of the Board and appropriately qualified external parties that bring particular expertise.

Implementation & Accountability

ICA can be delivered in line with all requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the *Commonwealth Grants Rules and Guidelines* (CGRGs). The design for ICA and the proposed founding partnership in that for Government specifically meets all of the 7 key principles under the CGRC, including integrated governance arrangements to mitigate risk. Performance monitoring is built into the design and would be reflected in contracting arrangements, including for impact reporting to be made publicly available.

The implementation plan is already in advanced stages of development. Work to refine this is on-going through process of securing founding partnerships with Government and financial institutions to enable ICA to be operational as quickly as possible once the initial capital is secured. The plan recognises that an establishment phase during which key personnel are engaged and proper accountabilities and governance are established will be essential before funding can be deployed in the market. An outline of the proposed approach to implementation is set out in **Figure 10** and the implementation tasks are further detailed in **Figure 11**.

Ensuring that the robust policy logic and design and the governance and accountability mechanisms are mapped and reflected in contract arrangements with Government will be an essential step. Initial delivery of value for money will include securing partnerships with financial institutions and other private and community sector partners.

An independent Board of highly qualified and experienced leaders will be appointed as a first step as stewards for the implementation. Appointment of a CEO and other key executive roles including the Chief Investment Officer and the Chief Impact Strategist is a priority.

Operationalising the Governance architecture (as outlined) will also be a priority. This includes finalising a Board charter, establishing investment and operating policies and putting in place a framework for measuring and reporting on ICA’s operating and financial performance, including impact. In addition, a risk and compliance framework together with related policies would be adopted. Effective risk management will be critical in ensuring the ultimate integrity and sustainability of ICA as an organisation and no investment would be made before this is in place.

Figure 10: Key implementation milestones would ensure a strong basis for ongoing governance



Source: Impact Investing Australia, 2016

This implementation stage for ICA would be relatively fast and its organisational structure would evolve from the core as it builds capacity. It may be necessary to retain specialist advisors to provide advice to the Board during this initial phase to ensure that all of the compliance obligations are met and processes established in a manner that meets the intention of best practice governance, risk management and delivery.

Figure 11: Key implementation tasks would involve rigorous framework, policy and systems development

	Stage 1 (~3 months)	Stage 2 (~3 months)
Legal and Governance	<p>Finalise ICA Board</p> <p>Obtain required licences e.g. Australian Financial Services Licence</p> <p>Put in place financial delegations from Board to Executive</p> <p>Define Board Charter clarifying role and risk/control Framework</p> <p>Formalise Board operating structure including role of sub-committees</p> <p>Finalise Risk Management and Compliance Framework</p> <p>Formalise organisational structure & employment plan</p> <p>Establish impact and investment performance frameworks</p> <p>Establish Corporate plan and reporting frameworks</p>	<p>Publish Board charter and operating, investment and performance policies</p> <p>Establish Board sub-committees</p> <p>Implement performance and reporting systems</p> <p>Publish corporate plan</p> <p>Embed risk management & compliance systems</p>
Personnel	Finalise key executive appointments	Recruit other key personnel
Finance and Operations	<p>Establishment tasks including: office accommodation & set up, insurance, auditors, tax registration, software and systems, communication and IT contracts, service contracts etc.</p> <p>Develop a more detailed forward budget</p> <p>Refine initially identified areas of potential investment</p>	<p>Formal launch</p> <p>Document policies and procedures relating to: financial operations, HR and Finance delegations, procurement, accounts management, stakeholder and media communications</p> <p>Engage market, in particular financial intermediaries</p>
Communications	Develop stakeholder and media communications strategy	<p>Design and establish ICA website</p> <p>Ongoing communication materials</p>

Source: Impact Investing Australia

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Appendix 3: About Impact Investing Australia

Impact Investing Australia is an independent organisation dedicated to growing the opportunities for investments that deliver positive social and environmental impact alongside a financial return.

Our vision is for a healthy, equitable and prosperous Australia, supported by a dynamic market for impact investing that expands opportunities and creates innovative solutions to pressing societal challenges.

Impact Investing Australia was established in 2014 in response to an industry-identified need for dedicated leadership, facilitation and capacity building. Responsible for driving the implementation of the Australia Advisory Board on Impact Investing's strategy to catalyse the market for impact investing, Impact Investing Australia provides a focal point for market development in Australia, as well as participating in international efforts to grow the market globally.

Australian advisory board on impact investing

The Australian Advisory Board on Impact Investing was established in 2014, and comprises a number of Australia's most experienced leaders from the investment, business, not-for-profit, philanthropic and community sectors.

The Board was established both to develop a strategy for accelerating the growth of the impact investment market in Australia, as well as inform global market development through the Social Impact Investment Taskforce established by the G8 (now the Global Social Impact Investment Steering Group). The strategy outlines a program of activity to catalyse the impact investing market in and from Australia. Impact Investing Australia drives strategy development and implementation for the Board.

Members

Rosemary Addis (Chair)	Impact Investing Australia
Adrian Appo OAM	First Australians Capital
David Bennett	Macquarie Foundation
Sandy Blackburn-Wright	Social Outcomes
Richard Brandweiner	Leapfrog Investments
David Crosbie	Community Council of Australia
Sarah Davies	Philanthropy Australia
Rob DiMonte	Non-Executive Director
Belinda Drew	Community Services Industry Alliance
Steve Lambert	National Australia Bank
Fabienne Michaux	Petrichor Consulting Services
Peter Munro	A.T. Kearney
Paul Steele	Donkey Wheel Foundation
Louise Sylvan	University of Sydney
Christopher Thorn	EY
Andrew Tyndale	Grace Mutual
Simon Warner	AMP Capital

Ambassadors

Carolyn Hewson AO	Non-Executive Director
Carol Schwartz AM	Women's Leadership Institute Australia
Peter Shergold AC	Western Sydney University

Partners and Supporters

Impact Investing Australia and the Australian Advisory Board on Impact Investing's work is made possible through generous support from our partners.



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www.impactinvestingaustralia.com

Contact

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Appendix 6: A key piece of market infrastructure

There is a clear and immediate policy opportunity for the Australian governments to develop a strategic approach to building the market for impact investments in and from Australia. This builds on appetite in State governments, financial institutions, super funds, corporations, and the community sector to engage in dialogue, and importantly, to find ways to act to develop more investment opportunities.

This call has come from a diverse range of leading organisations from across sectors encouraging government action.

Government should take a leadership role in catalysing the Australian impact investment market because a larger and more robust market will realise savings and benefits to the community, Governments of all levels and taxpayers. An expanded market will result in increased capital flow to the community sector, encourage innovative social service delivery and improve data collection and reporting.

Social Ventures Australia Submission on the FSI Interim Report 2014

It is our view that impact investment offers significant potential to improve outcomes for a broad range of stakeholders. When thoughtfully established and supported through policy, these investments can produce strong outcomes for government through the efficient delivery of social or environmental services through the private sector. They can stimulate the private sector to innovation in the solving of social or environmental challenges through providing incentives for entrepreneurship. Furthermore, they can provide investors with new types of assets that, in certain circumstances, can offer an attractive risk-return trade-off in the context of overall portfolio diversification.

Christian Super Submission on the FSI Interim Report 2014

In our view, long term mega-trends of aging populations and climate change will, over time, adversely impact government revenues, while the social needs, society's expectations, and the costs of delivering social outcomes will all likely rise. To best meet these needs in the future within a more fiscally and resource-constrained environment, Australia might need to develop an even greater focus on measuring social impact and achieving social outcomes to determine how best to allocate those resources, and create pathways for increasing private sector participation in financing and delivering social outcomes.

Providing support and encouraging the development of the nascent social impact investment sector today—including innovation and investment in measuring social impact more effectively across a broad range of current social programs—might potentially have wider benefits, in our view. Specifically, it could enable the more efficient reallocation of capital over time toward programs that provide the highest social returns (not only in relation to those financed by social impact bonds) and facilitate greater private sector participation in funding certain programs.

Standard & Poors Submission on the FSI Interim Report 2014

The Report also discusses how Government could take a more active role in expanding impact investment through the provision of risk capital. Such active participation in impact investment activities is another policy tool which Government may consider using where it can assist in meeting its particular policy objectives. Depending on the circumstances, it may enable Government to use public resources to leverage private investment in order to achieve particular policy outcomes more effectively and efficiently.

Philanthropy Australia Submission on the FSI Interim Report 2014

This is the kind of innovation that Australia's financial system should support and promote as part of its mainstream business...The Property Council recommends that Government undertake a more active role in expanding impact investment, such as providing risk capital and establishing social investment banks.

Property Council of Australia Submission on the FSI Interim Report 2014

At the global level, developing a wholesale institution was one of the major recommendations of the G8 Social Impact Investment Taskforce. This type of institution was seen as a key piece of infrastructure for every country to develop its market for impact investment.

The Australian Advisory Board on Impact Investing (AAB) agreed after engaging with practitioners and stakeholders. In its strategy, *Delivering on Impact*, 2014, the establishment of a flagship impact investment fund was recommended as a critical action in catalysing the Australian impact investment market

The blueprint, for what has since been named Impact Capital Australia, was developed as part of a unique collaboration with leaders from across sectors. A partnership was developed between the AAB, its implementation agency, Impact Investing Australia and Big Society Capital, the first dedicated wholesale institutions for impact investment.

The sharing by Big Society Capital of lessons learned from the first 3 years of its experience in the UK social investment market was an important input to the design process. Stress tested against Australian conditions, learning from the UK resulted in a quite different design for Impact Capital Australia.



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24th February 2017

**Social impact investing discussion paper:
Letter of support from Big Society Capital, UK for the AAB and IIA submission**

Dear Sir/Madam,

Big Society Capital very much enjoyed the opportunity to meet the Australian Treasurer and his team in London earlier this year to discuss impact investing and investments in affordable housing. This letter is written following up that meeting and in response to the social impact investing discussion paper, launched by Treasury in January 2017. Big Society Capital, an independent institution set up by the Government in the UK, welcomes Treasury's detailed consideration on how to support the growth of the social impact investing market in Australia. Whilst recognising there are differences in context and policy priorities between the UK and Australia, we believe there are lessons that can be learned from our experience that may be helpful in informing Australian policy making in this area.

For your information, Big Society Capital (BSC) was launched in 2012 by the Coalition Government to help build the social impact investing market in the UK. It acts as both a wholesale investor and market champion. BSC has been funded with equity capital, £400m from dormant bank accounts and £200m from high street banks.

With almost 5 years since launch, BSC has committed around £340m to investments which has been matched by over £540m of capital from other external investors. These investors include: charitable foundations; high net worth individuals; corporates; pension funds and government departments. BSC has directly helped develop over 40 new or stronger social investment institutions that have provided a diverse mix of finance and support to charities and social enterprises. Our investments have helped address a range of social issues, from providing affordable housing to building stronger communities to delivering skills and training for the long term unemployed. If of interest, further detail about BSC can be found at <http://www.bigsocietycapital.com>

Big Society Capital believes that a strong, diverse and sustainable social impact investing market is key to both attracting large amounts of private capital to address social causes and, efficiently achieving better social outcomes for people and communities. In the UK, the central Government through the Cabinet Office has played a pivotal role in helping develop

both Big Society Capital and the broader social investment market. This has been achieved through policy reform, support for innovative financing models and building essential market infrastructure. Notwithstanding the differences with the UK, we believe in Australia, the Government could similarly take a leadership position in developing the social impact investing market.

Big Society Capital has played a lynchpin role in helping the UK's social impact investing market reach the scale necessary to attract substantial external capital, and the sophistication necessary to help develop and finance innovative solutions to social challenges.

An independent social impact investment institution, tasked with championing and investing, could also play a valuable and unique role in developing the Australian market. This type of institution is now being implemented in other countries, including Japan and Portugal. Following the recommendation of the G8 Taskforce on Social Impact Investing, many additional countries, some of whom we are advising, are also considering how a similar model could help develop their domestic impact investing markets.

We have been delighted to work with Impact Investing Australia, the Australian Advisory Board and a working group of senior cross-sector leaders on the development of the concept for Impact Capital Australia (ICA). Building on the lessons learned from our experience in the UK, we believe ICA would be a key plank in the development of a robust impact investing market in Australia. We have now worked with Impact Investing Australia for a number of years building the plan for ICA's implementation.

We have shared our experience and case studies and given advice on strategy, investment practice, social impact measurement and market championing. We are encouraged by the highly developed nature of the ICA blueprint tailored for the Australian market and the support for this institution from across the market. We continue to support this initiative and would encourage Treasury to consider how such an institution could help build the Australian impact investing market.


In closing, we would also like to extend our thanks for the outstanding contribution from Australia, led by Rosemary Addis, to the G8 Social Impact Investment Taskforce, now the Global Social Impact Investment Steering Group. We would enthusiastically welcome this continued contribution as a significant part of global leadership.

We would be delighted to have further conversations with Treasury about our development or experience if useful. If further details or information are required, please do not hesitate to contact us.

Yours sincerely,



Cliff Prior
Chief Executive



Simon Rowell, Senior Director, Strategy and Market Development, on Behalf of Big Society Capital

A case study on Big Society Capital has been included because, despite limitations in its mandate, it has heralded what a McKinsey analysis called a decisive shift in the UK market.

Case Study – Big Society Capital and Lessons learned for Impact Capital Australia

Summary

Big Society Capital as the world's first social investment wholesaler, has been successful in helping to grow social impact investing in the UK. In just under 5 years it has committed to over £340m investments which has been matched by over £540m of capital from other external investors. It has directly helped develop over 40 new or stronger social investment (intermediary) institutions. These, in turn, have provided a diverse mix of finance and support to charities and social enterprises that are helping address a range of social issues, from providing affordable housing to youth employment and training.

The lessons we have learnt from Big Society Capital have been valuable to the design of the blueprint for Impact Capital Australia. It has informed design for what Impact Capital Australia would do, and for what it would not do to be successful in the Australian market. Independence from government and rigorous governance are common characteristics.

Overview of Big Society Capital

Big Society Capital came into existence in 2012 as a wholesale financial institution set up to serve the social sector. The wholesale nature of the institution means it avoids being in competition with existing providers of social investment capital. Rather it makes co-investments into these intermediaries. It has helped build the variety and capacity of intermediaries ultimately increasing the supply of capital to the social sector. Its operating guideposts reflect the stakeholders at the table:

- Make a financial return
- Make a social return
- Build the market for social investment

Big Society Capital targets impact across a range of social issues: housing and local facilities, communities, education, health and social care, employment and training, income and financial inclusion, family, friends and relationships, arts, heritage, sports and faith, conservation of the natural environment, and criminal justice.

Big Society Capital was capitalised with unclaimed funds from dormant bank accounts with money left untouched for 15 or more years. An additional investment of £200m was made by the Merlin Banks, (4 of the largest UK High Street banks). Dormant Bank Accounts remain a constantly replenishing supply of capital, (subject to government direction) as new accounts cross the 15-year old threshold to dormancy. This capital comes effectively at zero cost to Big Society Capital since no repayment is required and no interest is charged.

An independent governance structure has allowed Big Society Capital to pursue its mission of building the social investment market. This independence had significant benefits in regards to negotiations with the High Street Banks and has provided confidence for other investors and intermediaries to transact with Big Society Capital without risk of political or policy change to its mandate.

Figure 29: Structure of Big Society Capital



CLG = Company Limited by Guarantee, CLS = Company Limited by Shares

Source: Case Study of Big Society Capital, Daggars, J and Nicholls, A, Said Business School, Oxford University

The financial performance of Big Society Capital reflects several factors including: dynamics of a new market, the long duration of investments, a target of the most disadvantaged in the community [around 10% of the population]; a constrained mandate and the depth of its market championing activities. The banks have continued to support Big Society Capital through this initial period, although it has not yet returned a profit.

A key part of the principles for Big Society Capital, as a signal to the wider social investment market, is to show that it can be financially self-sustaining over time. Specifically, protecting its capital, and generating a sufficient return to cover its operating costs. The intention is to demonstrate to investors and investees that the principles of social investment work and can deliver social impact and sustainable financial returns over time.

Managing risk, return, impact and the goal of self-sufficiency has sometimes attracted criticism in the market around risk aversion at the expense of larger scale impact.

Key lessons have been applied to Impact Capital Australia

The mandate intended for Impact Capital Australia encompasses a broader mandate to avoid some of the constraints encountered by Big Society Capital and enable more flexible market reach to target potential impact and opportunities to target policy priorities and for scale. For example, a significant restriction on Big Society Capital's use of funds is that 'place-based' investing is precluded by the terms of the Dormant Bank Accounts Act. The Act also specifies that investments need to be in Social Sector Organisations, which precludes investment in a range of other structures, even where they could have significant impact. The design for Impact Capital Australia applies impact filters and screens to allow for greater focus on impact with more flexibility about the types of intermediaries and investments that can achieve it.

While Big Society Capital has developed an Outcomes Matrix (which captures a range of impact measurement across 10 outcome areas such as mental and physical health, employment etc), it does not engage directly on impact beyond its investee organisations. This creates challenges for measuring its ultimate impact. Impact Capital Australia has been designed to apply best of class impact management conventions and tools, which have developed in the years since Big Society Capital was formed. Impact Capital Australia is designed to measure attraction of private capital beyond the wholesale investment level, so the full leverage effect for Government and other partners is captured.

Another challenge for Big Society Capital initially was the large number of staff who came from finance rather than social sector backgrounds and lack of 'multi-lingual' team members. This created some cross-sector tension. Impact Capital Australia has been designed by a working group made up of community and financial sector senior leaders and practitioners of impact investment. The governance design, proposed executive team structure and proposed staffing reflects focus on financial, impact and market development

competence and rigour. This diverse experience set is intended to provide a strong foundation for cross-sector collaboration.

Big Society Capital has also entered into a number of small transactions (< £1m), largely as a function of its investment mandate. Deals of this size may have similar due diligence and transaction costs as those that are significantly larger. A core component of Impact Capital Australia's mission is to help drive the impact investing market in Australia to scale. Operationally, this implies deal size minimums well in excess of those of Big Society Capital, and notionally lower operating costs per dollar invested. This has also been factored into the scoping of potential pipeline for transactions.

FAQs - Impact Capital Australia

<p>What is Impact Capital Australia and what would it do?</p>	<p>Impact Capital Australia would be 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.</p> <p>Impact Capital Australia would have two roles: investor and market champion. The focus of Impact Capital Australia’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</p>
<p>Why is a wholesale function important?</p>	<p>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.</p>
<p>Who is behind the strategy for Impact Capital Australia?</p>	<p>Impact Capital Australia 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.</p>
<p>What is the goal?</p>	<p>The shared goal is to see the vision for Impact Capital Australia 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.</p>
<p>How would Impact Capital Australia be different?</p>	<p>Impact Capital Australia’s independence and focus on impact at scale would make Impact Capital Australia 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 Impact Capital Australia’s activity would be driven by the intention of impact, financial viability and market development.</p>

<p>How would Impact Capital Australia be structured and governed?</p>	<p>Impact Capital Australia would be a public company with its mission and mandate clearly embedded in its constitution and governance. It would have a high-performing, multidisciplinary board and leadership team. It would have a governance and accountability framework that ensure it is independent, effective, inclusive, transparent and compliant.</p>
<p>How much capital would Impact Capital Australia need and where would it come from?</p>	<p>Impact Capital Australia 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.</p> <p>Where the capital comes from will matter. It is anticipated the capital to establish Impact Capital Australia will come from governments (50%) and financial institutions (40%). Some capital could also come from established social sector organisations and philanthropy (10%). The presence of government and the banking sector would send powerful signals in the market.</p>
<p>Who would benefit?</p>	<p>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 Impact Capital Australia 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.</p>
<p>Why do this now?</p>	<p>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 the Blueprint for ICA into a market reality.</p>