



Delivering on Impact

The Australian Advisory Board Breakthrough
Strategy to Catalyse Impact Investment





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ISBN Print: 978-0-9925906-0-4

ISBN PDF: 978-0-9925906-1-1

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Disclaimer

This Report has been developed by Impact Investing Australia 2014 Ltd on behalf of the Australian Advisory Board to the Social Impact Investment Taskforce, established by the G8 in 2013. The views expressed represent a consensus view of the Australian Advisory Board informed by consultation with practitioners and stakeholders, research relating to the Australian and global context, and collaboration with the National Advisory Boards of other countries participating in the Social Impact Investment Taskforce. Views expressed do not reflect views of individual members of the Social Impact Investment Taskforce, Australian Advisory Board, or other National Advisory Boards. Members of the Australian Advisory Board have participated in a personal capacity and no views expressed here represent a view or position of the organisations they represent or in which they hold positions. Nothing in this report should be construed as financial or other expert advice. Any errors or omissions are the responsibility of Impact Investing Australia 2014 Ltd and the authors.

Delivering on Impact

The Australian Advisory Board Breakthrough
Strategy to Catalyse Impact Investment

September 2014



Letter to Chair of the Social Impact Investment Taskforce

15 September 2014

Dear Sir Ronald,

Thank you for inviting Australia to participate as an observer to the Social Impact Investment Taskforce. This is an extraordinary opportunity to participate at the vanguard of efforts to catalyse a global market for investment with potential to create transformational benefit for society.

The galvanising effect of your leadership and the Taskforce effort enables us to mobilise those active in the field in Australia, and others who would like to be. We witness the energy and commitment of those responding to the call to action globally. This is echoed in Australia as leaders come to understand the magnitude, momentum, and potential impact of this effort.

I am privileged to lead the dynamic Australian (National) Advisory Board which brings together leading practitioners in impact investment with leaders from across sectors including philanthropy, the community sector, banking, and fiduciary investment institutions.

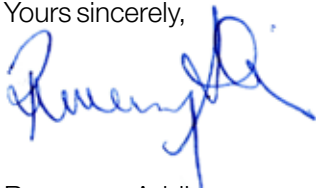
We share your high expectations and optimism for Australia's contribution, and look forward to Australia realising its potential as a global player in this promising market. We are confident of the significant potential to create value and benefit, not only for our communities and economy, but also for the countries in our Asia-Pacific region, home to over two thirds (800 million) of the world's poor.

Our work is informed by the insights of many. We are grateful to those who continue to share their time and experience to inform the work of the Advisory Board. From entrepreneurs working at the cutting edge, to community organisations, intermediaries, and financial and research institutions, they paint for us a pragmatic, vibrant, and dynamic picture of the strengths and challenges of the existing environment for impact investment, as well as its possible future.

This report includes the breakthrough Australian Strategy that the Advisory Board has agreed to lead, with the objective of creating a step change in the market in the short term. It combines leadership and breakthrough actions with a focus on policy. The intention is to bring focused attention to the field and drive delivery of actions that we believe will move the market forward to the benefit of society.

We look forward to contributing what we learn on the next stage of this dynamic journey to the broader global effort.

Yours sincerely,



Rosemary Addis
Chair, Australian Advisory Board

















“ Having recently spent time overseas including attending conferences and meetings on impact investing, has very much informed my view about the significance of the work and contribution of the Australian Advisory Board on Impact Investing. It is a very exciting and gratifying project to be involved with.”

Carol Schwartz AM, Trawalla Foundation, August 2014

The Australian Advisory Board on Impact Investing

Australia's contribution to the international effort led by the Social Impact Investment Taskforce established by the G8, and the Australian Strategy set forth in this report, is led by the Australian Advisory Board on Impact Investing, whose membership includes some of Australia's most experienced leaders in impact investment, from across the business, finance, philanthropy, social enterprise, and community sectors.

The Australian Advisory Board on Impact Investing

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

* On leave for duration of the Financial System Inquiry 2014

* January–July 2014

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“ This Taskforce is becoming the international vanguard of the revolution...More than 200 able figures are engaged across the G8, Australia and the EU, focused on establishing impact investment as a powerful force in each country ”

Sir Ronald Cohen, Chair, Social Impact Investment Taskforce, 2014



Foreword: An Opportunity to Break Through

In June 2013, The Honourable David Cameron MP, UK Prime Minister, announced as Chair of the G8, the launch of an independent Social Impact Investment Taskforce with a remit to catalyse a global market for investments that intentionally deliver social benefit. Australia was invited to participate in this global effort.

The Taskforce process and international leadership it has galvanised, enlivens a shared ambition across geographies and sectors to transform the way we use capital and investment to enable more innovative and effective approaches that tackle pressing social issues and create economic opportunity. The work undertaken since June 2013 highlights that many of the opportunities and challenges in growing the field of impact investment are common across countries, even if solutions need to be designed for local context.

Australia is already taking a place at the forefront of this growing global momentum, positioning us to lead action and delivery – locally, regionally, and beyond. We have a great contribution to make to this momentum, with our mature asset markets and financial services community, significant social sector, and generous egalitarian spirit.

This Australian Strategy is intended to catalyse a step change in the impact investment market in and from Australia. This report contributes to the global context by providing an overview of the field in Australia. It supports the Social Impact Investment Taskforce's goal of catalysing a global market by setting out a strategy with clear leadership and concrete actions.

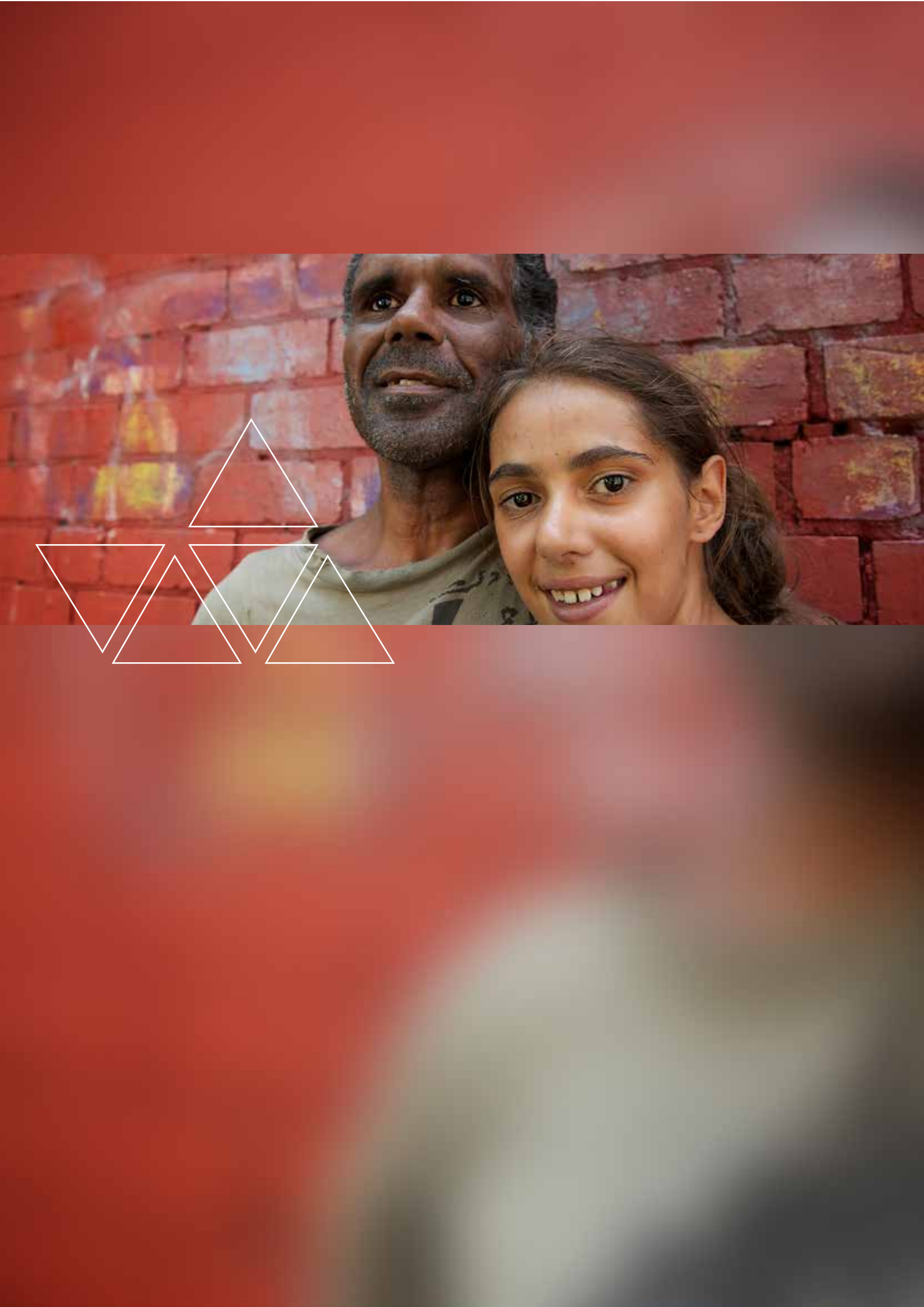
The Strategy has been developed with the Australian Advisory Board, in consultation with stakeholders in the field in Australia, and incorporates lessons from other countries, in particular the work of National Advisory Boards to the Social Impact Investment Taskforce. It builds on the contributions of pioneering leaders in impact investment, as well as reports of the Australian Productivity Commission (2010), Senate Economics References Committee (2011), and IMPACT-Australia: Investment for social and economic benefit (2013).

This is not just another report. It is the launch of an ambitious, dynamic program of activity to accelerate and deliver impact, and invites you to be part of building this impact investing market. Together, we can demonstrate the possibility and effectiveness of employing financial innovation to improve our society.

You can resist an invading army; you cannot resist an idea whose time has come.

Victor Hugo







Executive Summary

There has been a shift. It is evident in Australia, and across continents and political systems. It goes deeper than debates about market mechanisms, for-profit or not-for-profit, and public or private. At its heart is the question of how we improve our society by delivering better outcomes to even the most difficult and pressing issues affecting society. Those at the vanguard of this shift recognise that governments cannot afford to meet all of the growing demand for social services, and that philanthropy and generosity are insufficient to fill the gap. They ask whether we can really accept that the answer is to leave many in our society behind, or whether there is an opportunity to bring more effective approaches into play and deliver better outcomes by focusing more on innovation and prevention.

In Australia, the glass is more than half full. In relative terms we are prosperous and most people have a reasonable standard of living with access to services. But life is not good for everyone. Outcomes for some people experiencing disadvantage have not improved in some time (Productivity Commission 2013). Over the decade to 2012–2013, Australian government spending grew by 45.2%, compared with GDP growth of 34.3% (Grattan Institute 2014). The gap between demand for services, and what governments can provide is estimated to reach US\$54 billion or 3% of GDP by 2025 (Accenture & Oxford Economics 2012). This puts squarely in frame the question:

What sort of Australia do we want? Do we want to build one that provides the coming generations with the opportunities and the lifestyle that many of us have enjoyed, or do we not particularly care? Do we accept that we can plan a better future than we might otherwise have?... The need to move is illustrated by some simple facts of life: there is no entitlement to a particular future; there will be no free ride on the back of the accomplishments of the rest of world; or on the back of our own resources.

Ian Chubb, Chief Scientist, 2013

This call was for strengthening education, new knowledge, innovation, and influence – underpinned by the sciences and mathematics. It is equally applicable to social issues. Also with over 800 million people in the Asia Pacific living on less than US\$1.25 per day, it applies for the broader region in which we live, and our role in it (DFAT 2014).



To be sustainable, economic growth must be constantly nourished by the fruits of human development such as improvements in workers' knowledge and skills along with opportunities for their efficient use: more and better jobs, better conditions for new businesses to grow, and greater democracy at all levels of decision making... Slow human development can put an end to fast economic growth... According to the Human Development Report 1996, "during 1960-1992 not a single country succeeded in moving from lopsided development with slow human development and rapid growth to a virtuous circle in which human development and growth can become mutually reinforcing."

Soubbotina and Sheram, World Bank 2000

The shifts already occurring signal great promise – inviting us to imagine finance that could be put to work not only to secure a strong economic future, but also to build strong communities and tackle persistent issues that have a cost to society, and that prevent many from reaching their potential. This finance could, for example, support innovations that create quality jobs, and improve access to health, education, and other viable services.

Impact investing is emerging globally as a means of expanding the types and amount of capital available for tackling social issues. It is proving to be a powerful tool to bring different combinations of people, ideas, and resources to tackle difficult social issues and enable successful solutions to achieve scale. Impact investment solutions are already being used to finance initiatives in aged care, health, social housing, education, clean water and sanitation, financial inclusion, and sustainable agriculture and development.

In the global arena, the work of the Social Impact Investment Taskforce highlights significant potential across a range of geographies, political systems and social issues. Estimates for growth in this global market range from US\$500 billion to US\$1 trillion in a decade (Monitor Institute 2009; JP Morgan & GIIIN 2014). Activity across the globe is demonstrating momentum:

- The UK Government has announced further market development including tax incentives for social impact investments;
- A Social Investment Taskforce has launched in Brazil, and new funds and enterprises are emerging across Latin, Central and South America;
- The European Commission is calling on member states to prioritise social investment and modernise their welfare states, and is supporting this through the European Social Fund;



- A Global Learning Exchange launched in June 2013 is engaging people and organisations across sectors in over 120 countries;
- The Vatican hosted a social impact investment forum with His Holiness Pope Francis calling on governments across the world to use finance to promote social-economic inclusion;
- Hundreds of delegates have attended impact investment forums in Bangalore, South Africa, Peru, Brazil, Hong Kong, Singapore and South Korea.

The latest JP Morgan and Global Impact Investment Network (GIIN) survey of impact investing organisations reported US\$46 billion in impact investments under management across the 125 survey participants, a 10% growth in capital committed between 2012 and 2013, and a 20% growth in the number of deals. Also, the survey found investors planned to increase their investments by 19% between 2013 and 2014, from US\$10.6 billion to US\$12.7 billion (JP Morgan & GIIN 2014).

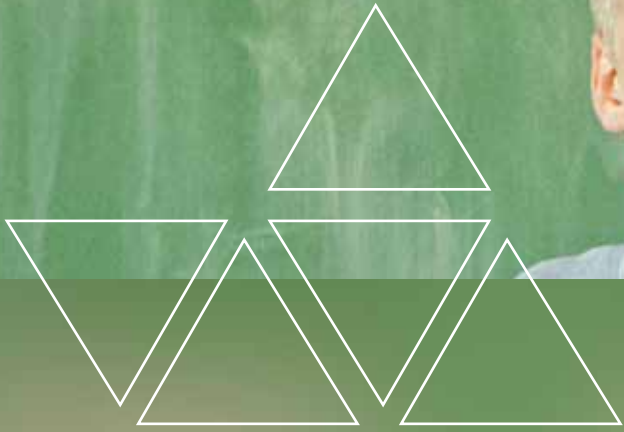
Impact investing is happening in Australia. Best available estimates are that the domestic market could reach A\$32 billion in a decade (IMPACT-Australia 2013). While there is little reliable bottom up data, intermediaries in Australia report an increase in the number and size of transactions, and a number of institutions have begun making allocations to impact investment (Sector Consultation 2014; research undertaken for Australian Advisory Board 2014). International surveys project growth of impact investment into East and South East Asia, with 25% of respondents, mainly from the US and Europe, intending to increase their impact investments into these regions in the coming year (JP Morgan & GIIN 2014; figures exclude Oceania).

There is a clear opportunity to build on existing demonstrations that impact investments can be made successfully in and from Australia. The foundations are strong: our long history of cooperatives and local enterprise; significant achievements of the not-for-profit sector (Productivity Commission 2010); a growing and dynamic movement of social purpose enterprises; as well as robust and significant capital markets that include some of the largest pools of long term institutional capital managed by fiduciaries in the world. Delivering on impact will involve these and many more participants; some already active, others yet to be inspired or enabled. Achieving this will require us to work together, be pragmatic, cut through, and collaborate.

The Australian Strategy set forth here builds on the leadership, innovation, and diversity that is already demonstrated locally. It is, by definition, living and dynamic, adaptive and opportunistic in response to developments. It is designed to amplify the terrific work already underway, and open up opportunities for many more contributions. Australia is on its way to developing a vigorous and responsive impact investing sector.

The time for a step change in the impact investing market in and from Australia – is now.





“ Social impact investing is crucial to the challenge of finding new ways to create public value. I am delighted that governments are coming to realise the benefit of innovations - such as the Social Benefit Bonds in NSW. ”

Professor Peter Shergold AC, Chancellor,
University of Western Sydney

What and Why of Impact Investing


Impact investments intentionally target specific societal objectives along with a financial return and measure the achievement of both (Social Impact Investment Taskforce 2014). Throughout this report we use social and societal, to embrace social, environmental and cultural issues and impacts.

International experience shows that impact investment does not need to be a trade-off between social and financial return. Employed effectively, impact investment opens up additional dimensions to approaching investment and tackling societal issues, with the potential to unite a field of practice and create new value.

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... 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.

IMPACT-Australia, 2013

Impact investment is emerging from existing institutional contexts including established capital markets and philanthropic traditions. However, there are factors that limit what can be achieved by these established sectors without a more focused effort that develops the conditions for impact investment to thrive. The private market alone does not fully promote investments with societal benefits. Public procurement and commissioning often does not deliver effective outcomes, encourage contestability of ideas and services, or promote prevention. The social sector is rarely financed for capacity and scale. A growing spectrum of ways in which private organisations can deliver public goods, are challenging established systems for delivering, funding, and financing social purpose (Eggers and Macmillan 2013).



Impact Investing is a multi-stakeholder issue. It engages governments as impact investments offer opportunities for more efficient delivery of public services. It engages civil society, from the non-profits that design and implement projects to individual recipients of social programmes. And it involves businesses, ranging from entrepreneurs and lawyers to consultants and investors. Clearly, for impact investing to reach its potential, it must be considered from the perspective of all stakeholders.

World Economic Forum, 2013

Those different stakeholders benefit in a range of ways from impact investment:

- 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 also 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.

The ideas and practices behind impact investing are not all new. 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.

Globally, impact investing is having a positive effect across sectors, industries and issues, from housing, early learning, employment, financial inclusion, international development and health care, to homelessness. These transactions reach all classes of investment. In Australia, much has been achieved by early adopters and pioneering leaders. When you scratch the surface, there is a dynamic range of transactions of different sizes and characteristics evident and emerging across the Australian landscape.

Impact investments track many of the existing asset classes in financial markets, including cash, fixed interest, infrastructure and alternative assets... There is also a growing interest in the use of new ‘hybrid’ mechanisms by government and philanthropy... Impact investments can be flexible.

Australian Department of Employment, 2013

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.





“ To really unlock the potential we need to see social investment as a viable asset allocation alternative for the largest pools of capital in the world.”

Stephen Fitzgerald, Future Fund, August 2014



Satisfying our Appetite for Impact Investing

The current opportunity, globally and locally, is to catalyse a step change in the market. Australia's political, economic and social landscape provides a backdrop to this Australian Strategy, showcasing the particular opportunities for leadership and scale.

What's interesting about Australia is you've got a set of cultural values and institutional forces that make the country very ripe for tackling social issues. So I think Australia should become one of the leading countries in the impact investment space.


Sir Ronald Cohen, Chair, Social Impact Investment Taskforce, May 2014

Our Relative Context

In relative terms, we have a strong culture of egalitarianism and performance and Australians are generous. While Australia has fared relatively well through the economic turmoil of the past half-decade, there are pockets of entrenched disadvantage. The picture is especially stark among indigenous communities, people with disabilities, the homeless, aged, and long-term unemployed. The Productivity Commission (2013) estimates that more than 1 in 10 Australians are income poor in relative terms, with 17% of adults experiencing multiple deprivation. Those affected by disadvantage tend to be left further behind. Sectors from manufacturing to social service providers and the public sector, are facing structural adjustment and reduced resources.

The largest areas of social expenditure have been steadily growing, prompting a number of reviews. The two largest for the Federal Government, welfare and health, are expected to make up 52% of the Federal Budget by 2018 (Federal Budget 2014). Welfare alone accounted for A\$119.4 billion across governments in 2010–2011, and has grown 34% over the past decade; some 75% of this demand requires cash payments. Health accounted for A\$97.9 billion in combined government spending between 2011 and 2012, and increased by 76% over the past decade (Australian Institute of Health & Welfare 2013).

Our federal system also influences the political and policy environment that determines how services are provided and funded. Different levels of government have flexibility



to test and develop approaches suitable for local contexts. However, they also have different constitutional responsibilities. Australia has a marked level of vertical fiscal imbalance which means most taxation revenues flow to the Federal Government. The combination of these two features contributes to an intergovernmental dynamic that blurs the lines of responsibility for key issues including health and education. However, there is also scope for individual jurisdictions to take policy leadership in areas within their remit.

We have robust and well-governed institutions (Financial System Inquiry 2014; Super System Review 2010). The financial sector is mature, and beyond the banking sector, has one of the largest pools of long term capital managed by fiduciaries in the world, partly as a function of our system of compulsory retirement savings. Recent benchmark data points to rising public demand for responsible investment (RIAA 2014).

Impact investment is attracting a strongly growing interest across the Australian investment industry. From the largest of institutional asset owners through to high net worth individuals, we are seeing emerging interests from all levels. In the last year we've witnessed intention turning into action, as capital has started flowing into impact products and strategies at a growing rate... We now have super funds making allocations to impact assets, and through these investments, driving positive social impacts whilst also adding strong performing, and often counter cyclical assets, to their portfolios.

Simon O'Connor, Chief Executive, Responsible Investment Association Australasia (RIAA), August 2014

Philanthropic giving is an established tradition (Giving Australia 2005; McLeod 2012) While in relative global terms the pools of philanthropic capital are small, they are material and growing (Philanthropy Australia 2014; Productivity Commission 2010; Hudson Institute 2013). There are an estimated 5,000 foundations that give between A\$500 million – A\$1 billion each year, over 1,000 of which are estimated to be private ancillary funds with combined assets of around A\$3 billion (ATO 2014; McGregor-Lowndes 2014; McLeod 2013). In 2006, Australia joined the top ten countries for absolute numbers of High Net Worth Individuals. Philanthropic contributions represent approximately one-third of Australia's net development assistance, which in 2011 translated to approximately US\$4.99 billion (Hudson Institute 2013).

Member-owned mutuals and cooperatives in Australia play a material role with an estimated A\$17.8 billion in assets (2012). In 2013, around 71 public service mutuals delivered approximately A\$2 billion in public services, and employed 35,000 people.




Eighty percent of adult Australians are reported to be members of a mutual or cooperative of some kind. The number and variety of these organisations in Australia provide underpinnings for renewed growth in social and community enterprises (Net Balance & Business Council of Co-operatives and Mutuals 2014).

Australia's social sector is diverse, established, and economically significant. The most recent Satellite Accounts (non-profit) prepared by the Australian Bureau of Statistics indicate that the non-profit sector as a whole has grown from A\$32.6 billion in 2006–07, to A\$54.8 billion in 2012–13 on a National Accounts Basis, and that the sector now employs over a million people. Of that, social services and health (excluding hospitals) were two of the most significant areas of growth, with increases of 83% and 99.4%, respectively.

Government is a significant funder of the non-profit sector. Government funding to market and non-market non-profit institutions accounted for A\$40.9 billion in 2012–13. Of this, A\$11.8 billion went to social service organisations, representing 61% of their income; A\$7.05 billion went to the health sector (excluding hospitals), representing 69% of their income (ABS 2014). Care is always required when comparing data over time – for example, where changes in methodology may affect results. However, the trend towards growth, the economic contribution of key social services and the consequent implications for government budgets is obvious. Labour market projections indicate the sector is poised for further growth, with health care and social assistance expected to make the largest contribution, adding over 225,000 jobs by 2018 (Australian Department of Employment 2014).

Data on the extent and diversity of Australia's social enterprise sector is limited. The most current research from 2010 suggested that social enterprise in Australia is mature, diverse, innovative and sustainable; and estimated the number of active social enterprises at over 20,000 (Barakett et al. 2010). Entrepreneurs, incubators and investment funds report growing and more diverse activity, evidenced by demand for programs by the School for Social Entrepreneurs, the Difference Incubator, the Australian Centre for Social Innovation and the Crunch (Sector Consultation 2014; research undertaken for Australian Advisory Board 2014).

New organisations that combine social purpose and profit are also calling themselves out in the Australian and global landscape. This movement, which is redefining business success to include societal impacts, represents 1,063 corporations in 34 countries across 60 industries. B-Corporations are a prime example of this. B-Corp Australia, launched in August 2014, is making promising strides to advocate building 'blended value' enterprises, as well as regulatory change.



B Corporation certification is our stamp to the community, to the business world, that we are doing things in a different way; that we believe in different approaches to business and to conducting a business; that we value engagement with stakeholders; that we value best-in-class governance practices; that we value social procurement and environmental policies; that we believe that each of those measures does have an impact on the world.

Alicia Darvall, Executive Director, B-Lab Australia and New Zealand, August 2014

Since December 2012, 45 Australian companies have achieved certification as Benefit Corporations (B-Corporation 2014).

We also have unique geographic and financial links with the Asia-Pacific region, and a renewed focus on our contribution to the region and its importance for our economic future.

Asia's extraordinary ascent has already changed the Australian economy, society and strategic environment. The scale and pace of the change still to come mean Australia is entering a truly transformative period in our history... The Asian century is an Australian opportunity. As the global centre of gravity shifts to our region, the tyranny of distance is being replaced by the prospects of proximity. Australia is located in the right place at the right time—in the Asian region in the Asian century.

Australia in the Asian Century, White Paper, 2013

This context provides Australia with strong foundations on which to build the field of impact investment, and informs the relative strengths and challenges for growth as highlighted in the following sections.

State of Play: Impact Investing in Australia

Impact investing is occurring in Australia. Hubs of activity have been emerging over some years and are becoming more visible as they gain mass. Initiatives led out of Australia including Leapfrog Investments, Barefoot Power, GoodStart Early Learning, and the NSW Social Benefit Bonds have gone beyond demonstrating what can be done, gaining recognition as flagships globally. Examples of impact investments already span market segments (Figure 1). They include a range of financial instruments and investment



opportunities and have correspondingly varied investment return expectations and social impacts (Charlton et al. 2014).

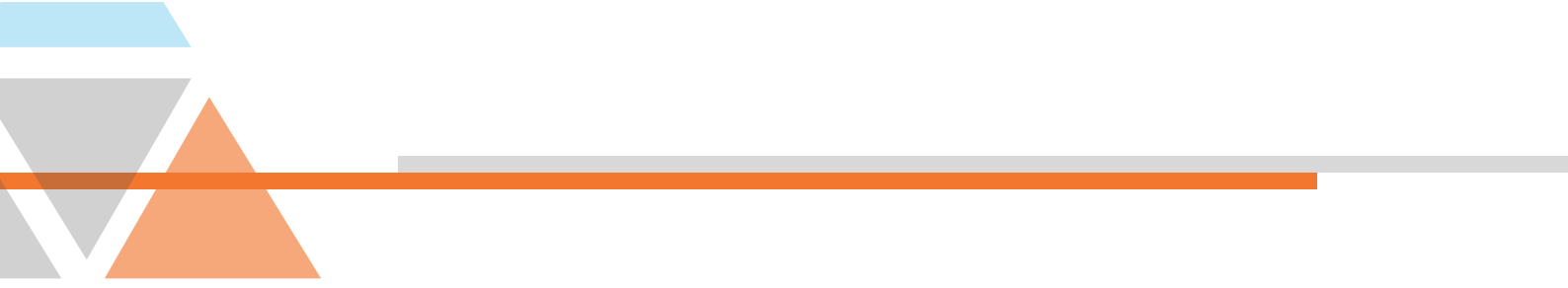
Figure 1: Examples of impact investing in the Australian market

Segment	Examples of Activity/Deals	Scale (\$A)
Arts & Cultural	<ul style="list-style-type: none"> ■ QuickstArt ■ Creative Enterprise Fund ■ Australian Chamber Orchestra Fund 	<ul style="list-style-type: none"> ■ \$100,000 ■ \$1 million ■ \$1.75 million
Environment	<ul style="list-style-type: none"> ■ bankmecu biodiversity investment ■ Southern Cross renewable energy fund ■ Hepburn Community Wind 	<ul style="list-style-type: none"> ■ \$200 million ■ \$12.5 million
Financial inclusion	<ul style="list-style-type: none"> ■ No interest loan schemes ■ NAB small business micro loans ■ Many Rivers local SME finance 	<ul style="list-style-type: none"> ■ Various
Social & Community Infrastructure	<ul style="list-style-type: none"> ■ National Rental Affordability Scheme (tax incentive; discontinued 2014) ■ Yackandandah Community Development ■ Chris O'Brien Life House cancer rehab ■ Social Investment Australia Property Fund #1 	<ul style="list-style-type: none"> ■ \$1 billion ■ \$552,000 ■ \$14 million
International	<ul style="list-style-type: none"> ■ Barefoot Power (further raising in progress) ■ Opportunity International ■ Microfinance initiatives 	<ul style="list-style-type: none"> ■ \$5.8 million
Social Enterprise NFP Finance	<ul style="list-style-type: none"> ■ STREAT ■ Social Enterprise Development Investment Funds ■ Social Enterprise Loans 	<ul style="list-style-type: none"> ■ \$300,000 ■ \$40.65 million ■ Various \$35,000 –\$1 million
Social Services	<ul style="list-style-type: none"> ■ Goodstart Early Learning ■ NSW SIBs 	<ul style="list-style-type: none"> ■ \$185 million ■ \$7 million & \$10 million

Source: *IMPACT-Australia 2013*

The pool of skilled professionals attracted to the sector continues to grow. Importantly, interest and action is growing across sectors, from philanthropy, to government, institutional investors, banks, and fund managers. This report is not a comprehensive overview of that activity. It is a call to action to follow and build on the example of pioneering leaders already active in the market, to create the next wave of growth and development.

Activity, momentum and engagement are building. Recent commitments such as global insurer QBE's allocation of A\$100 million over three years for social impact, add to the existing body of activity and commitments from a range of market participants including:



Christian Super, Local Government Super; banks including National Australia Bank, Westpac, and Bendigo & Adelaide Bank; community banks such as Bank mecu and Community Sector Bank; and private ancillary funds and family offices including the Trawalla Foundation, Donkey Wheel, McKinnon Family Foundation, and Small Giants.

We operate a global portfolio. There is a growing sense across countries that Social Impact Bonds have enormous potential. Rather than stand by and watch, we intend playing a leading role in bringing this opportunity to fruition globally. We are already building a portfolio of social impact assets and see it as an important part of our ongoing investment and community engagement strategy.

Gary Brader, Group Chief Investment Officer, QBE, August 2014

New intermediaries including Impact Investor Group and the Difference Incubator have joined existing practitioners ranging from Foresters Community Finance, Many Rivers, Social Enterprise Finance Australia, Small Giants and Social Ventures Australia.

Initiatives by governments at the state and federal level have generated interest and stimulated the market, engendering confidence and bringing new combinations of actors together. The A\$1 billion National Rental Affordability Scheme (NRAS), for example, stimulated significant new investment in affordable homes through tax incentives available between 2008 and 2014 (NRAS Australia 2014).

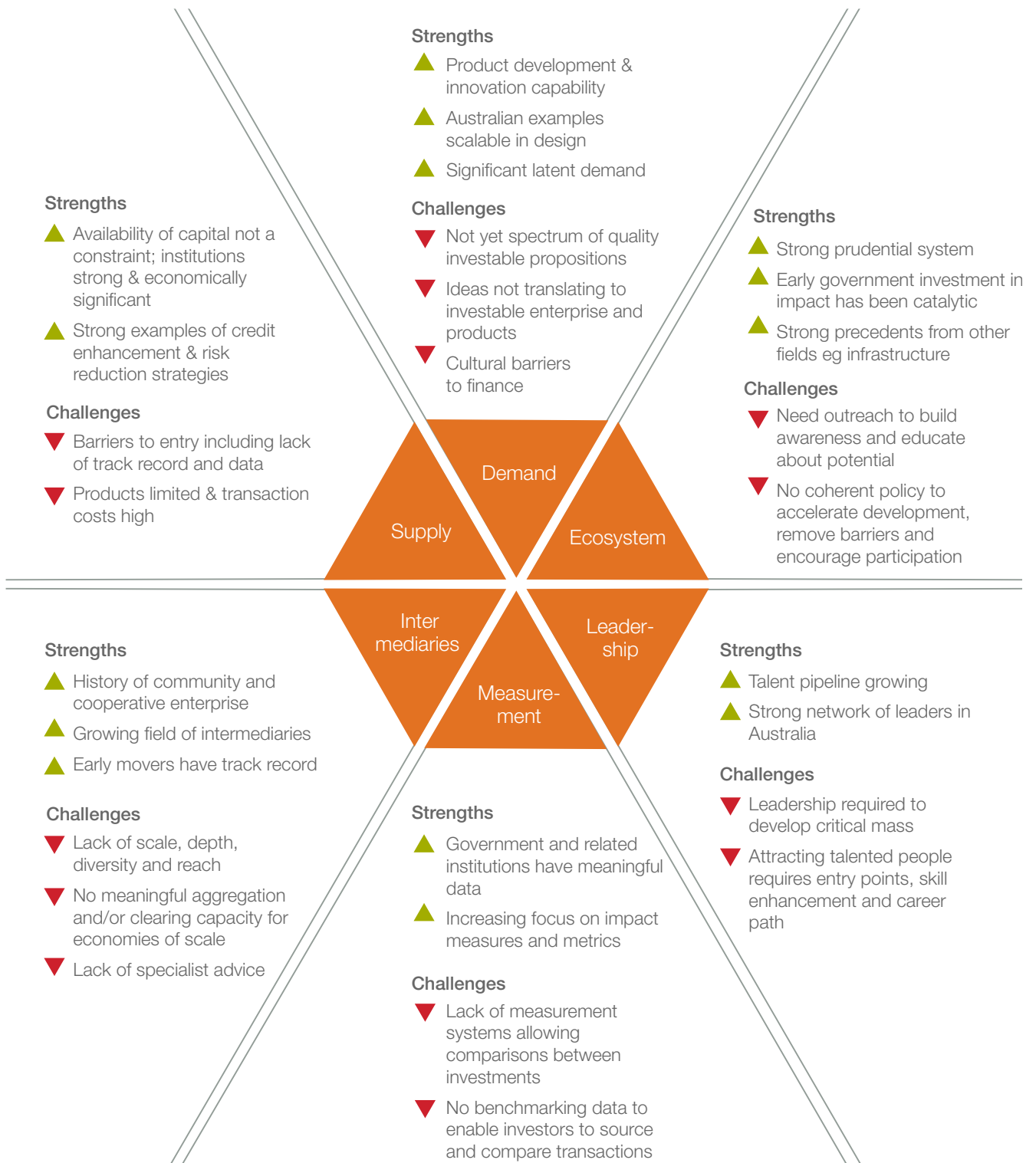
An A\$7.2 million Community Development Financial Institution (CDFI) pilot was initiated by the Australian Government in 2010, and extended in the 2014–15 Budget. This pilot is currently enabling Foresters Community Finance, Community Sector Banking, Fitzroy and Carlton Community Cooperative, and Fair Loans Foundation, to create alternatives to pay-day lending.

There are clear strengths to build on as we develop impact investing for Australia. There are also challenges that remain. We should not shy away from difficult questions such as ‘How do we build robust investment propositions with real social impact?’ These challenges reflect the work ahead. Figure 2 provides an overview of strengths and challenges for the field of impact investment in Australia.

The next wave of impact investment will be driven by quality ideas, enterprise and innovation, and availability of capital. Growth will be a function of both need and opportunity, matched by changing circumstances; an application of lessons learned and practices developing. We can accelerate development by: taking examples from other countries of what has worked and contextualise it for Australian conditions; intentionally seeking opportunities in the changing landscapes of the social and public sectors with increasing focus on efficiency and innovation; and stimulating a diverse and dynamic social purpose sector.



Figure 2: Strengths and challenges for developing impact investing in Australia





Drivers for Growth: Where Demand for Impact Investment will come from

Where will impact investment opportunities come from? How will we enliven the potential for new ways of working to achieve better societal outcomes and attract investment to them? Many social issues require more than money. Achieving robust impact investment propositions will require shifts in thinking and practice for both investors and outcome seekers.

At UnitingCare Queensland we are excited about impact investing and its potential for doing things differently in human services. As a large health and community services provider of the Uniting Church, we deliver a range of services across the continuum of care and to a wide range of client groups and settings. We are in an era of significant reform and we believe... we need to mirror our dynamic environment and be dynamic ourselves. For us this means looking and thinking outside the box and being prepared to try new ways of tackling some significant challenges. It also means exploring the growing appetite for investment that has both social and economic benefit. We look forward to working with new colleagues and partners as we work together to make more of a difference in people's lives.

Anne Cross, Chief Executive Officer, UnitingCare Queensland August 2014

There is reason for optimism that new approaches to areas of social need – expanding the diversity of social purpose organisations, increasing the capacity of the social sector, and encouraging new solutions and approaches to commissioning – will drive the next wave of demand for innovative finance (Productivity Commission 2010; IMPACT-Australia 2013).

Re-Imagining Outcomes

Shifts in thinking are affecting the future of social services, including public services. A hallmark of this is greater focus on measurable outcomes, and quality and accountability for results. That future is already here – *just not evenly distributed yet* (adapted from quote by William Ford Gibson).

Governments increasingly recognise that population growth and ageing demographics will continue to put pressure on service provision. Citizens' expectations of service delivery are also changing. People increasingly expect more connected, accessible services, greater access to information, and better results. Social services are expected to be significant areas of growth in coming years, highlighting their economic significance (Australian Government Department of Employment, 2014). Societal issues within

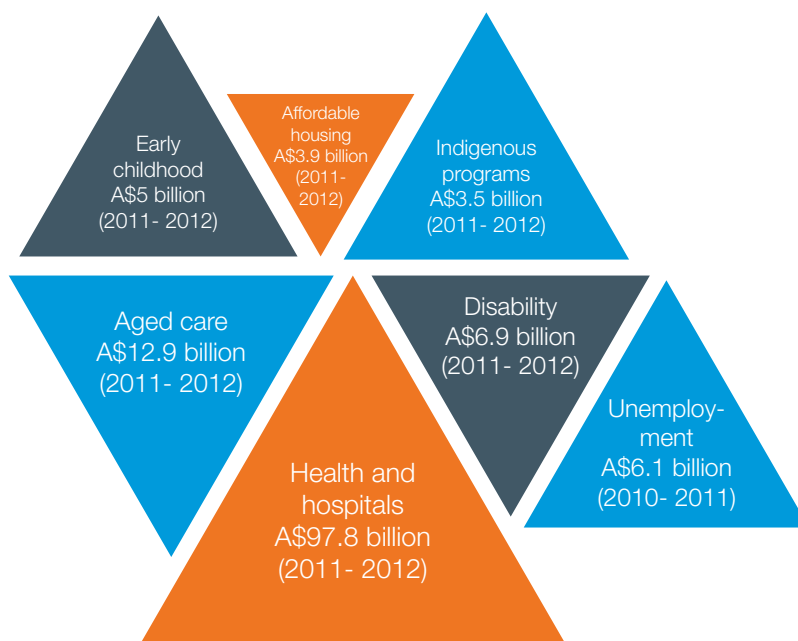


state and federal areas of responsibility (Figure 3), and in areas where they overlap, are contributing to budget pressures, and business as usual will neither meet the funding gap nor deliver better quality outcomes.

In addition to bringing renewed focus to what citizens need, these shifts are bringing clearer focus on quality and accountability for results for governments and service providers. They signal a move away from purchaser-provider models of contracting towards greater collaboration, re-positioning government as catalyst and aggregator of resources.


Figure 3: Areas of social need

A number of social issues stand out for scale of need



Source: Review of Government Services 2014; Australian Institute for Health and Welfare 2013





The public sector will increasingly act as a facilitator of services, rather than a direct provider, with all areas of service delivery opened to competition. Citizens in need of services will exercise control over the range of services they access and the means by which they are delivered.

Western Australia Economic Audit Committee, 2009

Governments are increasingly aware that new ways of working are required to achieve different results. There has been a wave of reviews on commissioning and efficacy of services, stimulating changes in the way governments engage and contract with the social sector and other service providers. Initiatives actively experimenting with different methods of commissioning and delivery include:

- The 2009 West Australian Economic Audit Committee Report, Putting the Public First, including contract reform;
- Recent changes in focus by the Queensland Government reflected in the Better Services for Queenslanders plan; Social Services Investment Framework 2014, emphasising payment by outcomes and better meeting citizens' needs;
- The NSW Government's Social Benefit Bonds demonstrating and testing capacity to deliver better outcomes for children and families, and greater efficiency in public spending through greater focus on outcomes and financial innovation;
- South Australia's 2013 consultation process on social impact investment, Building a Stronger Society, and related capacity development for public and social sector organisations;
- The Victorian Government Service Sector Reform project and appointment of the Social Sector Reform Council to improve ways in which government and the community sector work together to achieve better outcomes for vulnerable and disadvantaged Victorians;
- The Australian Capital Territory has taken steps in service delivery and community sector reform, including procurement and contracting reform intended to position government more as a catalyst and aggregator of resources, than a service delivery agent or purchaser; and
- Federal agencies from the Australian Taxation Office to Medicare and Centrelink, have been employing innovative design approaches working with citizens who use their services, to improve service delivery and outcomes.

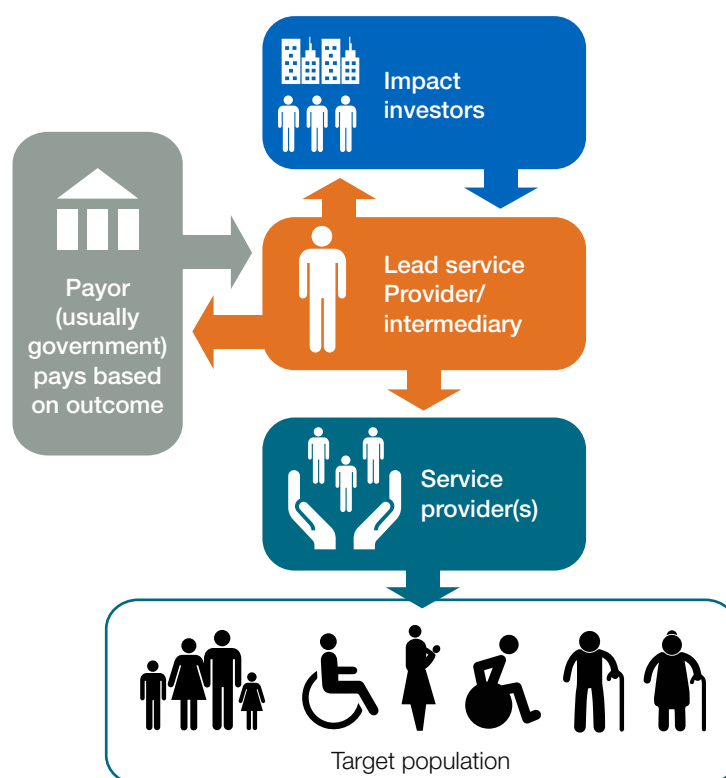
Governments across Australia procure around A\$41 billion in services from the non-profit sector, annually (ABS 2014; Productivity Commission 2010). Even a small proportion of that funding thoughtfully directed to different forms of procurement, including impact investment catalysts, could drive significant demand for innovative solutions and leverage additional private sector capital.



Good Beginnings sees the importance of linking with multiple stakeholders to tackle our most significant social issues. For our mission the starting point is to ask bold questions about how we change the system until it works for children. We are committed to linking our work with others, not just in theory but in practice, to reduce fragmentation and increase impact.

Jayne Meyer Tucker, CEO, Good Beginnings 2014

Figure 4: Social impact bonds: financial innovation linking social and financial performance



Source: Adapted from Australian Government, Department of Employment, Introduction to Social Impact Bonds 2013

Australia has already demonstrated the potential of social impact bonds (Figure 4) in our market. The NSW Social Benefit Bonds raised A\$7 million and A\$10 million respectively for the Benevolent Society and Newpin bonds, to provide support services, training and assistance, to help keep children out of child care protection systems, and safely with their families. The opportunity now is to nourish and support this move from government and the social sector away from inputs and outputs towards outcomes.



Enabling a Dynamic Social Sector with Appropriate Finance

The social sector is a dynamic and significant contributor to our social fabric and economy (Productivity Commission 2010). There is greater potential still if a shift can be facilitated away from grant dependence, programmatic funding, and commissioning – all of which drives organisations to go where the money is, rather than follow clear strategies for impact. Developing a broader mix of appropriate funding and financing options, and building the capability for organisations to utilise these to develop strategies for impact, target, and scale, could unlock much greater potential still.

There is tremendous potential that is not being realised in terms of investment into the not-for-profit sector and investment by the not-for-profit sector. The not-for-profit sector holds a lot of assets. How we best create that kind of better investment and better use of the resources that are actually going in there is at the heart of the kind of community we want to live in in the future... We need to think about how we finance our community priorities in terms of services at all levels.

David Crosbie, Chief Executive Officer, Community Council for Australia 2011

The Productivity Commission (2010) reflected that financially sustainable non-profit organisations with capacity to service debt should be able to access capital. The Commission noted that legal capacity of some not-for-profit organisations (e.g. associations in some jurisdictions) to raise capital, is not widely used. Further, on 2009 figures, surplus revenue accounted for over 60% of sector investment and debt capital only 15% of gross capital formation. Government funding for capital projects has been declining. The Commission found that short term, programmatic funding approaches constrain innovation and effectiveness, implying an opportunity to finance approaches that are more focused on impact and outcomes. All of these factors point to an opening to catalyse capital that builds capability for impact and scale within and for the non-profit sector, and foster more effective utilisation of the sector's balance sheet.

In addition to delivering clear community benefit, our investment in GoodStart has been a great financial success for us, and I am optimistic that our investments in both NSW Social Benefit Bonds will also prove successful. There is more risk getting on board early with impact investing, but there are attractive returns available to those who are willing to taking that risk.

Wendy Haigh, Chief Investment Officer, The Benevolent Society, August 2014

Change is occurring and early movers are already seeking more sustainable options to fund capital and operations to extend their positive impact in communities.

The Family Life Tootgarook Community House demonstrates how private capital can be used for measurable social outcomes with financial returns and minimal risk... Family Life is now focussed on how we can attract further private capital to invest in social innovations – both demonstration projects and proven evaluated programs... We see ourselves as helping grow the market for impact investing and are excited about the possibility of energising mission and money for social good.

Jo Cavanagh OAM, CEO, Family Life, August 2014

Significant structural changes including the National Disability Insurance Scheme, are bringing into sharp relief the necessity for different approaches to meet the need, as well as the opportunity to transform the lives of people with disabilities, and those who care for them. Work is already underway, led by the Summer Foundation and others, to demonstrate how impact investment could play a role here.

The expansion and increasing profile of the social enterprise sector, along with a broader range of social purpose organisations, also highlights fresh approaches to service delivery, more options for delivering business models with social impact, and a broader range of funding and financing options that target better outcomes.

Growth and (re)emergence of social purpose organisations is being supported by a growing range of initiatives including competitions, accelerator and incubator programs, and seed investments. New debt and equity finance specifically targeting this market has also increased, supported by organisations such as the Australian Centre for Social Innovation, the Difference Incubator, Foresters Community Finance, Small Giants, Social Enterprise Finance Australia, Social Traders, and Social Ventures Australia. A growing body of social enterprises and profit with purpose entities also need appropriate finance that meets their needs at various stages of development and growth. Although hard data on the size of this sector is difficult to come by, intermediaries brokering deals and offering finance all report increased volume of demand.

Increasing Economic Opportunity and Infrastructure for Communities

Community investment has significant scope to develop further in Australia (Productivity Commission 2010; Burkett 2012). Impact investment has a role to play to direct capital and economic activity for the benefit of communities. Communities where manufacturing and industry are withdrawing, are examples of where alternatives investment approaches could stimulate economic activity, generate jobs and avoid a cycle of decline through new investment (Figure 5). For other communities, new approaches can reverse longer-term cycles of decline and under-investment.

Figure 5: Community investment reversing cycles of decline



Source: Adapted from Burkett Place Based Impact Investment in Australia, 2012

The Productivity Commission (2010) considered the significant contribution community investment, and community development finance institutions in particular, had made in other countries, and indicated a strong case to encourage such activity in Australia. The Senate Economics References Committee (2011) also recommended this potential be explored for Australia.





One area of potential growth is developing community amenities through social infrastructure: that is, financing for schools, hospitals, aged care, and housing, that better meets the needs of communities and those using and working in the facilities, as well as providing investment potential.

In Australia, the discussion on private capital involvement in infrastructure has largely centred around the roads, rails and airports. However, it is becoming increasingly apparent that there are incredible opportunities for private capital to take a more active role in delivering social infrastructure and services that are traditionally provided and funded by the government and non-profit sector alone in areas such as aged care, health, affordable housing, education and indigenous community development.

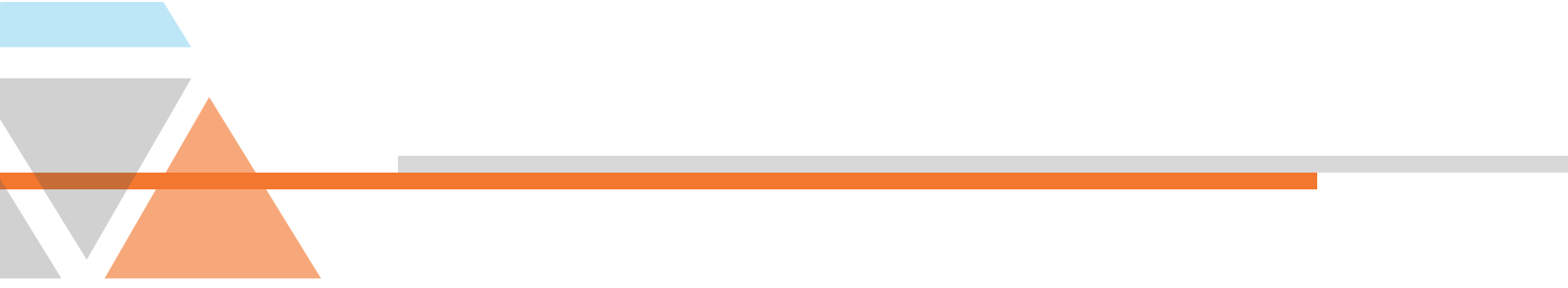
Simba Marekera, Christian Super, 2012

In some cases, public-private partnerships have been extended to these projects and there is willing capital in Australia. There is significant potential to further unlock capital and improve outcomes and alternatives for service provision where interested parties can come together on appropriate terms. This is not simply about contractual relationships or privatisation of public services. It is part of a broader shift in how we meet the needs of citizens and communities.

Growing New Markets and Alleviating Poverty

Progress has already been made in the realignment from aid to investment in international development programs, especially in countries to which Australia often looks to benchmark its progress, such as the UK and USA. The shift reflects a focus on building local capacity and promoting sustainable development in emergent economies; as well an opportunity to facilitate entry points for growth markets and trade connections.

While the proportion of people living in poverty in the Asia Pacific region has fallen in recent years, the majority of the world's poor still live in that region (DFAT 2013). This is an area where we can have an important impact not only through aid but by investing in the future of our region in ways that enable those communities to thrive.



The dominant story that we are told about poverty is that these people live hand-to-mouth – a storyline that leads us to treat people as passive beneficiaries rather than agents. In fact, 85% of low-income people are emerging consumers, willing and able to pay for essential products and services, if only offered, to help them to rise out of poverty and into the middle class.

Leapfrog Investments, 2013

Around 70% of impact assets under management by the respondents to the latest JP Morgan and GIIN survey are invested in developing markets. Over 25% of those respondents indicated that they intend to increase investments into East and South East Asia. Notably, 80% of that capital was in funds headquartered in North America or Europe (JP Morgan & GIIN 2014). There is significant potential to grow Australia's contribution to these markets.

We have been actively involved in high-quality impact businesses across India, Indonesia, Philippines, China and Australia in sectors including financial inclusion, affordable healthcare, renewable energy, education and agriculture and have arranged capital to finance over 50 of them. We anticipate the interest from Australian investors will gather pace as the awareness of impact investment increases and the pipeline of investment-ready impact businesses across the Asian region yielding financial and social returns and offering portfolio diversification continues to grow. We are very keen to see this and grow participation by Australian investors significantly beyond their very small participation, less than 0.25%, in the US\$1 billion in capital we have raised over the past six years.

Kylie Charlton, Unitus Capital, August 2014

There is significant potential to grow our contribution to regional economic development, and in the process cultivate new markets for exports, and increase trade connections between Australia and its neighbours.

* * * * *

Across these areas of potential, existing impact investments demonstrate models that could be replicated, adapted, and scaled for broader impact. For example, lessons from Leapfrog Investment's success can inform other approaches to financial



inclusion. Goodstart Early Learning can inform approaches to forming and financing social enterprises at scale, in situations where there is growing demand for services, policy reform priority, property assets and a reliable government revenue stream to services (perhaps aged care or affordable housing). The UnitingCare Burnside Newpin and Benevolent Society Social Benefit Bonds can inform additional social impact and development impact bond models. Team Wild, StrEAT and other transactions, demonstrate how equity and debt can both be used to finance growth of social enterprise.

These examples and more have already inspired those locally and in other countries to experiment, innovate and act. They provide lessons for those building new approaches to social issues and those who seek to finance their efforts.

Growing Available Capital for Impact: Where Supply of Impact Investment will come from

New ways of tackling societal issues can be matched with opportunities for financial innovations to finance them. A range of sources of capital can be harnessed through appropriate channels and financial products to meet the needs of those seeking better outcomes and building social purpose organisations. This finance can be unlocked from a range of market participants – indeed they have complementary contributions to make to grow the field.

Catalysing Growth and Innovation: Philanthropy's Opportunity

Australia's philanthropic community has a rich contribution to make and has demonstrated willingness to participate as early investors in Goodstart Early Learning, the NSW Social Benefit Bonds, and creative transactions like StrEAT equity raisings.

Social investment is effective... it allows for coherency between mission and investments and can potentially be a more sustainable, longer term solution to social issues.

John McKinnon, Social Investor and Philanthropist, August 2014

Both the Productivity Commission (2010) and Senate Economics References Committee (2011) identified the corpus of philanthropic funds, including Philanthropic Ancillary Funds (PAFs), as a potential source of capital for impact investing, highlighting that if even 5% of the corpus of philanthropic corpus were mobilised, this would provide significant revenues for social purpose (Productivity Commission 2010).

There is a marked shift taking place in the Australian philanthropic sector. More and more, our members are augmenting their granting through impact investing, and recognising the important leadership role philanthropy can play in catalysing the impact investing market.

Louise Walsh, CEO, Philanthropy Australia, August 2014

Current incentives for giving are generous, but narrow, and Australia could benefit from more structured permissive regimes similar to the mission and program related investment protocols that apply in the United States. However, recent research for the Australian context indicates that there is already scope for many philanthropic bodies in Australia to make impact investments (Charlton et al. 2014).

This tremendous potential for philanthropy to play a key role in developing the market applies to both the domestic and regional market.

In East Asia and the Pacific there is more than [US]\$10 trillion in combined assets among high net worth individuals in the region. Mobilising even just 1% of that through impact investment could make a tremendous difference to the hundreds of millions who lack access to education, clean water and health care.

Dr Judith Rodin, CEO, Rockefeller Foundation, June 2013

Early movers who provide risk capital can bring other investors to the table. They can use grant funding to 'prime the pump' for market building and sector development (GIIN 2013; UK Cabinet Office 2013; Impact Assets 2013). International examples point to significant opportunities for these investors to punch well above their weight with even modest investments that encourage others to participate.

Building on the Strength of our Financial Markets

Australia has significant financial resources at its disposal. In addition to being stable and prudentially sound, the financial system plays a role in catalysing new markets, enterprise and innovation, meeting the capital needs of organisations of different sizes and stages of development, and operating in different sectors. Developments in impact investing are relevant not only because of the global nature of financial markets, but also because they point to opportunities for the financial system in Australia to maximise value creation while meeting the needs of society.

Our strong banking sector is already contributing to impact in a range of ways including non-profit finance and financial inclusion, but has only begun to realise the potential for



new product offerings to the retail customer base, and for new market opportunities like community development finance.

There is a fundamental shift underway to address the challenges facing Australia in the future. We know that strong leadership and vision is required to build the necessary social infrastructure for our people and communities to prosper. NAB is proud to have contributed to this report and we are committed to developing the impact investment market in Australia and globally.

Steve Lambert, Executive General Manager, Debt Markets, National Australia Bank, 2014

The unique positioning and volume of fiduciary managed funds in Australia also points to opportunities to better align investment strategies with members' interests in investing for the long-term, securing retirement income, and building a sustainable future for our communities.

Decisions about allocation of institutional capital involve a range of stakeholders, including asset consultants and trustees, which contributes both complexity and process to the system. The relatively widespread uptake of the United Nations Principles for Responsible Investment and increasing focus on environmental, social and governance factors has shifted the focus from whether to how sustainability can be integrated into portfolio management.

Recent Australian research concluded that institutional investors including superannuation (pension) funds can include impact in their decision making and, in fact, well-executed strategies for impact investing can enable greater alignment between investment portfolios and the values of members (Charlton et al. 2013).

First-mover institutional investors have successfully established and implemented impact investment strategies. Assessing impact investments on the basis of financial merits using the same professional processes and techniques as for traditional investments has been and will continue to be essential to the engagement of institutional investors. Once an investment case showing an expected rate of return commensurate with risk can be established, investors can consider social impact.

Charlton et al. 2013



As impact investing grows as a field, there is increasing focus on data to facilitate effective decision making about impact as well as about risk and return (JP Morgan 2012; Charlton et al. 2013). Work is underway around the globe to map and build the baseline data and investment benchmarks that are needed for institutional investors to assess performance of impact investment products and make allocations that integrate risk, return and impact. The scale of institutional capital based in Australia increases the importance that we put in the focused effort that is required to develop impact investment opportunities.

The pools of capital managed by fiduciaries in Australia are greater than our GDP in size; the decisions we make about how to invest that capital have broad implications for the financial system and our society. As allocators of capital we need to examine our roles as contributors to our collective future and actively engage in the development of solutions that can both deliver the retirement needs of our members and help shape the society we want to retire into.

Richard Brandweiner, Chief Investment Officer, First State Super; Chair, Chartered Financial Analysts Australia, 2014

The institutions that lead will realise competitive advantage (Charlton et al. 2013), not only for their own business but also for Australia's contribution to a robust impact investment market in our region and globally.

Creating Mechanisms for Small Investors to Participate

Beyond institutional capital, international experience points to a significant appetite from ordinary investors to invest in their community and to create benefit for society. Examples like the Calvert Foundation community investment initiatives and Triodos Bank which have been successful in democratising impact investment, demonstrate considerable demand from retail investors to participate in the market.

With the exception of some products offered by Australian Ethical, and ethical investment brokers such as Ethinvest, this potential is relatively untapped in Australia. Yet the recent increase in demand for responsible investment options (RIAA 2014), point to a growth area to be explored.

Enabling the Field: Role of Governments

Governments have a critical role to play. Commissioning of social services is such a significant part of the Australian economy, that unlocking government funding towards outcomes delivery, developing co-ordination and capacity, is integral to the development of the impact investment market.

Governments are uniquely positioned to be both market actors and market stewards. Well-designed policy can leverage private investment to improve outcomes for



society, enabling more effective targeting of scarce public resources. There is a role for government alongside other actors to encourage flows of capital and enterprise development. They also have a role to play in building sector capacity and encouraging the development of innovative solutions, enterprise and intermediaries.

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

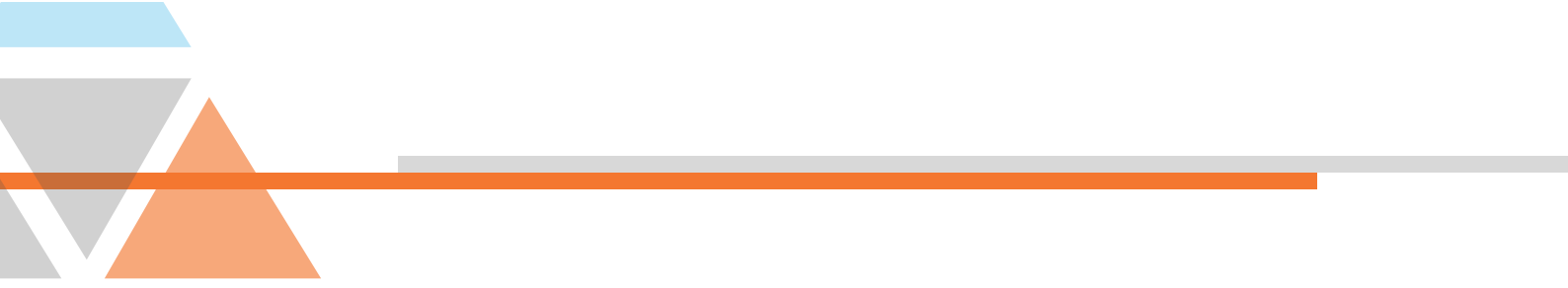
OECD, 2013

Impact investing can play a key role in enabling the next evolution of public service provision. It can open up new opportunities for how services are commissioned with accountability on all parties to deliver outcomes, develop more options and better understand what works to tackle some of society's most pressing issues.

Contrary to the fears of some, impact investment is not about government relinquishing responsibility for social issues, it is about government encouraging innovation, paying for successful interventions and driving down the cost of achieving a successful outcome. Nor is it about privatisation. Philanthropic investors are funding non-profits to serve governments on the basis of payment for outcomes.

Sir Ronald Cohen, Mansion House, 2014





In the short to medium term, some government investment can catalyse the market, reduce risks for new entrants, build track records, and enhance investor confidence. Governments can use impact investment as a tool to direct capital to particular areas of social need such as housing or job creation.

If government can be a party in those sectors of the economy where there is a policy purpose and a payment stream over which the government has significant long dated control, there is a chemistry that can lead to social capital.

Michael Traill, Social Ventures Australia, 2011

This applies to opportunities in the domestic policy context, and also to foreign policy, thus providing new opportunities for the private sector in growth markets.

Aid plays a role in economic transformation and still constitutes a major proportion of national economic inflows for many of our neighbours. However aid alone is not a panacea for reducing poverty. Today, the total of global aid funds is dwarfed by the flows of investment, remittances, and other sources of capital to developing countries. Total finance flows to developing countries tells a compelling story...Two-thirds of Australia's development partners in the Indian Ocean Asia-Pacific region have achieved middle-income status. One thing is very clear – the global context for financing development has changed and our aid program must change with it.

The Hon. Julie Bishop MP, the New Aid Paradigm, June 2014

Government leadership and even relatively modest and targeted policy initiatives (often re-purposing existing spending) can play a positive role catalysing market activity. International evidence and local experience reinforce the powerful effect of government signalling and action to mobilise others, as demonstrated by examples such as the Social Enterprise Development and Investment Funds at the federal level and the social benefit bonds in NSW. There is clear scope to build on these successes so as not to leave on the sidelines willing capital and expertise that would willingly contribute to improving social outcomes.



Connecting Participants: the Critical Role of Intermediaries

An effective market for impact investment also needs skilled participants who can assist outcome seekers who are looking for investment and those with resources to find one another and transact on appropriate terms. The need for effective intermediation is a strong, consistent theme in the Australian market (Senate Economics References Committee 2011; IMPACT-Australia 2013; Sector Consultation 2014). The potential is for specialist fund managers and advisers to enter the market and for a range of professionals from lawyers to investment advisers and accountants to develop expertise that can contribute to streamlining due diligence and structuring of impact investing deals and products.

Right now, every broker on Wall Street has someone who does ‘cleantech,’ someone who does clean water, and someone who does energy efficiency. That didn’t exist before. The world is changing.

Rockefeller Foundation and Insight at Pacific Community Ventures, 2012

As data, evidence and expertise increases, the universe of intermediaries and opportunities that appear investable will increase. The confidence of advisers to recommend and advise on impact alternatives will also increase. As these elements of the field develop, so too will the practice of building and managing impact investment portfolios for a range of investors.

* * * * *

There are a range of sources of capital (Figure 6) to fuel a vibrant impact investment market.

Figure 6: Sources of capital for impact investment in Australia

Philanthropic sources	Superannuation trustees	Social purpose organisations	Fund managers	Private Investors
<ul style="list-style-type: none"> ■ Private Ancillary Funds ■ Public Ancillary Funds ■ Corporate foundations ■ Other trusts and foundations 	<ul style="list-style-type: none"> ■ Member based funds ■ Commercial funds ■ Faith based funds 	<ul style="list-style-type: none"> ■ Large NFP ■ Smaller innovative NFP ■ Social Enterprise ■ Community enterprise ■ Churches 	<ul style="list-style-type: none"> ■ Institutional Funds ■ Social investment funds ■ Property trusts ■ Ethical funds ■ Responsible Investment funds 	<ul style="list-style-type: none"> ■ High Net Worth Individuals ■ Retail Investors funds





Vision for Immediate and Growing Impact

There is clear potential for a vibrant, dynamic, and informed market at scale operating in and from Australia. An aspiration to achieve at least A\$10 billion in impact assets under management within the next 5 years does not seem out of reach. The measure must be tangible outcomes achieved that are creating demonstrable impact, meaningful practice, and are attracting greater numbers of informed entrants into the field. The vision is to chart the course for impact investment that is both uniquely Australian and a rich contribution to a global market. This will involve holding up the successes and leadership demonstrated internationally, within the unique features of the Australian context – creating a strategy that is catalytic, as well as adaptive and responsive.

We need to build a market that is accessible and allows everyone to contribute to social change through their investment decisions

Big Society Capital, Annual Review 2013

Practitioners, entrepreneurs and investors locally have called for focused attention and leadership to drive momentum and scale (Senate Economics References Committee 2011; IMPACT-Australia 2013; Sector Consultation 2014). This Australian Strategy is the Australian Advisory Board's proposal to catalyse actions that we all agree are needed to realise this vision. That vision is ambitious, audacious – and achievable. It is intended to honour the aspirations and contributions of pioneers, practitioners, entrepreneurs and stakeholders who are active or would like to be. It reflects the promise inherent in the thought leadership and quality impact transactions that have already originated in this market.





A Strategy to Catalyse Australia's Impact Investment Market

The Australian Strategy (Figure 7) is an opportunity to set clear breakthrough goals that people and organisations from wherever they are in the market can get behind. The intention is clear, to:


- Deliver a step change for industry and market development;
- Demonstrate leadership in social and financial innovation that delivers better social outcomes and is financially rigorous and sustainable;
- Provide a truly catalytic platform with immediate influence;
- Accelerate development of the market for impact investment in and from Australia;
- Drive more people to participate and participate more effectively; and
- Facilitate development of key elements of market infrastructure.

The Australian Strategy combines aspirational goals with practical action. It is and will be, by necessity and design, dynamic, responsive to opportunity, and capable of evolving over time as actions are delivered and tested in the market. This will not be a silver bullet and is not an attempt to tackle everything that could be done for the Australian market. The Advisory Board's focus is on the priorities that this Board can drive and implement effectively as a complement to a range of market based activity and policy.

The Australian Strategy is grounded in a growing base of local and international learning, and in feedback from people active in the field about what could make the greatest difference to accelerate market development. It is intended to drive more attention to what is needed; and remove barriers and create several high profile, concrete initiatives, including a dedicated Social Impact Fund for Australia, that can stimulate market activity and encourage new participants into impact investment. It is designed so that we first deliver a few things within grasp, then continue to reach towards next steps in a maturing market. Each step will provide learning to inform the next and demonstrate what is possible and where the opportunities for breakthrough are found.

Getting to Breakthrough: Leadership, Action, and Policy

The imperative is to make it easier to translate growing interest into action. We have the opportunity to showcase developments and potential for impact investing as part of a bigger story, one that a broad constituency cares about. The need to do this to raise the



profile and attention for the field and the role impact investing can play for our society came through crystal clear in consultations.

Capital markets do not occur because a set of actors simply decide to be rational in their allocation of capital. Global, national, and regional capital markets have all evolved through complex interplay between governmental policy, private enterprise, individual entrepreneurship, and chance...combination of policies, practices, investment innovations, and more all come together, learn from past failures, and see future opportunities to create a capital market.

Emerson & Spitzer, 2007

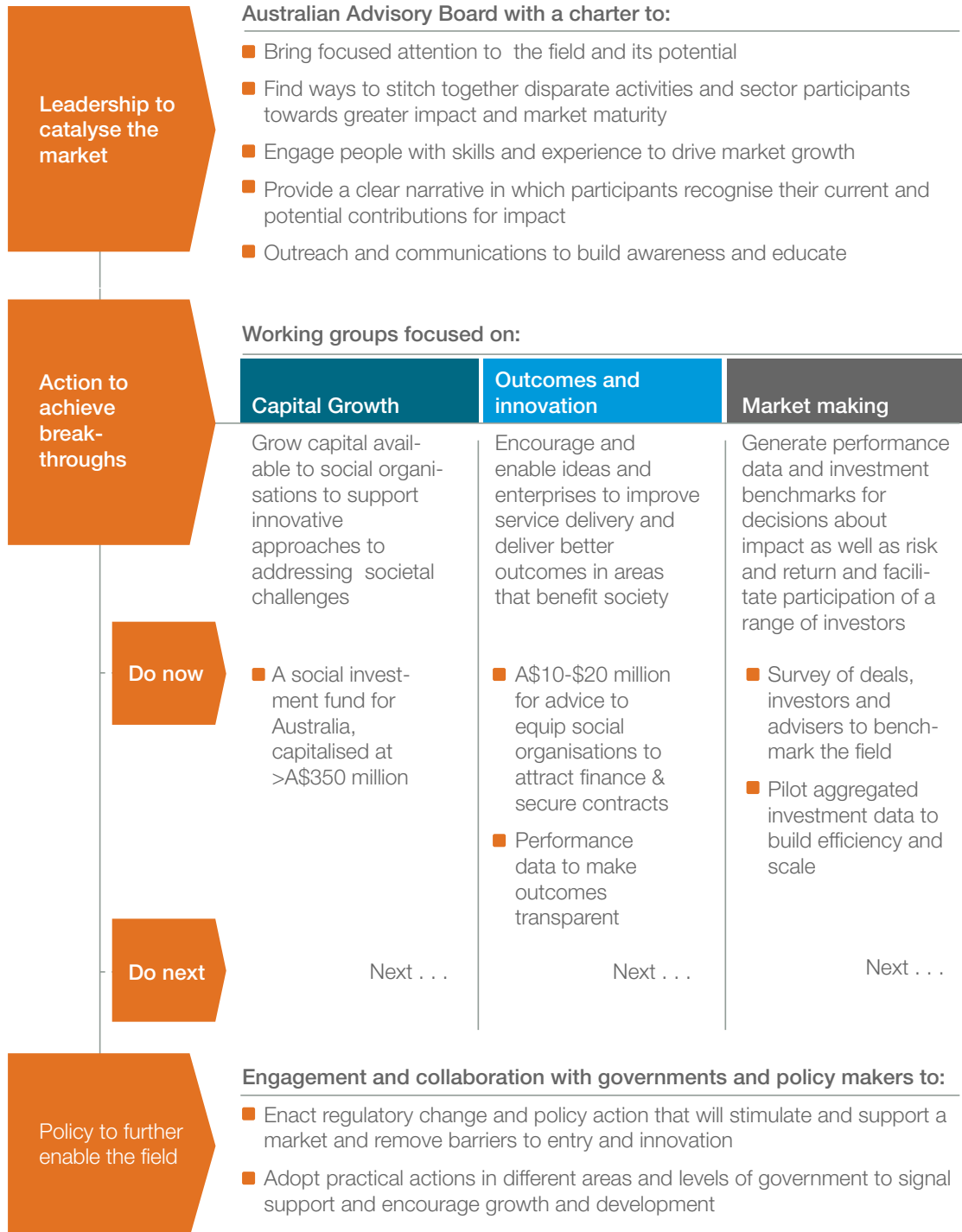
For the strategy to work, there needs to be effort and willing involvement of those people and organisations prepared to act together with shared purpose, to design, scope, and deliver key initiatives. The strategy is designed to facilitate this process and provide concrete opportunities for people to work together to influence progress for the field as a whole, alongside pursuit of their own endeavours. It is also designed to highlight shared priorities for influencing and engaging government and other key institutions to prime the pump and move forward impact investment domestically and from Australia.

The central planks of the breakthrough strategy (Figure 7) are:

- Leadership to catalyse the market
- Action to achieve breakthroughs (executed by working groups set up to deliver)
- Policy to further enable the field



Figure 7: Breakthrough strategy to catalyse impact investment



Leadership: Catalysing the Australian Market

The call for leadership and focused attention in the field, has been made repeatedly by practitioners of impact investing and a range of stakeholders (Senate Economics References Committee 2011; IMPACT-Australia 2013; Sector Consultation 2014). The Australian Advisory Board on Impact Investing has taken up this leadership task as the first pillar of the strategy with the intention of communicating the importance and potential of impact investment. The goal is to create awareness, build understanding, invite others in, and build confidence in the credibility and global momentum for this field.

The leadership of the Social Impact Investment Taskforce and National Advisory Boards has driven significant activity and engagement since June 2013. This has elevated and connected the conversation globally and contributed to leadership at the local level in each of the participating countries. This effort has already inspired action in other countries: for example, the recent launch of a Taskforce for Brazil, and over 1,200 people from more than 120 countries connecting through the Global Learning Exchange. The launch in September of the Taskforce report will put a global spotlight not only on the results of the work, but also on what will be done to implement the recommendations and continue the effort at a global and local level.

The Australian Advisory Board will continue to engage with the Social Impact Investment Taskforce, and with other National Advisory Boards to contribute to global momentum, and bring that sense of drive and shared purpose more clearly to the forefront of the Australian market. This will involve:

- Bringing focused attention to the field and its potential;
- Finding ways to stitch together disparate activities and sector participants towards greater impact and market maturity;
- Engaging people with skills and experience to drive market growth;
- Providing a clear narrative in which participants can recognise their current and potential contributions for impact; and
- Outreach and communications to build awareness and educate.

This pillar of the Australian Strategy will provide context and profile for the priority actions to be undertaken as part of the strategy as well as for the broader range of activity underway in the field, highlighting what is happening and what is needed (even where that is beyond the scope of the Strategy). It is designed to give higher profile to the work of those already active and attract more people, ideas and resources to the field to expand and develop the practice.

Action: Achieving Breakthrough

The second pillar of the Australian Strategy is action and is squarely focused on doing and delivery. The actions identified are designed to have a catalytic and amplifying effect and focus on those things it is difficult or unlikely any one organisation could deliver alone. Without action, there is only hype; transactions demonstrate what is possible and



produce models which can be replicated, enabling learning and building confidence that encourages further participation and activity.

The best case for engagement is to ‘get on and do’; this will have a demonstration effect and provide concrete examples, build a track record and a base of skills and experience in how to construct and execute impact investments responsibly.

IMPACT Australia, 2013

The action elements recognise that development of the field will come from stimulating different parts of the market. The actions promote:

- Growing available capital to encourage new solutions and build the resource base of organisations delivering impact;
- Encouraging quality enterprising ideas and enterprises capable of delivering transformative outcomes; and
- Developing the market by generating benchmarks and data that will enable a broader range of investors to participate and contribute to efficiencies and scale.

Action is rarely delivered unless it is somebody’s job. The Australian Advisory Board has chartered three initial working groups bringing together like-minded people with a range of skills and experience working in relevant parts of the system to drive and deliver priority actions. Those actions have been designed to cut through barriers to the growth of impact investing and move the field forward.

Policy: Further Enabling the Field

Governments are critical contributors to the development of impact investment. 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.

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 (Figure 8). These are highlighted in the Australian Strategy. Like other elements of the Strategy, the policy elements will not provide full coverage. The clear focus is on engagement of governments.

This approach recognises the role of governments in providing funding and setting the regulatory environment, but also that they can bring other valuable experience, data, research and policy content.

With those different roles in mind, the policy elements of the Strategy have a dual focus:

- Clear goals for policy change or diagnostic frameworks that could stimulate and support a market and remove barriers to entry, delivery and innovation; and
- Practical actions that can be adopted by different areas and levels of government.

The goal is to encourage a supportive environment for impact investment and remove inappropriate impediments to market action.

Figure 8: Policy to further enable a market to develop

Policy to further enable the field of impact investment		
Capital Growth	Outcomes & Innovation	Market Making
<ul style="list-style-type: none"> ■ Reorient budget based funding to provide catalytic capital ■ Initiate impact funds to attract additional private capital ■ Regulate to expressly permit mission & program related investment ■ Remove barriers to investment in community and social infrastructure ■ Consider and design targeted tax incentives to promote impact investment ■ Increase disclosure requirements for institutions to include positive screening 	<ul style="list-style-type: none"> ■ Improve commissioning with focus on outcomes & quality ■ Develop procurement models to include consideration of social impact ■ Extend entrepreneurship support to social entrepreneurs ■ Develop international development investment strategy ■ Support development of data and metrics on outcomes & impact ■ Initiate outcomes and capacity fund to support capacity and coordination for payment by outcomes approaches 	<ul style="list-style-type: none"> ■ Develop whole of government policy for impact investment as part of toolkit at all levels of government ■ Support and enable intermediaries, including Community Development Finance Institutions ■ Support awareness raising and education of impact investment tools and approaches ■ Develop budget rules to facilitate impact investment approaches including social impact bonds and impact funds
Practical steps for government engagement in impact investment		
Capital Growth	Outcomes & Innovation	Market Making
<ul style="list-style-type: none"> ■ Share evidence and lessons where re-orientation of funding has attracted private capital ■ Enable unsolicited proposals for social policy extending practice in areas such as infrastructure ■ Develop tools that facilitate investment tools being used for social policy ■ Refresh guidance for fiduciaries and trustees 	<ul style="list-style-type: none"> ■ Share evidence and lessons where outcomes based funding is utilised including through hub at each level of government ■ Develop tools to facilitate outcomes based commissioning ■ Support cross agency & inter-governmental secondments to share learning ■ Publish cost to public of service provision in key service areas 	<ul style="list-style-type: none"> ■ Utilise governments' convening power to raise awareness and encourage the participation ■ Reward & recognise policy and social entrepreneurs ■ Create a central contact point in each government and connect them in a community of practice ■ Enable platforms for expertise, excellence and evidence ■ Encourage open data sharing and transparency

Driving Action and Results: Implementing the Strategy

Delivering the Australian Strategy will take significant commitment and contributions from many people and organisations. The Australian Advisory Board on Impact Investing will provide stewardship and direction for the process, and has already been engaging with those already active in impact investing, and more who would like to join the practice.

The first and third pillars of the Strategy — leadership to catalyse the market and policy to further enable the market — will be coordinated with guidance from the Australian Advisory Board. The second pillar of action will be delivered through working groups that bring the wisdom and skills of a broader group to the task.

Now: Working Groups Focus on Delivery

The Australian Advisory Board has chartered three working groups to drive, do, and deliver the flagship initiatives. The Australian Advisory Board will steer the agenda of working groups as they work through the actions for delivery. That stewardship role will include reinforcing and testing approaches, suggesting alternatives as required, and connecting people and resources.

These three working groups each have a clear remit and priority area of focus. They have each embraced the potential to accelerate the field with tangible initiatives for long term market benefit as follows (Figure 9).

1. **Grow capital** available to social purpose organisations and support innovative approaches to addressing societal challenges. Its do now action is intended to deliver a Social Impact Fund to reach capitalisation of more than A\$350 million.
2. **Enable innovation and improved outcomes** by attracting, engaging, and enabling ideas and enterprise, improving service delivery, delivering better outcomes, and attracting investment in initiatives that benefit society. Its do now action is intended to deliver robust metrics and performance data in a small number of key social service areas; and A\$10–20 million of capital dedicated to advice that significantly better equips social purpose organisations to attract different forms of investment and compete effectively for public sector contracts.
3. **Facilitate market building activity** that will more effectively enable a diverse range of approaches to social issues and of investors to come together on appropriate terms in a market that has efficiency and scale. Its do now action intended to deliver a survey for benchmark data and pilot to aggregate investment data to attract institutional investors.

The focus is squarely on action, not theory or talking (Figure 9). Each working group will start with scope, design, governance and implementation of a specific initiative.

Next: Working Groups Look Beyond Initial Actions for Impact

Beyond the actions they will do now, the working groups may consider other compelling proposals presented. They have been designed for breakthrough action, which allows for prioritising and sequencing of their activities to fulfil the goal of stimulating the market.

A range of actions have already been identified that could be considered next (Figure 9). The working groups may do this building on the original charter or suggest new means by which additional useful activity can be pursued.

This will be a dynamic process. The talented group of people already volunteering their time and resources to the task takes us into an exciting new period of development and growth of impact investing in and from Australia.



“Australian investors are increasingly recognising the amplifier effect that impact investing can have in delivering an appropriate market return while delivering measurable impact. This awareness is encouraging efforts to innovate in meaningful ways to address some of Australia’s most pressing social and environmental challenges via the development of robust social capital market.”

Christopher Thorn, Partner, Evans & Partners, August 2014

Figure 9: Role and remit of working groups to deliver actions

Working group: Capital growth	
Focus of action	Grow capital from diverse sources, available to social purpose organisations and to support innovative and effective approaches to addressing societal challenges
Impact	A long term solution to provide catalytic capital that can demonstrate accessible and appropriate finance for social purpose organisations, support innovative approaches to addressing social challenges and facilitate more, and more effective intermediation, and attract additional private capital to the sector
Flagship initiative	A Social Investment Fund for Australia, capitalised at >A\$350 million by year 5
Design and do now	<ul style="list-style-type: none"> ■ Come to a view on maximum ‘demonstration’ and catalytic value from a well-supported social investment fund, using Australian and overseas precursors such as Big Society Capital and the European Social Fund ■ Agree scope of investment mandate, taking into consideration: <ul style="list-style-type: none"> – Potential for diversified portfolio and pipeline, eg social impact bonds, non-profit finance, international development and/or place-based investment – Choices and balance between direct and indirect investment and funding of intermediaries ■ Determine effective leverage on fund size, including minimum for viability and scale, and potential to build and attract leverage, e.g. 3x/5x and optimum mix for impact – private and/or institutional and/or public ■ Establish legal, structural, and governance model, to promote impact as a source of catalytic capital for a range of market participants.
Design and do next	<ul style="list-style-type: none"> ■ Consider need and potential for a social investment bank or additional wholesale platform to attract institutional capital at scale ■ Develop other measures to encourage and attract institutional capital into impact investment opportunities ■ Consider other catalytic initiatives to complement the social investment fund, such as: <ul style="list-style-type: none"> – Cut through action to enable capital to flow to social and community infrastructure; – Aggregation options and product for non-profit finance; – Options for a fund or other platform to facilitate international development investment; – Investment in community development to deliver jobs and local economic activity

Working group: Outcomes and innovation

Focus of action	Attract, engage and enable ideas and enterprises to improve service delivery, encourage commissioning for improved quality and outcomes, and attract investment in initiatives that benefit society
Impact	Improved transparency of cost of social issues and delivery of social services; encourage and demonstrate commissioning for efficacy and outcomes; improved measurement; greater contestability of ideas and services and more accountability for results; greater access to finance for a range of social sector organisations to enhance their reach and impact in communities
Flagship initiative	<ul style="list-style-type: none"> ■ Attract A\$10-20 million dedicated to advice (e.g. financial and business planning) that significantly better equips social sector and social purpose organisations to be high performing, attract different forms of investment, and secure public sector contracts. ■ Develop robust metrics and performance data for 3 – 6 key areas of social service provision to increase transparency, encourage shifts in commissioning and create a baseline against which improvements in outcomes and their value can be measured.

Design and do now

- Agree fund size (eg quantity and quality of interventions expected) and optimum targets (& mix) to invest in fund (government/ private etc)
- Create structures for governance and operations of the fund, taking account of learning, including from the UK Investment and Contract Readiness Fund
- Consider key catalytic sectors for targeting, to create prototypes and show what could be 'investable'
- Identify where cost itemisation most likely to drive impact and innovation (linked with above); ideally focusing on social issues that consume significant government funds; link to policy priorities and significant impact investment need; but don't span too many silos/ agencies

Design and do next

- Consider other accelerating initiatives, such as:
- Blueprint for a quality impact investment solution in an area of social service delivery that has scale and includes elements of infrastructure, increasing demand on government budgets, and clear opportunities for innovation and improved outcomes
 - Additional opportunities to partner with governments in commissioning reform and investment, for improved outcomes to social issues in Australia and in countries in our region
 - Options to catalyse accelerators and incubators for scale
 - System for pro-bono/secondment support across sectors to develop capability

Working group: Market making	
Focus of action	Facilitate activity that will more effectively enable a diverse range of investors to participate, and capital providers, enterprises, and initiatives that need it to connect on appropriate terms in a market that has efficiency and scale
Impact	Improved data, transparency of opportunities and performance, greater visibility of range of market activity and what works, connect those seeking investment with those seeking to invest, streamline the capacity for institutions to participate in the market
Flagship initiative	<ul style="list-style-type: none"> ■ Develop and carry out a benchmark survey to contribute bottom up data and investor attitudes for Australia ■ Pilot initiative to demonstrate potential to develop aggregated investment data to attract capital and institutional investment

- Design and do now**
- Design and scope survey having reference to leading global examples including JP Morgan and Global Impact Investment Network Impact Investor Survey and relevant regional benchmarking precedents
 - Develop a practical proposal for implementation of the survey including who should conduct it, on what terms, having regard to both the market and public good elements
 - Assess feasibility undertaking data and index development building on the UK pilot of the EngagedX Index and comparison initiatives developed for asset classes such as private equity and the bond market and identify vanguard organisations to participate
 - Design and scope pilot project to demonstrate capacity to develop and aggregate data for impact investment in an index or similar product that brings together in one place the data that investors need to assess opportunities.

- Design and do next**
- Consider other accelerating initiatives, such as:
- An online platform for distribution of publicly available, and secured content (e.g. for investor and investee information) to provide a national clearing house or exchange to facilitate deal flow and encourage greater liquidity in impact investment opportunities
 - Further develop data, indices and analysis to enable investors including institutional investors to incorporate impact into their investment portfolios
 - Develop products for advisors and intermediaries building on what works based on Australian precursors from other market areas and overseas examples such as ImpactAssets and the Good Analyst
 - Consider 'PILCH' like initiative to develop professional expertise, frameworks and practice



Your Invitation to Contribute

The Australian Advisory Board's intention is to bring focused attention to impact investing and its potential and lead catalytic action, celebrating the contributions of participants in the Australian market and our region and enabling them and others to realise more opportunities for this promising field.

This process has already been a collaborative one and will continue to encourage, complement, and amplify innovations and action in the market. The Australian Advisory Board's work and the Strategy will not be a replacement for the significant effort already underway, planned or possible, which must continue. Real progress will require all kinds of catalytic action.

Local as well as global leaders will need to continue their work and inspire many more to join the movement and take up practice. We need to engage social innovators and entrepreneurs, the social sector, philanthropists and foundations, businesses of all sizes, financial institutions, intermediaries and advisers, policy makers, and politicians and governments across the political spectrum.

Your ideas, resources or expertise can contribute, including to execute the Australian Strategy with rigour and excellence. You can play a part in a global movement, not only to develop impact investing as a field, but to create value for society.


* * * * *



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Appendices

Appendix 1: Social Impact Investment Taskforce

In June 2013, under his Chairmanship of the G8, Prime Minister David Cameron announced the launch of the Social Impact Investment Taskforce. The Taskforce was given the ambitious mandate to consider how it could catalyse an effective, global market for social impact investment.

Each of the G8 countries (with the exception of Russia) is participating in the process, in addition to the European Union and Australia, who were invited as observers. The Taskforce is chaired by Sir Ronald Cohen, an international leader in the fields of both impact investment and venture capital.

The Taskforce committed to report on September 15, 2014 its progress and to publish a broad-ranging strategy to galvanise an impact investing market across the globe. *Delivering on Impact* is Australia's supplement to this global report.

National Advisory Boards

Each participating country was asked to form a National Advisory Board, who would lead the development and execution of a dynamic and ambitious strategy to catalyse impact investing in their nation. Each National Advisory Board includes leaders in the business, investment, policy, and impact investing sectors. They are chaired by the country's sector representative to the Social Impact Investment Taskforce. The Australian Board is chaired by Rosemary Addis.

The Australian National Advisory Board role is outlined in Appendix 2. It held its first meeting in January 2014 and has convened eight times and led development of the Australian Strategy set out in this report.

Working Groups










The Taskforce's remit and report is supported by four working groups on impact measurement, asset allocation, development finance, and mission integrity. Australian practitioners have participated in a number of these working groups. The Taskforce report is supported by research from the Organisation for Economic Development and Cooperation (OECD).

Australia's Role

As the only country outside the G8 currently contributing to the effort, Australia is presented with a unique chance to stand alongside leading nations to drive the impact investing agenda forward. The opportunity allows us to learn from these countries, share experiences, collaborate, and demonstrate our own passion and leadership in the impact investing field. It also enables us to bridge from this starting point for the global conversation to broader reach in the international community.

Australia's participation reflects the strength of thought leadership and of impact investment initiatives undertaken here. Australia is also strategically positioned to assist in expanding the initiatives of the G8 Taskforce to the G20, and beyond.

Members of the Social Impact Investment Taskforce established by the G8

Country	Sector representative	Government representative
	Chair: Sir Ronald Cohen Social Impact Investment Taskforce established by the G8	Keiron Boyle Cabinet Office UK Government
	Ted Anderson MaRS Centre for Impact Investing	Siobhan Harty Department of Employment and Social Development Canada
	<i>Succeeded by</i> Tim Jackson MaRS Centre for Impact Investing	
	Peter Blom Triodos Bank	Ulf Linder European Commission
	Hugues Sibille	Claude Leroy-Themeze Ministry of Economy and Finance France
		<i>Alternate</i> Nadia Voisin Ministry of Foreign Affairs France
	Dr. Brigitte Mohn Bertelsmann Foundation	Susanne Dorasil Federal Ministry for Economic Cooperation and Development Germany
	Giovanna Melandri Human Foundation	Mario Calderini Politecnico of Milan
		<i>Alternate</i> Mario La Torre La Sapienza University Rome
	Shuichi Ono Nippon Foundation	Keiichi Yokota Ministry of Foreign Affairs Japan
	Matt Bannick Omidyar Network	Don Graves US Department of Treasury
Official report		
	Matt Bishop The Economist	
Official observers		
	Rosemary Addis Impact Investing Australia	
DFI	Elizabeth Littlefield OPIC	

Appendix 2: The Australian Advisory Board on Impact Investing

Australian Advisory Board members have generously volunteered their time and contributed other resources. They have committed to genuine engagement and collaboration with practitioners and other stakeholders to inform and implement the Board's work. Establishment of the Australian Advisory Board, and Impact Investing Australia to provide a public benefit entity to support its work, has been well received by the sector.

The Australian Advisory Board brings together leaders from across sectors committed to developing impact investing. Their role is to: develop a clear and dynamic understanding of the Australian eco-system; identify obstacles to market development in Australia; explore opportunities to mitigate or remove these obstacles, and; promote the field of impact investment in and from Australia.

The Terms of Reference recognise the importance of working with others from across sectors to identify priorities, auspice and scope initiatives, raise awareness and advocate for development of the field, and take other steps as the Board determines appropriate to drive the growth of the market. Its stated objectives include:

- Preparation of papers on areas identified as significant to contribute to the work of, or otherwise provide an Australian perspective for, the Social Impact Investment Taskforce;
- Priority actions and programs, as identified in consultation with practitioners and stakeholders in the Australian market;
- Build engagement across the market with major foundations, private sector investors, civil society and other international organisations;
- Embed discourse on impact investment in appropriate forums including future government-level discussions;
- Where useful and appropriate to Australian conditions, advocate consistency in approaches to developing the global architecture.

Membership and Commitment

AAB membership comprises highly credible individuals who are leaders in their fields. Membership is drawn from organisations active in the impact investment field, and related parts of the system including philanthropic foundations, social enterprises, financial institutions, investment organisations, asset owners, and the community sector (see front of report). The Advisory Board members are committed to a two year appointment to not only participate in the international process but also to lead the Australian Strategy to catalyse and drive the impact investing market locally. Further terms will be considered at the conclusion of that period.

Secretariat and Support

Support for the AAB is provided by Impact Investing Australia, created as a non-profit in 2014, to support the work of the Social Impact Investment Taskforce, the objectives

and coordination of the AAB, and other combined efforts in the field of impact investing. The Secretariat draws upon additional expertise from a range of sources and sectors as appropriate, to supplement the expertise of the AAB, and support the AAB in delivering on its strategy and work plan.

Appendix 3: Stakeholder Consultation

Delivering on Impact and the Australian Strategy were developed through extensive consultation with a wide range of practitioners in the Australian and international markets. The consultation builds on stakeholder contributions, insights and engagement demonstrated through previous inquiries, including those conducted by the Productivity Commission (2010), Senate Economics Committee (2011), and a sector consultation process conducted in late 2012 to early 2013 for the IMPACT-Australia report (2013). It has also been informed by a growing body of local and international literature and thought leadership, including important and valuable contributions from a number of Australian contributors.

The stakeholder consultation process for this report built on, updated, and refreshed, the key outcomes and insights described in those previous initiatives, in order to further explore:

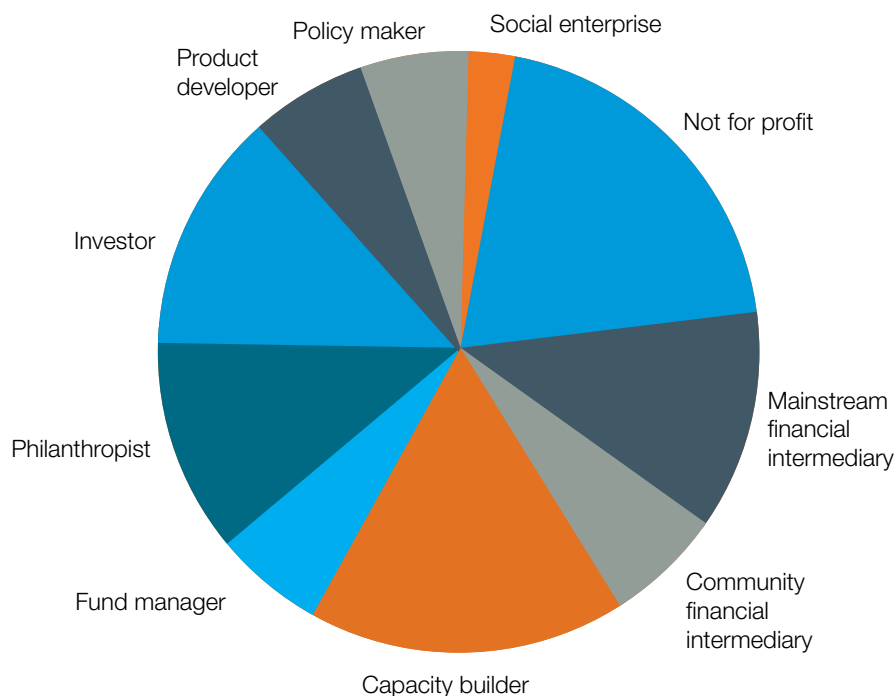
- The current ecosystem of the Australian impact investing marketplace; and
- The first priority, highest-value actions for developing that marketplace, as seen by those in the market.

Consultation Process Methodology

The intention was to involve and engage the maximum practicable number of stakeholders in the consultation process through three different phases, each building on the information gathered in the previous phase:

- **Phase 1 - Broad-based electronic survey to test continued significance of previous stakeholder engagement insights:** Impact Investing Australia developed a ten question electronic survey to test the continued relevance of previous consultations, and to identify the highest priority actions for growing Australia's market. The overall survey response demonstrated that the previous consultation outcomes still hold, and that there is an extensive and diverse range of actions required to grow the Australian market. The survey was sent to over 170 stakeholders, with a response rate of over 20% from across different sectors with an interest in impact investing (Figure 10). The survey can be viewed at <https://www.surveymonkey.com/s/FRWJTNS>

Figure 10: Sector representation of stakeholder respondents



- **Phase 2 - Refining the list of priorities:** The second phase of the consultations focused on narrowing the list of potential market interventions identified in the survey, to more clearly identify key activities that the group believes are both catalytic and practical over the short to medium term. This process included the convening of five groups via teleconference with 44 practitioners in the field. Each session focused on an element of the impact investing market (capital supply, investment demand, intermediaries, government policy, and market leadership).
- **Phase 3 - One-to-one interviews to test the practicality and impact of identified priorities:** Impact Investing Australia conducted interviews and discussions with over 50 stakeholders to test the viability of ideas gathered in Phase 2, and identify gaps in the findings.

Priorities Identified and Discussed by Australian Stakeholders

The learning and input gained in Phase 2 of the consultation process is available on the Impact Investing Australia website at: <http://impactinvestingaustralia.com/sector-consultation/>. While the potential interventions to grow the market are numerous, there are four key areas identified by participants that are expected to have an especially catalytic effect on the Australian impact investing sector (Figure 11).

These areas provide the Australian Advisory Board with key platforms for action, and form the basis of the Australian Strategy set out in this report.

Figure 11: Themes from the stakeholder consultation process

Theme	Key Points	Drivers & Benefits
Create a pool of capital to assist social enterprises in becoming contract- and investment-ready	Capital should be made available in Australia to build the capacity of social enterprise to participate in the private capital marketplace. The mechanism could be modelled on the UK government-funded Investment and Contract Readiness Fund.	<ul style="list-style-type: none"> Improving internal operational capacity on the demand side; Improving opportunities for service delivery innovation, e.g. payment by outcomes; Increasing the deal pipeline; Removing cultural and confidence blocks on both the demand and supply-sides.
Develop large scale impact investments	Build capital and opportunities for larger scale investment that can attract a range of investors including institutions and catalyse the market.	<ul style="list-style-type: none"> Providing large investors (e.g. institutional investors) with scaled investable products; Providing the impetus for aggregation, and mergers and acquisitions on the demand-side; Inspiring the imagination of the marketplace and educating the market on the possibilities; Developing model transactions with attendant market tools (such as intermediary facilities), to promote replication.
Reduce the due diligence burden for investors and investees	<p>The high due diligence burden was seen as a fundamental obstacle to impact investing both from the demand and supply sides of the market.</p> <p>Practical ideas for reducing this burden included:</p> <ul style="list-style-type: none"> Creating a retail investment fund Creating a central hub or clearinghouse providing open access to relevant expertise Clarifying and standardising measurement of social outcomes. 	<ul style="list-style-type: none"> Generating readily available investments; Streamlining due diligence through a mechanism which allows for centralised or aggregated processes; Increasing open access to relevant expertise including subject matter, financial and operational expertise, social impact measurement tools, case studies and networks in order to make due diligence easier and develop longer term capacity across a broad audience; Generating data and standardise measurement of social outcomes.
Promote education and inspiration for all existing and potential players	<p>While some practitioners suggested that education needed to be targeted specifically to various actors and sectors, others suggested that there needed to be a collaborative community of learning. All stakeholders agreed on the need to develop a platform to share existing case studies, best practices, expertise, terminology, and networks.</p> <p>Stakeholders also agreed that government had a fundamental role in creating an enabling environment, although some suggested a need to engage government itself on the true meaning and benefits of impact investing.</p>	<ul style="list-style-type: none"> Building a body of precedent and data and developing a picture of an emerging track record; Sharing networks and learning; Inviting new players into the market and inspiring them with examples; Enabling a common language to develop; Building engagement across sectors, including with governments.



Appendix 4: Acknowledgements

Our contribution to the Social Impact Investment Taskforce, the work of the Australian Advisory Board and development of the Australian Strategy, and production of this report would not have been possible without the contributions of many generous and talented people. Thanks to all who have contributed.

Particular acknowledgement is due to the pioneers and practitioners of impact investing who have inspired this work and improved the lives of many. Also to those tens of practitioners and stakeholders who shared their experience and time as part of the sector consultation process.

The Australian Advisory Board has made a significant commitment to catalysing impact investment in and from Australia. We appreciate their leadership, time, expertise, generosity and enthusiasm for the task.

Thanks to the practitioners and supporters of the field in Australia who rallied to the call to action and worked with us to communicate the opportunity, deliver a really strong contribution to the international process and bring together the Advisory Board and this work. A number of people have assisted and contributed their considerable talent and experience along the way, in formal and informal capacities, with the singular and shared purpose of maximising the potential to grow impact investing as a global force to improve society. They include: Jo Cavanagh, Kylie Charlton, Trevor Danos, Alicia Darvall, Belinda Drew, Ben Gales, Jenny Gordon, Jonathan Greenblatt, Mele-Ane Havea, Anne Hollonds, Katherine Leong, Mikey Leung, Tracy Mackey, John Mcleod, John McKinnon, Rob McLean, Jayne Meyer-Tucker, Simon O'Connor, Louise O'Halloran, Paul Peters, Corinne Proske, Sonal Shah, Paul Steele, Louise Sylvan, Trevor Thomas, Christopher Thorn, Caroline Vu, Terri Ward and Andrew Young.

The Impact Investing Australia team have all contributed expertise, time and energy. In each case this has involved significant commitment either without payment, at a reduced rate or with payment deferred. Particular recognition is due to Sandy Blackburn-Wright, Anna Bowden, Vanessa Lesnie and Daniel Madhavan. Danielle Kent and Skye Heller gave generously of their time and experience in the first half of 2014. Shaun Wright provided web design and IT support and David Addis assisted with financials and operations.

A team of people brought together this report. The following people in particular contributed professional expertise pro bono or at a significant discount to make this report possible: Donald Simpson provided his professionalism, support, wisdom, and insights, which were critical in shaping and delivering the report. Kylie Charlton provided expert advice on various sectors of the impact investing market, and provided input on many iterations of this report. John McLeod generously reviewed assessments of potential market size for Australia. Vanessa Lesnie led the Sector Consultation and shaped the input from that process. Stephen Browne provided design services and production expertise. Anna Bowden deserves particular acknowledgement for holding the ship steady, coordinating and generally going above and beyond the call of duty on a daily basis.

Thanks to the international community including the UK Cabinet Office and members of the Social Impact Investment Taskforce for inviting Australia's contribution. We are grateful for the leadership of Sir Ronald Cohen as Chair of the Social Impact Investment Taskforce and to those supporting this work including Stephen Brien and Aimie Cole, and in particular Rebecca Thomas. Thanks to the United Kingdom Cabinet Office who have provided secretariat support for the Taskforce, in particular Kieron Boyle, Claire Michelet and Alexandra Meagher.

Our international colleagues provide inspiration and are generous with their suggestions and wisdom. Thanks to all of the members of the Social Impact Investment Taskforce who have been part of a collaborative effort. Particular thanks to the following people whose contributions, support and insights, in various measures and in some cases over a number of years that have shaped this work: Filippo Addarii, Tonusree Basu, Suzanne Biegel, Jake Benford, Francois Bonnici, Amit Bouri, Margot Brandenburg, David Carrington, Colby Carolien De Bruin, Liana Downey, Sarah Doyle, Tim Drainin, Jed Emerson, Michelle Giddens, Paula Goldman, Lisa Hall, Karim Harji, Pamela Hartigan, David Hutchinson, Edward Jackson, Julie Katzman, Nigel Kershaw, Tris Lumley, Katherine Milligan, Rosita Najmi, Jane Newman, Alex Nicholls, Abigail Noble, Luther Ragin Jr, Yasmin Saltuk, Shrupti Shah, Dureeen Shahnaz, Beth Sirull, Laurie Spengler, Ben Thornley, Karen Wilson, David Wood.

We would also like to extend our thanks to the organisations who kindly hosted and supported a series of events with Sir Ronald Cohen, Chair of Social Impact Investment Taskforce in May 2014, including Association of Superannuation Funds of Australia, Centre for Social Impact, Corrs Chambers Westgarth, Digital Storytellers, Evans and Partners, First State Super, Frontier Advisors, Impact Investment Group, JB Were, National Australia Bank, NSW Treasury, Philanthropy Australia, Responsible Investment Association Australasia.

Partners & Supporters

Particular thanks to our partners and supporters who contribute resources to enable this work to go forward through their financial and other support for Impact Investing Australia.



National Australia Bank, our inaugural anchor sponsor, for financial commitment, as well as practical in-kind and logistical support and to Paula Benson, Steve Lambert, Katherine Leong and Corinne Proske in particular for their enthusiasm and support for this opportunity for Australia.



QBE recently became an anchor sponsor in August 2014 and their support and enthusiasm for the field is welcome. Thanks to Gary Brader for his leadership and to Bill Prendergast for his support.

The following leading non-profit and social sector organisations provide an anchor partnership reflecting the sector's significant stake in impact investment as a critical driver of their future capacity: The Benevolent Society, Family Life, Good Beginnings, Life Without Barriers, and UnitedCare Queensland.



If you or your organisation is also interested in partnering with us to implement this ambitious strategy, don't hesitate to contact Impact Investing Australia.





