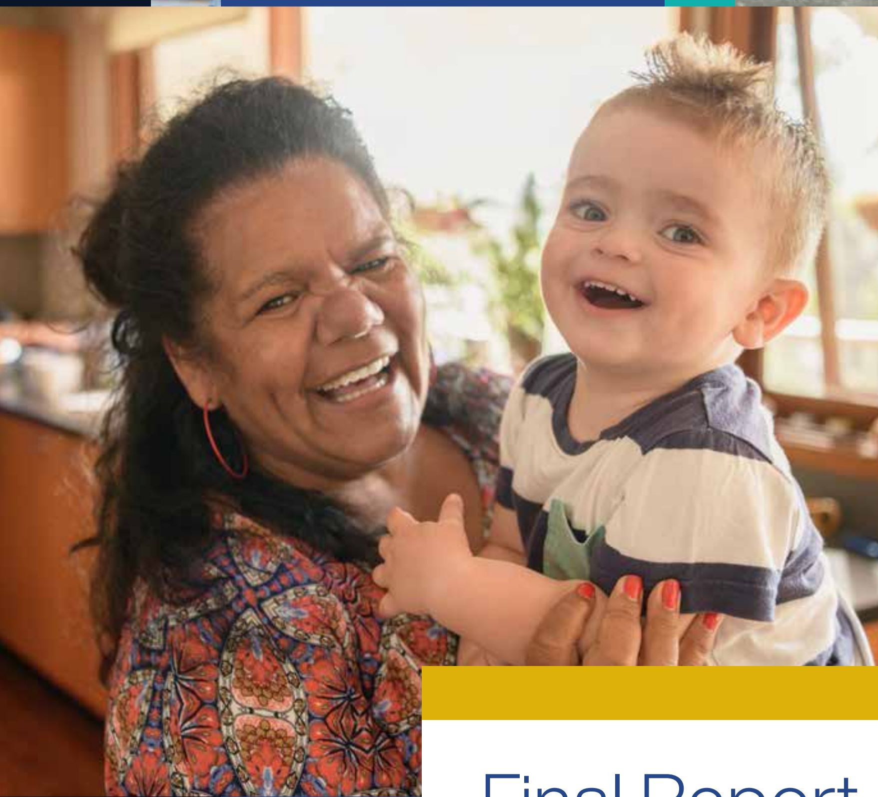

Australian Government

Final Report of the **Australian Social Impact Investing Taskforce**

A Commonwealth strategy to build a mature and self-sustaining social impact investing market that improves the lives of vulnerable Australians

Final Report of the Australian Social Impact Investing Taskforce

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Final Report of the

Australian Social Impact Investing Taskforce

A Commonwealth strategy to build a mature and self-sustaining social impact investing market that improves the lives of vulnerable Australians

Letter from the Chair, Mr Michael Traill AM

Dear Prime Minister,

I am pleased to present the final report of the Social Impact Investing Taskforce. We believe the report provides a practical blueprint to transform the Australian Social Impact Investing (SII) market.

The need for SII is more urgent than ever given the impact of the COVID-19 pandemic and the resultant economic dislocation and disproportionate impact on vulnerable Australians. We have the opportunity to combine the best of the social purpose and business worlds to transform the SII market to improve the lives of Australians and build our economy for the future.

Our consultation process and recommendations reflect the capacity for a uniquely Australian approach to building the SII market, with in principle commitments of funding and resources coming from leading players in the business and social purpose worlds who share our passion for change.

Research shows there is currently around $2.5 billion of social impact investments in Australia. Relevant global precedents, local data and consultation tells us there is the capacity to help drive SII to at least ten times the current size with the right market building initiatives. With targeted support from the Government, in partnership with states and territories and the private and social purpose sectors, there is potential to substantially grow the SII market over the next five years, mobilising greater capital to achieve increased social impact.

The Taskforce's vision for change set out in this report highlights the potential for substantial growth in the three market segments of SII identified in our Interim Report:

- Scaling programs, including social impact bonds, through an Outcomes Fund underpinned by rigorous data on what really works.
- Significantly increasing the growth of the small to medium social enterprise market, in partnership with philanthropy, to drive employment outcomes and solve social issues.
- Building the volume of large scale SII opportunities by drawing in investment from mainstream capital institutions through the creation of a SII wholesaler.

The key to achieving this vision is to establish the SII market building initiatives recommended. Each of the Taskforce's recommendations are based on strong partnerships between governments, the social purpose sector, communities, philanthropy, social enterprises and investors. Core recommendations to establish a market building wholesaler and Early Stage Social Enterprise Foundation are based on a partnership funding model with the private sector and philanthropy. Our consultation with key prospective funders and investors delivers on the premise that the appetite to expand the SII market is real and this is reflected throughout our report.

We commend the final report to you and look forward to the opportunity of working with the Australian Government to transform the SII market and drive better outcomes for excluded and disadvantaged Australians.

Yours sincerely

Mr Michael Traill AM

Chair

6 November 2020


Business
Government
SII brings together the best of the private, community and government sectors to address social issues
Financial institutions
Social purpose organisations
Philanthropy

Contents

Executive summary

The purpose of social impact investing (SII) is to bring together the best of the business, financial, philanthropic, government and community sectors to solve intractable social disadvantage. Social impact investments generate financial returns alongside measurable social outcomes.

The Taskforce recommends the Australian Government implement a $630 million **Commonwealth Social Impact Investing Strategy** to develop a mature and self-sustaining Australian SII market over the next ten years – with $410 million funding from the Government and $220 million in targeted contributions from the private sector and philanthropy.

Despite Australia's prosperity—and an array of interventions over many decades—too many Australians still face persistent disadvantage and exclusion. The problem is not small:

- Nearly 3 million Australians, or around 12% of the population, are unable to afford the basic essentials of life.[1]
- Around 175,000 Australians have been unemployed for more than 52 weeks.[2]
- Indigenous Australians continue to experience disproportionately poor outcomes compared to other Australians as reflected in the refreshed Closing the Gap targets.[3]
- Australia spends $15.2 billion every year because of late intervention, resulting in children and young people experiencing serious issues that require crisis services including 124,000 requiring specialist housing services and 45,000 children in out-of-home-care in 2017-18.[4]

While governments have a responsibility to address these issues, they cannot do it alone. The corporate, social purpose and philanthropic sectors have much to contribute. They bring insights, skills, entrepreneurial capacity, capital and a desire to collaborate with each other and governments to address social disadvantage.

Working in partnership to implement this Strategy can fundamentally shift the dial on entrenched disadvantage. It will also transform the way the Government works and galvanise a role for the private and social purpose sectors in supporting social good while generating financial returns. Based on the UK experience, at market maturity every dollar government spends on SII is expected to attract double the contribution from the private sector.[5]

1 Wilkins, R. (2016) *The Household, Income and Labour Dynamics in Australia Survey: Selected findings from waves 1 to 14.* Melbourne: Melbourne Institute of Applied Economic and Social Research, University of Melbourne. pp.83-88.

2 Australian Bureau of Statistics (2020) *Unemployment Monthly (September)* Table 14b. Accessed on 26/10/20 at: https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/sep-2020/6291014b.xls

3 Australian Institute of Health and Welfare (AIHW) (2019) *Australia's welfare 2019 data insights.* Canberra: AIHW.

4 Teager, W. Fox, S. & Stafford, N. (2019) *How Australia can invest in children and return more: A new look at the $15b cost of late action.* Australia: . CoLab, Early Intervention Foundation, The Front Project and Woodside Energy

5 Big Society Capital (2020) *Portfolio.* Accessed on 21/08/20 at https://bigsocietycapital.com/portfolio/

Targeted investment and support from the Government can unlock hundreds of millions of dollars in private investment – to drive solutions to Australia's most intractable social problems, while stimulating job creation and a strong economic recovery from COVID-19. In the UK, social enterprises employ two million people, creating jobs at 4.5 times the rate of the traditional private sector, with a significant proportion of jobs located in the most disadvantaged communities.[6]

The UK experience shows that SII can make a significant contribution in addressing disadvantage. Since its inception in 2012, the UK's wholesaler Big Society Capital has seen:

- 50,000 people into employment;
- 255,000 people receiving mental health support;
- affordable housing for 3,200 people;
- suitable housing for 26,000 people; and
- 6,700 children accessing childcare.[7]

The Australian SII market is currently fragmented and small scale, having been primarily driven by state and territory governments and the social purpose sector itself. But the potential of a mature SII market is enormous, particularly in light of the social and economic consequences of COVID-19 and its disproportionate impact on vulnerable Australians.

The Australian Government has a critical role to play in the development of a mature and self-sustaining SII market. The Taskforce recommends the Government implement a ten year Social Impact Investing Strategy – with **six recommendations** to transform the Australian SII market, with a focus on creating the key market building institutions that will allow SII activity to flourish.

In the UK, social enterprises employ two million people, creating jobs at 4.5 times the rate of the traditional private sector.

6 Big Society Capital (2020) *Why community should be at the heart of government policy measures.* Accessed on 14/10/20 at: https://bigsocietycapital.com/latest/why-community-should-be-heart-government-policy-measures/ and Access: the Foundation for Social Investment, Big Society Capital, Impact Investing Institute, Power to Change, Social Enterprise UK, Social Investment Business, School for Social Entrepreneurs, UnLtd (2020) *Getting Britain Back to Work*. Unpublished submission.

7 Big Society Capital (2020) *Quadrennial review*. Accessed on 14/09/20 at: https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/BSC_Quadrennial_Review_Report_Jul_30.pdf

Recommendations

1	**Early Stage Social Enterprise Foundation** *Purpose: To provide flexible loans and capacity building grants to support social enterprises to expand their impact.* This recommendation proposes the Australian Government establish an Early Stage Social Enterprise Foundation in partnership with philanthropy to support early stage social enterprises in a flexible way, tailored to the needs of each individual enterprise. This includes the provision of flexible loans, in addition to funding for capacity building activities. There is a clear need for early stage social enterprises to receive targeted support to build their capacity and access critical funding when they need it to scale their impact.	**$65 million** *Including $20 million contributed from philanthropic foundations*
2	**Social Impact Investing Wholesaler** *Purpose: To capitalise on increasing investor interest in SII by building a strong, diverse network of financial intermediaries to develop investment opportunities and link investors with opportunities that meet their financial and impact requirements.* The wholesaler will see the Australian Government partner with private investors to provide wholesale capital to intermediary funds. Intermediaries create investment opportunities that meet the financial and impact requirements of investors and unlock private capital to help address social disadvantage. It will act as a market champion, building expertise in fund management and impact measurement, and drive the development of the Australian SII market.	**$430 million** *Including $200 million contributed by commercial investors*
3	**Commonwealth Outcomes Fund** *Purpose: To encourage a coordinated, cross-jurisdictional approach to outcomes-based funding, stimulating the pipeline of SII opportunities.* This recommendation proposes the Australian Government establish an Outcomes Fund that provides payments to states and service delivery organisations based on the measurable outcomes they achieve. The Outcomes Fund would enable several outcomes-based contracts, such as social impact bonds or payment by results contracts, to be developed and supported in parallel, under a common framework. In so doing, it will significantly increase the number and size of social investment opportunities in Australia's SII market.	**$100 million**

4	**Commonwealth Office of Social Impact** *Purpose: To coordinate Australian Government activity across three key roles – a market participant, market facilitator and market regulator – and provide advice and expertise to inform SII activity across the whole of the Australian Government.* A central policy unit, established as an independent statutory authority, will drive Australian SII policy and monitor and evaluate the success of the Strategy. In particular, the COSI will: ▪ house a SII data hub to support the sector to access and use government data and enable outcomes-based contracts and other investment opportunities; ▪ manage the periodic development and release of research on the state of the Australian SII market; ▪ develop an Australian Government impact measurement framework to champion consistent methods for measuring the social impact of government services and programs; and ▪ administer the Outcomes Fund (Chapter 7).	**$35 million**
5	**Encourage social procurement across the Australian Government** *Purpose: To maximise social impact generated through Australian Government spending and channel additional capital toward social enterprises delivering outcomes in Australian Government priority areas.* This can be achieved by issuing guidance on how to consider social impact when undertaking procurement processes, introducing an exemption for small to medium social enterprises and considering expansive policies such as targets. This will enhance the Australian Government's ability to procure from social enterprises, and raise awareness of the additional benefits of doing so while still achieving value for money in government purchasing.	**Budget neutral**
6	**Clarify the Sole Purpose Test and consider legislative and regulatory context** *Purpose: To make it easier for investors to engage in SII by clarifying a perceived regulatory barrier, thereby unlocking significant flows of capital towards impact investment opportunities.* The Taskforce recommends the Government reinforce the position of the Australia Prudential Regulatory Authority (APRA) in relation to SII. APRA's position highlights the existing capacity for superannuation funds to engage in SII while maintaining a continued focus on financial returns. As the Australian SII market grows, there is scope for future consideration of changes to real and/or perceived legislative and regulatory barriers. The Taskforce recommends the COSI keeps these issues under review.	**Budget neutral**

The Taskforce's recommendations fall under four broad action areas for government and others to accelerate the growth of SII and improve people's lives.

- **Measure and incentivise social impact:** build the market for social impact by supporting the widespread use of impact measurement—including measuring, reporting and evaluating impact.
- **Foster the growth of social impact investing opportunities:** support an increase in the size and number of high quality investment-ready opportunities. In particular, support social enterprises to build capacity to attract investment and win social procurement contracts.
- **Support capital to flow to social impact investments:** reduce the barriers individuals and organisations face when engaging in SII and encourage diverse sources of capital to flow to SII. In particular, to support investors to build knowledge and decrease the transaction costs of bespoke social impact deals.
- **Enable a well-functioning SII market:** ensure the underlying structures are in place to support an efficient and effective SII market that delivers a broad public benefit.

The recommendations in this report are designed to be introduced in parallel starting in 2021, and work together to build a mature and self-sustaining Australian SII market. While the recommendations are important on their own, working together, their impact will be much greater than the sum of their individual parts. As the capacity of the sector grows, the need for the Government to have an ongoing role in subsidising and supporting the market will reduce.

In the near term, the Strategy will contribute to the COVID-19 recovery by focusing efforts on inclusive employment and support for cohorts who have been hit hardest such as women, youth, mature-age job seekers and marginalised groups. Many of the Taskforce's recommendations could be implemented quickly to catalyse private investment in efforts to rebuild.

With targeted support from the Australian Government, in partnership with states and territories, the private, social purpose and philanthropic sectors, these recommendations will substantially grow the SII market over the next ten years. Growing the SII market will mobilise more private capital to achieve greater social impact and ultimately make a meaningful long-term difference in the lives of Australia's most vulnerable people.

The Taskforce anticipates that substantial gains in the size, capacity and effectiveness of Australia's SII market can be realised within five years. Sustained commitment and support for the Strategy will result in a mature and independent market that creates measurably improved social outcomes for Australians experiencing disadvantage by 2031.

	Current Situation	Future vision by 2025
Payment-by-results programs including SIBs	• Six to eight social benefit bonds focused on outcome delivery • Aggregate investment ~ $40 million • Sporadic examples of program-related investments (PRI)	• Pooled SIB funding with shared IP on development & datasets underpinned by data hub in COSI (a partnership with funders, universities and SII experts), aggregating $250 million. • Greater understanding of the costs of the underlying social issues, enabled by improved transparency and access to data across governments, demonstrated by publication of 5 rate cards on priority social issues and other initiatives. • Government spending more effectively targets outcomes rather than outputs including through a social procurement target of 0.5-1.0% and outcomes funds valued at $250-500 million. • Wider use of PRI, where appropriate underpinned by shared datasets (and not only for payment by results programs).
Small to medium social purpose organisation	• Inconsistent capacity building for entrepreneurs • Shortage of intermediaries • Shortage of early stage funding sources • Lack of depth of funding for different stages of social enterprise	• Deep pool of aspirant social entrepreneurs from business and social sectors, backed by accessible capacity building opportunities and connected through dynamic networks. • Increase in number and diversity of sustainable capacity building intermediaries. • Increase in small to medium social enterprises with capacity to obtain required investment/financing, with a market size of ~ $250-500 million. • Clear pathways to achieve outcomes and financial sustainability including well-resourced, flexible, easily available support for for-profit and not-for-profit social enterprises. • More social impact venture capital and private equity funds to provide risk diversification for early stage investors and greater funding streams for growing social enterprises.
Large scale social purpose organisation and investments	• Few examples of large scale social enterprise • Current market size is <$1 billion • Small number of mainstream institutional funders committing to mid-scale impact investing • Lack of product and impact funds in the market to address scale issue but also risk issue of direct investment for retail and foundations.	• Institutions understand their social impact (positive, negative or neutral) across their full portfolio of holdings. (Initially, this may only be achievable for a % of their portfolio.) • SII market size is ~ $40-50 billion with more than 20 $1 billion+ revenue social enterprises. • High quality boards and senior executives from across the business and social purpose worlds see social impact investing as a mainstream career path. • Impact investing is underpinned by clear social purpose metrics, government enablers (subject to performance, such as subsidies and tax concessions) and long-term financial performance consistent with expectations. • Clear rules on the use of philanthropic foundations' corpus for impact investment in the context of their overall strategic asset allocations (relates to all market segments).

Figure 1: Taskforce vision for change by 2025

List of acronyms and abbreviations

A glossary of terms used in this report is provided at Appendix A.

Acronyms

ABN	Australian Business Number
ABS	Australian Bureau of Statistics
CSI	Centre for Social Impact
DSS	Department of Social Services
GIIN	Global Impact Investing Network
GSG	Global Steering Group for Impact Investment
IIA	Impact Investing Australia
NHFIC	National Housing Finance and Investment Corporation
NIAA	National Indigenous Australians Agency
NSW OSII	New South Wales Office of Social Impact Investing
OECD	Organisation for Economic Co-operation and Development
ONDC	Office of the National Data Commissioner
PBR	Payment by results
PM&C	Department of the Prime Minister and Cabinet
RIAA	Responsible Investing Association Australasia
SBB	Social benefit bond
SIB	Social impact bond
SII	Social impact investing
SIISR	State of the social impact investing sector research (see Chapter 6)

Abbreviations

The Government	The Australian Government (unless otherwise specified)
The Taskforce	The Australian Social Impact Investing Taskforce
The Strategy	The Commonwealth Social Impact Investing Strategy

Summary of recommendations

The Australian Government should implement a ten-year Social Impact Investing Strategy to coordinate and deliver policies to build a self-sustaining and mature SII market that sees private and philanthropic capital mobilised to address Australia's most intractable social issues. The recommendations are designed to work together to build critical elements of the SII market.

1	The Government should establish an Early Stage Social Enterprise Foundation, in partnership with the philanthropic sector.
2	The Government should establish a SII wholesaler – Social Capital Australia – in partnership with commercial investors.
3	The Government should establish a Commonwealth Outcomes Fund.
4	The Government should establish a Commonwealth Office of Social Impact including a SII data hub.
5	The Government should maximise social impact generated through existing government spending by adopting a social procurement policy.
6	The Government should reinforce the position of the Australian Prudential Regulation Authority (APRA) in relation to SII for superannuation investments.

PART A

SOCIAL IMPACT INVESTING IN AUSTRALIA

Chapter 1

Introduction

The Taskforce was established by the Australian Government through the 2019-20 Budget to provide evidence-informed recommendations on a strategy for the Government's role in the social impact investing market.

The Commonwealth Social Impact Investing Taskforce

The Taskforce was established by the Australian Government through the 2019-20 Budget to provide evidence informed recommendations on a strategy for the Government's role in the social impact investing (SII) market.

In particular, the Taskforce was asked to consider how SII can provide solutions to address entrenched disadvantage and some of society's most intractable social problems.

The Taskforce comprises an independent Expert Panel appointed by the Prime Minister, supported by a team within the Department of the Prime Minister and Cabinet. Members of the SII Expert Panel are:

- Mr Michael Traill AM (Chair)
- Ms Amanda Miller (Deputy Chair)
- Dr Catherine Brown OAM
- Mr Daniel Gilbert AM
- Ms Sally McCutchan OAM

Biographies of all Expert Panel members can be found at Appendix B.

The Taskforce's Terms of Reference are at Appendix C.

The opportunity for SII to address entrenched disadvantage

Entrenched disadvantage refers to situations where:

- the problem is both significant and complex; and
- current policies to remove entrenchment are not working.[8]

Despite Australia's prosperity—and an array of interventions over many decades—too many Australians still face persistent disadvantage and exclusion.

- Around 12% of Australians, or nearly 3 million people, are unable to afford the basic essentials of life.[9]
- Around 3% of Australians, or around 700,000 people, have been living in income poverty continuously for at least the last four years.[10] The prevalence of income poverty has not substantially changed over the past three decades.[11]
- Around 175,000 people are long-term unemployed meaning they have been unemployed for more than 52 weeks.[12]
- Over half (52%) of people with disability who are of working age do not have employment, compared to less than 20% of people without disability.[13]
- Almost 150,000 applicants are on the waitlist for social housing, which is estimated to imply over $41 billion is required in new dwelling investment.[14] [15] It is projected that over 700,000 additional social dwellings will need to be constructed over the next 20 years.[16]
- A disproportionate number of Indigenous Australians continue to experience economic and social hardship and this is reflected in the refreshed Closing the Gap targets.[17]

Some of the groups who experience the highest rates of persistent disadvantage include Indigenous Australians, unemployed people, people living in single parent families and people living with disability.[18]

Access to social and affordable housing is a key element of addressing entrenched disadvantage. From a social perspective, stable housing provides a basis for social participation and is a significant determinant of lifetime education, employment and health outcomes. From an economic perspective, housing has a significant impact upon investment, productivity and participation, flowing through

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8 Committee for Economic Development of Australia (CEDA) (2015) *Addressing entrenched disadvantage in Australia.* Melbourne, Australia: CEDA.

9 Wilkins, R. (2016). *The Household, Income and Labour Dynamics in Australia Survey: Selected findings from waves 1 to 14.* Melbourne: Melbourne Institute of Applied Economic and Social Research, University of Melbourne. pp.83-88.

10 Productivity Commission. (2018). *Rising inequality? A stocktake of the evidence.* Canberra, Australian Government. p.5.

11 Ibid. p.112.

12 Australian Bureau of Statistics (2020) *Unemployment Monthly (September) Table 14b*. Accessed on 26/10/20 at: https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/sep-2020/6291014b.xls

13 Ibid.

14 AIHW (2019) *Housing assistance in Australian 2019*, Accessed on 12/12/2019 at https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia-2019/contents/priority-groups-and-wait-lists#pg4

15 Australian Government Council on Federal Financial Relations (2017) *Supporting the implementation of an affordable housing bond aggregator:* Canberra: Australian Government.

16 Lawson, J., Pawson, H., Troy, L., van den Nouweland, R. & Jamilton, C. (2018). *Social housing as infrastructure: an investment pathway, AHURI Final Report No. 306*. Melbourne: Australian Housing and Urban Research Institute Limited.

17 Australian Government (2020) *Closing the Gap targets and outcomes.* Accessed on 26/10/20 at: https://www.closingthegap.gov.au/targets

18 AIHW (2019) *Australia's welfare 2019 data insights*. Canberra: AIHW.

to consumption and saving trends across the economy. Housing is central to the effectiveness of Australia's welfare system as safe secure housing is a necessary condition for other positive social outcomes.[19]

The challenges facing Australian society are set to become ever more complex—and governments alone cannot find all the solutions.

When the Taskforce's work commenced in the middle of 2019, Australia was a very different place. While large parts of the nation were already grappling with extreme natural disasters—such as floods and drought—the devastating bushfires of late 2019 and early 2020 were yet to occur. And the colossal social and economic fallout from the COVID-19 pandemic throughout 2020 was inconceivable.

As is often the case, the people who are the most affected by these events are those who can least afford it: Australians already facing entrenched and extreme disadvantage.

As such, now more than ever, a Commonwealth SII Strategy is critical. As the Prime Minister has himself noted, the unprecedented disruption from these events provides a unique opportunity to reflect and consider how to rebuild.[20] SII can catalyse a movement that recognises the positive consequences of investments, that have previously gone unaccounted for. Private and philanthropic investors stand ready to mobilise capital to contribute to rebuilding the nation—both economically and socially. The Australian Government should now step in to play its role to help develop a mature and self-sustaining Australian SII market.

The Taskforce envisages an Australia where combinations of the business, financial, philanthropic, government and community sectors work together to explore the potential of SII to stimulate more innovative and collaborative responses to seemingly intractable social challenges.

What is social impact investing?

SII aims to achieve a social objective alongside a financial return—and measure the achievement of both. SII sits on a spectrum of financing approaches—from grants and philanthropy focused only on the impact created with no financial return, to mainstream investing that focuses primarily on financial returns with no regard to measuring impact.

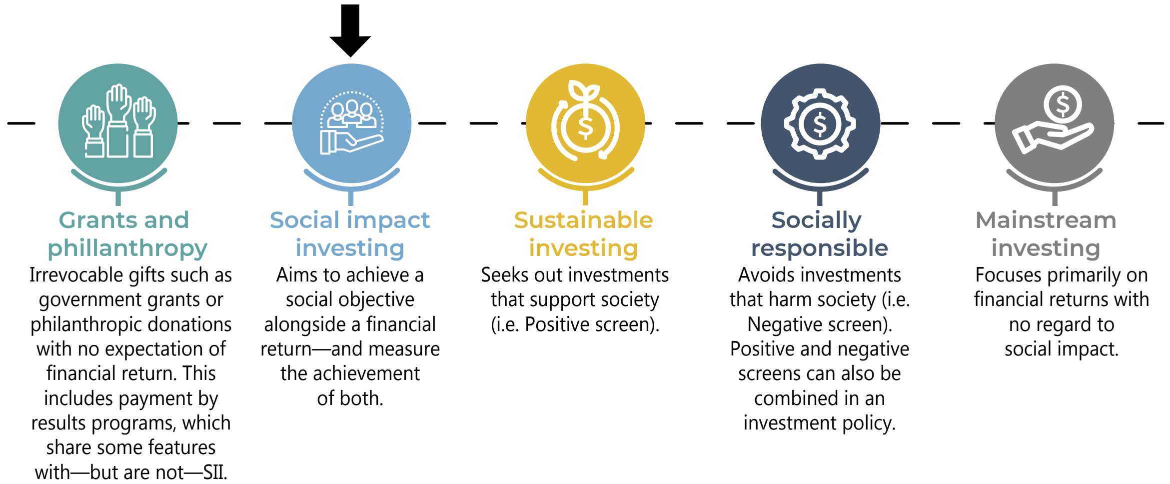

Figure 2: Scale of investments[21]

19 Department of Social Services (2020) *Housing*. Accessed on 26/10/20 at: https://www.dss.gov.au/housing-support/programmes-services/housing

20 Morrison, S. (2020) Speech at the National Press Club on 26 May 2020, Canberra. Accessed 26/10/20 at: https://www.pm.gov.au/media/address-national-press-club-260520

21 Scale adapted from: the Australian Government Treasury (2017) *Social impact investing discussion paper*. Canberra: Australian Government. p. xii

Impact investors can seek various levels of return depending on the emphasis placed on achieving social outcomes compared to financial returns. The Taskforce has focused on SII that actively and intentionally contributes to solutions for Australians experiencing entrenched disadvantage, achieving and measuring the social impact, as well as achieving financial returns which range from concessional to market rate. This Taskforce focuses on the *contribute to solutions* class of investment as defined by the Impact Management Project (of Bridges Insights). The Impact Management Project categorises these types of impact investment as 'the enterprise not only acts to avoid harm, but also generates one or more significant effect(s) on positive outcomes for otherwise underserved people and the planet'.[22 23]

Figure 3: Classes of impact spectrum.[24]

22 Impact Management Project (2018) *A Guide to Classifying the Impact of an Investment*. Accessed on 20/12/19 at: https://impactmanagementproject.com/wp-content/uploads/A-Guide-to-Classifying-the-Impact-of-an-Investment-3.pdf

23 Impact Management Project (2019) *The Impact Classes of Investment*. Accessed on 20/12/19 at: https://impactmanagementproject.com/investor-impact-matrix/

24 Model adapted from: Impact Management Project (2019) *The Impact Classes of Investment*. Accessed on 04/12/19 at: https://impactmanagementproject.com/investor-impact-matrix/

What this means in practice

MiHaven

An example of a social enterprise that contributes to solutions for Australians experiencing entrenched disadvantage is MiHaven.

MiHaven is a social enterprise working in property development that tackles chronic unemployment of Indigenous Australians in Queensland. Following a successful pilot that promoted employment opportunities for Indigenous youth from the Cairns and Cape York regions, MiHaven established a Property Fund.

The MiHaven Property Fund supports chronically unemployed Indigenous Australians to enter long-term sustainable employment in construction and related industries. The Fund provides the opportunity for MiHaven Training to place further job seekers into a real work environment and be supervised by MiHaven's construction team as it acquires more properties.

Social Enterprise Finance Australia provided a loan of $1.2 million to support MiHaven establishing MiHaven Social Impact Fund No.1, the first purpose built student accommodation in Cairns. A key social impact outcome was to provide high quality co-collective student living for Indigenous students who live in remote communities. The establishment of the MiHaven Social Impact Fund No.1 also supported the scaling up of this social impact accommodation model with an additional $6 million raised for a second MiHaven Student Living Social Impact Fund, creating accommodation for a total of 135 remote students requiring living support in Cairns.

MiHaven has achieved significant positive impact throughout its operations, including:

- trained 800 disadvantaged Indigenous people;
- placed 60% of trainees into employment;
- consistently achieved 95% attendance in on-the-job accredited training; and
- over 30% of MiHaven employees are Indigenous.

The work of the Taskforce covers both social impact investing as it is usually defined and the use of outcomes-based payments to enhance the efficiency and cost effectiveness of social service delivery. While outcomes-based contracts are not on their own social impact investments (as in many cases there may not be an external investor, as service providers may fund the upfront delivery themselves), they provide a mechanism to foster innovation in social service delivery, build an evidence base and improve the social outcomes generated from Government funding. And, depending on their structure, outcomes-based contracts can create more opportunities to bring in private sector or philanthropic investors alongside government.

What this means in practice

Journey to Social Inclusion

Journey to Social Inclusion (J2SI) is an example of a social impact investment that involves outcomes-based payments. J2SI is a program run by Sacred Heart Mission that assists people experiencing disadvantage to gain access to stable housing. J2SI is funded through a social impact investment with the Victorian Government under the Social Impact Bond (SIB) Pilot program.

J2SI provides intensive case management, supplemented by rapid access to stable housing, for 180 clients who are chronically homeless. J2SI takes a relationship-based approach, provides long-term support and works from the premise that if people can sustain their housing, this provides a solid foundation to improve other areas in people's lives. Intensive support and case management is provided to:

- improve mental health and wellbeing;
- get and stay in housing;
- resolve drug and alcohol issues;
- build skills;
- increase connection with the community; and
- contribute to society through economic and social inclusion activity.

The social impact investment uses a financing structure set up to pay a return based on agreed achieved social outcomes, such as people staying housed and a lower use of healthcare services. The first outcome payment is due to be made in December 2020, covering the second year of the first cohort of 60 clients.

On top of outcome payments from the Victorian Government, Sacred Heart Mission also receives low cost debt from investors to provide cash flow before outcomes are achieved from the program. Several philanthropists guarantee this debt in the case of outcomes not being delivered—this model is unique in Australia. J2SI provides an example of an investment involving a partnership between multiple sectors working together to create better social outcomes.

Process for developing recommendations

The Taskforce undertook extensive consultation with SII actors and experts—both in Australia and internationally—and commissioned a number of research projects, in addition to reviewing existing research, to build the evidence base that underpins the recommendations in the Commonwealth SII Strategy. Through these activities, the Taskforce identified four key actions areas (see below) and developed and tested proposals to set out a clear way forward for the Australian Government's role in social impact investing.

Consultations

The Taskforce engaged widely with the private, philanthropic and social purpose sectors, state and territory governments and relevant Australian Government agencies. The Taskforce also engaged with individuals and organisations involved in SII internationally, drawing from experience and learnings, particularly in the UK.

Consultations included:

- **Stakeholder roundtables:** The Taskforce has held 17 roundtables with over 100 participants including social impact investors, superannuation funds, social entrepreneurs, philanthropic foundations, social purpose organisations, Indigenous enterprises, state and territory governments, fund managers, peak bodies and intermediaries.
- **Targeted consultations:** The Taskforce has heard from over 40 representatives of the SII sector, Australian business leaders through the Business Council of Australia, international leaders in SII, and the Global Steering Group for Impact Investment.
- **Workshops:** The Taskforce held three workshops at the Impact Investment Summit Asia Pacific 2019 exploring impact measurement, support for impact driven organisations and large scale investments. In addition, the Taskforce held two small-group user mapping workshops to explore the experience of different market participants in the SII sector.

A full list of organisations the Taskforce has consulted with is provided at Appendix D.

Research

The Taskforce also undertook rigorous research to test and develop its thinking with input from leading experts in the field. This included:

- **Quantitative research:** The Taskforce sponsored the 2020 Responsible Investment Association Australasia (RIAA) Australian Impact Investment Survey and Benchmarking Impact Report, which collects data on impact investing in Australia including impact investment activity and performance.
- **Qualitative user-centred research:** The Taskforce held focused workshops with participants in the SII market to explore the stages of SII and key steps, activities, barriers, challenges and enablers faced by actors in the sector.
- **Research projects:** The Taskforce commissioned research on international SII interventions, social impact measurement frameworks and potential opportunities in Australia for large scale social impact investments (see Appendix J).
- **Stocktake of activity:** The Taskforce conducted a national stocktake of SII initiatives across Australia. A comprehensive stocktake was provided to Government and a summary is at Appendix E.

Structure of the final report

This report:

- Sets the scene by discussing the purpose and potential of SII in Australia and providing an overview of the current state of the Australian SII market (Part A).
- Outlines the Taskforce's advice on a Commonwealth SII Strategy – providing a detailed explanation of the six recommendations, which together will build and support a successful Australian SII market and draw together the recommendations into a cohesive implementation plan (Part B).

The Report is supplemented by further detail in appendices on:

- **Appendix A:** Glossary of key terms
- **Appendix B**: Social Impact Investing Expert Panel Biographies
- **Appendix C:** Terms of Reference
- **Appendix D:** Stakeholder engagement
- **Appendix E:** Summary of national stocktake of SII initiatives across Australia
- **Appendix F:** Implementation detail – Establish an Early Stage Social Enterprise Foundation
- **Appendix G:** Implementation detail – Establish an Australian impact investing wholesaler
- **Appendix H:** Implementation detail – Establish a Commonwealth-State Outcomes Fund
- **Appendix I:** Implementation detail – Establish a Commonwealth Office of Social Impact
- **Appendix J:** Research reports prepared by Inside Policy to inform the development of advice and recommendations

Interim report

The Taskforce's interim report was published on 31 January 2020 and included three interim recommendations:

- Establish a SII analytics hub to model and cost Government investment in social services to inform future investments and better share analysis of Australian Government data.
- Establish principles for future SII initiatives to ensure partnerships across different sectors and that Australian Government investment can leverage additional investment from the private and social purpose sectors.
- Establish an information portal to share financial and legal resources, which underpin SII initiatives and build a knowledge bank for future initiatives.

This Final Report builds on the Taskforce's interim recommendations – which are intended to be taken forward through the proposed Commonwealth Office of Social Impact (Chapter 8).

The Taskforce's findings

Based on research and consultations, the Taskforce has developed a set of practical recommendations that span four key action areas—for government and others—to accelerate the growth of SII and improve the lives of people experiencing disadvantage:

Action area 1: Measure and incentivise impact: Build the market for social impact by supporting the widespread use of impact measurement—including measuring, reporting and evaluating impact.

Only around two thirds of Australian social enterprises measure their social impact at all,[25] and of those that do, many fail to do so in a robust enough way to satisfy investor expectations. Greater uptake and consistency of social impact measurement is vital for supporting social enterprises to evaluate and maximise their social impact—and giving investors and other funders the confidence to provide capital to the investments with greatest potential impact. Accurate reporting is also important to prevent 'impact washing', where claimed social impact may be inaccurate.

Critically, there is also a lack of availability of good quality data. Without good data, impact reporting will not be possible. While great inroads have been made in the quality and availability of data in recent years, challenges remain.

The Taskforce's recommendations addressing this action area are:

- **Establishing a Commonwealth Outcomes Fund,** which will develop better practice around measuring and paying on the outcomes of programs as well as understanding impacts achieved across levels of government (see Chapter 7).
- **Establishing a Commonwealth Office of Social Impact (COSI)**, which will house a SII data hub and develop an Australian Government impact measurement framework to champion consistent methods for measuring the social impact of Government services and programs (see Chapter 8).

Action area 2: Foster the growth of social impact investing opportunities: Support an increase in the size and number of high quality investment-ready opportunities by building the capacity of social enterprises and intermediaries.

During initial consultations the Taskforce heard much about the need to encourage, support and build the capacity of early stage social enterprises. There has been consistent feedback about the need to nurture and support the networks, resourcing and skills essential for social entrepreneurs to build their emerging enterprises. An additional concern is that there are limited funding options available to small and early stage ventures,[26] which impedes the growth of the sector.[27] Social enterprises—and the SII sector as a whole—need transitional support to mature to be ready for mainstream financing and/or social procurement opportunities. With catalytic interventions from the Government, in partnership with philanthropy and the private sector, the market will build its capacity and track record over time, resulting in additional private investment and a mature, self-sustaining market.

The Taskforce's recommendations addressing this action area include:

- **Establishing an Early Stage Social Enterprise Foundation,** which addresses a lack of coordinated capacity building support for social enterprises as well as limited access to finance. It aims to grow the social enterprise sector so these organisations can scale, attract private capital and increase the impact they are making (see Chapter 5).
- **Encouraging social procurement by the Australian Government**, which aims to increase the social impact of the Government's procurement spend and provide an additional revenue stream for social enterprises to help these organisations grow (see Chapter 9).

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25 Barraket, J., Mason, C., & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne, VIC: Centre for Social Impact Swinburne & Social Traders. p.26

26 Michaux, F., Lee, A., and Jain, A. (2020) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2020*. Sydney, NSW: Responsible Investment Association Australasia. p.10

27 Ibid p.36

Action area 3: Support capital to flow to social impact investments: Incentivise individuals and organisations to invest greater and more diverse capital in social impact investments—in particular by building investor knowledge and intermediary capacity.

The Taskforce's consultations highlighted a wide range of funders—including philanthropic foundations, family offices, high net worth individuals and institutions who have made, or have formally committed to making, social impact investments. The almost universal feedback from investors was that they are actively seeking to increase their social impact investments.

A major limitation to the growth of the market is 'deal origination'—that is, the sourcing and development of SII deals. Given the nascent state of the SII market, specialist intermediaries are critical for most deals to occur. There needs to be an explicit focus on building this transaction origination capability, which is largely provided by specialist intermediaries.

There is an emerging appetite from mainstream funders, particularly superannuation funds to invest in social impact. Feedback from consultations has emphasised that, while there is a desire to invest in SII deals, many investors feel that their capital is constrained by actual and perceived regulatory and legislative barriers. Broadly, these barriers relate to rules and regulations governing the flow of capital towards impact investment opportunities.

The Taskforce's recommendations addressing this action area include:

- **Establishing an Australian Impact Investing Wholesaler,** which aims to build the SII market and provide more investable opportunities through a wholesaler that invests through intermediaries (see Chapter 6).
- **Reviewing legislative and regulatory barriers to investment,** which proposes the Government reinforce the position of the Australian Prudential Regulation Authority in relation to SII for superannuation investments (see Chapter 10).

Action area 4: Enable a well-functioning market: Ensure the underlying structures are in place to support an efficient and effective SII market that delivers a broader public benefit and operates more efficiently.

To date, the Australian Government's SII policy initiatives have been somewhat fragmented and in need of a cohesive, long-term strategy. The Taskforce's recommended SII Strategy has been designed to provide this direction and guide the development of the SII market and ensure a demonstrable public benefit.

The Taskforce also heard that it is difficult and time consuming for the sector to access government data — which is critical given SII is a naturally data driven approach and quality data is required to design and understand whether an intervention has an impact. There is also a lack of comprehensive, longitudinal market level data to help track the progress of the Australian SII market over time.

The Taskforce's primary recommendation addressing this action area includes:

- **Establishing a COSI**, as an central unit to oversee the implementation of the Strategy and support a coordinated approach to SII across the Australian Government. A key function of the COSI would be to facilitate the collection, access and use of high quality data to inform SII — including by housing a SII data hub. The COSI would also champion best practice impact measurement frameworks across the Government (see Chapter 8).

Chapter 2

The purpose of social impact investing

The case for Social Impact Investing

The purpose of Social Impact Investing (SII) is to bring together the best of government, private enterprise, social sectors and philanthropy to solve intractable social dysfunction and disadvantage.

Australia is a wealthy nation with strong economic credentials and capacity. Australians enjoy the benefits of a robust democracy underpinned by highly effective institutions and national values. Australians generally experience high standards of living supported by strong educational, employment and wealth creation opportunities. However, too many Australians miss out.

Australians experiencing the highest rates of entrenched disadvantage include: Indigenous Australians, unemployed people, people living in single parent families and people living with a disability.[28] Moreover, the impact of COVID-19 and the resultant economic dislocation has had a disproportionate impact on Australians experiencing disadvantage.

While governments carry the largest share of the load in addressing these problems, it shouldn't be just left to governments. The corporate, financial services, social and philanthropic sectors can bring investment capital, insights, skills and entrepreneurial capacity in working together and alongside governments to address social disadvantage. The scale and complexity of these challenges cannot be solved by any sector acting alone and requires a new, cross-sectoral approach to address these and other intractable issues. SII offers a collaborative approach that is urgently needed.

The purpose of Social Impact Investing (SII) is to bring together the best of government, private enterprise, social sectors and philanthropy to solve intractable social dysfunction and disadvantage.

28 Productivity Commission (2018) *Rising inequality? A stocktake of the evidence*. Canberra: Commonwealth of Australia.

Corporations across the world have become increasingly attentive to their social purpose and licence to operate, particularly as consumers become more conscientious and aware of their impact. SII offers the private sector the opportunity to contribute to the broader welfare of the Australian community through the provision of capital, skills and strategic thinking.

The philanthropic sector has a well-developed understanding of social issues and the advantage of concessional tax benefits which have the potential to deliver stronger, more accountable and measurable outcomes by working collaboratively with the private sector.

SII provides an opportunity to direct private investment towards social challenges, combining the innovation of social entrepreneurs with the capital and commercial acumen of investors. A strong and vibrant SII market has the potential to materially strengthen a more dynamic, resourceful and entrepreneurial ecosystem to help solve intractable social disadvantage in Australia.

A healthy and vibrant SII market will support strong partnerships between the social purpose sector, communities, philanthropy, social enterprises, investors and, where necessary, governments. Strong partnerships will allow for collaboration on new and innovative responses to existing and emerging social challenges, enabling Australia to work together to build a thriving and more inclusive society. Some types of SII can also drive greater efficiency and effectiveness through a focus on the measurable results of social service provision. For example, Social Impact Bonds drive an increased focus on outcomes rather than inputs to service delivery and often produce evidence that is applicable to improving broader social policy interventions and programs.

A well-developed SII market would allow private sector acumen and skills to combine with the deep expertise and community connections of the social purpose sector to accelerate:

- the creation of jobs for vulnerable Australians;
- the reinvigoration of rural, regional and vulnerable communities; and
- the investment of the financial sector, private investors and philanthropy in an inclusive economic recovery in Australia.

What this means in practice

Yarra View Nursery

Yarra View Nursery provides employment opportunities, training and other life skills to people living with a disability. The nursery has been operating since 1985 and is the largest social enterprise nursery in Australia. The nursery currently employs over 100 people and provides a supported environment, giving employees the opportunity to develop important work and life skills while also building confidence.

Over the past three years, the nursery has developed an additional revenue stream securing commercial contracts associated with large government infrastructure projects. Yarra View Nursery recently expanded by acquiring an existing successful business bringing total growing capacity to over 2 million plants per year, which will allow it to employ more people and scale its impact.

If Government supports the SII market to grow, it can expect to see more social enterprises like Yarra View Nursery taking an entrepreneurial approach to scaling their positive impact and creating better outcomes for Australians with disabilities.

How can SII support a socially inclusive economic recovery in Australia?

In countries where a SII market is more developed, such as the UK, social enterprises and SII are well positioned to play an important role in post-COVID-19 economic recovery and job creation. **In the UK, social enterprises employ two million people, creating jobs at 4.5 times the rate of the private sector,** with a significant proportion of jobs located in the most deprived communities.[29] They also contribute £60 billion (almost A$110 billion) to the UK economy.[30] Social enterprises actively employ the most vulnerable people and invest in the development and training of their staff.[31] Even with a relatively nascent market in Australia, from 2018 to 2019, SII created 1,403 additional social houses and supported more than 20,750 people in affordable housing.[32]

Social impact investors in Australia and globally have indicated their willingness to support the COVID-19 response and recovery by offering flexibility within their portfolios and in some cases allocating additional capital for social impact.[33] They are supporting COVID-19 response and recovery in a range of ways from establishing emergency liquidity facilities[34] or investing in working capital facilities for social enterprises,[35] to buying government issued social bonds to fund COVID-19 stimulus measures.[36]

The impact of COVID-19 on government budgets will be substantial and long-term. An upfront investment, alongside the private sector, to support a market-based response to the impact of COVID-19 on vulnerable Australians makes good economic sense. Using government support to leverage private investment helps to stabilise public debt relative to GDP, compared with alternative strategies that rely on more public spending.

Building a market that enables business and investors to deliver social outcomes alongside financial returns also provides a medium-term pathway to free up increasingly scarce government resources that can be redirected to support Australian's experiencing entrenched disadvantage.

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29 Big Society Capital (2020) *Why community should be at the heart of government policy measures.* Accessed on 14/08/20 at: https://bigsocietycapital.com/latest/why-community-should-be-heart-government-policy-measures/

30 Social Enterprise UK (2019) *The Hidden Revolution: Size and scale of social enterprise in 2018*. London: Social Enterprise UK

31 *Big Society Capital* (2020) *Why community should be at the heart of government policy measures*. Accessed on 14/08/20 at: https://bigsocietycapital.com/latest/why-community-should-be-heart-government-policy-measures/

32 Michaux, F, Lee, A, and Jain, A (2020) *Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020*. Sydney, NSW: Reasonable Investment Association Australasia.

33 Global Impact Investing Network (2020), *The Impact Investing Market in the COVID-19 Context: An overview*. New York: Global Impact Investing Network

34 Funds established to support the immediate cash flow needs of investee companies impacted by COVID-19.

35 Similar to emergency liquidity facilities, supporting cash flow needs of companies, but longer-term, more permanent financing vehicles.

36 Global Impact Investing Network (2020) *GIIN Response to COVID-19*. Accessed on 14/08/20 at https://thegiin.org/covid19

Where is SII a useful tool?

The Taskforce envisages an Australia where combinations of the business, financial, philanthropic, government and social purpose sectors work together to stimulate more innovative and collaborative responses to seemingly intractable social challenges.

While SII is a useful tool to support inclusive economic recovery and social outcomes in Australia, it is not a panacea and is appropriate only where social outcomes can be achieved through a business model that will be commercially viable over time. A key element of SII is that the integrity of impact is equally as important as the financial returns from investments. SII is not intended to replace service delivery by government agencies or not-for-profit organisations – they are critical pillars of the social services sector and will continue to be so.

Impact investing opportunities can be characterised by:

- **Commercially viable business models.** This includes products and services that actively create solutions to social issues. This recognises the increase in consumer and investor interest in social impact. Potential impact areas include affordable housing, Indigenous enterprise, rural and regional development and employment focused social enterprises. As policy settings and the SII market mature, it is envisaged that less Government involvement will be necessary to support many sustainable business models.
- **Potential to deliver better social outcomes for a given level of investment.** With a clear focus on social outcomes, not just cost efficiency, SII opportunities can be developed to align the interests of impact commissioners, investors and service users (e.g. social impact bonds to improve service delivery to vulnerable cohorts).
- **Rigorous measurement of their social impact.** A key element of SII is that the measurement of impact is equally as important as the measurement of financial returns from investments.

In Australia, the social issues with the most SII activity are in housing and local amenity, and income improvements and financial inclusion.[37] This accords with global markets where financial services, including microfinance, housing, healthcare and water and sanitation are the primary social sectors attracting SII.[38]

SII approaches require a different role for the Government than traditional public-private partnerships. In privatisation models, the Government typically outsources service provision to deliver greater efficiency and reduce ongoing Government costs, with regulation and oversight used to ensure service quality. There is not ongoing collaboration between Government, community, investors and service providers and the focus on efficiency often means social impact and service quality are not at the core of these approaches.

SII enables the development of long-term partnerships and collaboration between private, philanthropic and community sector stakeholders with a focus on measurable social outcomes and the commercial sustainability of organisations.

37 Michaux, F. Lee, A. and Jain, A (2020) *Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020*. Sydney, NSW: Responsible Investment Association Australasia.

38 Global Impact Investing Network (2020) *2020 Annual Impact Investor Survey*. New York: Global Impact Investing Network. p.xvii

"The success of all of this relies on a cross-sectoral approach. Where we've seen really good examples getting up is because parties are coming together in a way that's mutually beneficial and everyone cooperates around that end goal"

- SII Taskforce roundtable participant

SII is not a solution for all problems of entrenched disadvantage but it can provide a valuable tool to bring additional private capital and skills to certain situations of urgent or persistent need.

What is the role for the Australian Government in building the SII market?

There are significant positive externalities that accrue to the Government from a well-developed SII market, particularly the social benefits this market creates. SII creates additional jobs, particularly for vulnerable and disadvantaged Australians, and brings expertise and capacity from across the private, philanthropic and social sectors to support social innovation and solve social problems in Australia.

As a nascent market in Australia, SII is characterised by high levels of information asymmetry. As financial markets do not yet price social impact into the value of assets, SII creates significant positive externalities that are not captured by investors or investees. These market failures make a clear case for government intervention to support the growth of the market to scale up its social impact and become self-sustaining over time.

In addition to these market failures, market infrastructure, standards and norms on impact measurement do not yet exist in the same way they do for mainstream financial markets, and there are only a few intermediaries that can effectively bridge both finance and the social impact to bring deals together. These factors contribute to high transaction costs and lengthy time to negotiate contracts or raise capital, typical of nascent markets.

Supporting the development of a SII market so that it functions efficiently and effectively will support the Government to improve social outcomes within areas of traditional government responsibility, such as employment and social security for the most disadvantaged. SII also has long-term fiscal benefits for the Government as it attracts more private capital to deliver social outcomes that can change the trajectory of individuals' lives and reduce reliance on essential social services.

Government is uniquely placed to support the development of this market. While philanthropists can support small scale market building activities, a coordinated, strategic effort at the scale required is only possible with strong Australian Government and state and territory government leadership.

What this means in practice

Bama Services

An example of a social enterprise that contributes to solutions for Australians experiencing entrenched disadvantage is Bama Services (Bama). A thriving social impact investment market would see social enterprises, such as Bama, able to access greater levels of needed capital and private sector support to scale their businesses, grow their balance sheets and deliver Indigenous employment and training.

Bama is a social enterprise and is a subsidiary of the Cape York Partnership group, working in civil construction, building and landscaping service that tackles chronic unemployment of Indigenous Australians in Far North Queensland. Bama was set up to provide pathways to work for young Indigenous school leavers, providing health, wellbeing, legal and professional training to support the full time employment transition from remote community contexts.

Bama is 100% Indigenous owned and 70% of its employees are Indigenous.

Bama has achieved significant positive impact throughout its operations. Since its establishment in 2010 Bama has:

- grown from $5 million in 2015-16 to $10 million in revenue in 2020-21;
- secured major contracts through the Indigenous Procurement Policy – in 2017 Bama won a $10 million contract for sealing and paving a section of the Peninsula Development Road in Cape York; and
- created 88 employment opportunities and 47 job pathways for people experiencing barriers to employment since 2016.

Downer EDI Works has entered into a joint venture agreement with Bama which has allowed the organisation to access significant expertise and contracts which would not have been possible in its own right. This support has proven to be invaluable to the growth of the organisation. In addition, the Westpac Foundation has recently provided Bama with a $300,000 grant to enable it to create an additional 54 employment opportunities and 81 pathways over the next three years.

Government intervention to build new markets with a strong societal value has been successful in Australia and internationally, for example in the venture capital and renewable energy markets. While quick wins are possible, it takes time to build a self-sustaining market for the long-term. Experience in other markets suggests that the SII market will take 10 years or more before it becomes well developed and government support for market development is no longer needed.

Governments globally are supporting the growth of the impact investing market in a range of ways. The OECD[39] and Global Steering Group for Impact Investment outline three key roles for Government to support market growth: as a market facilitator, market regulator and market participant.[40] Each of these roles help to build organisations and systems for SII, create a regulatory environment that supports SII and drive demand for high impact products and services. Internationally, governments are generally implementing policy measures across all three of these areas to support market growth.[41]

What this means in practice

Australian Government role in venture capital and renewable energy market development

The Government has supported the development of the venture capital industry and commercialisation of Australian technology through grant programs and supportive policy and regulatory measures. This has resulted in $16.58 billion of venture capital being committed in Australia with 1,490 businesses assisted to date.[42]

To support private investment into renewable energy and energy efficiency, the Australian Government established the Clean Energy Finance Corporation (CEFC), the Australian Renewable Energy Agency and the Renewable Energy Target almost a decade ago. Since 2012, the CEFC's $8 billion in committed capital has helped to catalyse over $27 billion in investment committed to clean energy initiatives across Australia. The CEFC attracts an additional $2.30 in private sector finance for every $1 of its finance committed into large scale investments.[43]

39 OECD (2015) *Social Impact Investment: Building the Evidence Base*. Paris: OECD Publishing.

40 Global Steering Group for Impact Investment (2018) *Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit*. London, UK: Global Steering Group for Impact Investment.

41 Global Steering Group for Impact Investment (2018) *Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit*. London, UK: Global Steering Group for Impact Investment.

42 Department of Industry, Science, Energy and Resources (2020) *Venture Capital Dashboard* Accessed on 14/08/20 at https://www.industry.gov.au/sites/default/files/2020-02/venture-capital-dashboard.pdf

43 Clean Energy Finance Corporation (2020) *CEFC 2019-20 Investment* Update Accessed on 24/08/2020 at https://www.cefc.com.au/media/media-release/cefc-2019-20-investment-update/

Building SII market infrastructure

As in international markets, there is growing appetite from Australian investors to invest for impact,[44] (see Chapter 3) but without the market structures in place to support intermediation of capital and build high quality investment opportunities, this potential will not be realised.

> *The UK experience shows that, by establishing and investing in a set of complementary market building institutions, the SII market can play a considerable role in delivering social outcomes.*

Critical market infrastructure (key terms):

Specialist advisors (also referred to as, or a function of, intermediaries) provide advice and support to impact driven organisations. Examples include incubators and accelerators, business service and corporate advisory providers, management consultants, financial advisors, accountants, lawyers.

Financial intermediaries facilitate the exchange of capital between investors and social purpose organisations. Financial intermediaries include organisations that run: impact investment funds, crowd-funding platforms and social stock exchanges. They broker, arrange and/or invest in deals on behalf of investors, enterprises or others seeking to achieve social impact. They also include fund managers, non-bank financial institutions and brokers and banks.

Impact investment funds raise capital from a range of investors, and invests this money in line with their investment strategy, to achieve a financial return on investments as well as a measurable social impact. These funds may focus on early stage enterprises (venture capital style impact fund) or on growth or more mature enterprises (more like a private equity fund with a portfolio of social enterprises).

Impact investing wholesalers build the market by both making investments predominantly through intermediaries and building the capability of investors and financial intermediaries. They also provide critical financial and non-financial support for new and existing intermediary funds to originate deals, attract and invest capital.

Outcomes funds enable several outcomes-based contracts to be developed and supported in parallel, under a common framework. In their broadest sense, outcomes funds signal a commitment to pay for measurable social outcomes at scale, rather than paying for activities or outputs.

With cross-sectoral commitment and investment in the initiatives recommended in this report, the Australian SII market (including social enterprises, investors, philanthropy and social purpose organisations) can play a similar role in Australia, tackling a range of complex social issues and ensuring our economic recovery is inclusive and supports a fairer and more prosperous society.

44 Michaux, F., Lee, A., & Jain, A. (2020) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2020*. Sydney, NSW: Responsible Investment Association Australasia.

What is the role for the Australian Government?

Importantly, this Taskforce does not recommend the Government have a heavy interventionist hand in the development of the SII market. International data and experience demonstrates the critical role of carefully targeted government intervention in supporting the development of functioning, mature SII markets.

While state governments have been active in supporting SII, particularly through social benefit bonds, and the Australian Government is implementing a range of SII related programs (see Chapter 3) there is an opportunity to support market development in a more strategic and coordinated way.

> *"We've done pretty well in Australia; the missing player is the Commonwealth."*
>
> *- SII Taskforce roundtable participant*

The Australian Government has policy and regulatory levers, a responsibility to achieve social impact for Australians, and a balance sheet and cost of capital not available to other investors, that puts it in a truly unique position to build the market. Government involvement in market building activities also provides credibility and authority that draws in support from other investors and organisations. This highly influential reputation associated with government involvement and endorsement should not be underestimated.

The economic and social challenges currently facing Australia require innovative solutions, underpinned by strong cross-sectoral partnerships. The track record of SII delivering social and affordable housing and employment for vulnerable Australians shows its value as a tool for supporting an inclusive post-COVID-19 economic recovery. Its potential to enhance the efficiency and effectiveness of social service delivery is also much needed given the current fiscal circumstances.

COVID-19 has demonstrated the benefits of strong national coordination, and the value of Australian Government leadership, in the initial response and the next phase of economic recovery. COVID-19 has also exemplified the benefits of strong cross-sectoral collaboration, which will remain integral to achieving an economic recovery that supports the most vulnerable in society and delivers a stronger, more resilient Australia. SII, and the recommendations outlined in this report, provide an avenue to take this type of collaboration forward beyond policy development to implementation.

The Government has fertile ground to develop the SII market in areas both directly within its constitutional heads of power, and in collaboration with the states and territories. Government investment will support efforts to address multi-faceted social problems which require multiple levels of government to deliver sustainable solutions.

Chapter 3

The state of the SII market

This chapter describes the current landscape of the social impact investing sector, including the various actors, their interactions and key mechanisms. Additionally, this chapter provides an overview of Australian Government and state and territory government activities to support social impact investing.

Key terms

Grant: A gift, usually of money, provided for public good or the purpose of creating a social impact.

Institutional investor: Entity which pools money to purchase securities, real property and assets or originate loans. Examples include superannuation funds, insurance companies, banks, hedge funds and mutual funds.

SII market: Umbrella term used to describe how capital flows between investors (who supply capital) and intermediaries or enterprises (who demand capital) to create a social outcome and a financial return.

SII sector: An umbrella term used to describe all the entities and actors in the SII market. An alternative term is the ‘SII ecosystem’ (see Figure 4).

Philanthropic foundation: A entity that provides investments to social purpose organisations and grants to charities. Examples include private and public ancillary funds, community foundations and corporate foundations.

The state of the Australian SII market

The Australian Government currently delivers and funds a range of services, including a welfare safety net, health services, services for Indigenous Australians and environmental sustainability measures. Funding for these purposes is primarily in the form of grants.

Governments have long been interested in opportunities to more effectively target funding to improve outcomes for vulnerable people – including by engaging social purpose organisations, philanthropy and the private sector to drive innovation and leverage impact.

Over the past 10-15 years, there has been growing recognition internationally of the potential for impact investing approaches to drive outcomes, encourage collaboration and innovation, and deliver a social, environmental or cultural return as well as a financial one.

The current Australian SII market

The potential for positive social impact resulting from a mature SII market is promising. However, the Australian SII market is currently relatively fragmented and small in scale.

There are limitations to assessing the size, maturity and impact of the Australian SII market due to the current lack of evaluation and benchmarking data at a whole of market level.

There are a number of different participants in the SII market, with most of the activity underway having been driven by the private, philanthropic, social and other sectors. The key actors and participants in the Australian SII market include:

- **End beneficiaries:** the person or community that a social program/organisation seeks to benefit.
- **Social purpose organisations:** organisations with a core mission to solve a social problem or create a social impact, such as social enterprises and charities.
- **Impact investors:** individuals, companies and funds who seek to invest capital into social businesses, not-for-profits and funds with the intention of generating social (and/or environmental) impact alongside financial returns.
- **Intermediaries:** a broad category consisting of organisations that raise capital from other investors to fund impact investing deals, as well as those providing non-monetary support and advice to build the capacity, and investment and contract-readiness, of social enterprises.
- **Philanthropic trusts and foundations:** entities that provide investments to social purpose organisations and grants to charities. Examples include private and public ancillary funds, community foundations and corporate foundations.
- **Governments:** have roles as outcomes-commissioners and contractors as well as operating as regulators, facilitators and investors to enable the SII market.

Social impact investing creates opportunities for these actors to interact and partner in a variety of ways, to originate and deliver transactions, as shown in Figure 4 below.

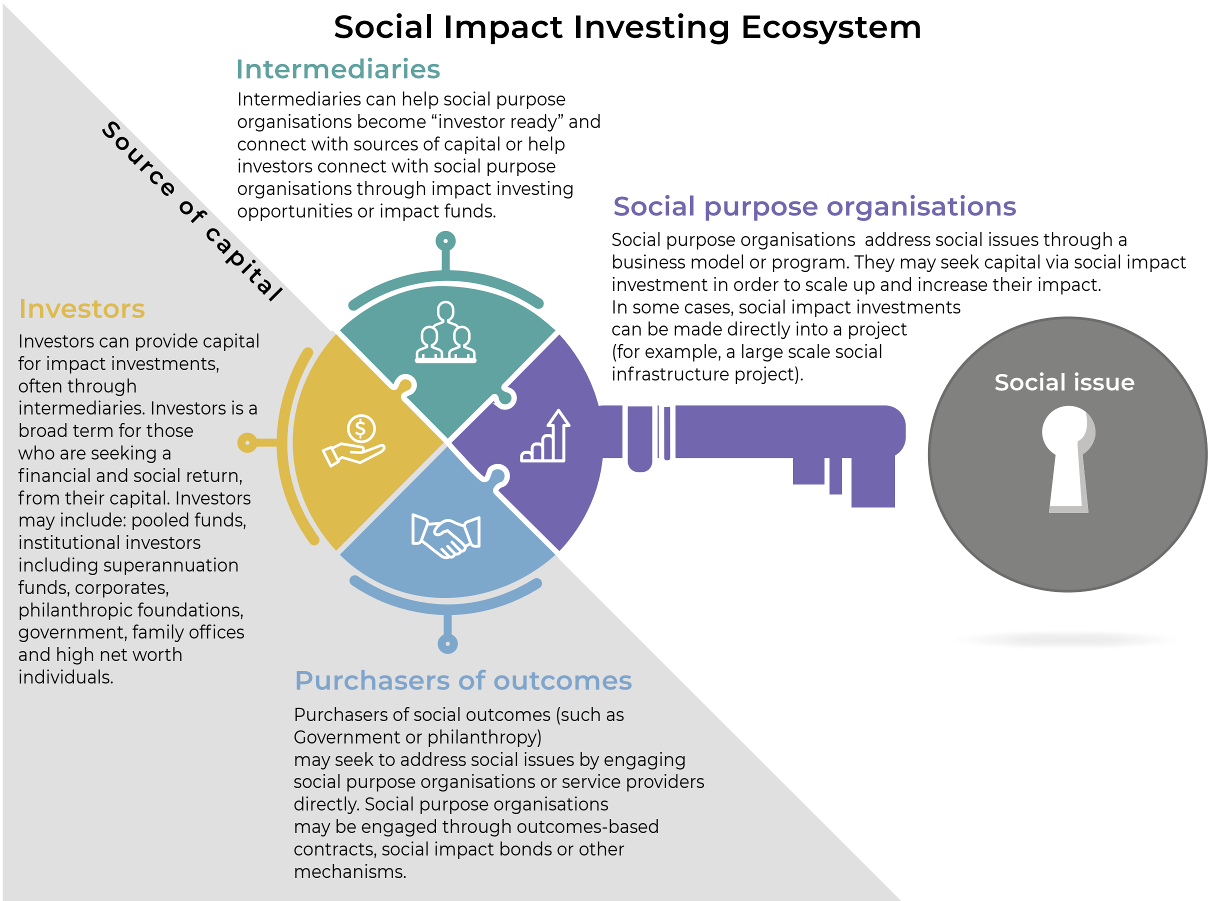


Figure 4: The SII Ecosystem

What do Australian social impact investments look like?

Social impact investments can be made across three market segments, as described below:

Payment by results programs, including SIBs

In a payment by results (PbR) program, a commissioning body (often a government) pays a service provider to deliver specified outcomes.

A social impact bond (SIB) is a type of PbR contract in which social impact investors cover the service provider's upfront costs of service delivery—with the expectation of gaining a return on their investment when outcomes are achieved. In Australia, state governments have generally been prepared to pay a proportion of SII service costs, often around 50%, on a fixed basis (known as the 'standing charge' or 'advance payment') to take on some of the risk of underperformance.

To date, there have been 13 social impact bonds and PbR contracts in Australia—with an upfront investment ranging from around $5 million to $14 million. Based on analysis undertaken by Impact Investing Australia, investors in Australian SIBs have generally received a rate of financial return in the range of 2% - 10%.

Small to medium social enterprises

There are at least 20,000 social enterprises in Australia—and the sector is growing.

The Taskforce considers small to medium social enterprises to have under $10 million annual turnover.

The definition of social enterprise is somewhat contested, but broadly covers organisations that use a revenue generating business model and are led by a social or environmental mission. A social enterprise may be a not-for-profit or for-profit entity.

Impact investors in this market segment have been a broad spread of philanthropic foundations, high net worth individuals and a limited number of smaller financial institutional investors. Investors have generally expected – and received – financial returns in the range 3% - 8%. There is general acceptance that financial returns may be 'below market' provided clear social purpose targets are achieved.

Large scale social enterprises and investments

The Taskforce defines large scale social enterprises as those that have at least $10 million in annual turnover.

There are very few examples of large social enterprises in Australia, and even fewer with considerable scale. Of 189 social enterprises surveyed in 2016, just six had an annual turnover above $50 million.

Other large scale investments include social impact investment funds and investments into social and affordable housing.

Historically this market has been supported by a mix of impact investors who have also supported investments in the PbR and small to medium enterprises segments. Larger scale institutional investors including superannuation funds have started to engage as impact investors in this sector, indicating their capacity to do so will be dependent on the generation of financial returns consistent with trustee and fiduciary obligations.

Figure 5: Segments of the Australian SII market [45] [46]

45 Barraket, J., Mason, C. & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne: Centre for Social Impact Swinburne & Social Traders. p.3

46 Ibid. p.22

Size and growth of the market

Investments

There has been a clear uptake and growth of impact investing in Australia in recent years, which can be attributed to a response within the finance sector to increasing investor demand and the enduring societal and environmental challenges that we face globally and locally.[47]

While the current market is still largely directed towards conservation, environment and agriculture, impact investments targeting social outcomes are valued at $2.5 billion, which is a significant (10 times) increase on the $242 million reported in 2018.[48]

Impact Investing Australia has conducted additional analysis on the breakdown of the market in the context of the Taskforce's definition of social impact investing. Figure 6 below shows this more detailed breakdown by asset, investments and impact area. The analysis identified large variations in take up of impact investing across asset classes, with National Housing Finance and Investment Corporation (NHIFIC) transactions alone representing almost 50% of the market. More specifically it highlighted:

1. **Enabling government policy** in certain impact areas has moved the market to create larger scale funds or transactions. This is clear in the case of the National Disability Insurance Scheme (NDIS) and subsidies in disability accommodation, which has stimulated strong growth of new funds including Synergis (Social Ventures Australia/Federation Asset Management), the Australian Unity Specialist Disability Accommodation Fund and Enable Living (Macquarie Group).
2. **Asset backing** ameliorates perceived risk and provides an ability to leverage to drive greater scale. This is observable in the strong skew of investments in housing and accommodation and is already playing out in sustainable investment funds through property investments in hospitals, childcare centres and schools, aged care and other social infrastructure.
3. Where both of the above conditions exist and there is liquidity, there is significant investor demand. The NHFIC social bond issues demonstrate this in both size and extent of over subscription.
4. **A catalytic institution** filling market funding gaps at scale can significantly enable market growth. While the primary focus of the Clean Energy Finance Corporation's (CEFC) investments are clean energy and energy efficiency, some transactions have also generated strong social impact at scale.

47 Boele, N. & Bayes, S. (2020). *Responsible Investment Benchmark Report 2020 Australia.* Sydney: Responsible Investment Association Australasia, p27

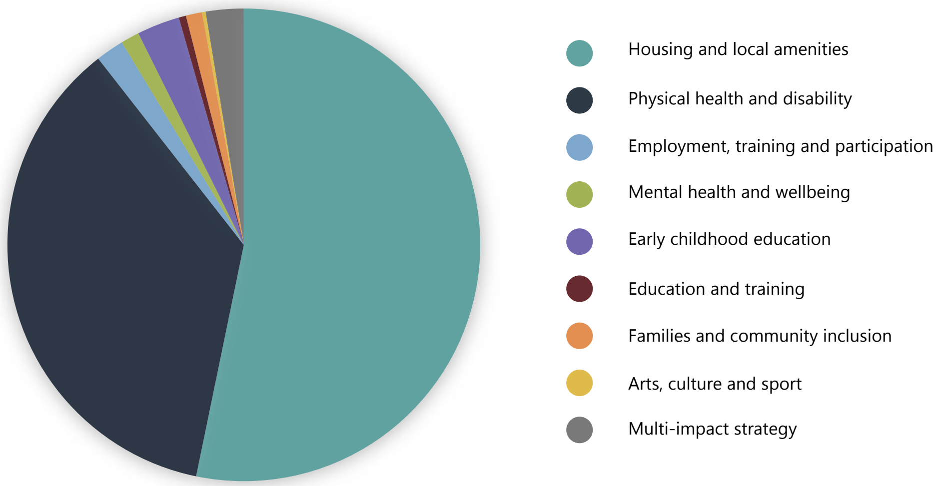
48 Michaux, F., Lee, A. and Jain, A. (2020). Benchmarking Impact: Australian Impact Investor *Insights, Activity and Performance Report 2020*. Sydney: Responsible Investment Association Australasia, p8-9

Figure 6: Australian SII transactions by asset class.
Table and data demonstrating size and focus of SII market in Australia

Asset Class	Sum of Transactions ($m)
Social Impact Bonds - $66.40m	
Employment, Training and Participation	$10.00
Families and Community Inclusion	$13.00
Housing and Local Amenities	$29.20
Mental health and well-being	$14.20
Private Debt - $398.66m	
Convertible Note	
Physical Health and disability	$1.36
Other	
Housing and Local Amenities	$1.00
Project Finance	
Housing and Local Amenities	$35.02
Secured Debt	
Ageing and Aged Care	$0.30
Arts, Culture and Sport	$2.28
Education and Training	$1.10
Employment, Training and Participation	$0.91
Families and Community Inclusion	$1.16
Housing and Local Amenities	$318.09
Mental health and well-being	$1.89
Physical Health and disability	$28.76
Shares	
Multi-Impact Strategy	$2.00
Unsecured Debt	
Employment, Training and Participation	$2.79
Multi-Impact Strategy	$2.00
Private Equity - $37.19m	
Convertible Note	
Physical Health and disability	$25.00
Other	
Early childhood and Education	$1.00
Shares	
Employment, Training and Participation	$4.12
Multi-Impact Strategy	$0.40
Physical Health and disability	$6.67
Property – $736.45m	
Secured Debt	
Housing and Local Amenities	$91.92
Multi-Impact Strategy	$26.10
Physical Health and disability	$8.00
Shares	
Housing and Local Amenities	$207.50
Trust units	
Early childhood and Education	$36.93
Physical Health and disability	$366.00
Public Debt - $1192.00m	
Social Bonds	
Housing and Local Amenities	$1192.00
Public Equity - $1.50m	
Shares	
Employment, Training and Participation	$1.50
Venture Capital - $43.02m	
Other	
Physical Health and disability	$2.00
Shares	
Education and Training	$5.25
Employment, Training and Participation	$6.30
Multi-Impact Strategy	$3.07
Physical Health and disability	$26.40
Grand Total	**$2475.21**

All asset classes ($m) (excluding NHFIC bonds) [49]

	All asset classes ($m)
Housing and local amenities	$683
Physical health and disability	$464
Employment, training and participation	$26
Mental health and wellbeing	$16
Early childhood education	$38
Education and training	$6
Families and community inclusion	$14
Arts, culture and sport	$2
Multi-impact strategy	$34
Total	**$1,283**



Figures 7 and 8: Size of the SII market allocated to different impact themes, excluding NHFIC bonds.

49 Note that housing and local amenities includes social and affordable housing and homelessness but does not include social bonds issued by the Affordable Housing Bond Aggregator run by the National Housing Finance and Investment Corporation (NHFIC) which represent $1.192m; physical health and disability includes disability accommodation, products and services; employment, training and participation includes social enterprises creating employment for people living with disadvantage; mental health and wellbeing includes social enterprises focused on employing people living with mental health and early childcare education includes childcare centres.

While there is growing investor appetite for SII, commonly cited barriers to investor participation include:

- **The lack of investable SII opportunities.** The social enterprise sector is still relatively young in Australia and few social enterprises are investment ready.
- **There aren't sufficient intermediaries in the SII sector.** Intermediaries act as vital connectors between social enterprises and investors but they often struggle to obtain funding themselves and run viable businesses.
- **The impact of social impact investments is hard to measure.** In comparison to environmentally-focused investments, for which there are more established metrics, socially-focused investments target outcomes which are hard to measure (e.g. wellbeing). Greater consistency in measuring social impact can help address this issue.

A recent survey of Australian impact investors showed 92% of active impact investors indicated that their financial return expectations are either being met or exceeded, and 93% also indicated their impact expectations are being met or exceeded by their current impact investments. Interestingly, 24% of respondents indicate a willingness to accept below market rates of return, for example where impact is higher, they will consider accepting a lower rate of financial return.[50]

The majority of investments are in the range of $500,000 to $10 million with a 3.5% - 11.3% rate of return.[51] The returns are consistent with feedback from the consultation and roundtable process and the data indicating a preparedness for a proportion of impact investors in the payment by results and SME market to accept financial returns that may be below conventionally accepted commercial returns for commensurate risk – provided there is clear evidence of social impact.

There are isolated examples of large scale SII in Australia, for example Goodstart Early Learning and superannuation fund HESTA's $70 million social impact investing trust. While currently limited in number, the view of the Taskforce is there is significant opportunity for substantial growth in large scale SII which will satisfy the financial returns expectations of mainstream institutional investors including superannuation funds. An identified gap, in which the recommendation for a wholesaler (Chapter 6) will play a critical role, is support for intermediaries that have the capacity and skills to generate such transactions.

Social enterprises

In 2016, there were estimated to be around 20,000 social enterprises operating in Australia, representing 2-3% of Australia's gross domestic product and employing 300,000 Australians.[52]

Although it is difficult to quantify growth, the social enterprise sector has seen an emergence of new players, with 33.8% of social enterprises in a 2016 study being between two and five years old.

50 Michaux, F., Lee, A. and Jain, A. (2020). *Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020*. Sydney: Responsible Investment Association Australasia, p29

51 Boele, N. & Bayes, S. (2020). *Responsible Investment Benchmark Report 2020 Australia*. Sydney: Responsible Investment Association Australasia, p27.

52 Barraket, J., Mason, C., & Blaine, B. (2016). *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne. Centre for Social Impact Swinburne & Social Traders

Support for the Australian SII market to date

State and territory governments have progressed a range of initiatives

To date, state and territory governments have driven the majority of government activity in the Australian SII market through a range of initiatives to grow the market. Some of these initiatives include:

- building social impact procurement and commissioning approaches;
- developing outcomes frameworks;
- supporting social enterprises;
- establishing PbR programs such as social impact bonds (SIBs).

As the primary providers of services, state-based PbR contracts have focused on delivering impact in social policy areas for which states have primary responsibility, such as out-of-home-care.

State governments have led the way in signalling and building demand for social enterprise services and products through social procurement strategies and initiatives to support social enterprise development.

A summary of state government initiatives is available at Appendix E.

The Australian Government has implemented incremental initiatives

To date, there has not been an overarching strategy guiding the Australian Government's role in SII—and policy interventions have been small scale and trial-based. In 2017, the Treasury developed a set of high level principles for guiding the Australian Government's involvement in the market,[53] but more detailed consideration and a clear plan is needed.

The Australian Government has taken a number of steps to date to build and participate in the SII market – starting in 2011 with the Social Enterprise Development and Investment Funds (SEDIF). Following SEDIF, there were a number of reports and inquiries which recommended the Government help develop the Australian SII market. The Government is now progressing initiatives to build capacity in the SII market and trial involvement in social impact investments.

Much of this engagement has been in building the evidence base and providing 'first-try' examples from which the market can learn. While providing some proof of concept testing, the majority of initiatives have been small scale, short-term trials with limited sustainability or broader stimulation of the market. However, there are a number of initiatives that are not due to report findings until at least 2023, such as the payment by outcomes trials underway with the Department of Social Services.

53 Australian Government Treasury (2017). *Australian Government principles for social impact investing*. Accessed on 27/10/20 at https://treasury.gov.au/programs-initiatives-consumers-community/social-impact-investing/australian-government-principles-for-social-impact-investing.

There are some large scale examples that can provide example models for how the Government could build the SII market further. These include:

- NHFIC supporting social and affordable housing
- CEFC supporting renewable energy and clean technology; and
- Emerging Markets Impact Investment Fund (EMIIF) supporting social enterprises and financial intermediaries in the Indo-Pacific.

A summary of Australian Government SII related initiatives is available at Appendix E.

A lot of support has been provided outside of government in the private, philanthropic, social and other sectors

The social impact investing sector has taken the reins to drive the market forward.[54]

There are a range of investors in the **private sector** helping to finance innovative solutions, including major banks, superannuation funds, insurance companies and individuals through crowdfunding platforms.

Philanthropy plays a key role in spearheading innovative ideas in the SII sector through providing grants, capital and other support to impact driven organisations where they might not have otherwise received help. Philanthropy has also played a key role in developing the market by funding and supporting intermediary organisations, and funding evaluation of outcomes-based approaches.

Intermediary organisations are helping to improve the resources, processes and infrastructure required for the SII market to grow. Intermediary organisations also play a key role in capacity building for impact driven organisations, originating deals by connecting organisations with investors and in some cases managing funds.

Social entrepreneurs, not-for-profit and for-profit service providers (for example Indigenous businesses as well as churches and faith-based organisations) are leading the way in designing and delivering effective services for some of Australia's most vulnerable people. These organisations are creating positive social impacts in communities across Australia.

Other key players supporting the market include peak bodies, international and domestic SII networks, academics, peak bodies and specialist advisors.

54 Michaux, F., Lee, A. and Jain, A. (2020). *Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020*. Sydney: Responsible Investment Association Australasia, p.8-9

Data on the Australian SII market

While some good quality data exists on SII in Australia, its usefulness is limited by a lack of consistently produced evaluation and benchmarking data at a whole of market level.

Key Australian research on impact investments includes:

- the *Benchmarking Impact* reports (2016[55], 2018[56] and 2020[57]);
- IIA's *Investor Report* (2016[58]).

Key Australian research on social enterprises includes:

- the *Finding Australia's Social Enterprise Sector* (FASES) reports (2010[59] and 2016[60]);
- the *Victorian Government's Map for Impact* (2017[61]).

There is also much international research on the state of the SII sector in other countries, which provides insight into best practice, lessons learned and internationally comparable benchmarks, such as:

- the UK Government Social Enterprise Market Trends reports – produced by the UK's central policy unit on SII; and
- the Global Impact Investing Network's *Annual Impact Investor Survey*, which is in its tenth year of publication in 2020.

Strengths of existing research

There is clearly demand for research on the SII sector. The FASES reports, for example, have been downloaded over 15,000 times.[62] The 2018 Benchmarking Impact survey has been downloaded over 4,500 times.[63]

The existing research is of good quality. Some key strengths are:

- **End user focus:** The majority of existing reports have been commissioned by SII sector actors, which means they are designed with the needs of the end user of the research in mind. As such they are valuable resources for the SII sector.
- **Combination of research methods:** The FASES reports contain both quantitative survey questions and qualitative focus group responses. This enables both accuracy and nuance. The addition of qualitative data allows for important insights, such as a deeper consideration of causality.
- **Longitudinal:** The FASES and Benchmarking Impact reports have been conducted multiple times. This ensures changes in responses can be tracked over time.

55 Castellas, E., Findlay, S., & Addis, R. (2016) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016*. Melbourne: Impact Investing Australia.

56 Castellas, E. I. & Findlay, S. (2018) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2018.* Melbourne: Responsible Investment Association Australasia.

57 Michaux, F., Lee, A., & Jain, A. (2020) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2020*. Sydney: Responsible Investment Association Australasia.

58 Impact Investing Australia (2016) *2016 Investor Report.* Melbourne: Impact Investing Australia.

59 Barraket, J., Mason, C. & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report.* Melbourne: Centre for Social Impact Swinburne & Social Traders.

60 Barraket, J., Mason, C. & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report.* Melbourne: Centre for Social Impact Swinburne & Social Traders.

61 Department of Economic Development, Jobs, Transport and Resources (2017) *Map for Impact. Melbourne: Victorian Government.* Accessed on 25/03/20 at https://mapforimpact.com.au/.

62 Social Traders (2019) *Social enterprise in Australia.* Accessed on 30/03/2020 at https://www.socialtraders.com.au/about-social-enterprise/fases-and-other-research/social-enterprise-in-australia/

63 Based on unpublished data provided by the Responsible Investing Association Australasia.

Constraints of existing research

There is a clear gap in policy level research examining the Australian social enterprise sector as a whole. This limits current information available on innovation, growth and broader impact generated. The key constraints of the existing research on the Australian SII market include:

- **Government policy making purposes:** The Government cannot rely on entities outside of government to reliably and consistently produce research appropriate for the purposes of long-term government policy making. If the Australian Government plans to benchmark and measure the impact of the SII Strategy over time (see Chapter 4), it must produce or commission its own research for this purpose.
- **Certainty of production:** There is no certainty that the existing research will continue to be produced at regular intervals in order to provide the Government with longitudinal data. The Taskforce understands the FASES reports are not likely to be commissioned again in the future. Similarly, the most recent RIAA research was conducted with the financial support of the SII Taskforce.
- **Reliability of data:** The 2016 FASES report notes the survey had a poor response rate, which constrains the generalisability of the findings. The authors of the FASES report recommend SII entities (such as regulators or intermediaries) conduct routine data collection as part of their normal activities in order to create a larger and longer-term dataset and achieve more reliable data.[64] Government-led data collection may also improve response rates—in particular if led by an organisation such as the Australian Bureau of Statistics (ABS).
- **Producing data:** Market-level data on the Australian SII landscape is not collected consistently. There is a lack of clear data on existing transactions or funds and their performance. Such data is collected on an ad-hoc basis depending on available funding and government engagement in the sector.
- **Comprehensiveness:** The existing research focuses primarily on the views of institutional impact investors and social entrepreneurs. A wider net may be cast to include more information on, for example, intermediaries, professional service advisers and impact management practices.
- **Benchmarking:** The majority of existing research does not benchmark responses against mainstream data on, for example, investment returns or business types. Benchmarking against mainstream investors and enterprises would assist in determining the 'special features' of the SII market.
- **Causality:** The Victorian Government's *Map for Impact* is a useful resource, in particular for supporting government engagement with the sector. But a key limitation is the lack of data on the real impact generated by listed social enterprises. This limits the usefulness of the data for some policy making purposes.
- **Longitudinal data:** The relative age of the SII landscape in Australia means there is little long-term data on sector development and performance. This further limits sector ability to benchmark the success of SII initiatives and track the performance of initiatives over time.

The development of comprehensive and longitudinal research on the state of the Australian SII market is an important foundation piece to understand trends over time and build the capacity of the Australian market. This issue is explored further in Chapter 8, which proposes to establish a Commonwealth Office of Social Impact (COSI). A key role for the COSI would be to build on the strengths of existing research and address the constraints.

64 Barraket, J., Mason, C. & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne: Centre for Social Impact Swinburne & Social Traders.

The future of the Australian SII market

Active and interested impact investors have indicated the potential demand from Australian investors over the next five years for impact investing products (including environmentally-focused products) could total $100 billion.[65] Based on the current growth trajectory, there is significant potential for social impact investments to comprise a significant proportion of this future market share. In order to achieve this, we will need to overcome the key factors currently limiting the growth and maturation of the Australian SII market – all of which are addressed through the Commonwealth SII Strategy outlined in this report.

We can learn from thriving international markets

At the end of 2018, there was an estimated USD $502 billion in impact investing assets worldwide – this figure includes both environmental and social impact investments.[66]

Internationally, impact investors are more likely to target social than environmental impact investments. Around 90% target social and around 60% target environmental investments.[67]

The UK has the most mature market. The market is currently £5.1 billion in size, a six-fold increase since 2011 and a 20% increase since 2018.[68]

A coordinated and strategic Australian Government approach will support the SII market to grow and achieve more social impact

Although there have been various Australian Government SII initiatives, they have been fairly programmatic, with limited coordination or sharing of learnings across areas of focus.

These initiatives have generally been small in scale and short-term, with limited ongoing commitments to build investor confidence. While coordination between the Australian Government and state governments is developing, there is opportunity to build on this activity and develop a staged approach to engaging with the market at the national level.

The Taskforce's recommendations provide a comprehensive strategy for future Australian Government action to support the SII market to grow and achieve more social impact for people experiencing entrenched disadvantage. Ongoing monitoring and evaluation of the Taskforce's recommended strategy (see Chapter 4) will be crucial to its success and to build more evidence on what works in the SII market.

65 Boele, N. & Bayes, S. (2020) *Responsible Investment Benchmark Report 2020 Australia*. Sydney: Responsible Investment Association Australasia, p.32

66 Ibid p.8

67 Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019) *2019 Annual Impact Investor Survey. Global Impact Investing Network*. p.XI

68 Big Society Capital (2020) *UK Social Impact Investment market now worth more than £5 billion.* Accessed on 28/10/20 at https://bigsocietycapital.com/latest/uk-social-impact-investment-market-now-worth-more-than-5-billion/

PART B

RECOMMENDATIONS FOR A COMMONWEALTH SOCIAL IMPACT INVESTING STRATEGY

Chapter 4

The Commonwealth SII Strategy: A pathway to a mature and self-sustaining market

The Taskforce proposes that the Australian Government implement a ten-year Social Impact Investing Strategy with intensive focus on establishing key market building institutions at the start of the Strategy, and the ultimate goal of building a mature and self-sustaining social impact investing market.

In the near term, the Strategy will contribute to the COVID-19 recovery by focusing efforts on inclusive employment and support for cohorts who have been hit hardest, such as youth, women, mature-age job seekers and marginalised groups.

The Commonwealth SII Strategy

Overarching Recommendation

Implement a Commonwealth SII Strategy to coordinate and plan the Australian Government's SII related policies over the next ten years, with the goal of building a mature and self-sustaining SII market that sees private and philanthropic capital mobilised to address some of Australia's most intractable social issues.

Rationale

The Australian Government has a critical role to play in harnessing existing momentum and establishing the necessary market conditions and policy settings that will allow SII to flourish in Australia.

This should build on the Government's early steps to facilitate and participate in the SII market. In 2017, the Government released a discussion paper on SII,[69] which led to some larger Indigenous specific policies and various trials and small scale interventions. The discussion paper also made extensive commentary on the legislative and regulatory environment considered in Chapter 10 of this report. While outcomes from some activities—such as the payment by outcomes trials led by the Department of Social Services—will not be available for some time, the Taskforce considers there is ample international and state government precedent to inform a clear role for the Australian Government in SII.

Building a strong SII market will require a long-term and coordinated Government strategy over the next ten years, supported by strategic partnerships with the private sector and philanthropy. There is significant interest from key actors in these sectors in actively partnering with the Government on initiatives to transform the SII market – including major banks and philanthropic foundations.

The Australian Government should invest in implementing the small number of targeted initiatives recommended by the Taskforce, that together will have a transformational impact on the size, capacity and impact of the Australian SII market.

A successful SII market in Australia has the potential to generate many positive social outcomes and reform funding for social services.

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69 Department of the Treasury (2017) *Social impact investing – discussion paper*. Canberra: Australian Government.

“Government’s role, in many ways is to set up the system, and get out of the way.”

- SII Taskforce roundtable participant

A Commonwealth SII Strategy

The Strategy has been designed based on available domestic and international evidence and best practice, with core objectives to:

- Maximise the social impact that can be created in Australia through SII.
- Stimulate co-investment and partnerships with philanthropy and the private sector, including social entrepreneurs and not-for-profits.
- Engage organisations and individuals with the right skills to make SII highly successful.
- Provide long-term certainty and a pathway to self-sustainability for the sector.

International experience demonstrates that development of a mature SII market takes time, sustained effort and investment. Advanced SII markets, such as the UK and Canada, have committed to tangible and long-term support for the SII sector with significant funding attached.[70]

In the immediate term, there is significant opportunity for the initiatives proposed through the Strategy to broadly focus early efforts on improving employment outcomes and supporting cohorts who have been most affected by COVID-19, such as women, youth and mature-age job seekers. This priority focus could be reviewed within the first three years to determine its ongoing relevance. Each recommendation provides specific detail on how efforts could be channelled towards supporting the COVID-19 recovery, while maintaining a longer-term view of the structural changes and interventions required to stimulate the sustainable growth and independence of the SII sector generally.

The role for the Government in subsidising and actively supporting the SII market will change over time – right now key interventions are needed to catalyse market growth. As capacity is built in the SII market, through the implementation of the Strategy, the SII market’s reliance on the Government for subsidy and market building support will reduce.

70 Crosbie, D. (2019, 20 June) *Impact investing – Tokenism and words no longer enough.* Pro Bono Australia. Accessed on 12/03/20 at: https://probonoaustralia.com.au/news/2019/06/impact-investing-tokenism-and-words-no-longer-enough/

Measuring progress over time

Benchmarking and monitoring will be critical to the success of the Strategy. The Strategy should be reviewed on a periodic basis (e.g. every three years).

Reviews should track the maturity of the SII market over time, benchmarked against key metrics and market-level data, as well as reporting on the social, economic and financial impacts of specific initiatives implemented through the Strategy.[71]

Key metrics may include **SII market maturity** – the effectiveness of market elements (i.e. number of social enterprises, value of investment, number and size of SII deals) as well as the effectiveness of the market overall measured by:

- **Social impact:** the positive change in a given outcome area (e.g. an increase in youth employment).
- **Economic benefits:** the savings, avoided costs and increased revenue as a result of the social impact (e.g. reduced welfare payments and increased tax receipts).
- **Financial (monetised) returns:** the financial returns that investors receive, or expect to receive, as a result of the achieved social impact.[72]

Critically, appropriate adjustments should be made to the Strategy as part of each review to ensure it remains on track to achieve its objectives.

The Commonwealth Office of Social Impact (COSI) (see Chapter 8) would be responsible for monitoring, reviewing and adjusting the Strategy.

The Taskforce's recommendations are designed to be introduced in parallel, starting in 2021, and work together to build a mature and self-sustaining Australian SII market.

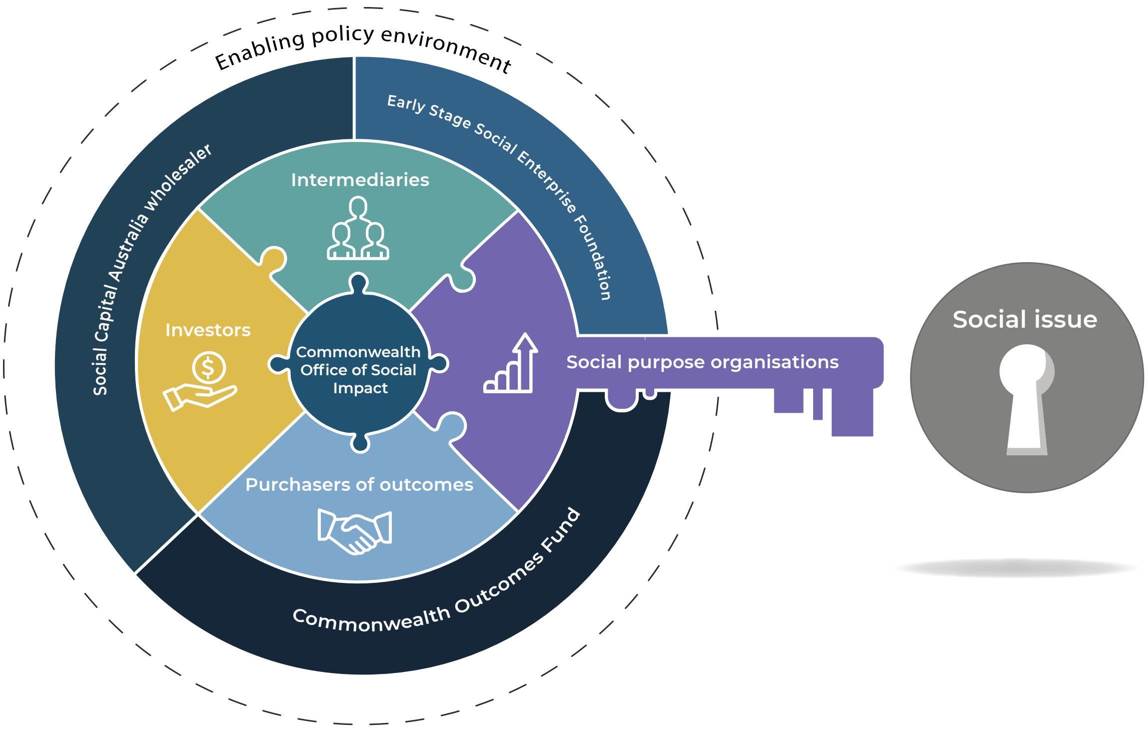

Figure 9: How the Taskforce's recommendations interact with the SII ecosystem

71 Inside Policy (2020) *Developing a Social Impact Investment Strategy Report on Project 2: Determining social impact measurement frameworks with application to Australia*. Unpublished report, p.v

72 Inside Policy (2020) *Developing a Social Impact Investment Strategy Report on Project 2: Determining social impact measurement frameworks with application to Australia*. Unpublished report, p.31

A coordinated and streamlined approach to implementing the recommendations would see the establishment of critical market infrastructure organisations to support the SII market:

- The Early Stage Social Enterprise Foundation (Chapter 5) could be established as a subsidiary of or in a group with the wholesaler (Chapter 6). This will enable them to work in a coordinated way to grow the SII market as a whole – with the Foundation focussing on building the capacity and investment-readiness of social enterprises, which will in turn increase the pipeline of investible opportunities that can be accessed by intermediaries supported by the wholesaler. A consolidated entity will provide efficiencies in the governance of the two initiatives. Importantly, as the wholesaler and Foundation mature over time, this entity would become self-sustaining with a gradually reducing need for financial support from the Government.
- The COSI (Chapter 8) should be established as a statutory authority to manage Government involvement in SII over the lifetime of the Strategy. The COSI would administer the Commonwealth Outcomes Fund (Chapter 7) and lead on SII policy across Government, including monitoring and evaluating the Strategy. Work to encourage social procurement (Chapter 9) and address regulatory and legislative barriers (Chapter 10) would be taken forward through the usual business of government, with the COSI providing advice and support as required.

The recommendations work in concert to build critical elements of the SII market. They will strengthen the capacity of social enterprises and intermediaries, unlock data required to support the delivery of outcomes-focused social services and enable the development of social infrastructure (infrastructure that enables the delivery of social services).

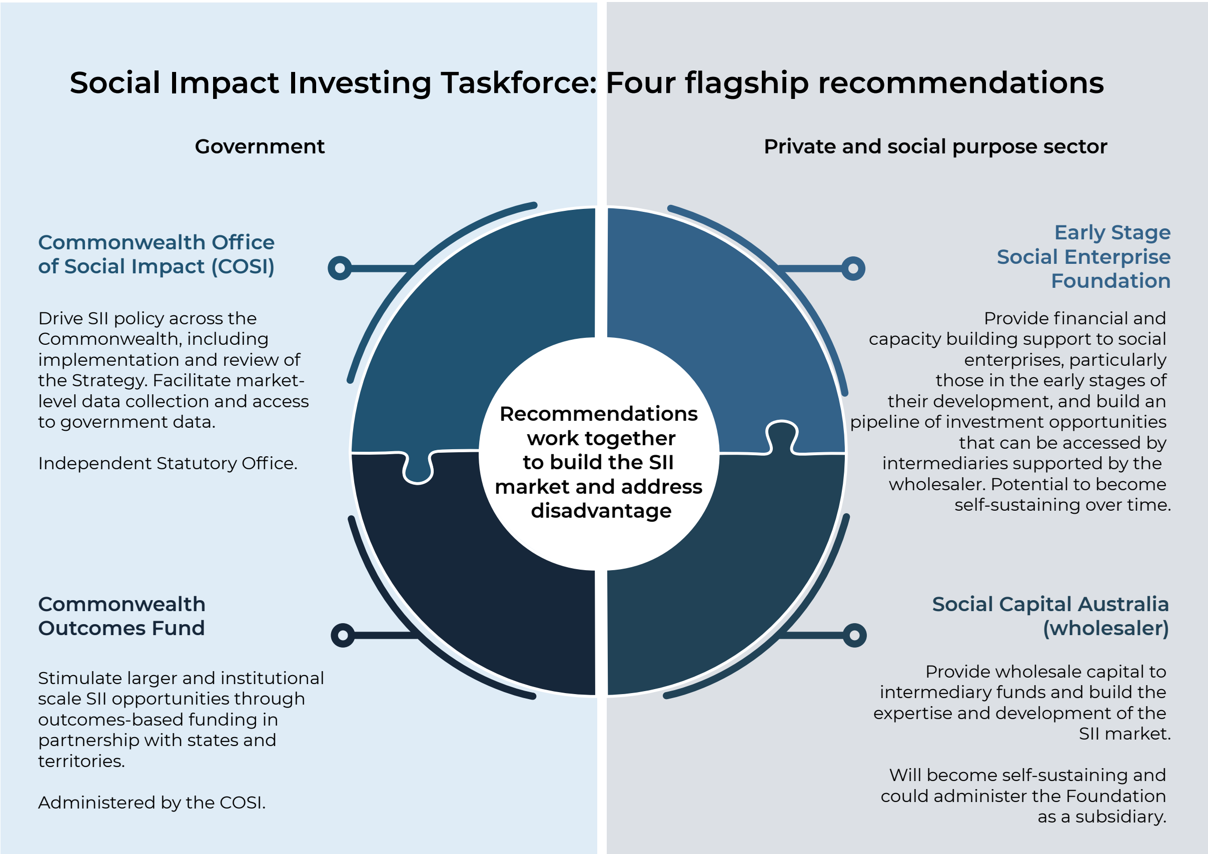

Figure 10: How the Taskforce's recommendations work together

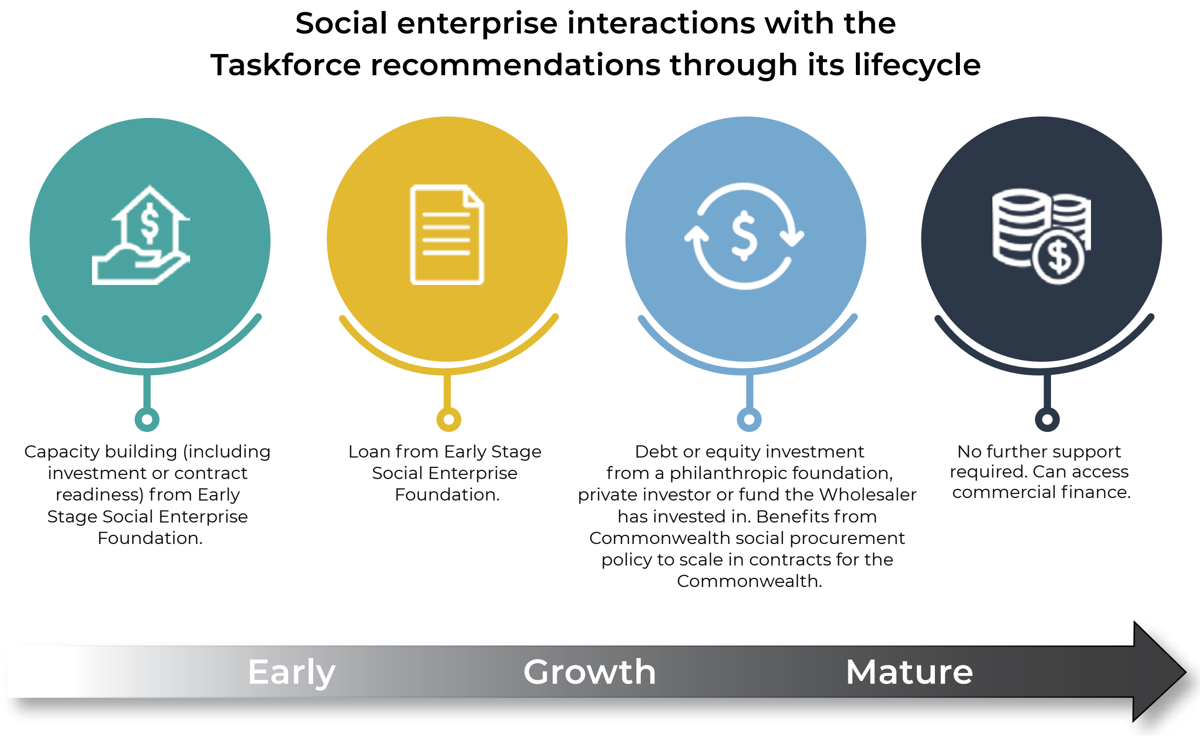

Figure 11: Social enterprise interactions with the Taskforce recommendations through its lifecycle

Implementation

The COSI will have lead responsibility in the Australian Government for implementing the SII Strategy (see Chapter 8).

The COSI's role in implementing the Commonwealth SII Strategy will be to:

- Provide policy advice to the Australian Government on the setup and running of key SII institutions and functions in which the Government has an interest—in particular those established under the Strategy.
- Establish a SII data hub to support the sector to access and use government data and signal the Government's willingness to partner with state and territory governments and the community to solve social issues.
- Develop an Australian Government impact measurement framework.
- Commission state of the SII market data every two years to provide baselines and evidence for ongoing evaluations of the Strategy, and a source of information for the SII sector.
- Every three years, prepare Strategy evaluation reports, adjust the Strategy accordingly and issue an updated Strategy.

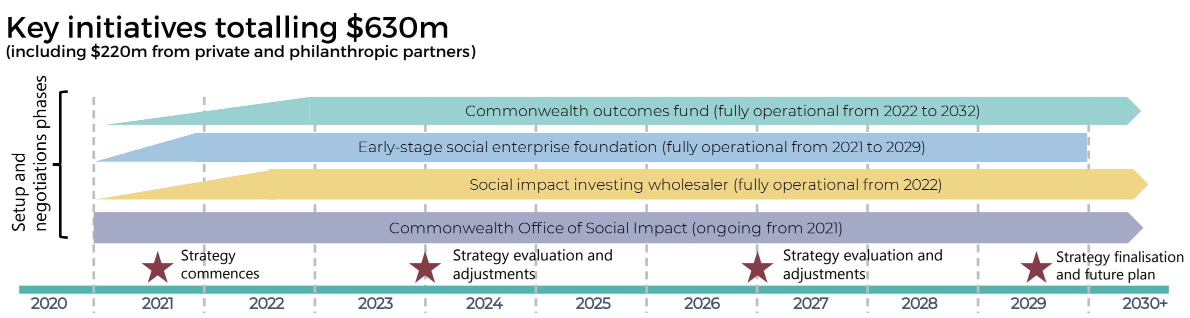

Figure 12: Implementation timeframe for the proposed Commonwealth SII Strategy

Table 4.1: Proposed Commonwealth SII Strategy

Timeframe	Key objectives	Activities to support objective
2021 to 2023 **Build capacity and a strong market foundation**	Establish a central policy coordination function	Establish a Commonwealth Office of Social Impact (COSI) (Chapter 8)
		Co-design the wholesaler (Social Capital Australia), followed by establishment, capitalisation and investment (Chapter 6)
		Establish a Commonwealth Outcomes Fund, following design and negotiations with the states and territories. First tranche of Australian Government funding for the Outcomes Fund is committed to programs, in partnership with state and territory governments and service providers (Chapter 7)
	Build a pipeline of social impact investment opportunities	Establish an Early Stage Social Enterprise Foundation, following co-design with experts to determine the most effective model (Chapter 5)
		Consider additional approaches to increase the number of impact investment products available for investors (Chapter 6)
	Support development and distribution of evidence on best practice SII	Fund independent academic research into SII and outcomes funding (Chapter 8)
		Establish an active Australian SII network to share lessons and build evidence and capacity (Chapter 8)
		Establish a SII data hub within the COSI to support the SII sector to access and use government data for SII purposes (Chapter 8)
		Co-design and determine the scope of baseline data to be collected to support research on the state of the SII sector and evaluation of the Strategy (Chapter 8)

Timeframe	Key objectives	Activities to support objective
2021 to 2023 **Build capacity and a strong market foundation** *cont.*		Fund and facilitate regular collection and public release of baseline data and regular comprehensive longitudinal data on the state of the Australian SII sector (Chapter 8)
		Develop an Australian Government impact measurement framework (Chapter 8)
	Develop practical guidance and information for the SII sector	Establish a national social enterprise register (Chapter 9)
		Implement social procurement by creating an exemption for social enterprises that are small to medium enterprises (Chapter 9) and issuing guidelines for Australian Government procurement processes.
		Promote the benefits of social procurement for the Australian Government (as well as state governments and business) through targeted guidance and support to make it easier and more attractive to use social procurement (Chapter 9)
		Reinforce the position of the Australian Prudential Regulation Authority in relation to SII for superannuation investments (Chapter 10)

2024: Strategy evaluation and adjustments: COSI to prepare first Strategy evaluation report – including how to adjust government involvement as the SII market becomes established and self-sustaining – and issue an updated Strategy (Chapter 8).

Timeframe	Key objectives	Activities to support objective
2024 to 2026 **Strengthen the supply of capital and demand for social impact**	Increase supply of impact capital	Wholesaler continues to build and manage its investment portfolio (Chapter 6)
		Final tranche of Australian Government funding for the Outcomes Fund is committed to programs, in partnership with state and territory governments and service providers (Chapter 7)
	Strengthen demand for social impact	Review the impact of the Early Stage Social Enterprise Foundation on the capacity of the social enterprise sector, and adjust model as required (Chapter 5)
		Consider introducing mandatory targets to drive and track the growth of Australian Government purchasing from social enterprises (Chapter 9)
2027: Strategy evaluation and adjustments: COSI to prepare second Strategy evaluation report – including how to adjust government involvement as the SII market becomes established and self-sustaining – and issue an updated Strategy (Chapter 8).		

Timeframe	Key objectives	Activities to support objective
2027 to 2031 **Consider expansive policies and future role for government**	Consolidate impact management and measurement practices	Gradually reduce Government operational funding for the Early Stage Social Enterprise Foundation with a view to it being fully funded by the SII sector by 2031, depending on the outcomes of a review of residual need (Chapter 5)
		Potentially adjust the investment strategy and Government involvement in the wholesaler to reflect market development and emerging social challenges (Chapter 2)
		Review progress of programs funded under the Outcomes Fund and consider further commitment of Australian Government funding, depending on success and level of uptake by states (Chapter 7)
		Reassess the need for tax and fiscal incentives (Chapter 10)
	Review the outcomes of the Commonwealth SII Strategy	Consider future strategy, including how to adjust Government involvement as the SII market becomes established and self-sustaining (Chapter 8)
		Assess the state of the Australian SII market in 2031, including the size, impact and level of independence of the market (Chapter 8).

2031: Strategy evaluation and assessment of future need: COSI to evaluate the overall impact of the Strategy and state of the Australian SII market in 2031, and prepare a final evaluation report outlining the future role for the Australian Government in the SII market (Chapter 8).

Background: Government impact investing strategies

Global Steering Group for Impact Investment report

In its report, *Catalysing an impact investment ecosystem*, the Global Steering Group for Impact Investment (GSG) reviewed impact investing policies across a range of countries. The report found the countries that have been successful in developing their impact investing market follow a similar pattern in terms of the sequence in which policies are implemented.[73]

The GSG suggest countries looking to develop an impact investing market divide their policy making action plan into three phases: *foundational policies; strengthening policies*; and *expansive policies*.

1. In the foundational phase, the GSG suggest governments create an environment that fosters impact businesses such as social enterprises. They also suggest governments seek to educate SII market participants.
2. In the second strengthening phase, the GSG suggests governments seek to strengthen the demand for impact by participating in the market. In particular by implementing outcomes funds and targeted procurement strategies.

   The GSG recommends governments also establish an impact investing wholesaler in this phase as the demand for impact capital grows. The GSG also advises the strengthening phase is a good time to provide a common base of understanding for the sector by creating a specific legal form for impact businesses and setting impact reporting standards.
3. The final phase recommended by the GSG is the expansive phase. In this phase, the GSG recommend governments create direct connections with retail investors. For example through an impact stock exchange (such as the UK's Social Stock Exchange[74]) or pension scheme regulations. The GSG also suggest this is the right time for tax relief and fiscal incentives for impact businesses and investors, although not many countries have implemented tax relief schemes.[75]

The Taskforce's recommended Commonwealth SII Strategy follows this framework to an extent, with some adjustments for the specific circumstances in Australia today. For example, the Strategy recommends an accelerated timeline for implementing strengthening activities to support the flow of capital, in recognition of the existing demand in Australia for SII investment opportunities from potential investors and capital from social enterprises. This is reflected in the proposed Commonwealth SII Strategy (Table 4.1 above).

In developing the Strategy, the Taskforce also referred to other existing international and domestic strategies and policies around SII – such as the 2011 and 2016 UK SII strategies, 2018 Canadian social innovation and social finance strategy, 2015 NSW Government Social Impact Investment Policy and 2019 Victorian Social Enterprise Strategy.

73 See: Global Steering Group for Impact Investment (working group report) (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit*. London, UK: Global Steering Group for Impact Investment. pp.19-20

74 Ibid p.52

75 Ibid p.9


BONES

Chapter 5

Establish a foundation to support early stage social enterprises

There is a clear need for early stage social enterprises to receive targeted support to build their business capacity and ability to measure and demonstrate their impact, become investment ready and access critical funding when they need it.

The Taskforce recommends the Australian Government establish an Early Stage Social Enterprise Foundation in partnership with philanthropy to support early stage social enterprises in a flexible way, tailored to the needs of each individual enterprise. This includes the provision of flexible loans, in addition to funding for capacity building activities.

The model is based on the Growth Fund supported by Access: The Foundation for Social Investment in the UK.

The Taskforce has conducted preliminary discussions on the Foundation proposal with several philanthropic entities. The Paul Ramsay Foundation, Lord Mayor's Charitable Foundation, Macquarie Group Foundation, English Family Foundation, Snow Foundation, Trawalla Foundation and a large anonymous charitable trust have expressed in-principle interest in social impact investing and their willingness to consider participation in the design of, and investment in, an Early Stage Social Enterprise Foundation, as recommended in this report.

Implementation detail is provided at Appendix F.

Establish an Early Stage Social Enterprise Foundation

Recommendation 1

The Australian Government should establish an Early Stage Social Enterprise Foundation in partnership with philanthropy to provide financial and capacity building support to social enterprises, particularly those in the early stages of their development.

Key terms

Social enterprise: An organisation that seeks to solve social problems using a revenue generating business model. They are organisations whose primary purpose is the promotion, development and advancement of social and/or environmental goals. Typically, a social enterprise:

- generates a significant proportion of income through entrepreneurial or trading activity, for example the sale of products or services or through social and affordable housing development activity.
- reinvests principally to further the social purpose of the organisation. The extent of this will depend on whether the enterprise is for-profit or not-for-profit, and if not-for-profit whether it has charitable and/or deductible gift recipient status.

Social entrepreneur: A person who establishes or runs a social enterprise.

The challenge

Many social enterprises are already delivering, or have the potential to deliver, real impact in the lives of Australians experiencing significant levels of disadvantage. Social enterprises do this by operating in the market place, trading and creating employment opportunities with the intention of addressing a social problem.

Social enterprises often employ and support people from communities and groups, including those most affected by the COVID-19 pandemic – such as young people, women, mature age job seekers, Indigenous communities and people with disability. Social enterprises will have an important role in rebuilding the economy after COVID-19 through their ability to create jobs for vulnerable cohorts.

“Social enterprises offer an opportunity to drive change in the Aboriginal space.

How can we spear-head Aboriginal-led solutions so that the Indigenous population is not left behind, how can we develop the entrepreneur themselves to... stay on country, work on country and have access to experts, capital, experience.”

- SII Taskforce roundtable participant

Supporting social enterprises, as this recommendation proposes, aligns strongly with the Government's priorities to get Australians back into jobs and increase economic and social resilience. Building the resilience of social enterprises will enable them to grow their job creation contribution. In the UK, social enterprises employ two million people, creating jobs at 4.5 times the rate of the private sector, with a significant proportion of jobs located in the most deprived communities.[76]

A major challenge for social enterprises is access to the right support and/or capital at the right time, which constrains their growth and ability to achieve social impact. This was a key finding in the *Finding Australia's Social Enterprises Sector 2016 Final Report*. The study found that social enterprises were frustrated about the lack of available and appropriate capital in Australia. Participants found their financial needs and the availability of appropriate capital often didn't match.[77]

There is often a financing gap for early stage social enterprises known as the 'valley of death'.[78] Many social enterprises are able to raise small amounts of money when they start out from friends and family, and then philanthropy, but there is often a gap between this stage and when they are in a position to obtain mainstream investment. There are many reasons for this, including a mismatch between investor expectations and enterprises' capabilities. It can also be extremely difficult for social entrepreneurs to access capital, as most have a limited track record and/or asset backing to secure finance.

The Taskforce's consultations highlighted that social enterprises often need assistance to:

- develop, test and demonstrate effective business models, impact management frameworks and legal structures;
- engage with investors, including impact investors; and
- understand different financing options and scaling opportunities available to them.

There is a clear need for targeted support for early stage social enterprises to build their business capacity and ability to measure and demonstrate their impact and become investment ready, as well as to access critical funding when they need it.

> *"In terms of funding that is available for different stages... there was a sense that there's not a lot of significant investment at that really early stage at the moment... We're looking at Point B on, not Point A [pre-feasibility] to Point B [feasibility]..."*
>
> *– SII Taskforce roundtable participant*

This was a key finding of the evaluation of the Social Enterprise Development and Investment Funds (SEDIF), which recommended that future Government initiatives include business capability development. The evaluation's findings suggest that allowing new social enterprises to develop, and existing social enterprises to scale, will increase the impact of the sector.[79]

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76 Big Society Capital (2020) *Why community should be at the heart of government policy measures.* Accessed on 03/09/20 at: https://bigsocietycapital.com/latest/why-community-should-be-heart-government-policy-measures/ and Access: the Foundation for Social Investment, Big Society Capital, Impact Investing Institute, Power to Change, Social Enterprise UK, Social Investment Business, School for Social Entrepreneurs, UnLtd (2020) *Getting Britain Back to Work*. Unpublished submission.

77 Barraket, J., et al. (2016). *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne, VIC, Centre for Social Impact Swinburne & Social Traders, p.55.

78 OECD/European Union (2017) Boosting Social Enterprise Development: Good Practice Compendium. Paris: OECD Publishing. p.113

79 Barraket, J., et al. (2016). *Social Enterprise Development and Investment Funds (SEDIF) Evaluation Report*. Canberra: Commonwealth of Australia.

What Government should do

To address this critical gap in funding and support for early stage social enterprises, the Government should establish an independent Early Stage Social Enterprise Foundation (the Foundation), in partnership with philanthropy, to provide capacity building support and funding for early stage social enterprises, including both grants and flexible loans. The support should be flexible and tailored to the needs of the enterprise.

The Taskforce defines early stage social enterprises as social enterprises that are developing their product or service, building a minimum viable product, building a customer base, establishing cash flow and securing funding. This includes social enterprises that have not yet raised their first round of venture capital financing (also known as series A) but may have received initial seed capital. This stage of financing usually occurs once an enterprise has a minimum viable product.

While the Foundation is aimed at supporting early stage social enterprises, enterprises at all stages of development will be eligible for support.

Proposed funding for the Foundation is $65 million over 10 years, with the Government providing around 75% of funding and philanthropy providing the remaining 25%. Internationally, governments have funded the cost of capacity building services entirely, including the Canadian Government which provided $50 million over two years for social purpose organisations to improve their ability to successfully participate in the social finance market.[80] The Taskforce proposes the Government partner with philanthropy to fund capacity building services, recognising philanthropy's experience in this field and willingness to work with the Government. This split of funding is commensurate with the financial capacity of philanthropic foundations in Australia and aligns with feedback heard during the Taskforce's consultations. The funding will support the loan and grant activities of the Foundation as well as operational costs and an evaluation.

The total recommended amount of funding is slightly lower than, but comparable to, the UK's Growth Fund on a per-capita basis. Ideally, the Foundation would need to operate over 10 years to make a sufficient impact on the SII market. There would be regular evaluation points throughout the Foundation's operation to ensure its effectiveness and to iterate as necessary. It is expected that the Foundation will become self-sustaining at some level after ten years, if the requirement for it in the SII sector remains. This may involve some form of support from the social purpose or non-government sectors.

Partnering with philanthropy to deliver the Foundation leverages its experience in providing grants and loans for early stage social enterprise development. This recommendation would enable and encourage broader philanthropic support for SII.

The Foundation would work with existing social enterprise support organisations to enhance the whole SII sector. The goal of this recommendation is to grow the support available to social enterprises to increase their impact.

While not essential, there is a real opportunity for reduced operational costs and better coordinated market building activities if the Foundation sits as a subsidiary of or in a group with the impact investing wholesaler (see Chapter 6). This would also allow it to help build the pipeline of businesses that wholesaler investee funds could invest in. The Foundation and the wholesaler have the same objective – to grow the SII market, by focusing on different parts of the market: social enterprises and intermediaries. Close coordination and efficiencies would be generated by making these two initiatives part of the same organisation, sharing back office services and a governing board. The Taskforce regards the Foundation and the wholesaler as key pillars to support a larger and more capable SII sector.

80 Government of Canada (2020) *Backgrounder: The Social Finance Fund*. Accessed on 23/10/20 at: https://www.canada.ca/en/employment-social-development/news/2018/11/backgrounder-the-social-finance-fund.html

It is also intended that social enterprises will build capacity in delivering services and become 'contract ready' - able to tender for government and private sector procurement opportunities - especially to enable them to employ more staff. In this case, the Foundation also assists the Taskforce's recommendations for an Outcomes Fund (Chapter 7) and to encourage more Australian Government social procurement (Chapter 9).

This recommendation builds on the Government's existing Sector Readiness Fund, which provides capacity building grants to social enterprises so they can access services that help them raise capital to grow and scale their impact. Funding for the Sector Readiness Fund ceases in June 2021. While the Foundation would pick up this area of crucial support, it would also provide a more holistic solution to supporting social enterprises through the different stages of development toward scaling their impact.

The Foundation's model outlined in Figure 14 is similar to the UK's Growth Fund managed by Access: The Foundation for Social Investment. See Other Examples below for more information on the Growth Fund and the Sector Readiness Fund (pages 65-67).

The success of the Foundation will be measured through rigorous ongoing evaluation of its outcomes and activities by an independent evaluator engaged by the Commonwealth Office of Social Impact (see Chapter 8). This will ensure the Foundation can dynamically adapt its approach to ensure it is meeting the needs of social enterprises. The primary measure of success will be that more social enterprises are able to sustain or grow their impact as they become financially sustainable and resilient over time. The Foundation will aim to enable social enterprises to access appropriate finance when they need it.

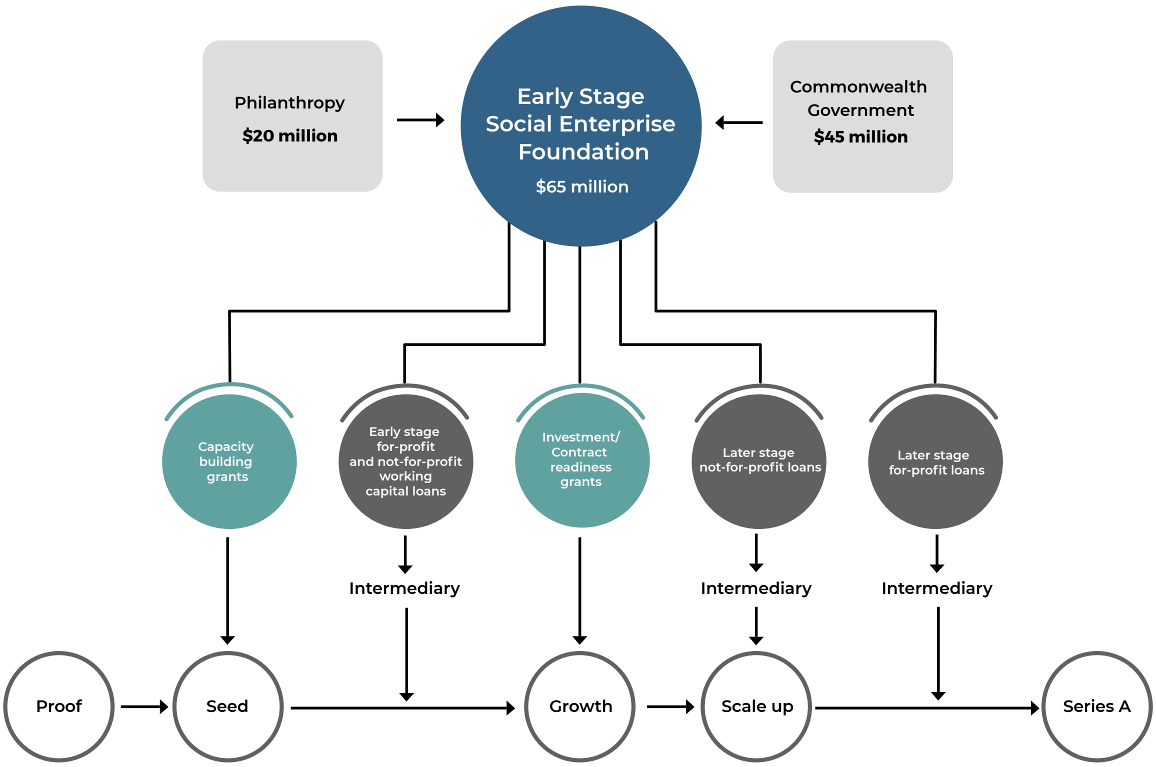

Figure 14: Structure and funding for the Foundation

The design of the Foundation aims to:

- incentivise social enterprises to raise capital independently of the Foundation if they are able to, including by guiding applicants to seek other avenues of support (if appropriate) before applying for grants or loans from the Foundation;
- avoid duplicating existing capacity building activity in the SII sector through involving intermediaries and by working with social enterprises to seek other sources of funding if they are eligible or beyond the definition of 'early stage';
- engage organisations across Australia, including in regional and rural areas and through locally based specialist advisors and technical specialists; and
- embed in the Foundation's mission a focus on assisting social enterprises to determine whether they should raise investment capital through the Foundation, outside of it or not at all if their business model is unlikely to lead to sustainability.

Why this is important

This recommendation recognises the job-creation potential of social enterprises, which often create jobs or employment pathways for people experiencing disadvantage and can significantly improve their outcomes. Recognising this role of social enterprises was a key recommendation of the evaluation of the SEDIF.[81]

Supporting social enterprises is seen internationally as a foundational step in building a successful SII ecosystem.[82] Activities that build the capacity and viability of social enterprises are critical for the success of the wholesaler (Chapter 6) and Commonwealth Outcomes Fund (See Chapter 7). The Foundation will help to build a pipeline of organisations that are ready to bid for outcomes-based contracts and are ready for investment.

These organisations could include Indigenous social enterprises and organisations from the community-controlled service sector, in alignment with the Closing the Gap Priority Reform Two: Building the Community-Controlled Sector. Direct investment in the community-controlled service sector, as the Foundation could do, is critical to improving outcomes for Indigenous Australians.[83]

While this recommended initiative could stand alone (with additional support from the Government and philanthropy), combining the Foundation with the other recommendations in this report will amplify the efficiency and effectiveness of the SII market and accelerate its development to self-sufficiency and impact at scale.

An early Government investment now will pay off in the long run as the market develops and social enterprises grow and scale to address an increased depth and breadth of social issues. An approach that involves a partnership between the Government and philanthropy creates a strong platform for the growth of social enterprises and allows for different risk appetites and more collaborative opportunities as the sector develops.

For early stage social enterprises, the Foundation will be a "go-to place" that provides grant funding for tailored capacity building support and access to capital targeted to their specific needs. This was a key recommendation in the evaluation of the SEDIF, which found there was a lack of coordination for social enterprise support. The SEDIF evaluation also recommended that the Government work with philanthropy and leaders in the field to establish initiatives that support social enterprises.[84]

81 Barraket, J., et al. (2016). *Social Enterprise Development and Investment Funds (SEDIF) Evaluation Report.* Canberra: Commonwealth of Australia. p.48

82 Global Steering Group for Impact Investment (working group report) (2018) Catalysing an impact investment ecosystem: A policymaker's toolkit. London, UK: Global Steering Group for Impact Investment. p.19

83 Australian Government (2020) Priority reforms. Accessed on 27/10/20 at: https://www.closingthegap.gov.au/priority-reforms.

84 Barraket, J., et al. (2016). Social Enterprise Development and Investment Funds (SEDIF) Evaluation Report. Canberra: Commonwealth of Australia. p.47-48

The Taskforce's stakeholder consultation and research indicated there is a clear need for early stage social enterprises to have better access to appropriate funding and support – targeted to the appropriate stage of their development.

> *"[For] smaller enterprises in that kind of early-stage, start-up phase, the access to capital is difficult. You're constantly asked to go back and trial [and] prove your idea. We probably did that for about six years. We're only at the point now where we have a pathway to both capital and scale."*
>
> *– SII Taskforce's roundtable participant*

Other examples

The Growth Fund (UK)

The Growth Fund was launched in 2015 by the National Lottery Community Fund, Big Society Capital and Access. The Growth Fund was established with the aim of addressing specific gaps in the SII market in England. In particular, the Growth Fund was established to increase the availability of relatively small amounts (up to £150,000) of finance for voluntary, community and social enterprise sector organisations. It was aimed at organisations in their early stages of growth or those looking to sustain their activity, as well as organisations with a high risk profile that excludes them from both the SII as well as the commercial loan market.[85]

The first evaluation of the Growth Fund found the fund is achieving what it intended to do – it has encouraged more lending to social enterprises, an area of the SII market where demand was not being met.[86] In particular, the combined loan and grant model, including the aligned Reach Fund grants, has been effective in meeting the gap in the market for relatively small unsecured loans and grant packages.[87] The Taskforce's recommendation to establish the Foundation is designed to address the same gap in Australia. Using a model that has been tested successfully overseas, but adapted for Australia, will ensure the Foundation is well positioned to deliver support effectively.

The evaluation also found that current deployment of capital from the Growth Fund is 10% behind original projections. This is due to social investors (intermediaries providing loans to social enterprises) overestimating how investment-ready social enterprises are.[88] The Foundation has been designed to specifically address this issue by providing capacity building support alongside flexible loans.

The evaluation also found the Growth Fund is providing loans for the reasons it intended. Most social enterprises received funding to scale up an existing activity (33%) and pursue new revenue streams (13%). Several others used funding for 'expansion' activities (33%), which include asset acquisition, refurbishment, delivery of new products/services, building internal capacity and building marketing activities.[89]

To date there is limited social impact data at the program level. This is partly due to the fact that not all social enterprises had social impact reporting systems in place when they received funding from the Growth Fund. The evaluation highlights this as a problem to resolve in future iterations.[90]

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85 Ronicle, J., Wooldridge, R., Hickman, E., Isaac, S. & Cutmore, M. (2019) *Growth Fund Evaluation Update Report 1: Delivery so far.* London, UK: National Lottery Community Fund p.6

86 Ibid p.61

87 Ibid p.50

88 Ibid p.9

89 Ibid p.32

90 Ronicle, J., Wooldridge, R., Hickman, E., Isaac, S. & Cutmore, M. (2019) *Growth Fund Evaluation Update Report 1: Delivery so far*. London, UK: National Lottery Community Fund. p. 55

However, case study research suggests the Growth Fund has contributed the following social impacts for social enterprises as a consequence of taking on the social investment:

- increased number of beneficiaries supported;
- improved quality of support;
- increased range of support;
- being able to maintain a service to beneficiaries.[91]

> *"The Growth Fund continues to be a cornerstone of social investment in England, with around one in six of all deals in 2019 coming from the programme. Average size investments of just over £60,000 are meeting clear demand from the sector. These numbers show the vital role blended capital plays and the need for long-term subsidy to support it."*
>
> *- Seb Elsworth, Chief Executive of Access – The Foundation for Social Investment*[92]

The Sector Readiness Fund

This recommendation builds on the Australian Government's $8 million Sector Readiness Fund (SRF) that provides grants to social enterprises so they can access capacity building services that help them attract investment and increase their social impact. The SRF commenced in November 2018 and will cease in June 2021. The Foundation will fill a future gap in this crucial support for social enterprises when the SRF ceases.

Impact Investing Australia (IIA) administers the SRF as the Impact Ready Growth Grants. IIA manages a selection process, providing up to $140,000 to eligible social enterprises so they can procure services such as business planning, financial modelling, capital raising, contract negotiations, investment marketing, legal support, outcome measurement and evaluation. Social enterprises set a capital raising target as part of the SRF process.[93]

As of October 2020, $4.6 million in grant funding has been provided to 36 social enterprises across ten funding rounds since the SRF's commencement in November 2018. Three social enterprises have successfully achieved target capital raising amounts. These enterprises are Circle In, Energy Renaissance and Field Orthopaedics. It is anticipated further social enterprises will achieve their target capital amounts over the course of the SRF.

There will be further funding rounds for the 2020-21 financial year, including an additional pivot grant stream, which was established in late 2020 to address the impact of COVID-19 on social enterprises. The pivot grant stream provides grants of up to $30,000 to assist with capacity building services for social enterprises that are experiencing financial stress due to the COVID-19 pandemic.

The Foundation has been designed to build on the experience of the SRF so far, as well as to increase the scale and scope of assistance to social enterprises. Both the SRF and the Foundation share the common theme of providing capacity building services. However, the Foundation will respond to sector demand for targeted assistance at the early stages of social enterprise development. Where

91 Ronicle, J., Wooldridge, R., Hickman, E., Isaac, S. & Cutmore, M. (2019) *Growth Fund Evaluation Update Report 1: Delivery so far*. London, UK: National Lottery Community Fund p.45

92 Big Society Capital (2020) *UK social impact investment market now worth more than £5 billion*. Accessed on 29/10/20 at: https://bigsocietycapital.com/latest/uk-social-impact-investment-market-now-worth-more-than-5-billion/.

93 Impact Investing Australia (2020) *Applying for a growth grant*. Accessed on 27/10/20 at: https://impactinvestingaustralia.com/application-guidelines/

the SRF focuses on supporting enterprises to become investment ready, the Foundation will support earlier stage capacity building and contract readiness as well as investment readiness. In addition, the Foundation will also offer:

- financial assistance through loans; and
- a role for philanthropy in co-funding and co-designing activities with Government.

What this means in practice

Vanguard Laundry – social enterprise

Vanguard Laundry Services launched in December 2016 and is based in Toowoomba, Queensland. Employees receive skilled training and qualifications, enter stable employment and report improved mental health and financial independence.

Initially Vanguard experienced difficulties attracting capital, due to the significant start-up capital costs associated with commercial laundries relative to other less capital intensive commercial entities, but also the perceived risks of delivering the social impact model.

Over a five year period, Vanguard was able to raise an initial $8 million in start-up capital, funded through a combination of government, philanthropy and private sector sources. Vanguard was originally underpinned by an ongoing $800,000 per annum contract with a local hospital. However, as Vanguard has diversified, this contract now makes up less than 30% of its revenue.

This is where the Foundation could play a role in providing access to flexible loans to social enterprises to ease difficulty in seeking investment. The availability of loans from the Foundation could reduce the time social enterprises spend on capital raising and allow for enterprises to scale faster and focus on achieving impact.

Vanguard staff experience a range of positive impacts from gaining employment. Staff are healthier (physically and mentally), more confident and better connected (social cohesion). These improvements to their quality of life and development of their support network provide them with a sense of belonging.

Financially, staff are significantly more secure, which in turn reduces general anxiety and thus allows them to access secure housing and transport. This equates to staff who are more employable in the open job market, less dependent on others and experience an improvement in their overall wellbeing, with more purpose and structure in their lives.


BLIND
SURFER

Hireup – social enterprise

Hireup is an NDIS registered online platform for people with disability to find, hire and manage support workers who fit their needs and share their interests.

With capacity building support, funded by Impact Investing Australia's Impact Ready Growth Grants, Hireup was able to raise $2.5 million from impact investors in 2015. This funding allowed Hireup to grow its business and scale its impact.

According to Hireup Co Founder and CEO Jordan O'Reilly: "There was no question that we needed expert advice in order to become 'investor ready' and access funding from values-aligned investors. An impact readiness grant allowed us to seek advice, support and connections from intermediaries who understood and valued both the social and financial aspects of our business. This was a critical step in enabling our growth and scaling our social impact."

Hireup ensures competitive rates for support workers, which means clients (people with disability) have collectively saved more than $55.4 million when compared to standard NDIS hire rates.[94] In addition, Hireup seeks to earn revenue to run a sustainable business.

Hireup has grown significantly since it started as a business and, in addition to its positive impact on the lives of people with disability, it has created a significant number of jobs. Hireup's headquarter team has grown to around 220 employees and the Hireup platform now has around 40,000 registered users – both workers and participants seeking support. Over the last year, Hireup has employed around 10,000 support workers.

The Taskforce would like to see more social enterprises developing and scaling their impact as Hireup has been able to. Many social enterprises struggle to find the right capital and supports appropriate to their needs. The Taskforce's recommendation for an Early Stage Social Enterprise Foundation aims to address this issue by supporting social enterprises across the various stages of their development. This will be especially critical as the Impact Ready Growth Grants (also known as the Sector Readiness Fund) are due to cease funding in June 2021. Enabling enterprises like Hireup to scale and increase their impact is one of the main goals of the Foundation.

94 Hireup (2020) Our impact. Accessed 13/10/20 at: https://hireup.com.au/

Chapter 6

Establish an Australian impact investing wholesaler

While investor interest in SII is increasing, investors struggle to find investment opportunities that meet their financial and impact requirements. A strong group of intermediaries developing a diverse range of investment products that can bridge the gap between investor preferences and investee capital and capacity needs is critical to the growth of the SII market. The Taskforce recommends the establishment of a wholesaler that will invest through intermediaries to build the market. This will be critical to realising the potential of SII to achieve social impact and support post-COVID-19 economic recovery in Australia.

The Taskforce has conducted preliminary discussions with all of the major Australian banks. In every case they have expressed their interest in social impact investing and participating in the design of a social impact wholesaler as recommended in this report. The Taskforce believes there will be interest from at least some banks in investing in the wholesaler through the design process.

Implementation detail is provided at Appendix G.

Establish an Australian Impact Investing Wholesaler

Recommendation 2

The Government should establish an Australian impact investing wholesaler with two key roles:

- to provide wholesale capital to intermediary funds; and
- to engage with intermediaries, and the SII sector more broadly, to build expertise on fund management and impact, and drive development of the SII market.

The fund would be at least $400 million, with private sector co-investment, and once established would be a permanent, ultimately self-sustaining fixture in the market. The Government should also provide an additional $30 million in grant funding over the first five years to cover operational costs.

Key terms

Debt: A loan where the investor receives a return of their principal plus interest.

Equity: Money invested in a business by purchasing shares.

Intermediaries: A broad category consisting of organisations that raise capital from other investors to fund impact investing deals, as well as those providing non-monetary support and advice to build the capacity, and investment and contract-readiness, of social enterprises.

Impact investors (also referred to as investors): Individuals, companies and funds who seek to invest capital into social businesses, not-for-profits and funds with the intention of generating social (and/or environmental) impact alongside financial returns.

The Challenge

In Australia, as in other countries, impact investors struggle to find the right type of investments for their strategy, and social purpose organisations struggle to find the right form of capital for their needs. As such there are investors who wish to invest more, and social enterprises and social infrastructure that need more capital.

Investors face a number of barriers to making impact investments. A key barrier is that investors' risk/return/impact preferences mean they will not invest in individual early stage social enterprises and there is a very limited range of impact investment products to invest in. While interest in SII is growing, many investors do not yet have the confidence, knowledge or access to investment products to act on their intentions.

At the same time, social purpose organisations cannot always find the capital they need to support their mission. They need flexible capital that is the right amount, at the right time, for their needs. In addition, many social enterprises lack the financial expertise needed to seek appropriate investment.

"Somebody has to pull all those complex pieces together and create something that can then be taken to the market."

– SII Taskforce roundtable participant

Impact investors and social enterprises are not able to link up without greater support – this is the role intermediaries play in traditional financial markets. The Taskforce has heard that, in Australia, there are not enough intermediary organisations capable of providing the specialist support that is needed to link the supply of impact capital with organisations needing impact capital. There are too few impact investing funds and advisors with the specialist expertise to originate and support impact investment deals. In particular, they need support to enable them to reach scale.

By encouraging growth in the number of impact investment funds, or other types of financial intermediaries, investors will have a broader range of investment products to invest in across the risk/return/impact spectrum, supporting growth in the market.

A larger, more diverse social impact investing market will be critical to attract significant additional private investment to solve social challenges facing Australia.

An impact investing wholesaler would build the market by making investments and building the capability of investors and financial intermediaries. It would provide critical financial and non-financial support for new and existing intermediary funds to originate deals, attract and invest capital. This would include supporting intermediaries to create innovative new fund structures (including pooled funds), allowing smaller investors to invest alongside institutional investors. The wholesaler must operate as part of a group of market building organisations to truly stimulate the market and realise its potential. In doing so, the wholesaler will disrupt the current cycle of stasis plaguing the large scale social impact investing market.

Along with the other recommendations, the wholesaler would enable the SII market to contribute to the social and economic challenges being exacerbated by COVID-19, which are likely to have long-term impacts. Critical aspects of post-COVID-19 economic recovery such as employment, social and affordable housing and regional economic development are key areas in which a wholesaler could target its operations. An example of how the wholesaler could contribute to supporting the social and affordable housing market is provided at the end of this chapter.

The market for large scale social impact investing is stuck in a cycle of 'stasis'

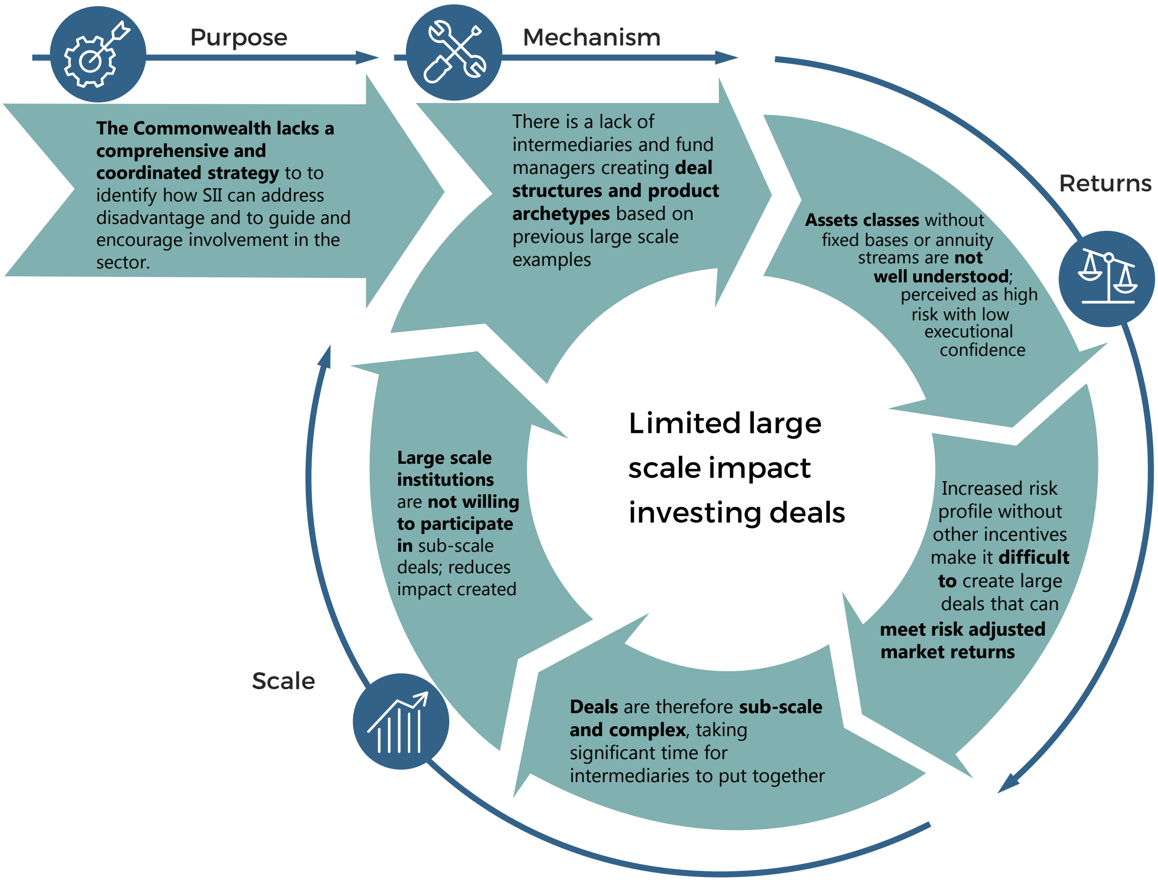

Figure 15: The market for large scale SII is stuck in a cycle of 'stasis'

What the Government should do

The Government should commit in principle support to the establishment of, and co-investment in, a wholesaler, with design details to be finalised in a co-design process. The co-design process would include all potential investors in the wholesaler with involvement from across the SII sector.

Out of the co-design process, the Taskforce expects the ask of Government to be a concessional loan of $200 million to capitalise upfront 50% of the wholesaler (proposed to be named 'Social Capital Australia', SCA) with a 10 year loan (other terms to be confirmed through the co-design process) and grant funding to cover operational costs for the first five years (around $6 million per year). This Australian Government loan will kick-start SCA, providing commercial investors the confidence to co-invest and allow SCA to build a track record that will bring in other investors over time. By acting as a cornerstone investor in the market, SCA would enable development of a diverse pool of commercially sustainable SII financial intermediaries, operating without long-term government assistance.

A contribution of government funding would support the legitimacy of the wholesaler and be a powerful signal to build confidence in the market. Government has a role in supporting innovative solutions that can leverage private capital to address its priorities, including addressing entrenched social disadvantage. A cornerstone investment from the Australian Government in the wholesaler would enable significant additional private investment to be drawn in to support the significant social and economic challenges facing Australia, especially in the COVID-19 context.

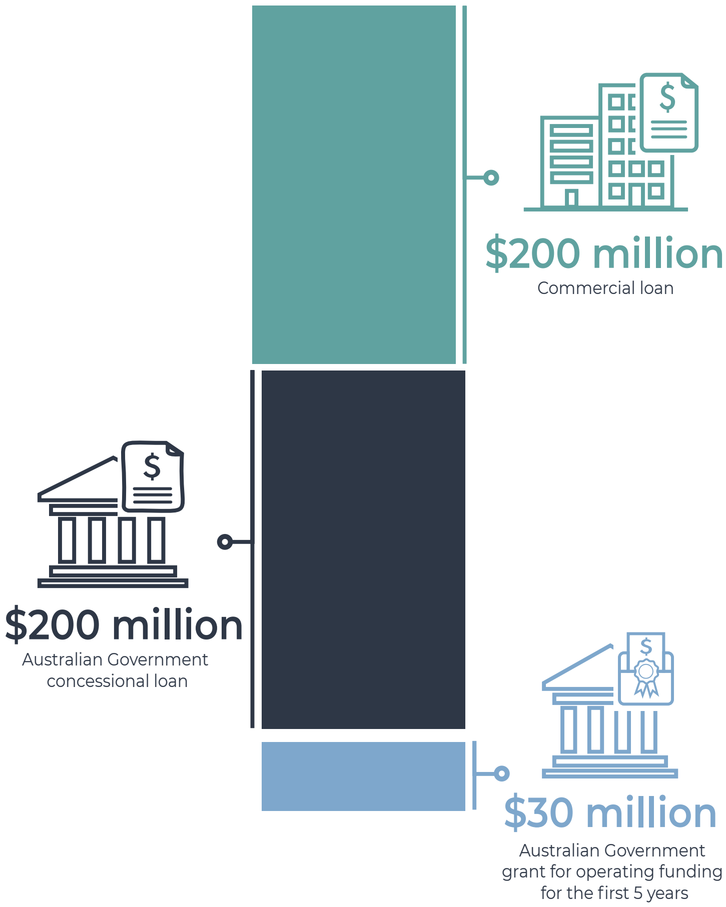

Figure 16: Capitalisation of SCA

In the UK, Big Society Capital (BSC) has demonstrated the ability of a wholesaler to stimulate the social impact investment market. Since its inception in 2012, BSC has signed a total of £640 million in investments and seen a total of £1.4 billion in signed capital from co-investors (2.1 times the amount of capital BSC invested).[95] The UK SII market has seen huge growth over this period: from £830 million in 2011 to £5.1 billion today.[96] Further detail on the results and lessons from BSC are in Lessons from the UK Experience with Big Society Capital (see pages 80-81).

95 Big Society Capital (2020) *Portfolio.* Accessed on 21/08/20 at https://bigsocietycapital.com/portfolio/

96 Big Society Capital (2019). *UK Social Investment Market grows by 30% in one year.* Accessed on 18/12/19 at https://bigsocietycapital.com/latest/uk-social-investment-market-grows-by-30-in-one-year-now-worth-over-35-billion/

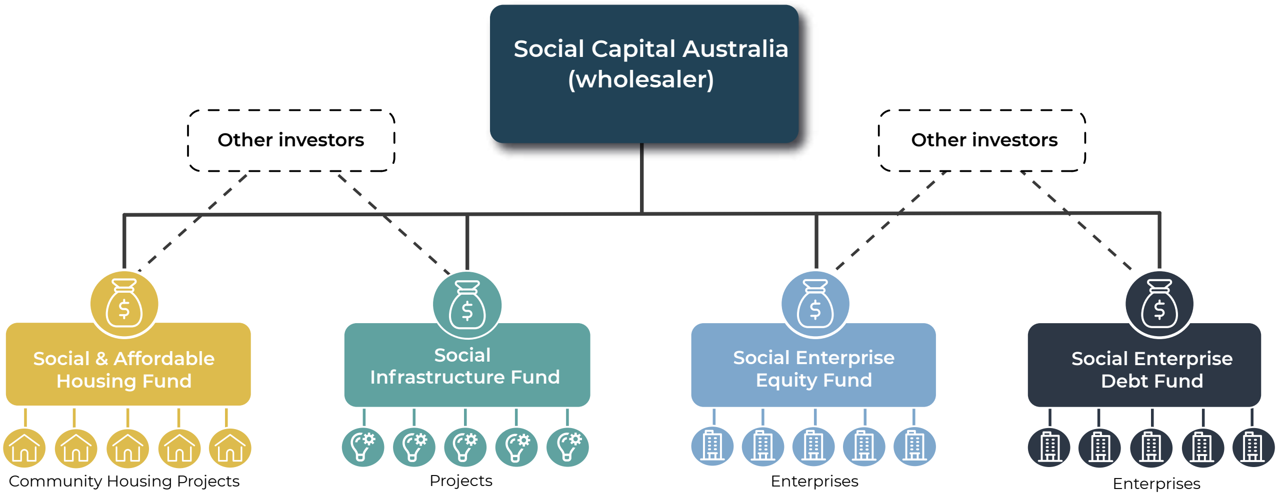

Figure 17: SCA funding

Functions of the Wholesaler

SCA will be a financial institution with two roles: an impact capital wholesaler and impact investing market champion. It will build on the strengths of BSC and other wholesaler models, and tailor those models for the current Australian context. Functions of SCA would include:

- **Wholesaler:** SCA will invest in new and existing intermediary funds, which would in turn make social impact investments. SCA will have a clear investment strategy that drives its investments, supporting post-COVID-19 recovery in the early years. In particular, the wholesaler will invest in ways designed to bring in co-investment and not crowd-out private investors, with co-investment and partnership to be a foundational principle (see below). SCA would have the flexibility to invest directly (i.e. not through intermediaries), where this is required to build the market and draw in additional investors.
- **Market champion and advisor:** As a market champion SCA will ensure investors, intermediaries and social enterprises are supported with the knowledge and tools they need to originate and develop investments, as well as manage and report financial and social impact. The costs associated with this function should be funded with grants to ensure portfolio returns are not set unrealistically high.
- **Intermediary support:** SCA will support new and existing intermediaries on all aspects of their role, including business models, deal origination, and impact management. Both BSC and European Investment Fund's Social Impact Accelerator (SIA) have found that intensive support for intermediaries is critical for developing the market.[97]
- **Impact management support**: In addition, SCA will measure and manage the impact of its own investments, as well as leading other investors, intermediaries and social enterprises to measure and manage social impact. In this way it will ensure investments have measurable social impact.
- The SCA will have a close relationship with the Early Stage Social Enterprise Foundation (see Chapter 5) to share expertise and ensure social enterprises are supported in the most appropriate way for their business stage.

97 Global Steering Group for Impact Investment (2018) *Building Impact Investment Wholesalers: Key questions in design of an impact investment wholesaler*. p.15

In addition to the roles identified above, SCA could undertake some of the following roles:

- **Originate social impact investment deals:** A wholesaler can bring together governments, investors, intermediaries and social enterprises, as well as provide expertise, to originate deals that would not otherwise occur. Alternatively, it can support intermediaries to undertake this role. The UK experience suggests this origination role is essential, particularly in the early stages of market development.
- **Streamline due diligence:** A wholesaler can conduct or support due diligence on impact investments, reducing the upfront costs to investors and building market confidence to invest in new products.
- **Support blended finance:** A wholesaler can support blended finance and innovative financing mechanisms, depending on what is suitable for particular funds. For example, Japan's Designated Utilization Foundation gives both grants and loans to philanthropic foundations who in turn support social enterprise. And Portugal Social Innovation matches venture philanthropy donations. While SCA is not expected to provide grant-based funding, it should have sufficient flexibility in its investment strategy and capitalisation structure to engage in blended financing to bring private investors into the market.
- **Guarantee bank loans:** To enable social enterprises to access commercial bank loans if they don't have the necessary collateral or trading history. For example, the Portuguese Social Innovation Fund guarantees bank loans to social enterprises.

What this means in practice

Building the Indigenous intermediary sector in Australia

Indigenous empowerment through economic development is critical to Indigenous self-determination in Australia. This is reflected across the new National Agreement on Closing the Gap (see Chapter 5 for further detail).

Economic participation and empowerment is emphasised in Closing the Gap Target Eight: *Strong economic participation and the development of people and their communities.*[98] The Indigenous Reference Group to the Ministerial Forum on Northern Development recently highlighted the importance of enabling capital flows towards Indigenous-focused impact investment initiatives.[99] [100]

An Indigenous intermediary sector is emerging in Australia. There are a number of Indigenous-focused financial intermediaries, including:

- the Australian Indigenous Network for Investment, Trade and Export (IgNITE);
- First Australians Capital (FAC); and
- The Indigenous Infrastructure Investment Fund (IIF) managed by Impact Investing Partners (IIP).

Some of these intermediaries have expressed a desire to engage in impact investing.[101] In the Indigenous context, a stronger intermediary sector has the potential to contribute to the betterment of Indigenous communities through economic empowerment and a growing Indigenous finance landscape. By investing in Indigenous intermediaries, SCA could play a catalytic role in growing the sector in Australia.

98 Australian Government (2020) *Closing the Gap targets and outcomes.* Accessed on 23/10/20 at: https://www.closingthegap.gov.au/targets

99 Indigenous Reference Group to the Ministerial Forum on Northern Development (2019) Submission to the Inquiry into the Opportunities and Challenges of the Engagement of Traditional Owners in the Economic Development of Northern Australia. Accessed on 23/10/20 at: https://www.aph.gov.au/DocumentStore.ashx?id=0c4793e1-0151-43c8-a02b-bbbafa54aaac&subId=666906

100 Office of Northern Australia (2019) *Indigenous Reference Group Meeting Communique 22-24 October*. Accessed on 23/10/20 at: https://www.industry.gov.au/sites/default/files/2019-12/ona-irg_meeting_22-24_october_2019.pdf

101 Pro Bono Australia (2019) *Indigenous impact fund to provide the best of both finance and social worlds.* Accessed on 23/10/20 at: https://probonoaustralia.com.au/news/2019/05/indigeous-impact-investment-fund-to-provide-the-best-of-both-finance-and-social-worlds/

Purpose and mission

SCA's primary mission will be to attract co-investors into the social impact investing market to support social outcomes. It will operate as a cornerstone investor crowding-in other investors to the intermediaries it invests in.

SCA's activities and investment strategy will be focused on its social impact mission. Its mission should be embedded in its governance structure to provide assurance to its shareholders that it will remain focused on its original purpose. Given the COVID-19 context, SCA may start with a focus on employment, mental health, social and affordable housing and supporting economic recovery in disadvantaged regions — with a particular focus on youth, women and Indigenous communities — and expand its focus over time.

As the market develops over 20-30 years, the functions of SCA will need to evolve. Wholesale finance may be needed to support a particularly difficult or undeveloped part of the market, or it could be provided commercially (without government involvement). SCA will be set up with short, medium and longer-term review points to ensure its original purpose, investment strategy and operational model remains relevant.

> *"The overarching theme is building the market mechanisms to create the right risk / return constructs for investment..."*
>
> *– SII Taskforce roundtable participant*

Based on the experience in other countries and consultation with the SII sector, the Taskforce recommends the following founding principles be used to guide the co-design and establishment of SCA:

- **Focus on co-investment and partnerships:** With philanthropy and the private sector, including social entrepreneurs and the community sector.
- **Maintain independence:** Organisational independence from Government.
- **Bring in appropriate skills and expertise:** Implementation by organisations and individuals with the right skills to make them successful.
- **Underpin with evidence:** Using evidence and best practice from domestic and international initiatives to inform the design and implementation of the wholesaler.
- **Recognise the value of certainty:** Providing long-term certainty for the sector will enable the market to grow and become self-sustaining over time.
- **Act as a market champion:** Support investors and intermediaries with the tools and knowledge they need to grow the SII market to increase the social outcomes achieved.
- **Invest as a wholesaler:** Catalytic, long-term investor that is additional in the market, and achieves strong social impact.
- **Operate adaptively and flexibly:** Regular review points and adaptive management to ensure it continues to achieve its objectives as the market develops.

Social outcomes at its core

The social outcomes that are chosen as the focus of SCA should reflect Australia's biggest social challenges and could change over time. As an example, BSC has three goals focused on social challenges: expanding housing for vulnerable people; enabling communities to solve problems; and shifting the social system from treatment to prevention.

The social outcomes that SCA focuses on should be aligned with government and community priorities—to ensure taxpayer and other invested funds are directed appropriately where they will have the greatest impact. SCA's governance arrangements will ensure the Government and other investors have a continued opportunity to align the investment strategy with their priorities.

> *"Scale is important in the social impact market and it's harder to get to. A wholesaler would make a fundamental difference by providing the core funding we can then get matched to get the bigger transactions to happen. It takes more time to originate social impact deals with integrity, and the market building support a wholesaler could provide would really accelerate our ability to do so and get the mainstream funding institutions on board."*
>
> *– Impact investing intermediary*

BSC has achieved considerable social impact through its portfolio since 2012. This includes:

- supporting 50,000 people into employment;
- enabling 255,000 people to receive support for mental health;
- affordable housing for 3,256 people;
- suitable housing for 26,000 people; and
- enabling 6,700 children to access childcare.[102]

The social impact measurement and management framework that SCA uses to measure and report its social outcomes will need to be carefully considered. Given its role as a market leader and its primary mission to deliver social outcomes, the framework must reflect global best practice.

Capitalisation of SCA

Following the Taskforce's research and consultations, it recommends that the SCA fund should be at least $400 million.

A fund of this size is needed to:

- signal a long-term commitment to the market, build market confidence and stimulate growth in the intermediary market;
- achieve economies of scale, enabling portfolio diversification and lower relative transaction costs. This reduces the portfolio returns required to meet the operational costs of SCA and therefore the cost of capital to intermediaries, and subsequently social enterprises; and
- partake in complex large scale investments that are not able to be met by market demand at this point.

However, the size of the fund should be commensurate with the rate at which capital can reasonably be invested, to ensure the credibility and efficacy of the fund and meet expectations of those who invest in SCA.

The initial pool of capital could be raised from the Government and commercial financial institutions.

102 Big Society Capital (2020). *Quadrennial Review.* .London: the Big Society Trust.

Market scaffolding

SCA must work in tandem with other market-supporting organisations – as seen with BSC in the UK. SCA will provide a pool of capital and expertise to build investor confidence. However, investors will find it challenging to expend capital if there are not enough investment-ready social enterprises. A scaffold of market building organisations that must sit alongside a wholesaler include:

- Organisations or programs to support social enterprises to build capacity, including support for social enterprises to become investment-ready and access the right type of finance at the right time (see Chapter 5).
- Organisations or programs to support development and distribution of evidence and information on best practice social impact investing and outcomes funding (see Chapter 8).
- Government outcomes funds or social procurement policies to provide an income stream for social enterprises that deliver on government priorities (see Chapter 7).

SCA and the Early Stage Social Enterprise Foundation should be housed under a single governance structure, with the Foundation as a subsidiary of or in a group with SCA. This will enable them to work in a coordinated way to grow the SII market as a whole – with the Foundation focusing on building the capacity of social enterprises, which will in turn increase the pipeline of investible opportunities that can be accessed by intermediaries supported by SCA. A consolidated entity will provide efficiencies in the governance of the two initiatives.

Lessons from the UK experience with Big Society Capital

In the eight years since its establishment, BSC has contributed to significant growth in the SII market in the UK. Market building accomplishments include:

- 28 Venture Impact funds in 2018 compared to 3 in 2012;
- the social property fund market exceeded £2 billion in 2018 from a base of zero in 2012;
- the UK charity bond market has grown from £30 million in 2014 to £369 million in 2019; and
- 18 UK retail impact funds in 2020 compared to none in 2012.

SCA will have a significant impact on market development and immediately attract additional private investment for Australia's most pressing social challenges. Its impact will be maximised if it is implemented in close coordination with the other recommendations in the report.

The UK experience provides important lessons for the co-design and establishment of a wholesaler in Australia. BSC was fortunate to be capitalised through unclaimed money in dormant bank accounts and four retail banks, so while the UK Government supported the establishment of BSC it has not been actively involved in its implementation.

Establishing BSC as an institution outside of government underpinned the ability to undertake a range of activities to build the SII market in the UK. However, BSC's capitalisation model, and the financial return expectations that were set on establishment, had implications for its investment strategy and its ability to support riskier or more innovative investments.

Learning from this experience, SCA would be capitalised with a first loss investment from the Government and operational costs will be grant funded to ensure SCA can support innovative investments. It is also recommended to be established outside of government to ensure its independence and allow it to operate nimbly and flexibly.

Other key lessons from BSC's experience that should inform the co-design and establishment of a SCA include:[103]

- **Market building takes time:** BSC has been operating for eight years and is only now starting to plan exits for its investments. SCA will likely need to be a permanent feature of the market, but will need to adapt its capitalisation structure and investment strategy over time to ensure crowding-in rather than crowding-out of commercial investors as the market develops.
- **The trade-off between financial returns and market building impact is real:** Balancing financial sustainability while growing the market is an ongoing challenge for BSC. There are trade-offs between achieving the return target and building the market by focusing on the riskier more innovative investments, and these need to be explicitly acknowledged. If market building activities as well as fund manager activities need to be supported by portfolio returns, this will have implications for how additional a wholesaler can be in the market.
- **Ongoing focus on additionality:** Given its remit to build the market and attract other investors, BSC has found it continually assesses whether BSC capital is needed to attract other investors. The use of blended finance and more flexible terms is key to enabling BSC to be additional in the market. However, blended finance and flexible terms are challenging for BSC because of its capitalisation model, cost of capital and therefore the returns it needs to achieve.
- **Focused vs broad investment strategy:** Starting broadly, BSC narrowed its focus to three areas (early action, homes and place[104]), which has led to greater expertise and data analysis, helping drive those sectors to scale at a faster rate. Over the long-term however, there is an expectation that this sector expertise will be held primarily by intermediaries. As market expertise builds, BSC may consider continuing to emphasise risky and innovative social investment, but across broader focus areas. The Taskforce recommend that SCA starts with a relatively narrow social impact focus that expands over time. Areas that could support COVID-19 recovery include employment, mental health, social and affordable housing and economic and social recovery in disadvantaged communities with a particular focus on youth, women and Indigenous communities.
- **Broader market building activities are critical:** Investing in market building activities – such as investor engagement, sharing information and knowledge on portfolio management, impact management and engagement on SII policy - is critical. As is the ability to invest concessionally to attract other investors and support innovative opportunities that may be perceived as higher risk.

Example: How SCA could support delivery of social and affordable housing

Secure housing is a vital determinant of social and economic wellbeing that is associated with better outcomes in health, education and employment, as well as labour market and social participation. The Taskforce's terms of reference specifically requested consideration of how SII could address impediments to private investment in social housing. SCA could act as a cornerstone investor into social and affordable housing funds. These would be run by intermediaries who invest into community housing providers (CHPs), or invest directly into social and affordable housing development projects. Currently, CHPs registered under the National Regulatory System for Community Housing (NRSCH) can access cheaper debt through the National Housing Finance and Investment Corporation's (NHFIC) Affordable Housing Bond Aggregator (AHBA). In practice, the bulk of AHBA loans currently go to Tier One NRSCH-registered CHPs.

SCA would complement the work of the NHFIC by investing in housing funds that could make equity investments in smaller CHPs or into projects rather than companies, enabling a much larger group of CHPs and community housing projects to more easily access the finance they need to grow and scale the construction of new social and affordable housing. SCA investments could support more CHPs to access NHFIC financing by providing junior debt or equity to fill the gap required to borrow from the AHBA. By investing into a range of different 'housing-focused intermediaries', SCA could support large scale opportunities for impact investors, support CHPs to scale up and accelerate their impact and address a critical social issue facing Australia. Pooled funds in this area may be of interest to philanthropic foundations and private investors with a commitment to responsible and impact investing.

103 Big Society Capital (2020). *Quadrennial Review*. London: the Big Society Trust.

104 Big Society Capital (2020) *Focus areas*. Accessed on 20/10/20 at: https://bigsocietycapital.com/how-we-work/focus-areas/

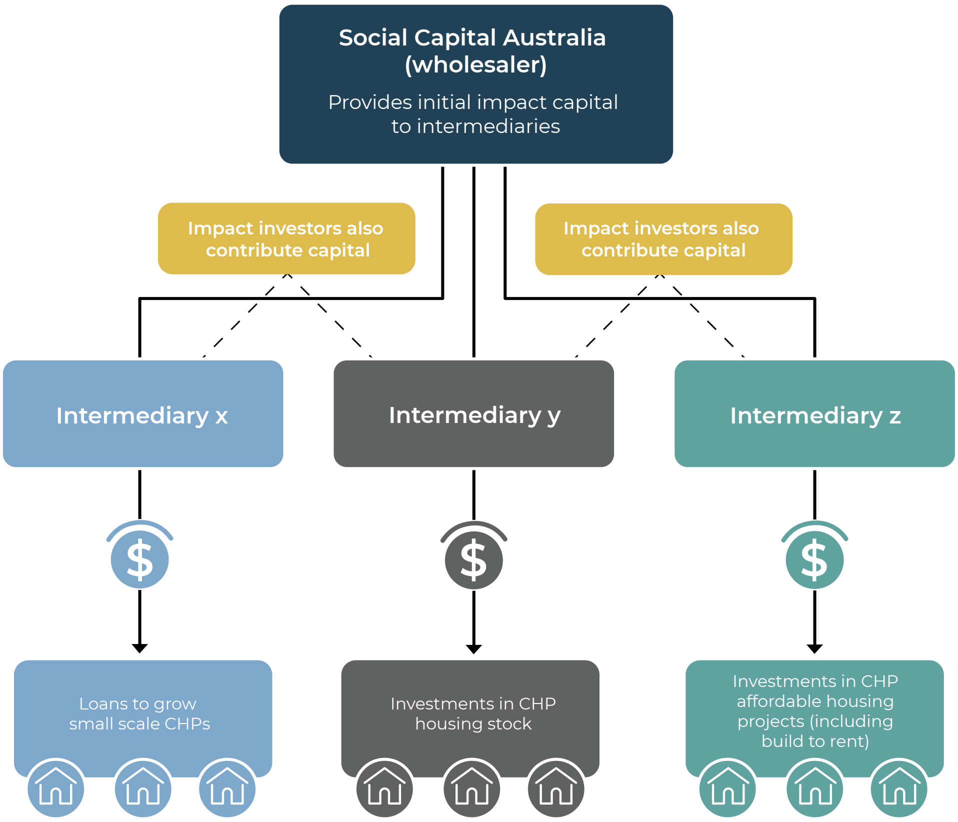

Figure 18: Example structure of wholesaler investments in social and affordable housing

What this means in practice

The Taskforce's recommended impact investment wholesaler aims to support more funds to be established by assisting new and existing intermediary funds to originate deals, attract and invest capital. The Social Ventures Australia (SVA) Diversified Impact Fund is an example of an intermediary fund. Established in 2017, it is no longer seeking new funds from investors, but is actively deploying its capital. The availability of discounted wholesale capital would make it easier to raise such funds in the future.

SVA Diversified Impact Fund

The SVA Diversified Impact Fund provides finance to organisations that make a meaningful social impact on the lives of people in Australia.

The purpose of the Fund is to create impact at three levels: by delivering direct social outcomes, acting as a market catalyst and influencing broader system change. The Fund focuses on investment themes fundamental to improving the lives of people in Australia, in the areas of disability, education, employment, First Australians, health and housing. The Fund provides flexible finance from $500,000 to $1.5 million in debt, equity and social impact bonds. With a target return of 7% net of fees (approximately 10% before fees) – necessary to attract capital – the Fund is limited in the range of organisations that it can finance. To date, the Fund has invested in the following businesses and projects:

- Aspire Social Impact Bond;
- Resolve Social Benefit Bond;
- Newpin Social Benefit Bond;
- Sticking Together Social Benefit Bond;

- Nightingale Housing (Nightingale Ballarat and Nightingale Village);
- Maths Pathway; and
- Synergis Fund.

Through these investments, the Fund has contributed towards the construction of over 200 affordable housing units in Victoria and 15 properties that will provide 46 homes for people with disability, Social Impact Bonds working with 128 people experiencing homelessness, over 100 young people and hundreds of people suffering mental ill-health, as well as enabling better education outcomes for over 65,000 students across the country through Maths Pathway.

'Certain organisations in the social purpose sector continue to struggle to access affordable finance, such as early stage social enterprises,' said Rebecca Thomas, Executive Director, Impact Investing at Social Ventures Australia. 'By providing discounted wholesale funding to intermediaries such as SVA, a wholesaler could help us to close this gap.'

Small businesses play a crucial role in society by creating and sustaining jobs for local people and supporting local economic activity. This is especially true in left-behind communities, yet many sustainable small businesses cannot access mainstream finance. As a result, they struggle to thrive and survive. In England, 53% of small businesses operate in 35% of the most deprived areas.

Big Society Capital – Community Investment Enterprise Facility (UK)

Community Development Finance Institutions (CDFIs) present one possible solution to this problem. Often socially-motivated and rooted in their own communities, they understand how access to finance helps these small organisations sustain and grow their business, which then improves their local economies and communities. However, CDFIs face barriers to achieving long-term sustainability and securing capital at a scale that meets the full needs of small businesses. The market is currently not big enough to meet the estimated funding gap of up to £1 billion.

In 2018, UK wholesaler, Big Society Capital, established the Community Investment Enterprise Facility (CIEF) to support up to five CDFIs in meeting the demand for finance from underserved small businesses in disadvantaged communities or led by disadvantaged groups. CIEF is a £30 million facility managed by the fund manager Social Investment Scotland (SIS). It is a co-investment facility, where the CDFIs receive some initial upfront capital but must secure matched funding to draw on the full CIEF commitment. The facility aims to leverage additional money and new investors into the CDFI market.

To date, four CDFIs have been supported by CIEF and have secured an additional co-investment of £22.5 million from other investors. They have in turn supported 427 small businesses and deployed £23.5 million in loans. This includes for instance BCRS Business Loans, which obtained a commitment of £7.5 million from the CIEF and has also secured a further £7.5 million from Triodos Bank as matched funding. The impact report shows that CDFIs do reach the underserved. For example, 16% of loans were made to applicants from black, Asian and minority ethnic backgrounds. This is a greater share than the national picture, where the proportion of small businesses that are majority led by ethnic minority groups was 5% in 2018. 41% had been recently rejected for finance from elsewhere. 50% of CIEF investments are in micro and small to medium enterprises based in the 35% most deprived neighbourhoods.

CDFIs were in a position to respond rapidly to the impact of COVID-19 on these small businesses, quickly pivoting to deliver loans under the UK Government's UK Coronavirus Business Interruption Loan Scheme.

The Taskforce's recommendation for a wholesaler aims to invest in similar funds and institutions to attract significant financial investment to solve social challenges facing Australia, including employment, social and affordable housing, Indigenous business and regional economic development.

Chapter 7

Establish a Commonwealth Outcomes Fund

The Taskforce recommends the Australian Government establish an outcomes fund that provides payments to states and service delivery organisations based on the measurable outcomes they achieve.

The Outcomes Fund would enable several outcomes-based contracts, such as social impact bonds or payment by results contracts, to be developed and supported in parallel, under a common framework. In so doing, it will significantly increase the number and size of social investment opportunities in Australia's social impact investing market.

Implementation detail is provided at Appendix H.

Recommendation 3

The Australian Government should establish a $100 million Outcomes Fund to encourage a coordinated, cross-jurisdictional approach to outcomes-based funding, and stimulate the pipeline of social impact investment opportunities.

Key terms

Payment by results / outcomes-based payment program: Where a commissioner (usually a government body) pays a service provider based on pre-determined outcomes achieved. Payments are usually referred to as 'outcome payments'. Outcome payments are usually calculated based on the savings achieved through reduction in government long-term expenditure.

Rate card: A schedule of the rates a funder is willing to pay for specific outcomes— usually based on actuarial analysis of the potential avoided costs of early intervention for a particular cohort. By sending a clear market signal on the government's targeted outcomes and willingness to pay, rate cards streamline the development process and catalyse more social impact bonds and payment by results contracts, which in turn will create more opportunities for SII. Consistency of outcome metrics also supports evaluation of outcomes across a portfolio of projects.

Social impact bond: Distinct from a traditional bond (debt instrument), social impact bonds (SIBs) – also known as social benefit bonds - are performance-based contracts that typically use upfront capital from investors to cover the costs of service delivery until outcomes are achieved and outcome payments are paid by commissioners. Investors in SIBs receive a return based on the social outcomes achieved. In Australia, state governments have generally been prepared to pay a proportion of SII service costs, often around 50%, on a fixed basis (known as the 'standing charge' or 'advance payment') to take on some of the risk of underperformance.

The challenge

The Government's current approach to commissioning and evaluating social services means the impact of service delivery is not well understood. Measurement is often focused on outputs rather than outcomes, is usually constrained to a single agency and only rarely measures impact across levels of government. Given the benefits of tackling complex social issues accrue across agencies and levels of government, this can result in systemic underinvestment in complex issues. A focus on outcomes that align with priorities across the Australian Government allows for adaptive delivery as programs can iterate their models to meet new challenges as they emerge.

Outcomes-based funding, such as SIBs or payment by results (PbR) contracts, goes some way to addressing these challenges as the focus on measuring and paying for outcomes means taxpayer dollars are directed to programs that have been proven to work. However, outcomes-based contracting in Australia has taken a 'project-by-project' approach, which has limited the ability to build evidence from a portfolio of projects tackling a common policy issue. Australian outcomes-based contracting has also resulted in high transaction costs, which has been a deterrent for commissioning agencies, service providers and investors and has limited the number of investible opportunities.

"We have received countless social investment proposals that were not feasible to progress given the high proportion of benefits to the Commonwealth, which can't be adequately compensated through state-based commissioning."

- SII Taskforce roundtable participant

What the Government should do

The Australian Government should establish a $100 million Commonwealth Outcomes Fund (the Outcomes Fund) to encourage a coordinated, cross-jurisdictional approach to outcomes-based funding, and stimulate the pipeline of social impact investment opportunities. The Outcomes Fund will provide $100 million in Australian Government funding to partner with state and territory governments and service providers. Funding will ideally be allocated across two tranches to allow for the possibility of funding future programs that will adapt in response to learnings from tranche one partnership programs. If the Outcomes Fund is found to be successful through evaluations, the Government could consider committing further funding. An outcomes fund is a funding mechanism that pools finance from one or more funders in support of a set of pre-defined outcomes. Payments from the fund only occur if specific criteria agreed by the funders are met.[105]

Outcomes funds enable several outcomes-based contracts to be developed and supported in parallel, under a common framework. In their broadest sense, outcomes funds signal a commitment to pay for measurable social outcomes at scale, rather than paying for activities or outputs.[106]

Having considered various international models and the Australian context, the Outcomes Fund should be set up to predominantly complement state and territory led outcomes-based contracts. That is, the fund would pay for Commonwealth-related outcomes (e.g. reducing reliance on welfare) to top-up state and territory focused outcomes payments (e.g. reducing re-offending or children in care). By recognising and paying for outcomes that fall across government boundaries, service providers will be incentivised to work with more complex, hard to reach cohorts, and a greater number of social impact investment opportunities will become viable.

The Government may also wish to ring-fence a small portion of the Outcomes Fund or commit additional funding to engage service providers directly through outcomes-based contracts. This would allow the Government to test new approaches to improving social outcomes in areas where the status quo isn't working and where states and territories may not have specific interest. This approach could be particularly effective for building the evidence on what works for particular cohorts.

The Outcomes Fund could also provide a coordinated approach across agencies to pay for outcomes from the Australian Government. This will be possible if the Outcomes Fund is implemented through the Commonwealth Office of Social Impact (COSI), which has a broader role to coordinate SII policy across the Australian Government. The Government will also play a crucial role in facilitating data sharing to enable the appropriate pricing of outcomes, and the validation of outcomes achieved. The Data Availability and Transparency Bill will assist this process by providing a framework for Australian Government agencies to share data with accredited users in a streamlined and safe manner.

The Taskforce expects the Outcomes Fund to create more investible opportunities in the SII market as some service providers may need to seek investment for the upfront capital they require to deliver outcomes-based programs. This funding need is often why SIB models are used in outcomes-based contracts. As a mechanism to increase SII opportunities, the Taskforce considered whether participation in the Outcomes Fund should be conditional on raising upfront private investment. However, the Taskforce concluded that service providers were best placed to assess and manage their own risk and funding choices in the delivery of their programs. It is therefore intentional that the design of the recommended Outcomes Fund allows for flexibility in how service providers fund their activities. This is especially important as many of the contracts supported by the Outcomes Fund will be managed by state governments and the Australian Government should be minimally involved in this process.

105 Government Outcomes Lab (2020) *Outcomes funds.* Accessed on 05/06/20 at https://golab.bsg.ox.ac.uk/the-basics/outcomesfunds/

106 Government Outcomes Lab (2020) *Outcomes funds*. Accessed on 05/06/20 at https://golab.bsg.ox.ac.uk/the-basics/outcomesfunds/.

The Taskforce recognises the potential complexity and issues that can be created by partnering with states on the majority of funding from the Outcomes Fund. To accelerate the partnership process, the Australian Government should provide certainty of funding to state and territory governments early in the process.

The Outcomes Fund will initially be designed to align with existing employment programs, reflecting this priority in the recovery from the economic impacts of COVID-19. The Australian Government's outcome payments will be based on thorough analysis of Australian Government administrative datasets and only be made on outcomes and reliable leading indicators that are likely to result in long- term improvements for participants and savings in Government expenditure. The majority of funding from the Outcomes Fund will aim to address complex social issues holistically with state governments. Programs funded are likely to address issues where there is clear state government responsibility and clear benefits to the Australian Government (such as reduced income support payments or improved employment outcomes). Programs could target issues such as recidivism, out-of-home-care, homelessness and health.

Steps to implementation

The indicative steps in developing the Commonwealth Outcomes Fund are outlined below:

Step 1: Cross-jurisdictional consultation

The Australian Government should convene a working group of states and territories to consult on key design features, including the thematic focus of the fund, targeted outcomes and the development of a rate card. The working group would be responsible for accessing relevant data sets to underpin the pricing of outcomes and securing data sharing agreement for the validation of outcomes achieved and fund evaluation.

Step 2: Launch and invite proposals

The Australian Government will launch the Outcomes Fund and supporting materials, such as the rate card and template contracts. The Australian Government will also specify the key parameters for accessing the fund (e.g. the theme/focus of the Outcomes Fund, target outcomes, pricing, maximum % of total outcome payments, cohort eligibility etc.). Transparency of key parameters is critical to enable states and territories to develop complementary commissioning activities and reduce complexity and transaction costs.

The Australian Government will have an open-ended submission process to enable states and territories to submit proposals at a time that suits their policy development and budget cycles. The Australian Government will include mechanisms to ensure equitable distribution of funds across jurisdictions who want to participate in SII partnerships. Ideally, the Outcomes Fund will be committed over two tranches of funding to allow for learning from tranche one partnership programs. Outcome payments will be available over a relatively long contracting period (i.e. 5-7 years) to allow for outcomes to be observed.

Step 3: State / territory led commissioning

States and territories would lead their own outcomes-based commissioning based on localised priorities. States and territories would apply to the Australian Government to agree top-up funding for proposed programs or ideas that align with the theme of the Outcomes Fund. Australian Government funding could be paid on the achievement of the outcomes specified in the rate card. States and territories would be responsible for entering into outcomes-based contracts with service providers and for ongoing contract management. States may begin their commissioning processes concurrently with step 1 or 2.

Step 4: Outcome validation and payment

Pre-specified data sets are collated to determine the outcomes achieved and payments to be made by both the Australian Government and state and territory governments. The Australian Government would serve as a central repository of evidence to inform future outcomes-based contracting across jurisdictions.

Step 5: Monitor and evaluate the Outcomes Fund

The Australian Government will, through the COSI, monitor the success of the fund, using early indicators such as state and territory participation, time taken to agree terms and the ongoing suitability of rate card outcomes and pricing. Adjustments to fund parameters may be made based on early learnings.

The Australian Government will also seek external evaluation of the fund against the key objectives outlined above. This would inform the design, quantum and focus of future tranches of funding and other outcomes funds.

Early foundational work is required to establish a fund of this scale and complexity

Outcomes-based funding arrangements require quality data to understand whether an intervention has had an impact. Data is critical at every stage of the cycle: to identify areas of need in the community; to understand the needs and circumstances of the intended beneficiaries or users of a service or product; to understand the cost of inaction; to set appropriate target outcomes and a fair price for them; and to verify outcomes to determine payments to service providers and, in turn, investors.

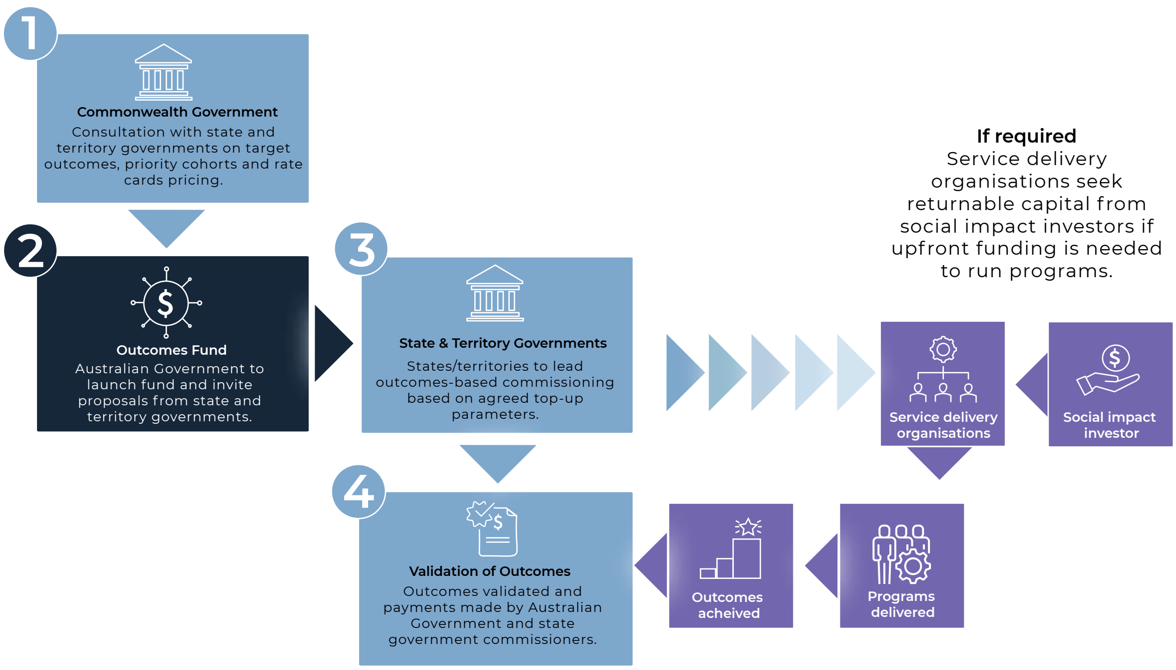

Figure 19: Structure of the Taskforce's recommended Outcomes Fund

Why this is important

The establishment of an outcomes fund would address current challenges to outcomes-based contracting in Australia by stimulating a coordinated approach across the Australian Government and jurisdictions to outcomes-based funding. Doing so would significantly increase the number and size of social impact investment opportunities and therefore support growth in Australia's social impact investing market.

A Commonwealth Outcomes Fund would act as a catalyst for encouraging collaboration and data sharing between the Australian Government and state and territory governments, by recognising the mutual benefits that accrue from effectively tackling complex issues. A partnership with states and territories to deliver an outcomes fund will ensure an efficient and coordinated approach and support outcomes-based contracting to be delivered at scale.

An outcomes fund is the next step for the Australian Government to support outcomes-based contracting, building on the Department of Social Services' (DSS) work on outcomes-based contract trials to date. The Outcomes Fund has been designed to build on the lessons learned during the establishment and initial phases of DSS' payment by outcomes trials and SII partnerships with state governments. DSS' experience in partnering with state and territory governments has demonstrated that outcomes-based contracts are complex. They take time in defining the outcomes, agreeing the measurement methodology, accessing data, calculating prices and setting out counterfactual scenarios. Price setting also requires negotiation of the appropriate share of outcomes attributable to each sphere of government. It is important for the Australian Government to be involved early in the process to streamline engagement between governments and providers to allow the design of the outcomes to maximise use of Australian Government data and knowledge.

The Outcomes Fund has been designed to engage states early in their commissioning processes by providing funding certainty from the Australian Government before states begin procurement processes. The Outcomes Fund will also reduce complexity and streamline commissioning of multiple outcomes-based contracts by building on existing data integration projects, providing rate cards to signal the price the Government will pay for outcomes and implementing a consistent agreement document with state governments. Reviews and evaluations of the Outcomes Fund by the COSI (see Chapter 8) will also align with the completion of DSS' trials to ensure further learnings are incorporated into the operation of the Outcomes Fund.

The Outcomes Fund has the following key objectives, to:

- Effectively address complex social issues for cohorts experiencing entrenched disadvantage by coordinating outcomes-based funding with state governments and sharing costs and benefits across jurisdictions and Australian Government portfolios.
- Incentivise state governments to implement programs that contribute to the thematic focus of the fund, e.g. employment or Indigenous-specific outcomes – both of which have been affected by the COVID-19 pandemic.
- Better understand and measure the full impact of social impact investment programs across all levels of government to inform and improve the delivery of broader government services.
- Support and streamline multiple outcomes-based contracts under a single framework, enabling comparison of program efficacy and offering a larger scale and more strategic focus.
- Bring more SII deals to market, in part by enabling transactions that would be economically marginal without participation by the Australian Government.

Streamlining and scaling the number of outcomes-based contracts that can be commissioned concurrently will be a major goal of the Outcomes Fund. It is expected that the Outcomes Fund will fund a total of 5-10 state government led social impact investments. This is based on the average cost of an outcomes-based contract in Australia, which is around $20 million. Multiple participants in the

Taskforce's consultations highlighted the bespoke and complex nature of current outcomes-based contracts and SIBs. Reducing administrative complexity will allow more transactions to be developed and increase the number of investible opportunities in the SII market.

> *"SIBs are a bit like Fabergé eggs, they're bespoke and incredibly detailed but they can achieve great outcomes for disadvantaged cohorts. The challenge is how we create the Cadbury production line version... we need to scale these great outcomes but reduce some of the complexity."*
>
> *– UK social purpose organisation CEO*

Similar to the UK experience, the Outcomes Fund aims to build the foundations for cross-government outcomes commissioning. Subject to the success of this initial fund, subsequent funds may be established to focus on different issue areas, or invite state government and/or philanthropic funding contributions.

International examples

International outcomes funds have proven successful in stimulating cross-government commissioning and the investment pipeline. In the US, the federal government has supported outcomes-based contracting by establishing a US$100 million outcomes fund to pay state and local governments for projects that achieve certain social outcomes.[107] The Portuguese Government has established the Social Impact Bonds Fund, which supports innovative projects providing measurable social outcomes with public budgeting savings. This outcomes fund is one of four financing instruments in the Portugal Social Innovation Initiative, which aims to create a social innovation market in Portugal and finance innovative projects in areas such as employment, health or education.[108]

The UK has implemented six outcomes funds representing over £200 million in outcomes payments.[109] Two examples of these are outlined below.

UK Fair Chance Fund

Launched in 2014, the Fair Chance Fund was a £15 million fund to support young homeless people. The fund utilised a rate card, which set a maximum price for pre-specified housing, employment, education and training outcomes. The fund stimulated seven SIBs, collectively supporting around 16,000 homeless young people with complex needs. The final evaluation found evidence that the SIB and PbR funding arrangements enabled providers to take an adaptive approach to delivery, evolving their models to meet challenges as they emerged.[110] The evaluation also identifies programmatic key learnings, illustrating the benefit of a thematic outcomes fund.

107 U.S. Department of the Treasury (2020) *SIPPRA – Pay for Results*. Accessed on 27/10/20 at: https://home.treasury.gov/services/social-impact-partnerships/sippra-pay-for-results

108 European Venture Philanthropy Association (2020) *Policy Brief: Outcomes Funds in Europe*. Belgium: European Venture Philanthropy Association. p.3

109 Government Outcomes Lab (2020) U*K Government outcomes funds for impact bonds*. Accessed on 27/10/20 at: https://golab.bsg.ox.ac.uk/the-basics/outcomesfunds/outcomes-funds/.

110 Ministry of Housing, Communities and Local Government (2019) *Fair Chance Fund evaluation: final report*. Accessed on 26/08/20 at https://www.gov.uk/government/publications/fair-chance-fund-evaluation-final-report

UK Life Chances Fund

The Life Chances Fund is an £80 million fund, established in July 2016 by the UK central government to help people who face the most significant barriers to leading happy and productive lives. It provides top-up contributions to outcomes-based contracts involving social impact investment. These contracts must be locally commissioned and aim to tackle complex social problems. The fund aims to leverage up to £320 million in outcomes payments from local commissioners and will likely achieve this goal if current pipeline projects launch successfully.[111]

111 ICF Consulting Services Limited (2020) *Evaluation of the Life Chances Fund - Interim Report*. Birmingham, UK: Government of the United Kingdom. p.8

What this means in practice

The Outcomes Fund will ideally support a range of evidence based programs that improve social outcomes for disadvantaged groups. Examples of programs that the Outcomes Fund could support are below.

Aspire

An example of the type of program that could be funded by the Outcomes Fund is the Aspire Program. The Aspire Program, delivered by Hutt Street Centre, provides priority housing for people experiencing homelessness in Adelaide, and seeks to build their independence and resilience to homelessness. The program is funded through a SIB managed by Social Ventures Australia (SVA), in partnership with the South Australian Government.

SVA raised $9 million in private investor capital for the bond, which has an expected term of 7.75 years. Returns on the bond are linked to outcome payments made by the South Australian Government, which are based on state government savings generated from a reduction in health, justice and homelessness service utilisation, relative to a fixed baseline. Reported results as of 30 June 2019 indicate that:

- Convictions had reduced by 69%;
- Hospital bed days had increased by 3%; and
- Accommodation support periods had reduced by 75%.

As of 30 June 2019, the program had enrolled ~300 participants and ~140 participants had been placed into stable housing. While second year hospitalisation results do not appear positive on the surface, it has been significantly skewed by a small group of outliers.[112]

The Aspire program has helped a range of individuals move into employment. One participant, Alex, was referred to the Aspire Program when he was living in a caravan park. Aspire was able to secure a medium-term property for Alex, which suited his current situation. The Aspire team also worked with Alex to investigate employment and training options. Alex completed a short-term cleaning course and he was very impressed to say, 'a day after I finished the course I had a job!'. He has since maintained this job. Alex will continue to work with Engagement Navigators in the Aspire program on his future plans for the long-term.[113]

The findings from Aspire demonstrate that the rigorous measurement involved in outcomes contracts and SIBs allows governments and service providers to not only better understand the effectiveness of their programs but also gain a detailed understanding of the cohorts they support.

Australian Government support through the Outcomes Fund for programs such as Aspire would help the Government to understand the full impacts of a program by measuring the Australian Government related outcomes in addition to the state-based outcomes already being measured. For example, the Aspire Program may demonstrate that the provision of stable housing and pathways to employment not only generates savings for the South Australian Government (through reduced utilisation of homelessness accommodation, justice and health services) but also generates savings for the Australian Government through improved employment outcomes and a reduction in welfare dependency.

The Outcomes Fund would facilitate Australian Government involvement in programs such as this by:

- Providing co-funding to support relevant state commissioned programs, in recognition of benefits that accrue to the Australian Government from effective interventions.
- Facilitate data access and linkage, to gain insight into the implications of disadvantage and inform the design, pricing and measurement of social impact investments.

The Outcomes Fund could expand existing programs that lead to benefits for the Australian Government, as well as the creation of new programs that would otherwise not be viable.

112 Social Ventures Australia (2019). *Annual Investor Report - December 2019*. Sydney: Social Ventures Australia.

113 Social Ventures Australia (2019). *Annual Investor Report - December 2019*. Sydney: Social Ventures Australia. p.10

Resilient Families

Another example of a program that could be funded under the Outcomes Fund is the Resilient Families program, which was funded by a social benefit bond (SBB) with the New South Wales Government.

The SBB funded a pilot of the Resilient Families program, which was an intensive family preservation service designed to prevent children from entering out-of-home-care by improving family functioning and creating a safer environment for children. The program was delivered by the Benevolent Society for five years from 2013 to 2018.

In July 2018, the bond became the first SBB in Australia to mature. At bond maturity, Resilient Families recorded:

- an 86% preservation rate of keeping children safely with their families;
- 32% fewer entries into out-of-home-care in comparison to the control group; and
- investor returns of between 6-10.5%.

Resilient Families is now delivered through a payment by results contract with the New South Wales Government. Resilient Families continues to perform strongly for families, tracking at a 91% preservation rate and reporting a 34% reduction in parental mental health concerns and a 28.9% increase in wellbeing (June 2020).[114]

The impact of the program from one of the participant families is captured in their statement in response to what has been the most significant change since The Benevolent Society has been involved with them. The participant stated, "I feel happier and feel safer."

The Outcomes Fund would facilitate Australian Government involvement in programs such as Resilient Families, by providing top-up payments to state governments – thereby supporting better understanding of the benefits accruing to the Australian Government. For example, this program may provide evidence that children who avoid entering out-of-home-care have reduced income support payment costs later in life. This type of outcome could demonstrate long-term reduced costs to the Australian Government but also shows how the right intervention at the right time can have long-term effects for children and families.

114 Benevolent Society (2020). *Resilient Families Social Benefit Bond (SBB)*. Accessed on 09/10/2020 at https://www.benevolent.org.au/about-us/innovative-approaches/social-benefit-bond

The Foyer Model

The Foyer Model is an integrated program that provides quality accommodation, education access, support and life skills for excluded young Australians that is changing lives. Foyers target homeless or at-risk young people and seek to change their life trajectory before they enter a life of chronic homelessness that is far more challenging to escape from.

The core components of the Foyer Model that distinguish it from other youth homelessness services are the implementation of an Advantaged Thinking model, focus on developing independence, access to education and/or employment, quality accommodation and wrap-around support services.

The development of Foyers in Australia has been on a case by case basis, financed by state governments and philanthropic sources, with service delivery provided by a range of agencies and certification provided by the Foyer Foundation. As of 2017, there were an estimated 270,000 young Australians classified as in the "NEET" cohort (young people aged 16 – 24 not in education, employment or training) and only 15 Foyer or Foyer-like programs in Australia, relative to over 130 such programs in the UK. Of the 500 people supported by Australian Youth Foyers in FY20, 74% had experience of state care/child protection, 56% were transient (living in three or more places in the year prior to Foyer) and 31% have come from a situation of crisis, including sleeping rough, refugee or a detention centre.

The Foyer Model is reaching a point in Australia whereby longitudinal research has proven its efficacy. Research published in 2019 by Brotherhood of St Laurence and KPMG on the Education First Youth Foyers demonstrates the variety of positive outcomes achieved by Foyers, including:

- **Year 12 or equivalent attainment:** 42% on entry, to 75% 12 months post exit;
- **Proportion of participants not in state supported housing or sleeping rough:** 49% on entry, to 82% 12 months post exit; and
- **Number of hospital days per participant per year:** 0.56 in the 12 months prior to entry, to 0.15 in the 12 months post exit.

The evidence base now available provides the opportunity to scale the Foyer Model within Australia using outcomes-based payments and sourcing private capital to invest in social impact bonds with returns supported by these outcome payments. The Foyer Central bond that will fund a new Foyer program in Chippendale (NSW) for out-of-home-care youths is currently in the final stages of development with the NSW Government, however there remains significant unmet demand for these programs across all states and territories and as such an opportunity exists to support the development of a next wave of Foyers through an Outcomes Fund.

Chapter 8

Establish a Commonwealth Office of Social Impact, incorporating a data hub

The success of the Commonwealth's Social Impact Investing Strategy depends on the strength of the governance structures that support it. The Taskforce recommends the Australian Government set up a central government unit as an independent statutory authority to drive SII policy and monitor, evaluate and adapt the Commonwealth SII Strategy over time.

A central government unit can also help build the knowledge and capacity of the SII sector by establishing a dedicated data hub to support the SII sector to access and use government data, facilitating the collection and release of regular data on the state of the SII market and championing an Australian Government impact measurement framework.

Implementation detail is provided at Appendix I.

Establish a Commonwealth Office of Social Impact

Recommendation 4

Establish a Commonwealth Office of Social Impact to drive a coordinated and long-term approach to SII policy and oversee implementation and evaluation of the Commonwealth SII Strategy.
The COSI will also:

a) establish a data hub to support to the SII sector;

b) facilitate collection and public release of baseline and regular comprehensive longitudinal data on the state of the Australian SII sector; and

c) develop an Australian Government impact measurement framework.

The challenge

International and state government experience has shown the existence of a central government SII policy unit—to drive and coordinate SII policies across government—is a critical pillar of a successful SII market. Countries with dedicated central units have more mature SII markets, with a greater number of SII policies in place, than those without.[115]

The UK — arguably the most mature SII market globally — saw its long standing central policy unit implement catalytic SII policies, including the establishment of Big Society Capital in 2012. The UK SII market has grown by at least 30% each year since 2015 and was worth over £3.5 billion at the end of 2018.[116] The NSW Government has had a SII unit since 2015 and now has the most advanced SII market of any state in Australia. Information on central government policy units is included at the end of this chapter (Examples of central policy units, see pages 107-109).

What the Government should do

The Government should establish a Commonwealth Office of Social Impact (COSI). The COSI will support the long-term development of a self-sustaining and mature SII market across Australia – with the goal of achieving social outcomes in areas of government priority. In addition, the COSI will house a dedicated data hub to support the SII sector, which will collect and publically release sector data and champion an Australian Government impact measurement framework.

The COSI should establish itself as a leader and coordinator without directly implementing activities, except where it is the most appropriate entity to do so. In most cases, the relevant Australian Government agencies or state jurisdictions will implement specific activities, with support from the COSI where appropriate.

115 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit*. London, UK: Global Steering Group for Impact Investment. p.19

116 Big Society Capital (2019). *UK Social Investment Market grows by 30% in one year*. Accessed on 18/12/19 at https://bigsocietycapital.com/latest/uk-social-investment-market-grows-by-30-in-one-year-now-worth-over-35-billion/

Roles of government in SII markets

The Taskforce does not recommend governments have a heavy interventionist hand in the SII market. Governments around the world are playing clearly targeted, catalytic roles to support the development of mature SII markets.

The OECD[117] and the Global Steering Group for Impact Investment (GSG) use a framework to describe the potential roles of government in the SII market.[118] Government activity fits into one of the three roles:

- **Market facilitator:** governments create and support organisations and systems that enable efficient and effective SII markets.
- **Market participant:** governments commission and purchase products and services that deliver social outcomes.
- **Market regulator:** governments enact laws and implement regulations that affect the SII market.

The market regulator role is not intended to suggest a heavy government hand in regulating the market is desirable; rather that a key role of government is to set the legislative and regulatory environment in which SII operates.

Activities of the Commonwealth Office of Social Impact (COSI)

The Taskforce proposes the COSI's activities fit under the three roles of government: **market facilitator**, **market participant** and **market regulator**.

Market Facilitator

Lead SII policy across the Australian Government

The COSI should facilitate the market by leading and coordinating enabling SII policy across the Commonwealth. This involves overseeing the implementation of the Australian Government SII Strategy (see Chapter 4).

The unit would be the main point of contact in the Australian Government for SII policy matters—for Government ministers, other Australian Government entities, state governments, international governments and the SII sector.

The unit, as a centre of expertise in the Australian Government, would be able to advise other Australian Government agencies on participating in outcomes commissioning and social impact investing. In this way the COSI would support the Government to manage and reduce the risks of these activities.

Implement the Commonwealth SII Strategy

The COSI's role in implementing the SII Strategy would be to:

- Provide policy advice to the Australian Government on the setup and running of key SII institutions and functions in which the Government has an interest—in particular those established under the Strategy (see Chapters 5, 6 and 7).
- Establish a SII data hub to support the sector to access and use government data and signal the Australian Government's willingness to partner with governments and the community to solve social issues.
- Commission state of the Australian SII market data every three years to provide a baseline and

117 OECD (2019) Social Impact Investment 2019: *The impact imperative for sustainable development.* Paris: OECD Publishing.

118 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit.* London, UK: Global Steering Group for Impact Investment.

evidence for ongoing evaluations of the Strategy, and a source of information for the SII sector.

- Every three years, prepare SII Strategy evaluation reports, adjust the Strategy accordingly, and issue an updated Strategy (see Chapter 4).

The COSI will take a collaborative and flexible approach, with a focus on engagement across Australian Government portfolios, with state and territory governments and the SII and social purpose sectors. In doing so, the COSI will drive cross-sector support for the implementation of the Strategy.

Build capacity and capability of the SII sector

The COSI would work with partner organisations to build the capacity of others (inside and outside of government) to participate in SII activities. The capacity building role of the COSI would be to:

- Support collaboration with existing and proposed entities to build the evidence base on best practice SII in the Australian context. This can be facilitated through a SII network including state and territory government departments, Impact Investing Australia (IIA), Philanthropy Australia, the Centre for Social Impact (CSI), Social Traders, the Responsible Investment Association of Australasia (RIAA), social enterprise networks and the proposed Early Stage Social Enterprise Foundation and SII wholesaler (see Chapters 5 and 6).[119]
  - This network may share lessons learned on issues, such as the most effective SII policy interventions and blended financing models.
  - The COSI could contribute to international formal and informal networks that already exist, such as the GSG through IIA or the Impact Management Project.
- Identify where research or knowledge gaps exist and commission academic institutions and/or industry bodies to undertake additional research.
  - For example, there is a need for additional research on the effectiveness and practical application of outcomes commissioning. This includes research on best practice measurement and pricing of social outcomes, and research to improve knowledge about which interim measures are the best indicators of longer-term positive outcomes.
  - There is also a need for research that provides practical advice on policy options for how SII models may best support particular cohorts, such as Indigenous Australians.
- In partnership with the entities that participate in the SII network – develop, collate, commission and distribute tools and resources to support government agencies and the broader SII sector to partake in impact investments. The tools and resources may be housed on a public website. In this way, the COSI would serve as a central source of credible and practical information for the SII sector. The public website may include:
  - Jargon-free information on impact investing, including outcomes commissioning, social impact bonds and measurement frameworks. This would be primarily developed by the COSI, with collaboration from other partners.
  - A comprehensive knowledge bank of recent research, evaluations and case studies.
  - For social enterprises and investors, resources on and links to expert advice to support participation in SII transactions, such as business or program strategy, outcomes measurement and legal and financial guidance. This would include links to existing resources as well as the development of new resources where gaps are identified

119 The Behavioural Economics Team Australia in PM&C performs a similar role leading a community of practice and this may be a good model to look toward.

Establish a SII data hub to support the sector to access and use government data

The COSI should also play a key role in supporting the SII sector to access and use government data.

The Australian Government is uniquely positioned to provide a data hub as the custodian of significant administrative datasets. Facilitating access to Australian Government data, and supporting data linkage across levels of government, will allow governments and organisations to better design and deliver SII initiatives for the benefit of the community. Improving access to administrative data will also help signal the Australian Government's willingness to partner with other governments and the community to solve social issues.

The COSI data hub will work with other data agencies across government - for example, the Office of the National Data Commissioner (ONDC), the Australian Bureau of Statistics (ABS), and the Australian Institute of Health and Welfare (AIHW) - to develop and enhance existing or new data sets, and avoid any duplication of efforts.

The data hub will:

- Work with data custodians, states and territories and others to tap into existing initiatives underway to facilitate access to Australian Government data and advise on linkages and opportunities to use government data to improve outcome measurement.
- Work with states and territories to develop standard measures and self service data products to assist the sector to better understand potential social impact.
- Develop and publish resources on what data is available from government that is relevant to SII, how to access it and how to use it to measure social impact. This may be housed on the COSI's public-facing website.
- Undertake a trial of providing social impact measurement services at the program level by liaising with the Department of Social Services (DSS) and other Australian Government agencies, and evaluate the costs and benefits of providing such a service.
- Adhere to appropriate privacy and governance requirements for data storage, access and use.

The COSI data hub will address issues raised during the Taskforce's sector consultations, which found it is difficult and time consuming to access government data. This is a particular constraint, given SII is a naturally data driven approach. Access to quality data and evidence is required to enable social purpose organisations to develop the best solutions to address entrenched disadvantage. Additionally, quality data provides outcomes commissioners with the certainty they need to enter into outcomes-based funding agreements.

SII provides real opportunities to demonstrate to the public the power of data to drive better service delivery for Australians. Recent Australian Government consultations on sharing and releasing government data found there is broad public support for sharing data when its use results in a benefit to the public.[120] The COSI data hub would build on data integration work underway by the Australian Government – such as the as the Multi-Agency Data Integration Project (MADIP) led by the ABS[121] – and collaboration with state data custodians to integrate state-owned data.

120 Office of the National Data Commissioner (2020). Data Availability and Transparency Bill webinar: transcript. Accessed on 27/10/2020 at https://www.datacommissioner.gov.au/exposure-draft/dat-webinar.

121 Australian Bureau of Statistics (2020). Multi-Agency Data Integration Project (MADIP). Access on 27/10/2020 at https://www.abs.gov.au/websitedbs/D3310114.nsf/home/Multi-Agency%20Data%20Integration%20Project%20(MADIP)

What this means in practice

UK Justice Data Lab

The Justice Data Lab (JDL) supports organisations working with offenders in the UK to:

- assess the impact of their work on reducing re-offending;
- provide evidence to funders and clients; and
- develop the evidence base on effective rehabilitation.

Launched in 2013, following work to develop and advocate for the model by innovative charity, New Philanthropy Capital, the JDL service is provided by the UK Ministry of Justice to develop a collaborative understanding of what works in rehabilitation.

Service providers can upload details of their cohort and the JDL will provide an analysis, which assesses the impact against various reoffending measures using administrative data from the Police National Computer. Results are returned in a clear and easy to understand format, with explanations of key metrics and any limitations.

Facilitating access to data, as the JDL has done, can streamline the development of initiatives which save on the cost and time taken by service delivery organisations to establish initiatives. The Taskforce has modelled its recommendation for the COSI to establish a SII data hub on the UK's JDL and hopes to establish a similar facility in Australia. Timely access to quality data on outcomes is essential to enabling the successful operation of SII transactions.

Fund and facilitate regular collection and public release of comprehensive longitudinal data on the state of the Australian SII sector.

The COSI will also have policy responsibility for designing, administering and publishing State of the Social Impact Investing Sector Research (SIISR). This is important as it uses the Government's convening power to coordinate data collection across the sector.

There is some good quality data on the state of the sector – much of which has been used to inform this report – but market level data is not collected consistently. There is a lack of clear data on existing transactions and funds, and their performance. Such data is currently collected on an ad-hoc basis depending on available funding and government engagement in the sector. There is demand for comprehensive and longitudinal research on the state of the Australian SII sector for the purposes of Australian governments and the SII sector.

Regular collection and release of market level data on the state of the Australian SII sector would be an invaluable resource for:

- **The Australian Government,** including for the purpose of ongoing evaluation of this Strategy and developing advice on SII policies and programs, including those proposed in this report.
- **The SII sector** when making decisions on how to best participate in SII or conduct research – for example, investors, philanthropists, intermediaries and social enterprises could draw on the SIISR to better inform their investments, advice, business strategy, financing and impact management decisions; and research organisations could use the SIISR to better inform their analysis of social enterprises and social impact investment.
- **Independent SII institutions established through this Strategy –** In particular, the Foundation (see Chapter 5) needs information on the forms of financing and support required by social enterprises, and the wholesaler (see Chapter 6) needs information to help inform potential investment opportunities and benchmark performance, among other requirements. The wholesaler and Foundation may also feed data back into the COSI on the enterprises and intermediaries they support and the performance of their activities.

The Taskforce proposes the SIISR is co-designed with research experts and intended end users – including investors, philanthropists, intermediaries, social entrepreneurs, academics and state governments – to ensure the utility of the final product. Co-design would determine research themes and ensure the burden of data collection and reporting is minimised.

The Taskforce does not recommend surveying end beneficiaries in this particular type of research, given the ethical considerations of surveying vulnerable cohorts.[122] The COSI should support separate, complementary research on end beneficiaries' experiences to ensure their voices are heard.

Develop an Australian Government impact measurement framework

Over the first year of its operation, the COSI will develop an Australian Government impact measurement framework – in partnership with state governments, key experts and sector stakeholders – to champion consistent methods for measuring the social impact of government services and programs. This will promote best practice impact measurement across government business. Doing so will support SII programs and drive a culture of measuring outcomes over activities and outputs.

An Australian Government impact measurement framework will facilitate government to measure the impact of programs across four key areas:

- **SII market maturity;**
- **social impact;**
- **economic benefits; and**
- **financial benefits.**

The framework will promote suggested tools and metrics that are applicable to each of these areas.

The Australian Government should champion the use of the framework in government programs by applying it to the proposed wholesaler (see Chapter 6) and the Outcomes Fund (see Chapter 7).

The framework will build on related work underway across the Australian Government, including the outcomes and impact measurement scoping study completed by Urbis Pty Ltd for DSS in September 2020. The framework should also utilise existing platforms to support its practical application including the DSS Data Exchange. The Data Exchange captures extensive data on the outcomes of DSS-funded activities and could facilitate linkages with population-wide data sets – such as those held by the ABS – through the use of tools like the MADIP. Other relevant initiatives include:

- **The Indicator Engine:** a platform under development through the Centre for Social Impact (collaboration between the University of New South Wales Sydney, Swinburne University of Technology and the University of Western Australia), which is intended to support social services and social enterprises to identify metrics and measure and report outcomes, while also allowing services to compare the outcomes of their programs with benchmarks informed by robust Australian datasets.[123]
- **The Impact Management Project (IMP) and the IMP Structured Network:** a series of initiatives and a forum for building global consensus on how to measure and manage impacts, comprised of over 2,000 organisations to share best practice frameworks and encourage consensus on technical topics.[124]

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122 Note: The following research details some of the ethical considerations when conducting research on the experience of end beneficiaries: Farmer, J., De Cotta, T., McKinnon, K., Munoz, S-A., Douglas, H., & Roy, M. (2016) *Social enterprise and wellbeing in community life. Social Enterprise Journal,* 12(2). pp.235–254

123 Centre for Social Impact (2018) *CSI Announces bold $12m project to catalyse social change on a national scale* Accessed on 26/10/20 at https://www.csi.edu.au/news/media-release-csi-announces-bold-12m-project-catalyse-social-change-national-scale/

124 Impact Management Project (2020) *A forum for building global consensus on how to measure and manage impacts* Accessed on 26/10/20 at https://impactmanagementproject.com/

As part of the framework, the Australian Government should assist the SII sector to better measure impact by providing greater access to Australian Government administrative and other data through the proposed data hub.

The Taskforce recognises the need for investors and social enterprises to tailor their own impact measurement frameworks that meet their needs and for the market to organically coalesce around measurement frameworks. Future standardisation of impact measurement and management across sectors should be globally relevant and ideally comparable, locally adaptable, utilise existing frameworks, use inclusive design and measure relative as well as absolute change.

The reviews of the Commonwealth SII Strategy – which the COSI will also manage – will utilise the Australian Government impact measurement framework to provide a comprehensive analysis of the effectiveness of the strategy and impact driven initiatives over time (see Chapter 4).

What this means in practice

Indigenous Business Australia Impact Framework

The COSI will build on existing good practice within government to enhance capacity to measure the impact of government programs and other activity.

For example, in 2020 Indigenous Business Australia (IBA) released its inaugural Impact Framework to help understand the impact of IBA products and services on Aboriginal and Torres Strait Islander people. IBA works to promote economic self-sufficiency, self-management and economic empowerment through its housing, business and investments programs.

The IBA Impact Framework is designed to assist IBA to better understand the economic, social and cultural impacts of its services and activities. These impacts will be outlined in IBA's annual Impact Report.

By measuring impact against these factors, IBA hopes to understand short, medium and long-term impacts on customers, communities and the wider Australian landscape. In turn, this will guide how IBA monitors, evaluates and reports on the impact of its activities and will help IBA adapt and transform its products and services to maximise customer impact into the future.

The COSI could undertake to develop a similar framework to champion consistent measurement of the impact of Australian Government services and programs. Improved consistency in measuring impact across government services will drive a culture of impact measurement and help the Government to understand the impacts of its services more accurately. Consistency in impact measurement will also allow for services to be easily compared and help the Government to more efficiently allocate funding.

Market Participant

Lead and advise on Australian Government activity

The COSI should coordinate the Australian Government's participatory role in the SII market. The COSI would:

- **Lead and coordinate social outcomes commissioning policy across Government** – for example, by advising Government on: which social outcomes and cohorts to prioritise; best practice outcomes commissioning; and how existing Australian Government procurement and other policies can support social outcomes commissioning to achieve value for money and improved outcomes.
- **Manage Australian Government outcomes funds or programs – where there are substantial cross-portfolio implications** (for example, more than two portfolios involved). The COSI would manage the Commonwealth Outcomes Fund (see Chapter 7).
  - This includes analysis of data to determine baselines and ongoing measurement of outcomes, working with relevant Australian Government departments, states and territories, especially data custodians, where necessary.
- **Provide advice to agencies on Australian Government outcomes funds or program management** – where there are not substantial cross-portfolio implications and a specific agency is the appropriate lead.
  - This may include advice on best practice policy interventions, outcomes payment models, and data issues. It may also involve providing advice on how to adapt the lessons learned from payment by results or SIBs programs into mainstream programs.

Market Regulator

Advise agencies with policy responsibility

While the COSI is not intended to have an active regulatory role, the COSI should provide policy advice to other agencies on legislative and regulatory issues that affect SII. In all cases, the policy responsibility for these matters would remain with the relevant departments, and should not be assumed by the COSI.

The COSI will have a role in ensuring the Government has the right framework in place to protect beneficiaries of, and support investors in, services supported through SII approaches. This is particularly important as the Australian SII market grows and matures.

COSI governance and oversight

The Taskforce recommends the COSI be established as a statutory agency, sitting outside of an Australian Government department, to ensure it has a level of independence and stability.

A relatively independent central policy unit would provide a signal of the Government's longer-term commitment to supporting SII, providing the SII sector with greater confidence to establish enterprises and ventures and invest for the longer-term.

Alternatively, the COSI could be established as a unit housed within an appropriate department (for example, the Department of the Prime Minister and Cabinet or the Treasury). The immediate focus of this unit would be to manage the implementation of critical SII infrastructure and activities that align with the COVID-19 economic recovery. If preferred, this approach should be reviewed within three years to determine the benefits and feasibility of transitioning to a statutory agency.

Leadership, advisory and staffing

The COSI should report to the responsible portfolio Minister, and be led by sector experts and supported by Australian Government officers.

In line with general arrangements for statutory authorities, the COSI should be governed by a Board and CEO with experience from across and outside of government, including the financial and social purpose sectors. In particular, the Board should be comprised of SII experts from outside of government in order to provide specialist advice and linkages with the SII sector. This will ensure people with the right skills and expertise are involved.

In addition, the COSI should be guided by experts from outside the unit to ensure strong coordination and connections with states and the broader SII sector.

National SII Steering Committee

To support cross-government coordination, the COSI should be advised by a steering committee that includes representatives from Australian Government agencies and departments (including DSS, Health, Education, Skills and Employment, National Indigenous Australians Agency and others).

The steering committee could also include representatives from state-based agencies to:

- facilitate engagement and ensure the COSI leverages existing state-based projects and priorities and avoids duplication of effort;
- support the co-design of the Outcomes Fund and provide guidance and coordination in relation to outcomes-based programs where Australian Government and state responsibility crosses over; and
- support the administration of the data hub, by providing a forum to consider and resolve issues around data access, quality and integrity.

Challenges of influence

It will be important to determine which Government portfolio should 'house' the COSI. A central portfolio – such as the Prime Minister's portfolio or Treasurer's portfolio – would provide a whole-of-government perspective but may bring challenges in terms of prioritising SII among a range of other critical policy priorities. It can also be challenging – particularly for an independent statutory agency – to build reach and influence into the agencies with primary responsibility for policy implementation. The National SII Steering Committee and other governance arrangements will be critical to securing engagement at senior official level, and corresponding access to influence departments.

Policy coordination role

The COSI should not assume primary policy responsibly for all SII policy. Much SII policy will remain the responsibility of individual departments and entities, especially where the focus is on a single issue.

The COSI will seek to lead and coordinate by providing advice to those agencies and building a strong network and a single touch point and interface for those outside the Australian Government.

The COSI will also have a key role in promoting relevant evidence, data and learnings from SII across the Government, with an explicit objective to help transform the way Australian Government services are delivered generally to achieve more effective outcomes.

Examples of central policy units

The GSG argues that countries that seek to develop their SII markets should, as one of the first steps, set up a dedicated central policy unit. Ideally, the unit should be set up in a way that can withstand changes of administration to provide certainty and confidence to the SII sector. According to the GSG, such a unit can drive key policies, provide a central point of contact in the government and help build the foundations of the SII market.[125]

Countries with central government SII policy units include Brazil, Canada, France, Portugal, South Korea and the UK. The US also had a central policy unit up until recently.[126]

In particular, the success of central policy units domestically in NSW, and in the UK, should be drawn from when designing an Australian Government central policy unit.

NSW central policy unit

The NSW Government established the Office of Social Impact Investing (OSII) in 2015. Accordingly NSW has an advanced SII market (see Appendix E).

Impact Investing Australia (IIA) has described the NSW OSII as a 'trailblazer nationally and globally in impact investing'.[127] The NSW model offers lessons to the Australian Government on what may be achieved by a central policy unit at the national level.

125 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit.* London, UK: Global Steering Group for Impact Investment. p.19

126 Ibid

127 Impact Investing Australia (2019) Impact Profile – NSW Office of Social Impact Investment. Accessed 24/03/20 at https://impactinvestingaustralia.com/impact-profiles/impact-profile-nsw-office-social-impact-investment/

What this means in practice

NSW Office of Social Impact Investment

The NSW Office of Social Impact Investment (OSII) oversees and leads the implementation of the NSW Social Impact Investment Policy, working closely with other government agencies and non-government stakeholders. OSII sits within NSW Treasury and is governed by an interagency SII Steering Committee and advised by the NSW SII Expert Advisory Group.

To date, NSW OSII has developed eight social impact investments, which represent approximately $235 million in payment by outcomes contracts and aim to deliver innovative programs to thousands of people, as well as hundreds of millions of dollars in expected future financial benefits to government. These investments cover the areas of out of-home-care, palliative care, mental health, recidivism, youth unemployment and homelessness.

OSII has also:

- Published a technical guide for outcomes measurement as well as online modules, to support the social sector actors applying for SII opportunities to better design and measure programs, and demonstrate the costs and benefits of proposals.
- Piloted Australia's first rate card to simplify the development of homelessness SIIs.
- Created a dedicated website for stakeholders to access published resources.
- Supported NGO sector readiness for SII, including through the Expert Advice Exchange – which has facilitated over 2,000 hours of pro bono advice between 135 organisations and 41 advisory firms.
- Collaborated with social sector peak bodies – including the NSW Council of Social Service through the Investing for Good conferences, and is the inaugural sponsor of the Social Enterprise Council of NSW and ACT – to foster knowledge sharing and connect SII market participants.
- Improved NSW Government agency readiness to develop and implement new social impact investments.
- Supported NSW Treasury Corporation (TCorp), NSW Treasury and NSW Department of Planning, Industry and Environment to establish and oversee the NSW Sustainability Bond Programme.

OSII is now developing the next phase of its NSW SII Policy with new goals to grow the impact through SII in NSW, building on the successes and lessons learned to date.

The COSI will play a similar role in leading and coordinating SII policy on a national scale. It will work closely with NSW OSII and SII policy-makers in other states and territories to build on – not duplicate – existing work and facilitate better coordination and knowledge exchange across jurisdictions.

UK central policy unit

The UK has had a central government unit focused on supporting the UK impact investing market for nearly two decades. Since 2016, it has been called the Government Inclusive Economy Unit and has been housed in the Department for Digital, Culture, Media & Sport.[128] The unit was originally established in 2003 in the Cabinet Office and was situated in the Office of the Third Sector, later renamed the Office for Civil Society.[129]

The evolution of the unit's name reflects the broadening of its role as the UK market has matured. The initial emphasis was primarily on supporting social sector (or 'third sector') organisations. This role evolved to include support for social impact bonds, for profit for purpose businesses and other impact investment products.[130]

The mission of the Government Inclusive Economy Unit is even broader: 'to build a country where society's most difficult social issues are being addressed by private investment, responsible business, and social enterprises in partnership with innovative public services.'[131]

Given the maturity of the UK market, the focus of the unit is now to 'mainstream' impact investment to include more retail customers and large mainstream players—and focus on solving large social and environmental challenges at scale, such as climate issues and international development.[132]

As the Australian SII market matures, the central unit's role may refocus on mainstreaming SII as has occurred in the UK.

128 UK Government (2016) *Press release: Government announces Inclusive Economy Unit*. Accessed 24/03/20 at: https://www.gov.uk/government/news/government-announces-inclusive-economy-unit

129 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit*. London, UK: Global Steering Group for Impact Investment. p.50

130 Ibid

131 Global Steering Group for Impact Investment (2019) *Transition to impact economies: A global overview*. London, UK: Global Steering Group for Impact Investment. p.86

132 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit*. London, UK: Global Steering Group for Impact Investment. p.50

Chapter 9

Encourage social procurement in the Australian Government

The Australian Government spent $64.5 billion on procurement in 2018-19. Channelling a portion of this spending towards social enterprises would deliver increased social outcomes in the Australian community at no additional cost to Government.

The Taskforce recommends the Australian Government establish a register of social enterprises, adopt a procurement exemption for small to medium social enterprises and issue social procurement guidance to build capacity across Government to consider social impact as part of value for money considerations in procurement processes. In the future, the Government should consider introducing a 2% social procurement target.

Encourage social procurement in the Australian Government

Recommendation 5

The Australian Government should adopt a social procurement policy to maximise social impact generated through Government spending by:

a) endorsing a nationally consistent definition of social enterprises and creating a register of social enterprises to easily identify these organisations;

b) introducing a procurement exemption for small to medium social enterprises;

c) issuing guidance for Australian Government agencies to consider social impact in procurement; and

d) exploring the option for a 2% social procurement target.

Key terms

Social procurement: Public or private organisation using purchasing power to buy goods or services for their normal business needs from social purpose organisations.

The challenge

Growing the Australian SII market requires commercially sustainable and investible social enterprises with access to opportunities for revenue growth.

> *"Institutional investors, outcomes commissioners and intermediaries suggest using existing mainstream models such as procurement to drive growth in SII opportunities."*
>
> *- SII Taskforce roundtable participant*

Social enterprises need support to scale their impact. Greater social procurement in the Australian Government could provide an additional revenue stream for social enterprises, which will support and grow the social enterprise sector.

Governments have significant market power to incentivise the creation of social impact.[133] Those who buy goods and services on behalf of the Government may be unaware of the potential for procurement activities to drive positive social impact at a broader level, while still achieving value for money.

133 Inside Policy (2019) *Report 8d :Consultation summary*. p.16

What the Government should do

Endorse a nationally consistent definition of social enterprises

The Government should endorse a nationally consistent definition of social enterprises. The definition needs to be robust to ensure it captures organisations that are making a legitimate social impact. The Taskforce suggests the following definition be used as the basis for certification and a national register:

A **social enterprise** is an organisation that seeks to solve social problems using a revenue generating business model. They are organisations whose primary purpose is the promotion, development and advancement of social and/or environmental goals. A social enterprise may:

- generate a significant proportion of income through entrepreneurial or trading activity, for example, the sale of products or services or through social and affordable housing development activity.
- reinvest principally to further the social purpose of the organisation. The extent of this will depend on whether the enterprise is for-profit or not-for-profit, and if not-for-profit whether it has charitable and/or deductible gift recipient status.

The Taskforce acknowledges that many definitions of social enterprises include a requirement that 50% of profits be re-invested/directed towards the overall mission. This is the requirement of Social Traders in Australia[134] and Social Enterprise UK.[135] However, the Panel is of the view that, where the business model of a for-profit for-purpose enterprise has impact at the heart of its design, reinvestment in capital growth of the business itself will fundamentally increase overall impact. For this reason, the Taskforce does not believe percentage-based requirements should serve as a threshold criteria for classification as a social enterprise.

Establish a national register of social enterprises

Through the COSI, the Government should establish a national register of social enterprises involving a certification process aligning with the national definition. Independent certifiers could be engaged to manage this process and maintain the social enterprise register. This role could be similar to the role of Supply Nation in supporting the Indigenous Procurement Policy.

A national register of social enterprises builds upon the approach to social procurement taken in NSW. In August 2020, the NSW Government partnered with Social Traders to provide NSW Government departments with access to a register of entities that meet pre-defined requirements to be considered a social enterprise.

There are international examples of this issue being addressed through amendments to corporations law or legislative frameworks to clarify this form of organisation, but specifically designed social enterprise legal structures have had mixed success (see Chapter 10).[136] Establishing a consistent definition appears more promising, and has a lower regulatory burden to implement.[137] This approach

134 Social Traders (2020) *What is a social enterprise?* Accessed on 20/09/20 at: https://www.socialtraders.com.au/about-social-enterprise/what-is-a-social-enterprise/social-enterprise-definition

135 Social Enterprise UK (2020) *What is it all about?* Accessed on 20/09/20 at: https://www.socialenterprise.org.uk/what-is-it-all-about/

136 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit.* London, UK: Global Steering Group for Impact Investment.

137 Department of The Treasury (2017) *Social Impact Investing Discussion Paper.* Canberra: Australian Government. p.32.

has been used overseas, for example Italy is establishing a register of social enterprises, 'Impresa Sociale', which allows for-profit enterprises to classify as social enterprises and does not limit the legal nature of enterprises.138

The Government could work closely with existing organisations such as Social Traders to bolster existing lists and adapt a national definition and register of social enterprises. Additionally, the certification and registration process could involve current government processes to map the social enterprise sector including in Victoria, NSW and in the Commonwealth. This would also align with the Taskforce's recommendation to develop data on the state of Australia's SII market through the proposed COSI (see Chapter 8).

Investment and contract readiness support for social enterprises will be provided by the proposed Early Stage Social Enterprise Foundation (see Chapter 5) to ensure social enterprises are prepared to deliver Government contracts.

Introduce a procurement exemption for small to medium social enterprises

Government should introduce a procurement exemption specifically for social enterprises. The exemption could remove the need to conduct an open tender for procurements up to a certain value. To comply with Australia's Free Trade Agreement (FTA) obligations, this could apply only to social enterprises that are also small to medium sized enterprises (SMEs). Over 95% of social enterprises are also SMEs[139] and stand to benefit significantly from any exemption to SMEs generally in government procurements.

Australia's international agreements limit the scope to amend the Commonwealth Procurement Rules (the Rules). However, under Australia's Free Trade Obligations, there is an exemption to preference SMEs.[140] SMEs are defined in the Rules as an Australian or New Zealand firm, with fewer than 200 full time employees.[141]

Scope exists for an SME exemption for Australian Government goods and services procurement within Australia's FTA obligations up to a 130,000 SDR[142] threshold (approx. $250,000 AUD).[143]

Any proposed exemption would require consultation with the Department of Foreign Affairs and Trade (DFAT) and the Department of Finance to ensure alignment with international trade obligations.

A national register of social enterprises would be a key feature of this exemption. Government agencies undertaking procurements under the relevant procurement threshold (refer paragraph 9.7 of the Rules) could directly access this register, without the need to undertake an open tender process, noting value for money considerations must still be met.

This would streamline procurement processes for agencies and reduce administrative barriers for social enterprises wishing to engage in government procurements.

This would benefit impact investment initiatives by ensuring greater government agency awareness of social procurement options is coupled with a streamlined ability to procure from social enterprises.

138 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit.* London, UK: Global Steering Group for Impact Investment. , p.45.

139 (Castellas, E., Barraket, J., Hiruy, K., and Suchowerska, R. (2017) *Map for Impact: The Victorian Social Enterprise Mapping Project.* Hawthorn: Centre for Social Impact Swinburne.)

140 Department of Foreign Affairs and Trade (2018) *National Interest Analysis [2018] ATNIA 15 Revised Agreement on Government Procurement*. Accessed on 1/10/20 at: https://www.dfat.gov.au/sites/default/files/national-interest-analysis.pdf

141 Department of Finance (2019) *Commonwealth Procurement Rules.* Canberra: Commonwealth of Australia.

142 Special drawing rights (SDR) refer to an international type of monetary reserve currency created by the International Monetary Fund (IMF)

143 World Trade Organisation (2018) *Accession of Australia to the Agreement on Government Procurement.* Accessed on 20/09/20 at: https://www.dfat.gov.au/sites/default/files/accession-of-australia-to-the-agreement-on-government-procurement.pdf

Further design and implementation of any guidance and exemption should be done in close consultation with the National Indigenous Australians Agency and state and territory governments to ensure it is complementary to the Indigenous Procurement Policy (IPP) and existing state and territory approaches.

Issue procurement guidance for social impact to all Australian Public Service entities

The Australian Government spent $64.5 billion on procurement in the 2018-19 financial year.[144] A portion of this spending could support greater social impact, noting not all of Government's procurement needs can be met by social enterprises.

Once a clear definition and register for social enterprises exists, the Australian Government should issue guidance to Government agencies to consider social impact when undertaking procurements.

Procurement officers and purchasers within Australian Government agencies may be unaware of existing flexibility within procurement rules to consider social good, including through social enterprise service deliverers, when making decisions to purchase goods and services on behalf of the Australian Government.[145] An increased awareness of social procurement could build the pipeline of social enterprises by introducing a new revenue stream and stimulating sector demand for more social procurement options.

The Taskforce recommends issuing further guidance around the Government's value for money test, and consideration of economic benefit to Australia, by integrating social value as a key consideration. This will embed social procurement into the whole business of the Australian Government in a budget-neutral way.

Regardless of whether an SME exemption is implemented, additional guidance clarifying the flexibility to consider social impact within the existing procurement rules would be beneficial. If an SME exemption were created, additional guidance on how this would operate would be essential to ensure its uptake and appropriate use.

Consider social procurement targets

The Taskforce acknowledges that cultural and behavioural change takes time, and that there are a number of existing obligations on Australian Government procurement processes.

There is already stakeholder interest in setting social procurement targets. Social Traders pre-Budget submission in 2020 proposed a 1% social procurement target for all Australian Government funded infrastructure projects.[146]

At an appropriate future point, the Australian Government may consider introducing a target for social procurement – noting the importance of building sector capacity first, which the Taskforce's recommendations, particularly the Foundation and SII wholesaler, would do.

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144 Department of Finance (2020) *Statistics on Australian Government Procurement Contracts*. Accessed on 25/09/20 at: https://www.finance.gov.au/government/procurement/statistics-australian-government-procurement-contracts-

145 Ibid

146 Social Traders (2020) *Call for Government to make sustainable procurement a 'business as usual' practice.* Accessed on 25/10/20 at: https://www.socialtraders.com.au/call-for-government-to-embed-sustainable-procurement-as-business-as-usual/

What this means in practice

The Indigenous Procurement Policy (IPP)

The IPP was first introduced in 2015 to increase Indigenous economic involvement and subsequently increase quality of life outcomes.[147] The IPP is characterised by targets of 3% of volume and a 1.25% value target (increasing by 0.25% each year until it reaches 3%), a Mandatory Set Aside (for procurements between $80,000 and $200,000) and minimum Indigenous participation for some Australian Government contracts.[148]

Evaluations of the IPP have highlighted the importance of capacity building and sector growth to ensure appropriate diversity of enterprises to provide the goods and services government wishes to purchase.[149]

The IPP resulted in strong agency demand for goods and services from Indigenous business. However, these businesses still require appropriate opportunities to grow in line with what the government procurement market demands. This includes building employment skills bases and business capital in order to be competitive for government procurement opportunities and ensure a diverse pipeline of Indigenous businesses able to provide goods and services.[150]

Social procurement targets for Australian Government agencies require a clear agreed definition of social enterprise and robust data to ensure social benefit is able to be measured. This should involve collecting data on the proportion of spending directed towards social enterprise and/or social good, to monitor trends in relation to social procurement.

Social procurement targets are relatively new domestically and internationally. In the last five years, Australia and Canada have set Indigenous procurement targets based on Indigenous populations of 3%[151] and 5% respectively.[152] In the Australian context, the Indigenous Procurement Policy has generated $3 billion in economic activity within the Indigenous business sector.[153]

Social procurement targets have the potential to achieve similar economic impact. However, beyond Indigenous-specific procurement targets, there is minimal domestic and international precedent for procurements targeting social enterprises specifically. The IPP experience demonstrates the importance of building a diverse and sustainable pipeline of enterprises able to service any targets set to achieve real impact.

Any targets would need be complementary to the IPP. Indigenous businesses that are also social enterprises could benefit from the introduction of an additional social procurement target.

147 Australian Government (2015) *Indigenous Procurement Policy.* Canberra : Australian Government

148 Department of the Prime Minister and Cabinet (2017) *Year one review of the Indigenous Procurement Policy.* Canberra: Australian Government

149 Department of the Prime Minister and Cabinet (2019) *Third Year Evaluation of the Indigenous Procurement Policy.* Canberra: Australian Government.

150 Department of the Prime Minister and Cabinet (2019) *Third Year Evaluation of the Indigenous Procurement Policy.* Canberra: Australian Government

151 National Indigenous Australians Agency (2020) *Indigenous Procurement Policy.* Accessed on 15/09/20 at: https://www.niaa.gov.au/indigenous-affairs/economic-development/indigenous-procurement-policy-ipp

152 Buy Social Canada (2020) *Welcome to 2020: Canada's Federal Government's growing commitments to leverage community value from existing procurement.* Accessed on 25/09/20 at: https://www.buysocialcanada.com/news/federal-gov-social-procurement

153 Ibid

Building upon the Canadian example of a 5% Indigenous procurement target, the Government may consider a 2% social procurement volume target. This would be a top up on the 3% volume target set for Indigenous businesses, making a 5% total target for social and Indigenous procurement from Australian Government agencies, with at least 3% of this target being reached via procurement with Indigenous businesses.

What this means in practice

Winya (furniture supply company)

Winya is a majority Indigenous-owned genuine Indigenous business registered with Supply Nation. Winya's unique profit for purpose supply chain structure creates employment for Aboriginal and Torres Strait Islander people in the form of traineeships, apprenticeships and further long-term employment opportunities. Additionally, Winya works with Indigenous artists to create bespoke pieces such as its Arnhem chair range and its selection of Indigenous fabrics for soft furnishings for office spaces. Winya means 'sit now' in the Wiradjuri dialect.

Winya has produced 100% growth rates year-on-year for the past three years and now generates over $6 million in revenue. This is mostly due to collaborations with government departments including the Department of Defence, Australian Taxation Office, NSW Health Department and international engineering company Laing O'Rourke.

As well as creating fabric designs, Winya artists also repurpose scrap timber to create sustainable, bespoke office furniture such as custom tables and seating. Sourcing materials and labour from remote communities means Winya creates employment opportunities in rural and regional Australia, supporting Indigenous training and employment along the way. Winya operates on an Industry based employment and manufacturing model, to achieve genuine long-term Indigenous employment in the Australian Office Furniture Industry.

In 2018, the company was recognised for its work by achieving the United Nations Global Compact award for Sustainable Development Goals for the Economic Empowerment of Indigenous Peoples.

Why this is important

Creating a specific exemption to encourage social procurement and issuing additional guidance are simple, low cost ways to achieve social impact through maximising the social value created by existing Australian Government spending. Introduction of targets would further maximise this opportunity.

There is appetite in the social enterprise sector for the Government to engage in social procurement. A 2016 study found that social procurement was the most frequently identified opportunity for social enterprise market development among social enterprises interviewed.[154]

The IPP has demonstrated the potential of Government procurement to increase engagement in a particular sector. The Taskforce's consultations have indicated that social enterprises would welcome a policy that provides a sustainable revenue stream and reduces reliance on grants or donations.

Endorsing a nationally consistent definition of social enterprises alongside the guidance will provide legitimacy to social enterprises and help to raise awareness of these organisations. Social enterprise definitions remain inconsistent between states and territories and no universal Australian definition has emerged from the social enterprise market. The Australian Government is uniquely placed to provide clarity in this area.

A national register of social enterprises will also provide a single source – which can be used by state and territory governments, the private and non-government sectors – for activities such as social procurement. It can also help with data collection on the SII market for the state of the SII sector research to ensure enterprises are legitimate social enterprises and not impact washing. See Chapter 8 for more information on how the COSI will facilitate research on the state of the sector.

Other examples

Victoria

In 2018, the Victorian Government introduced Australia's first framework for social procurement.[155] The framework builds upon social procurement guidance released in 2010 and defines social and sustainable procurement as a key value-for-money consideration.[156] The framework applies to all procurement activities undertaken by, or on behalf of, Victorian Government departments and agencies from 1 September 2018. It embeds social procurement across the procurement lifecycle, with the aim of delivering social and sustainable outcomes that benefit all Victorians (including purchasing from social enterprises).

Victoria is the first state in Australia to set social procurement targets. The Victorian Government's Level Crossing Removal Project (due for completion in 2025) requires contract partners to spend at least 3% of total costs on social procurement.[157] In this context, social procurement refers to Indigenous, disability and social enterprises. In the first three years of the project, over $99 million was spent on social procurement activities.[158]

154 Barraket, J., et al. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne, VIC, Centre for Social Impact Swinburne & Social Traders.

155 Victorian Government (2020) *Buying for Victoria.* Accessed on 29/09/20 at: https://www.buyingfor.vic.gov.au/

156 Victorian Government (2020) *Social procurement – Victorian Government approach.* Accessed on 29/09/20 at: https://www.buyingfor.vic.gov.au/social-procurement-victorian-government-approach

157 Victorian Government (2019) *Social Procurement in Practice – A resource for Victoria's transport and infrastructure industry.* Accessed on 29/09/20 at: https://levelcrossings.vic.gov.au/__data/assets/pdf_file/0003/410574/TFTF-Social-Procurement-in-Practice-resource-Oct-19-final.pdf

158 Ibid

NSW

In August 2020, the NSW Government announced a social procurement policy to provide NSW Government departments with a register of entities that meet pre-defined requirements to be considered a social enterprise. The NSW Government has updated its Procurement Policy Framework, with the policy calling on agencies to "procure from social enterprises to support economic and social change for disadvantaged people", and specifically lists social enterprises like small businesses, SMEs, Aboriginal-owned businesses or Australian Disability Enterprises.

It is important to note that each jurisdiction has different procurement frameworks and processes, including procurement thresholds for open tenders. While the Commonwealth threshold for goods and services is $80,000,[159] the relevant threshold for states and territories is often significantly higher. This provides far greater flexibility for states and territories to introduce procurement policies without increasing the administrative burden on public services.

In the future, the Taskforce hopes to see greater uptake of social procurement policies across states and territories, corporate and community sectors. Consistency in definitions and an Australian Government SME exemption for social enterprises would be important enablers for this.

What this means in practice

Outlook

Through encouraging more social procurement, the Australian Government can increase the positive social impact of its procurement spend by supporting organisations that are creating better outcomes for people experiencing disadvantage, such as Outlook.

Outlook is a social enterprise operating in Victoria that provides employment for people with disability. Outlook provides waste management and resource recovery services to commercial and government customers across Melbourne. Outlook has over 105 employees, of whom 40% have a disability and 70% identify as being from a priority job seeker group, including long-term unemployed, asylum seekers/refugees and those with a mental illness.

Outlook has secured waste management contracts with the Westgate Tunnel Project, Metro Tunnel Project, all Level Crossing Removal Programs in Victoria as well as a range of other significant state infrastructure projects. Outlook was also successful in securing a five year contract to manage the Melton Recycling Facility, on behalf of the City of Melton commencing from 1 July 2019. These contracts allow Outlook to deliver long-term, sustainable employment opportunities for people with disability well into the future.

159 Department of Finance (2019) *Commonwealth Procurement Rules.* Canberra: Australian Government

Chapter 10

Clarify the Sole Purpose Test and consider legislative and regulatory context

The Taskforce recommends the Australian Government reinforce the position of the Australia Prudential Regulatory Authority (APRA) in relation to social impact investing. APRA's position highlights the existing capacity for superannuation funds to engage in social impact investing while maintaining a continued focus on financial returns.

Clarify SPT and consider legislative and regulatory context

Recommendation 6

The Government should reinforce the position of the Australian Prudential Regulation Authority (APRA) in relation to social impact investing for superannuation investments.

Capital which could be flowing into the SII sector in Australia is constrained by actual and perceived regulatory and legislative barriers. Broadly, these barriers relate to rules and regulations governing the flow of capital towards impact investment opportunities. The legislative and regulatory environment governing social impact investing is a contested area, and the Taskforce recommends that the COSI (once established) should continue to keep these issue under review.

Discussion on legislative and regulatory barriers is not new. The 2014 *Financial System Inquiry – Final Report*[160] and 2017 Treasury *Social impact investing discussion paper*[161] highlighted a number of legal and regulatory areas that should be considered to grow the impact investing market, including:

- superannuation investments;
- treatment of ancillary funds (private and public);
- tax treatment; and
- legal structures for social enterprises.

Government is uniquely placed to address legislative and regulatory barriers presenting real impediments to unlocking latent capital flow. However, through its research and extensive consultations, the Taskforce believes the underlying issue is one of *perceived* rather than actual barriers, noting that a narrow interpretation of the rules can stymie investment.[162] As discussed later in this chapter, the Taskforce believes much of the current enabling environment is flexible enough for investors and enterprises to grow and scale activities within existing guidelines.

Where perceived barriers to investment hamper capital flows, there is a clear role for the Government to clarify the enabling environment for the sector. As the impact investing market expands in Australia, the Government may consider further changes to the legislative and regulatory environment to support a growing ecosystem and address future challenges at scale in line with the Global Steering Group for Impact Investment's guidelines for maturing markets.[163]

A standout area in the Taskforce's consultations was the Sole Purpose Test (SPT) as it relates to superannuation fund activities. Given the Australian superannuation industry is worth $3 trillion[164] and industry confidence is key to unlocking large pools of capital - the Taskforce recommends issuing additional guidance on the SPT to address perceived barriers.

160 Department of the Treasury (2014) *Financial System Inquiry Report*. Canberra: Australian Government. p.261

161 Department of the Treasury (2017) *Social impact investing – discussion paper*. Canberra: Australian Government. p.30

162 Inside Policy (2020) *Developing a Social Impact Investment Strategy: A detailed consultation report*. Unpublished report.

163 Global Steering Group for Impact Investment (2018) *Catalysing an impact investment ecosystem: A policymaker's toolkit*. London, UK: Global Steering Group for Impact Investment. p.20

164 APRA (2020) *Quarterly superannuation performance statistics highlights June 2020*. Accessed on 13/10/2020 at: https://www.apra.gov.au/sites/default/files/2020-08/Quarterly%20superannuation%20performance%20statistics%20highlights%20-%20June%202020.pdf

The Challenge

In Australia, the SPT broadly limits superannuation fund investment to products generating a financial benefit to fund members upon retirement. Superannuation fund investments must comply with the SPT. Under the SPT, investments must align with the core fund purpose of providing member benefits upon retirement, reaching 65, or to fund member dependents if the member dies.[165]

Social enterprises and intermediaries identify large sources of capital in superannuation funds that could be targeted towards impact initiatives. And Taskforce consultation with fund managers and investors suggests there is appetite to increase investment in this area.

> *"[Our super fund] is not in a unique position. Many industry funds have both the cultural groundswell and also the ability to understand that there is no trade-off between meeting social impact and a financial return.*
>
> *- SII Taskforce roundtable participant*[166]

Importantly, the SPT does not prohibit impact investments.[167] Superannuation trustees are permitted to take additional factors, including Environmental Social and Governance (ESG) factors, into account when formulating an investment strategy.[168] However, primary investment consideration must be member returns rather than ancillary social impact. Trustees must ensure that all investments, including social impact investments, are in the best financial interests of members. This doesn't stop trustees from making investments that will have a positive social impact, but the investment must be justifiable on the basis of the financial returns/risks that it will provide to members. To ensure trustees only use members' money to maximise members' retirement savings, the Government will soon legislate to compel superannuation trustees to act in the best financial interests of their members.[169]

While there is sufficient flexibility within the current SPT for funds to undertake impact investing initiatives, there is a level of sector trepidation as to the types of investments that are allowable. The Taskforce believes there is a misconception that the SPT is a strongly constraining factor on the capacity of superannuation funds to make social impact investments.

With the right guidance, and with the Foundation and wholesaler resulting in more intermediaries and fund managers creating deal structures and product archetypes based on previous large scale examples, the Taskforce believes there is real opportunity for superannuation funds to engage in large scale social impact investing.

What the Government should do

The Government should reinforce the position of APRA on the application of the SPT in relation to social impact investments.

This position, as advised to the Taskforce (outlined in full below), is an important step in addressing a major perceived barrier to superannuation funds making impact investments.

165 APRA (2001) *The Sole Purpose Test*. Accessed 15/09/2020 at: https://www.apra.gov.au/sites/default/files/superannuation_circular_iii-a-4-the-sole-purpose-test_february_2001.pdf

166 Inside Policy (2020) *Developing a Social Impact Investment Strategy: A detailed consultation report*. Unpublished report.

167 The McKell Institute (2018) *Superannuation for the Public Good*. Sydney: The McKell Institute.

168 Ibid

169 Commonwealth of Australia (2020) *Your Future, Your Super*. Canberra: Department of The Treasury p.25

Based on the Taskforce's extensive consultation process, it is clear that there are opportunities for impact investing which align with fund investment strategies.

By reinforcing APRA's position, the Government will assist in addressing some of the misconceptions in relation to the capacity for superannuation trustees to invest in appropriate social impact investments that are consistent with the SPT.

The position indicated by APRA to the Taskforce, which APRA expects to reflect in revisions to its *SPG 530 Investment Governance* prudential practice guide to be consulted on in 2021, is as follows:

> *"In making investment decisions on behalf of members, trustees must act in the best financial interests of the membership as a whole and take positive steps to promote the financial interests of the members. In addition, trustees must meet the requirements of the sole purpose test, by ensuring that the superannuation fund is maintained solely for one or more of the purposes set out in the Superannuation Industry (Supervision) Act 1993. The sole purpose test does not expressly prohibit investments of a specific character nor expenditure on specific items. Rather, the test requires trustees to ensure that investment and expenditure decisions, as well as other trustee actions, are made or undertaken for the sole purpose of providing members with benefits upon their retirement or the happening of other specified events as permitted by the sole purpose test.*
>
> *In order to discharge their duties to members and to meet the requirements of the sole purpose test, APRA's prudential framework requires trustees to maintain an effective investment governance framework for the selection, management and monitoring of investments. This includes setting an investment strategy for each investment option, including risk and return objectives, and undertaking robust due diligence as part of the investment selection process. Trustees are also required to monitor the performance of investments and to regularly review the appropriateness of the investment strategy and objectives.*
>
> *Where a particular social impact investment meets the requirements of a trustee's investment governance framework, and is aligned with the trustee's investment strategy and its risk and return objectives, and complies with the arm's length rules, the investment is likely to be consistent with the requirements of the sole purpose test."*

Why is this important

Superannuation funds could be an important source of capital for impact investments. In June 2020, the Australian superannuation industry was worth $3 trillion dollars.[170] There is a broad spectrum of larger scale social impact investments with risk/return characteristics that are consistent with APRA's position as outlined above. Providing guidance on how best to direct this capital towards impact investment initiatives, in line with the SPT, is an important step to addressing perceived investment barriers within the superannuation industry. This is especially important in the context of the COVID-19 economic recovery, as superannuation funds build long-term investment portfolios to create financial value for members.

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170 APRA (2020) "Quarterly superannuation performance statistics highlights June 2020". Accessed on 13/10/2020 at: https://www.apra.gov.au/sites/default/files/2020-08/Quarterly%20superannuation%20performance%20statistics%20highlights%20-%20June%202020.pdf

What this means in practice

HESTA and Nightingale Housing[171]

Nightingale Housing facilitates the process of delivering sustainable, affordable and liveable homes. To finance the original Nightingale project, impact fund SEFA arranged a syndicate of impact investors to provide $6.5 million. The success of Nightingale led to the 2018 establishment of a $300 million fund to support future projects.

In 2019, Industry Superannuation Fund HESTA invested $20 million to support the scaling of the initial project. This investment commitment was based on due diligence confirming the acceptable level of financial returns available from the expanded Nightingale fund, and the potential for significant social impact. In this regard, the allocation of 20% cent of Nightingale apartments to Key Contribution Workers, with a further 20% of the apartments being pre-sold to Community Housing Providers, aligned with social purpose goals. The remainder of apartments were sold to the general public, many of whom were first home-buyers.

The clarifying guidance provided by APRA in relation to large scale social impact investments will assist in giving super funds greater confidence to pursue impact investing opportunities in line with their SPT obligations and should help channel a greater proportion of the $3 trillion in super funds[172] toward more impact investments similar to the Nightingale initiative. To date, there have only been a small number of investments by superannuation funds into social impact investments. The Taskforce would like to increase the number of SII deals that are invested in by superannuation funds to allow more capital to flow to investments making a positive social impact.

Goodstart Early Learning

Goodstart Early Learning (Goodstart) is Australia's largest provider of early learning and care. Goodstart delivers social impact on a national scale by offering evidence-informed early learning and care in hundreds of centres around Australia. Goodstart is an example of a large scale social enterprise which super funds could invest in.

Goodstart is committed to improving access to and participation in quality early learning for children facing disadvantage and runs a number of initiatives to meet this commitment. Goodstart also seeks to operate with business discipline to ensure healthy operating margins for continued investment in centres, people and programs to deliver on its social purpose.

Goodstart was created in 2009 as a solution to fill the gap left by the collapse of ABC Learning. The founding consortium comprised four of Australia's leading community sector organisations—the Benevolent Society, Mission Australia, the Brotherhood of St Laurence and Social Ventures Australia. The consortium was successful in raising $95 million to acquire 678 childcare centres, through a combination of bank debt, government loans, subordinated notes and private investment. Investors in the subordinated loan, which comprised $30 million of the capital raising, received a 12% annual return before the loans were repaid after an eight year term.

Other positive outcomes include:

- Goodstart has welcomed 1,300 children with additional needs and supported more than 8,000 children to access financial support.
- Goodstart provides early learning and care for around 70,900 children and employs 14,900 people.

171 HESTA (2019) *"Investing in housing affordability"* Accessed om 20/09/2020 at: https://www.hesta.com.au/stories/investing-in-housing-affordability.html

172 APRA (2020) Quarterly superannuation performance statistics highlights June 2020. Accessed on 13/10/2020 at: https://www.apra.gov.au/sites/default/files/2020-08/Quarterly%20superannuation%20performance%20statistics%20highlights%20-%20June%202020.pdf

Further Legislative and Regulatory Considerations

As the Australian impact investing market continues to grow, it will be important for the Government to monitor impediments to capital flow – including through actual and perceived legislative and regulatory barriers.

The remainder of this chapter provides a brief overview of these potential barriers, and the flexibility the Taskforce considers already exists to enable impact investments.

Public and Private Ancillary Funds

In the Taskforce's consultations, investors representing trusts, registered charities, public ancillary funds and private ancillary funds raised perceived difficulties in fulfilling their fiduciary duties while also making social impact investments.

Public ancillary funds (PuAFs) and private ancillary funds (PAFS) exist to provide an entity-based link between donors and organisations registered for DGR status.[173] PuAFs and PAFs make both investments and distributions.

PuAF and PAF distributions are payments made to eligible recipients with DGR status. In 2018, PAFs in Australia made distributions worth over $500 million.[174] These payments count towards minimum annual distribution requirements for ancillary funds. A SII initiative may not be eligible for distributions because some social enterprises are for-profit and do not have deductible gift recipient (DGR) status.

The *Private Ancillary Fund and Public Ancillary Fund Amendment Guidelines 2016*[175] were updated to improve program related investment frameworks. The updates provided clarity on the treatment of concessional rates of return on loans to DGR organisations and allowed for PAFs and PuAFs to count the market value of guarantees over DGR borrowings towards annual distributions.

While PuAF and PAF distributions must be made to DGR organisations, their investments need not be. Investments are activities that should maximise ancillary fund capacity to make distribution payments to eligible recipients, and these investments could be channelled toward support of for-profit for-purpose enterprises and SII initiatives.

Investors and previous Government discussion papers[176] and reports[177] have highlighted the potential for changes to the *Corporations Act 2003* to allow a greater proportion of PAFs and PuAFs to make investments in impact initiatives. At a high level, these changes would provide for criteria specifically for funds to meet regarding the 'sophisticated investor' test, which stakeholders[178] argue would provide greater clarity for funds on decisions involving investments in impact initiatives.

There is currently sufficient flexibility within the *Corporations Act 2001 (Cth)* under s708 to capture many charities and funds wishing to make impact investments. The Taskforce considers that ancillary funds targeted by any proposed amendment would likely be captured within existing provisions.

173 Australian Charities and Not-for-profits Commission (2020) *Private and Public Ancillary Funds.* Accessed on 20/09/2020 at: https://www.acnc.gov.au/tools/guidance/guides/private-and-public-ancillary-funds-and-acnc

174 Allens (2019) *Impact Investing – Thought Leadership Brochure*. Accessed on 15/09/20 at https://www.allens.com.au/globalassets/pdfs/sectors-services/funds/impact-investing-thought-leadership-brochure.pdf

175 Australian Government (2016) *Private Ancillary Fund and Public Ancillary Fund Amendment Guidelines 2016* Accessed on 21/09/20 at: https://www.legislation.gov.au/Details/F2016L00651

176 Department of The Treasury (2017) *Social Impact Investing Discussion Paper*. Canberra: Australian Government, p.31

177 Department of the Treasury (2014) *Financial System Inquiry Report.* Canberra: Australian Government p.261.

178 Philanthropy Australia (2019) *Philanthropy Australia Submission – Social Impact Investing Discussion Paper.* Accessed on 01/09/20 at: https://treasury.gov.au/sites/default/files/2019-03/c2017-183167-Philanthropy-Australia.pdf

Tax Concessions

Australia's taxation system does not readily provide specific concessional treatment for impact investing products. Some investors claim this limits the financial incentive to engage in initiatives that contribute a social good.[179]

International experience suggests that the necessary narrowing of tax measures to close loopholes limits the capacity for concessional tax treatment uptake and subsequent crowding-in of additional capital.[180] In addition, changes of this type are administratively complex and unlikely to result in a commensurate level of impact generated.

In 2014, the UK launched the Social Investment Tax Relief (SITR) policy in response to investor calls for tax incentives for investment into social enterprises.[181] [182] The impact of the SITR policy on the UK impact investing market has been minimal.[183] While the measures had originally been cached to unlock up to £500 million,[184] from its introduction in 2014 to the end of the tax year 2016-17, 50 social enterprises have raised £5.1 million of investment through SITR.[185] The SITR measures are due to sunset in 2021. While there have been calls for an extension, there is a level of consensus in the sector that limited uptake has not grown the SII market in the way the reforms were intended.[186]

While the Taskforce believes concessional tax treatment for investors would have limited practical impact, tax incentives for social enterprises themselves are a significant issue. Social enterprises report frustrations with the available options for structuring their organisations, and the flow-on implications for tax treatment.

Legal Structures

Currently, the chosen legal structure of emerging social enterprises may place restrictions on their ability to raise the different types of capital (from grants to equity) that may be needed to grow and scale.

In response, some stakeholders argue that a legal structure for social enterprises is needed in Australia to overcome the barriers social enterprises face in accessing capital.[187]

In Australia, it is difficult for social enterprises to set up and move between different types of legal entities.[188] This poses challenges in the types of capital that social enterprises may access as they grow and scale.

179 Inside Policy (2020) *Developing a Social Impact Investment Strategy: A detailed consultation report*. Unpublished report.

180 Basu, D. (2020) *The Social Investment Tax Relief Scheme in the United Kingdom*. London: Centre for Public Impact. Accessed on 5/10/20 at: https://www.centreforpublicimpact.org/case-study/social-investment-tax-relief-scheme-united-kingdom/

181 Heaney, V. (2010) *Investing in Social Enterprise: the role of tax incentives*. London: Centre for the Study of Financial Innovation.

182 Community Shares (2020) Social Investment Tax Relief. Accessed on 10/10/20 at: http://communityshares.org.uk/resources/handbook/social-investment-tax-relief

183 Basu, D. (2020) *The Social Investment Tax Relief Scheme in the United Kingdom*. London: Centre for Public Impact.

184 Rotheroe & Lomax (2016) *Social investment tax relief: two years on*. Accessed on 1/10/2020 at: https://www.thinknpc.org/wp-content/uploads/2018/07/SITR_Two-years-on_Jul16.pdf

185 HM Treasury (2019) *Social Investment Tax Relief: call for evidence*. Accessed on 1/10/2020 at: https://www.gov.uk/government/consultations/social-investment-tax-relief-call-for-evidence/social-investment-tax-relief-call-for-evidence#the-sitr-scheme

186 Basu, D. (2020) *The Social Investment Tax Relief Scheme in the United Kingdom*. London: Centre for Public Impact.

187 Inside Policy (2020) *Developing a Social Impact Investment Strategy: A detailed consultation report*. Unpublished report.

188 Department of The Treasury (2017) *Social Impact Investing Discussion Paper*. Canberra: Australian Government, p.31

Early stage social enterprises are typically dependent upon grants and donations as they start out. Receiving this type of capital typically requires DGR status and a not-for-profit enterprise structure. However, taking a not-for-profit approach in the formative years precludes enterprises from accessing some incubator programs and attracting equity, and may present challenges in accessing debt capital.[189]

Additionally, from an investor and entrepreneur perspective, the current options for legal structures leave uncertainty around how organisations will preserve their social mission (including the ability of directors to view social impact in the same way as financial returns). This can cause investors to be less inclined to make an impact investment.

Overseas jurisdictions have attempted to address this by introducing dedicated social enterprise legal structures. South Korea, France, the United Kingdom and the United States have introduced social enterprise legal structures with mixed success. For example, in the UK, the Community Interest Company legal form has had little uptake due to the constraints it imposes on enterprises.

Over the last 18 months, B Lab Australia and New Zealand conducted extensive engagement with company directors, business leaders, governance experts and legal academics. B Lab Australia recently announced that, rather than pursuing legislative reform to create a new category of corporate entity focused on public benefit, it will require Australian Certified B Corporations (B Corps) to embed a public benefit purpose into their company constitution and consider the company's impact on stakeholders in their decision-making. In addition, it will seek partners to build the evidence base on best practice stakeholder governance.

The work of B Lab Australia and New Zealand draws on the global B Lab community that includes over 3,600 B Corps in 70 countries and 150 industries as well as over 8,000 benefit corporations. The Taskforce recognises the value of the B Corp framework in providing clarity and guidance for business to make a positive impact across their workers, customers, suppliers, community and the environment.

On balance, the Taskforce believes current Australian legislative and regulatory frameworks for charities and corporations do offer sufficient flexibility to allow social enterprises to access the necessary capital without requiring a dedicated social enterprise legal structure. This flexibility is typically achieved through establishing subsidiary entities or special purpose vehicles.[190] Not-for-profits are also able to undertake commercial activities in order to raise funds to support the purpose for which they were established. By considering mission and intent in selecting a legal structure in early stages of enterprise development, social enterprises can ensure constraints do not hamper long-term purpose.

The issue of perceived inflexibility could be improved through embedding advisory services and guidance for enterprises around existing regulations. This would serve to help organisations, and not-for-profits in particular, navigate the current frameworks to raise different forms of capital while preserving their mission. The Foundation (Chapter 5) could provide leadership in issuing guidance and support to social enterprises to navigate choice of legal structure.

Perceived barriers around inflexibility could be further addressed by establishing a standardised definition of social enterprises and a national register for social enterprises (Chapter 9). This could assist to solve issues related to a lack of investment in social enterprises due to a lack of understanding of the type of business and their purpose.

189 Ibid

190 Allens (2019) *Impact Investing – Thought Leadership Brochure*. Accessed on 15/09/20 at: https://www.allens.com.au/globalassets/pdfs/sectors-services/funds/impact-investing-thought-leadership-brochure.pdf

Why this is important

As both legislator and regulator, the Government is in a unique position to drive and shape the environment in which the social impact investing sector functions.

Both actual and perceived legislative and regulatory barriers can stop the flow of capital into potential impact investments. Where these barriers are perceived only, the Government as legislator and regulator can drive sector-wide understanding of existing flexibility to maximise sector potential.

Previous reviews[191] and reports[192] on the impact investing environment have invited submissions and consideration on how to address legislative and regulatory policy issues. In the context of the Taskforce recommending what the Government *should* do, the Taskforce believes the most important thing at present is to clarify the existing enabling environment so it operates as intended.

As the Australian impact investing market grows, the Government may wish to revisit changes to the legislative and regulatory environment to support increasing capital flows. Monitoring and advising on this issue could be a role of the COSI.

191 Department of The Treasury (2017) *Social Impact Investing Discussion Paper.* Canberra: Australian Government, p.31

192 Department of the Treasury (2014) *Financial System Inquiry Report*. Canberra: Australian Government p.261

APPENDICES

Appendix A:
Glossary of key terms

The world of social impact investing can be jargon heavy and terminology is not always clear.

This glossary defines the key terms used throughout this report.

Debt: A loan where the investor receives a return of their principal plus interest.

End beneficiaries: Person or community that a social program/organisation seeks to benefit.

Equity: Money invested in a business by purchasing shares.

Financial intermediaries: Facilitate the exchange of capital between investors and social purpose organisations. Financial intermediaries include organisations that run: impact investment funds, crowd-funding platforms and social stock exchanges. They broker, arrange and/or invest in deals on behalf of investors, enterprises or others seeking to achieve social impact. They also include fund managers, non-bank financial institutions and brokers and banks. (See also intermediaries and specialist advisors.)

Grant: A gift, usually of money, provided for public good or the purpose of creating a social impact.

Impact investing wholesalers: Build the market by both making investments predominantly through intermediaries and building the capability of investors and financial intermediaries. They also provide critical financial and non-financial support for new and existing intermediary funds to originate deals, attract and invest capital.

Impact investment funds: Raise capital from a range of investors, and invests this money in line with their investment strategy, to achieve a financial return on investments as well as a measurable social impact. These funds may focus on early stage enterprises (venture capital style impact fund) or on growth or more mature enterprises (more like a private equity fund with a portfolio of social enterprises).

Institutional investor: Entity which pools money to purchase securities, real property and assets or originate loans. Examples include superannuation funds, insurance companies, banks, hedge funds and mutual funds.

Intermediaries: A broad category consisting of organisations that raise capital from other investors to fund impact investing deals, as well as those providing non-monetary support and advice to build the capacity, and investment and contract-readiness, of social enterprises. (See also financial intermediaries and specialist advisors.)

Impact investors (also referred to as investors): Individuals, companies and funds who seek to invest capital into social businesses, not-for-profits and funds with the intention of generating social (and/or environmental) impact alongside financial returns.

Outcomes funds: Enable several outcomes-based contracts to be developed and supported in parallel, under a common framework. In their broadest sense, outcomes funds signal a commitment to pay for measurable social outcomes at scale, rather than paying for activities or outputs.

Payment by results / outcomes-based payment program: Where a commissioner (usually a government body) pays a service provider based on pre-determined outcomes achieved. Payments are usually referred to as 'outcome payments'. Outcome payments are usually calculated based on the savings achieved through reduction in government long-term expenditure.

Philanthropic foundation: An entity that provides investments to social purpose organisations and grants to charities. Examples include private and public ancillary funds, community foundations and corporate foundations.

Rate card: A schedule of the rates a funder is willing to pay for specific outcomes— usually based on actuarial analysis of the potential avoided costs of early intervention for a particular cohort. By sending a clear market signal on the government's targeted outcomes and willingness to pay, rate cards streamline the development process and catalyse more social impact bonds and payment by results contracts, which in turn will create more opportunities for SII. Consistency of outcome metrics also supports evaluation of outcomes across a portfolio of projects.

SII market: Umbrella term used to describe how capital flows between investors (who supply capital) and intermediaries or enterprises (who demand capital) to create a social outcome and a financial return.

SII sector: Umbrella term used to describe all the entities and actors in the SII market. An alternative term is the 'SII ecosystem' (see Figure 4).

Social enterprise: An organisation that seeks to solve social problems using a revenue generating business model. They are organisations whose primary purpose is the promotion, development and advancement of social and/or environmental goals. Typically, a social enterprise:

- generates a significant proportion of income through entrepreneurial or trading activity, for example the sale of products or services or through social and affordable housing development activity.
- reinvests principally to further the social purpose of the organisation. The extent of this will depend on whether the enterprise is for-profit or not for profit, and if not-for-profit whether it has charitable and/or deductible gift recipient status.

Social entrepreneur: A person who establishes or runs a social enterprise.

Social impact bond: Distinct from a traditional bond (debt instrument), social impact bonds (SIBs) – also known as social benefit bonds - are performance-based contracts that typically use up-front capital from investors to cover the costs of service delivery until outcomes are achieved and outcome payments are paid by commissioners. Investors in SIBs receive a return based on the social outcomes achieved. In Australia, state governments have generally been prepared to pay a proportion of SII service costs, often around 50%, on a fixed basis (known as the 'standing charge' or 'advance payment') to take on some of the risk of underperformance.

Social procurement: Public or private organisation using purchasing power to buy goods or services for their normal business needs from social purpose organisations.

Social purpose organisations: Organisations with a core mission to solve a social problem or create a social impact, such as social enterprises and charities. (See also social enterprises.)

Specialist advisors (also referred to as, or a function of, intermediaries): Provide advice and support to impact driven organisations. Examples include incubators and accelerators, business service and corporate advisory providers, management consultants, financial advisors, accountants, lawyers.

Appendix B:

Social Impact Investing Expert Panel Biographies

Michael Traill AM, Chair

Michael founded Social Ventures Australia in 2002, after 15 years as a co-founder and Executive Director of Macquarie Group's private equity arm, Macquarie Direct Investment. Having stepped down as CEO of Social Ventures in 2014, Michael currently has a range of primarily social purpose Chair and board roles including Chair of the Paul Ramsay Foundation; Executive Director of For Purpose Investments, a Director of M H Carnegie & Co, Sunsuper (where he is also Chair of the Investment Committee), Hearts & Minds Investments and Australian Philanthropic Services and Adjunct Professor at the Centre for Social Impact at UNSW. He is the author of 'Jumping Ship – From the world of corporate Australia to the heart of social investment' which won the Ashurst Business Literature Prize. In 2010 Michael was made a member of the Order of Australia in recognition of his services to non-profit organisations. He holds a BA (Hons) from the University of Melbourne and an MBA from Harvard University.

Amanda Miller, Deputy Chair

Amanda is co-founder of Impact Generation Partners, which invests in, advises and supports enterprises that deliver financial as well as social and/or environmental returns. Amanda is committed to building the impact investing ecosystem alongside the philanthropic sector in Australia. Amanda is Co-Chair of Philanthropy Australia, the peak body for philanthropy in Australia. She is a committee member of the Impact Investment Forum, an initiative of the Responsible Investment Association of Australasia (RIAA). Amanda holds a Bachelor of Arts and a Bachelor of Law (Honours) from Monash University and started her career practicing corporate law. She then moved into the philanthropic sector working with not-for-profit organisations and in philanthropic services.

Dr Catherine Brown OAM

Catherine is a CEO, Board Director and lawyer with a successful track record in start-ups and organisational transformations. Catherine has expertise in philanthropy, health, environment and the social purpose sector. Catherine has been CEO of the Lord Mayor's Charitable Foundation since 2011. The foundation is their largest and oldest community foundation in Australia with a current corpus of $242 million. The Foundation granted over $12 million in 2019/20 and undertakes strategic community initiatives and partnerships.

Catherine completed her PhD in 2019 (Centre for Social Impact, Faculty of Business & Law, Swinburne University): Unlocking the innovation potential of philanthropic foundations. She wrote Great Foundations – a 360° guide to building more resilient and effective not-for-profit organisations (ACER Press, 2010). Catherine is a former Deputy Chair of the Royal Victorian Eye and Ear Hospital, former Chair of The Greater Metropolitan Cemeteries Trust, former Chair of the Queen Victoria's Women's Centre Trust, and Deputy Chair of the Australian Environmental Grantmakers Network. She is an alumni of the University of Melbourne (Arts/Law), holds a current solicitor's practising certificate and is a Fellow of AICD.

Daniel Gilbert AM

Danny Gilbert AM is co-founder and Managing Partner of Gilbert + Tobin.

Danny is currently Director, Business Council of Australia; Co-Chair Cape York Partnership Group Pty Limited; Honorary Ambassador of Menzies School of Health Research. He is a former Non-Executive Director of National Australia Bank Limited; former Chairman Western Sydney University Foundation 2012-2019; former Chairman National Museum of Australia 2009-2015; former Chairman Australian Film Television and Radio School; former Chairman Law and Justice Foundation of NSW; former Chairman Public Interest Advocacy Centre and Member Advisory Committee Gilbert + Tobin Centre of Public Law UNSW.

Danny holds a Bachelor of Laws from the University of Sydney and a Doctor of Laws, honoris causa, from UNSW Sydney.

Danny is also a trustee of various private charitable trusts.

Sally McCutchan OAM

Sally is the CEO and an Executive Director of Impact Investing Australia, Australia's representative of the GSG. She has extensive experience in finance, funds management and strategy, and has spent many years working in and understanding Asia Pacific markets. She has held senior roles with Accenture, JP Morgan Investment Management and SBC Warburg [now UBS]. Sally is a non-executive director of: Oxfam Australia; ygap; Indigenous Business Australia Asset Management and Titan Securities (a NAB securitisation company). She is a member of the Australian Sustainable Finance Initiative Working Group for mobilising capital; the QBE Classification of Social Impact Committee; the Technical Advisory Group for the Emerging Markets Impact Investment Fund and the GSG Impact Investing Wholesalers Community of Practice. Sally is a Certified Practising Accountant and a Graduate of the Australian Institute of Company Directors. She was recently recognised with an Order of Australia award for her work in ethical investment.

Appendix C:
Terms of Reference

As part of the 2019-20 Budget, the Australian Government announced it will establish a taskforce (the Taskforce) in the Department of the Prime Minister and Cabinet to examine the Commonwealth's role in the social impact investment (SII) market. The Taskforce will comprise of an independent Expert Panel with SII and social policy expertise, bringing together experts and leaders from a range of fields to develop a Commonwealth SII Strategy, and a support team within the Department of the Prime Minister and Cabinet.

Social impact is a form of investing that generates measurable social outcomes as well as a financial return. It brings together governments, service providers, investors and communities to tackle a range of complex policy issues. Catalysing the market and building on the substantial commitments the Australian Government has made to date has the potential to provide a comprehensive federal-wide mechanism to address complex social issues, from welfare dependence to social housing. This can be achieved by government and private sector capital being utilised to building a stronger culture of robust evaluation and evidence-based decision making, and improving social outcomes for Australians.

Role of the Taskforce

The Taskforce will develop a strategy for the Commonwealth's role in the SII market, drawing on international, private sector and state and territory government experience. It will identify a way forward for Commonwealth investments in SII, including how SII can provide solutions to address entrenched disadvantage and some of society's most intractable social problems, ultimately providing evidence-informed recommendations to Government on a comprehensive SII strategy.

In doing so, the Taskforce will:

- Conduct a national stocktake of SII initiatives across Australia and undertake an assessment of existing Commonwealth commitments and programs, including reviewing evaluations of current trials and capacity building measures.
- Identify what changes in Commonwealth policy are needed to facilitate scalable private capital investment in the SII market, including regulatory barriers inhibiting its growth and potential mechanisms or structures to further enable its growth (such as a permanent capital or co investment fund with specific attention to models adopted by the United Kingdom). This analysis will focus on the three forms of SII listed below:
    - social impact bonds
    - social enterprises
    - larger scale social impact investment funds
- Identify specific barriers where government policy or market failures prevent private entrepreneurs from addressing social problems, such as entrenched disadvantage and impediments to social housing.
- Outline ways to improve the sharing of data, analysis and modelling to support SII, in particular the measurement of outcomes and calculating outcomes-based payments.
- Identify opportunities for a coordinated federal and state government approach to enable larger scale investments by mainstream institutional funds which meet relevant financial return hurdles and have measurable social impact.

Membership and operation

The Expert Panel will be chaired by Mr Michael Traill and have a deputy chair, Ms Amanda Miller. Expert Panel members will be appointed by the Prime Minister. Support for the Expert Panel will be provided by the Department of the Prime Minister and Cabinet.

The Taskforce will engage with state and territory governments, the private, not-for-profit sectors, philanthropy, and relevant Commonwealth agencies in the development of the strategy.

Timing

The Expert Panel will provide an initial report to Government on the development of the Strategy by the end of 2019, and a final Strategy by mid-2020.

Note the Taskforce was temporarily suspended between April and July 2020, as resources were redeployed to prioritise the response to the COVID-19 pandemic. As a result, the Taskforce delivered this Final Report to Government in early November 2020.

Appendix D:
Stakeholder Engagement

The Taskforce has engaged broadly to inform recommendations:

- Seventeen roundtables with over 100 participants including social impact investors, superannuation funds, social entrepreneurs, philanthropic foundations, not-for-profits, faith-based organisations indigenous enterprises, state and territory governments, fund managers and intermediaries.
- Over 40 targeted consultations in the social impact investing sector, business leaders through the Business Council of Australia, international leaders, and the Global Steering Group for Impact Investment.
- Five workshops including three at the Impact Investment Summit Asia Pacific 2019 and two user mapping workshops.
- Dedicated roundtable sessions have been held for rural and regional stakeholders, Indigenous enterprises and migrant and refugee settlement social enterprises (hosted by the Department of Home Affairs).
- The Taskforce has also engaged with social services peak bodies and providers.
- The Taskforce is grateful to those who gave their time and shared their knowledge. The feedback from people with firsthand experience was invaluable in developing this report.

This appendix provides a comprehensive list of organisations consulted in the Taskforce's deliberations.

Sector Organisations

Ability Made

Access Foundation

AMP Capital

Anglicare Australia

Atlassian Foundation

Australian Banking Association

Australian Communities Foundation

Australian Community Philanthropy

Australian Council of Social Services

Australian Impact Investments

Australian Philanthropic Services

Australian Red Cross

Australian Super

Australian Sustainable Finance initiative

B Corp / B Lab Australia and New Zealand Ltd

Bain & Co

Bama Services

Bank Australia

Barnett Foundation

Benefit Capital

Benefit Company

Benevolent Society

Bennelong Foundation

Big River Foundation

Big Society Capital

Blavatnik School of Government, University of Oxford

BlueCHP Limited

Bridges Fund Management

Brightlight Impact Advisory

Brisbane Angels

Brookings Institute

Buy Social Canada

Career Seekers

Careers Australia

Catalyser

Catholic Social Services Australia

Centre for Public Impact

Centre for Social Impact

Churchill Trust Fellowship

Clear Horizon

Columbo Social

Commonwealth Bank of Australia

Community Corporate

Community Council for Australia

Community Resources

Community Sector Banking

Community Services Industry Alliance

Council of the Ageing Australia

Credit Cooperatif France

Crestone

English Family Foundation

Equity Trustees

European Investment Fund

Family Life

Federation of Ethnic Communities’ Council of Australia

First Australians Capital

Fitted for Work

Food Connect Shed

For Purpose Investment Partners

Ford Foundation, New York

Foundation for Rural & Regional Renewal

Foundation for Young Australians

Free to Feed

The Foyer Foundation

Gandel Philanthropy

Giant Leap

Gilbert & Tobin

Global Steering Group for Impact Investment

Good Cycles

Goodman Private Wealth

Great Outcomes

Griffith University

Helen MacPherson Smith Trust

Habitat for Humanity

HESTA

Hireup

HLB Mann Judd

Housing Choices

Humans Like Us

Hutt Street Centre

Ignite (Settlement Services International)

Impact Generation Partners

Impact Investing Australia

Impact Investing Institute

Impact Investment Group

ImpaQt QLD

IMX Ventures

Indigispace

Infrastructure and Project Financing Agency

Inspire Impact

JBWere Philanthropic Advisory Services

Jennifer Duncan Consulting

Jigsaw

Justice Connect

KPMG

Lord Mayor's Charitable Foundation

MacArthur Foundation

Macquarie Asset Management

Macquarie Group Foundation

MaiTri Foundation

McCauley Community Services for Women

Meereng 50

Mercy Super

Migrant Women in Business

MiHaven

Minderoo Foundation

Mirvac

Mission Australia

Morgan Stanley

National Aboriginal and Islander Child Care

National Australia Bank

National Centre of Indigenous Excellence

National Disability Services

New Philanthropy Capital

Oak Tree Retirement Villages Group

Outlook

Palladium

Paul Ramsay Foundation

Perpetual Limited

Philanthropy Australia

Queensland Social Enterprise Council

QUT ImpaQt & White Box Enterprises

Robertson and Chang

Sacred Heart Mission

Save the Children

Scalzo Family Foundation

Settlement Council of Australia

Sisterworks

Social Enterprise Finance Australia (SEFA)

Social Finance

Social Finance UK

Social Impact Hub

Social Impact Legal

Social Investment Business

Social Traders

Social Ventures Australia

Spark Strategy

Stepstone

Summer Foundation

Sydney Community Foundation

Taylor Fry

The Australian Centre for Social Innovation

The Nature Conservancy

The Salvation Army

The Smith Family

The Snow Foundation

The Unexpected Guest

Thrive

Trawalla Foundation

U.S Impact Investing Alliance

Uniting

Uniting Care Australia

University of Canberra

University of Queensland

University of Sydney

Urbis

Vanguard Laundry Services

VincentCare Victoria

Volunteering Australia

Waitangi Settlements

Weir Anderson Foundation

Westpac

Westpac Foundation

William Buckland Foundation

Winya

Wolf Capital

Worldview Foundation

Wyatt Trust

Yarra View Nursery

Government

ACT Department of Community Services

Australian Government Department of Agriculture, Water and the Environment

Australian Government Department of Education, Skills and Employment

Australian Government Department of Finance

Australian Government Department of Foreign Affairs and Trade

Australian Government Department of Health

Australian Government Department of Industry, Science, Energy and Resources

Australian Government Department of Infrastructure, Transport, Regional Development and Communications

Australian Government Department of Social Services

Australian Government Department of the Prime Minister and Cabinet

Australian Government Department of the Treasury

Australian Government Solicitor

Australian Law Reform Commission

Australian Prudential Regulation Authority

Government of Canada

Indigenous Business Australia

National COVID-19 Coordination Commission

National Indigenous Australians Agency

NSW Department of Premier and Cabinet

NSW Treasury

NT Department of the Chief Minister

Office of the National Data Commissioner

Productivity Commission

QLD Department of Innovation and Tourism Industry Development

QLD Department of Treasury

QLD Office of the Chief Entrepreneur

SA Department of Treasury and Finance

UK Government

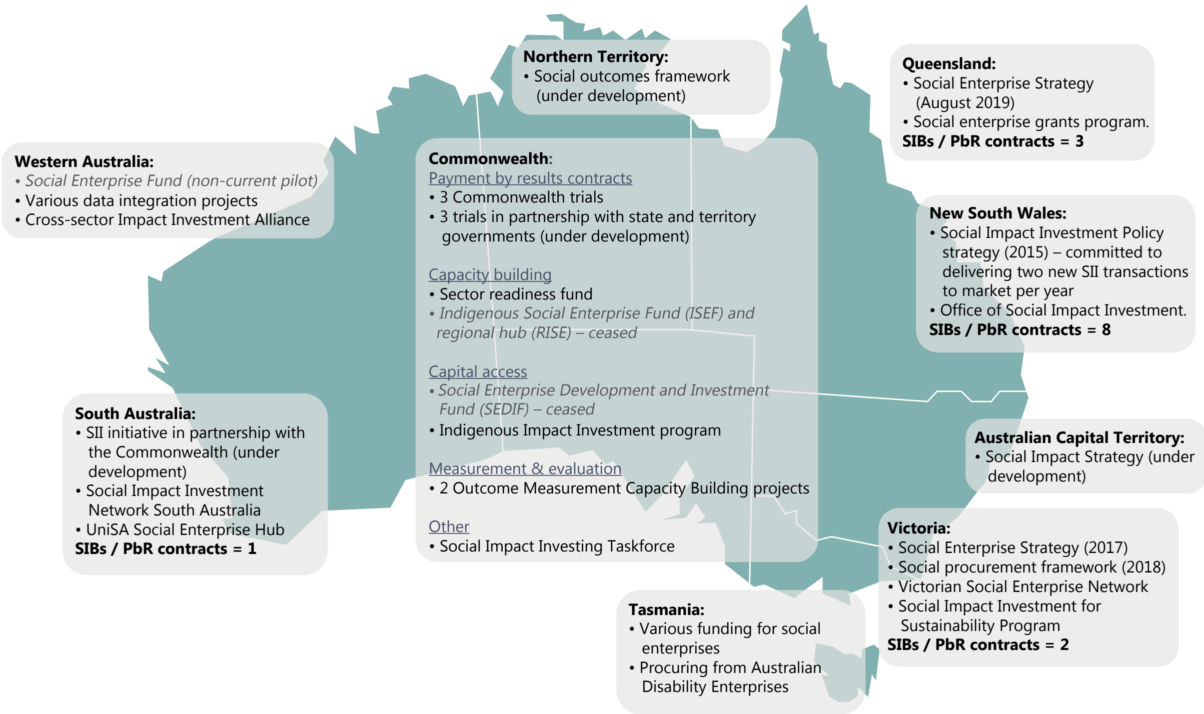
VIC Department of Premier and Cabinet

VIC Department of Treasury and Finance

WA Department of Treasury

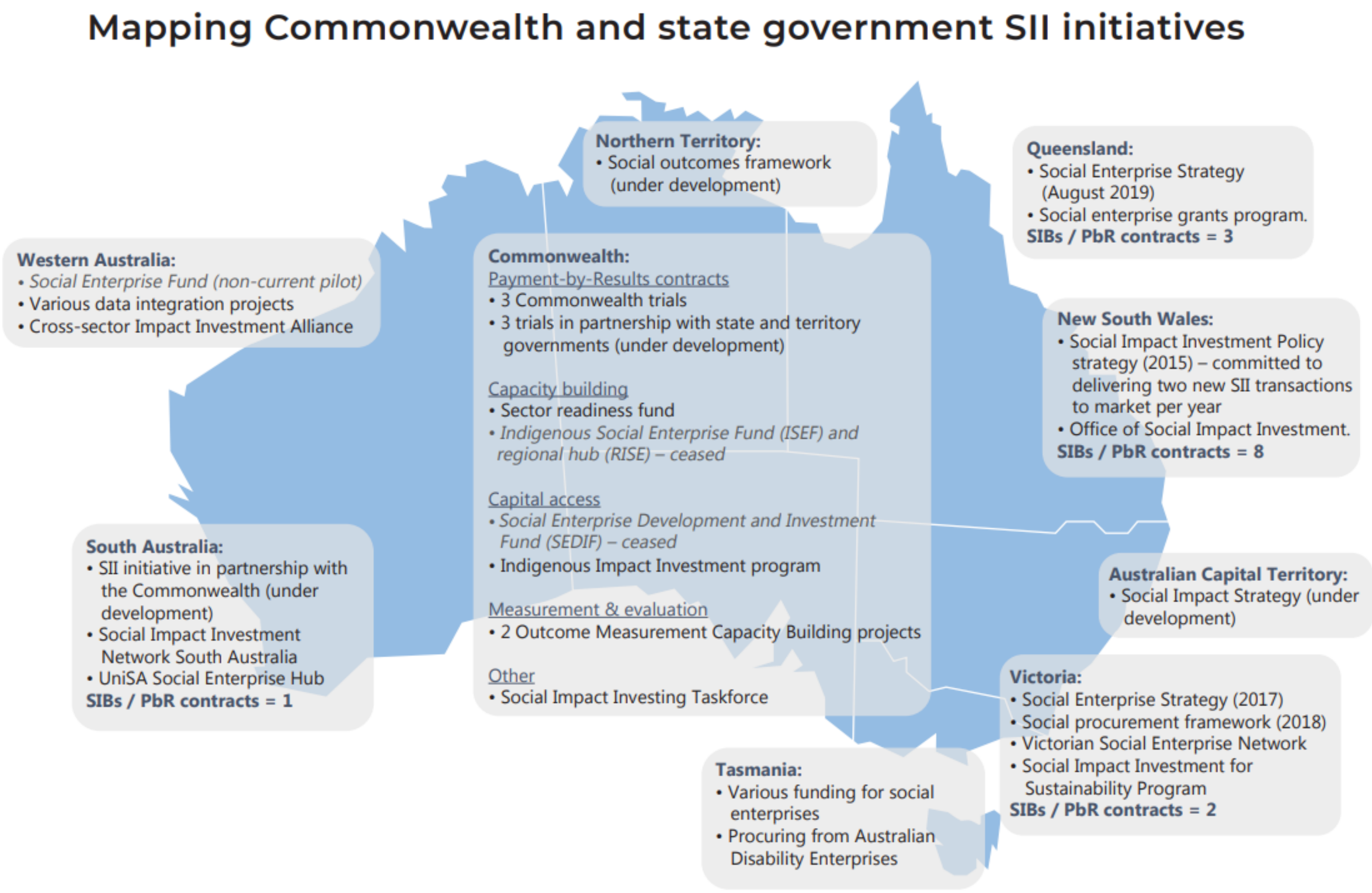
Appendix E: **Stocktake**

Mapping Commonwealth and state government SII initiatives



Mapping Commonwealth and state government SII initiatives.

Appendix E: Stocktake



Commonwealth SII initiatives

The below table includes all Australian Government initiatives considered to be participating in or facilitating the Australian social impact investing market. This includes outcomes-based contracts and initiatives that aim to develop the SII and social enterprise ecosystem in and from Australia.

Title	Description	Assessment
SII Payment by Outcomes Trials	**Lead portfolio / department:** Department of Social Services **Funding:** $15.7 million **Years active:** 2018-19 to 2026-27 **Description:** The overall aim is to co-design, implement and evaluate three payment-by-outcome (PBO) trials in the social services sector. The objectives of these trials are to: • test the appropriateness of PBO contracting arrangements between the department and funded organisations to inform future arrangements • test the efficiency of PBO contracting arrangements • inform how the department and its service providers can increase the design and use of robust outcome measurement • assess if policy areas and models used in the trials are suitable for payment by outcomes funding mechanisms in social services. Trial one will focus on outcomes in workforce skills and business planning to support unemployed or underemployed persons into employment through microenterprise development and self-employment. Trials two and three will focus on either employment or child development and wellbeing outcomes. A proportion of payments to the service provider will be paid on the results and outcomes they achieve.	Department of Social Services is planning an evaluation across both the Payment by Outcomes Trials and the State and Territory Government Partnership Trials to evaluate the effectiveness of social impact investing as a financial mechanism to address social disadvantage and determine the value to Government of achieving outcomes under these funding models. The evaluation activity will commence in 2021, with reports throughout the evaluation until completion in 2027.

Title	Description	Assessment
State and Territory Governments Trial	**Lead portfolio / department:** Department of Social Services **Funding:** $22 million **Years active:** 2017-18 to 2026-27 **Description:** The overall aim is to trial Australian Government funding for social impact investing (SII) through partnerships with state and territory governments. The objectives of these trials are to: • Increase the Government's understanding of the SII funding models. • Increase the Government's experience developing and managing SII contracts by leveraging state and territory government experience. • Increase data sharing between the department and state governments. • Increase the Government's understanding of savings that may be realised by SII initiatives at different levels of government. This funding comprises outcomes payments of $8.5 million for initiatives to help young people at risk of homelessness, $8.5 million for other priority groups; and $5 million for data linkage and analysis, evaluation and other costs.	See above, evaluation with Payment by Outcomes Trials.

Title	Description	Assessment
Outcome Measurement Initiative	**Lead portfolio / department:** Department of Social Services **Funding:** $6.7 million **Years active:** 2018-19 – 2021-22 **Description:** To build capability within the SII sector to define, measure and communicate their outcomes and impact. There is currently two streams of work: (a) an evidence and market-informed scoping study of sector needs in outcomes measurement and considerations to inform next steps in Australia; and (b) to support sector learning through longitudinal case studies of a number of social enterprises and the journey of developing and refining outcomes measurement as the business scales up.	No evaluation activities are planned for this initiative.

Title	Description	Assessment
Social Impact Investment Readiness Fund (Sector readiness fund)	**Lead portfolio / department:** Department of Social Services **Funding:** $8 million **Years active:** 2017-18 – 2020-21 **Description:** The Sector Readiness Fund (the Fund) is a three year market capability building initiative that provides grants to social enterprises. These grants enable social enterprises to purchase capacity building services that help them attract investment to grow their business and increase their social impact. The Fund commenced in November 2018 and will cease on 30 June 2021. Impact Investing Australia (IIA) administers the Fund through a grant agreement. Grantees receive up to $140,000 to assist them with capacity building services and investment attraction. Typically these services include business planning, financial modelling, capital raising, contract negotiations, legal support and outcome measurement and evaluation. From late 2020 the Fund will also offer grants of up to $30,000 to organisations that are experiencing financial stress due to the coronavirus pandemic. These grants will provide organisations with funding to engage capacity building services to provide advice on investment strategies to support the continuation of their business activities.	The department is planning an evaluation to assess the impacts of the Sector Readiness Fund. This will deliver findings in 2021.

Title	Description	Assessment
Social Enterprise Development and Investment Funds (SEDIF)	**Lead portfolio / department:** Department of Education, Employment and Workplace Relations (DEEWR) **Funding:** $20 million **Years active:** over 5 years from 2011-12 **Description:** The Social Enterprise Development and Investment Fund (SEDIF) provided seed funding to establish three investment funds with the purpose of improving access to sustainable finance and providing support for social enterprises to help them grow their business and increase the impact of their work in their communities. There was also a broader aim of stimulating the SII market in Australia. The three fund managers Foresters Community Finance, Social Enterprise Finance Australia and Social Ventures Australia received a non-refundable grant which they were required to match with private investment on at least a one-to-one basis. The funds provide loans and equity investments to social enterprises. The focus was on later stage finance for organisations that have already established a successful model rather than early-stage or start-up funding.	An evaluation found that SEDIF was a significant catalyst in the SII market crowding in more than 124% of its original public investment in private finance.[1] For the $20m investment of public monies it was found that there were strong direct effects on capacity building and scaling social impacts for 64 SEDIF financed social enterprises, and modest indirect effects on developing capacity of 424 social enterprises. The evaluation also provided recommendations for the development of any future SII initiatives, including considering: *'the suggestion raised by multiple interviewees, including some SEDIF co-investors and impact investment specialists, to establish a wholesale impact investment fund to support scalability of impact investing in Australia'*.[2]

[1] Department of Employment (2016) *Social Enterprise Development & Investment Funds (SEDIF) Evaluation Report* . Accessed 27/10/20 at: https://docs.employment.gov.au/documents/social-enterprisedevelopment-investment-funds-sedif-evaluation-report

[2] Ibid p.28

Title	Description	Assessment
Indigenous Social Enterprise Fund (ISEF)	**Lead portfolio / department:** Indigenous Business Australia **Funding:** $1 million **Years active:** over 2 years from 2013 **Description:** The Indigenous Social Enterprise Fund (ISEF) a two-year pilot was launched in September 2013 as a way to support Indigenous social enterprises (ISEs) develop to scale and sustainability through providing investment packages and business support. It was funded by Indigenous Business Australia (IBA) and managed by Social Ventures Australia (SVA). Reconciliation Australia (RA) and PwC were key partners. Successful applicants received a combination of a grant and a flexible, interest-free loan.	Purpose: Fill the capital gap in the market and provide lessons learnt. Review: ISEF Lessons Learned Report available on the Social Ventures Website.[3]

[3] Social Ventures Australia (2016) *Do's and don'ts of investing in Indigenous social enterprises.* Accessed 27/10/20 at: https://www.socialventures.com.au/sva-quarterly/dos-donts-investing-indigenous-social-enterprises/

Title	Description	Assessment
Indigenous Business Australia Investment Partnerships	**Lead portfolio / department:** Indigenous Business Australia (IBA) **Funding:** up to $50 million **Years active:** Announced in 2017 **Description:** IBA invests for impact alongside Aboriginal and Torres Strait Islander people in commercial ventures that provide financial returns and more. IBA invests in opportunities that: • involve equity ownership by Aboriginal and Torres Strait Islander organisations or entities and/or the development of enterprises on Indigenous held land; • are commercially viable, with the potential to generate strong financial returns; • will support Indigenous employment, supply chain and other social outcomes; • have an overall investment value of $4 million to $50 million, and require a contribution from IBA of at least 25% of capital required; • ideally, encourage private sector co-investment.	• As at 2020, IBA's investment portfolio comprises $430 million in investments across a range of sectors, alongside close to 60 Indigenous organisations from across Australia • The performance of IBA's Investment and Asset Management program can be viewed in IBA's Annual Reports: https://www.iba.gov.au/corporate-documents/ • IBA will publish its inaugural Impact Report in November 2020 which will describe the social, cultural and economic impacts of its various activities.
Yarrabah Initiative	**Lead portfolio / department:** National Indigenous Australians Agency **Funding:** $500,000 **Years active:** Over 12 months from 2019 **Description:** A feasibility study will look at the use of SII to make life better in the North Queensland Aboriginal community of Yarrabah. The feasibility study will report in the coming months.	N/A

Title	Description	Assessment
Northern Australia Infrastructure Facility (NAIF)	**Lead portfolio / department:** Department of Industry, Innovation and Science **Funding:** $5 billion **Years active:** since July 2016 The NAIF was established as a Corporate Commonwealth Entity to finance the construction of infrastructure that provides a basis for economic and population growth in Northern Australia. The NAIF supports investment to construct or expand economic infrastructure, including but not limited to airports, communications networks, energy, ports, rail, water, social infrastructure (including health facilities, education facilities, research facilities, training and related accommodation facilities) and processing facilities. The NAIF primarily offers concessional loans, which must be capable of being paid back to the Australian Government, or refinanced. Loans can be tailored to each project, including flexible loan terms or extended repayment periods. NAIF can lend up to 100% of the debt to a project, but must ensure appropriate risk sharing.	A scheduled legislative review of the NAIF is currently underway (Section 43, *Northern Australia Infrastructure Facility Act 2016*).

Other Australian Government impact investing measures (non-social or non-domestic)

The below table details initiatives that while not considered within the focus of the Taskforces social impact investing remit, can provide useful examples and learnings. This includes domestic initiatives that are more broadly within the remit of impact investing (for example those focusing on environmental outcomes) and those initiatives in the development space.

Title	Description	Assessment
Emerging Markets Impact Investment Fund (EMIIF)	**Lead portfolio / department:** Department of Foreign Affairs and Trade **Funding:** $40 million **Years active:** 2020-2030 **Description:** The Emerging Markets Impact Investment Fund (EMIIF) aims to address the financing gap for small to medium enterprises (SMEs) in the Indo-Pacific region. Although EMIIF investments are not limited to social enterprises, social impact remains at the core of design. EMIIF will support SMEs that deliver social impact through their products, services, supply chains or employment practices with a particular focus on gender equality. The EMIIF will use loans, equity, guarantees and other financial instruments to invest in funds that target early-stage SMEs. It will also provide technical assistance to funds and SMEs to improve management capacity, financial skills and business operating practices. This initiative enables the Commonwealth to more directly engage with private investors to achieve outcomes aligned with DFAT's development priorities and strengthen bilateral relationships in the Indo-Pacific region. There is a significant focus on capability building for early stage SMEs both through direct technical assistance and via the funds acting as intermediaries.	As this initiative is still in a pilot phase there is currently no evaluation, but monitoring, evaluation and learning are an integral part of the initiative.

Title	Description	Assessment
Pacific Readiness for Investment in Social Enterprise (Pacific RISE) Fund	**Lead portfolio / department:** Department of Foreign Affairs and Trade **Funding:** $9.7 million **Years active:** 2016-2021 **Description:** Pacific RISE was designed to pilot and facilitate a social impact investment market in the Pacific, with the aim of delivering greater economic empowerment in the Pacific, particularly for women. Pacific RISE operates across 14 Pacific island countries and has a goal of attracting $10 million of new private investment into the Pacific by July 2021 Pacific RISE works with investors and intermediaries to pilot new ways of attracting capital for investment in social enterprises. Pacific RISE also captures and shares knowledge important in the impact investment process, developing a range of resources, including: a social investment thesis for the Pacific, a gender-based violence due diligence tool, and a comprehensive list of resources for understanding gender norms and gender lens investing in a Pacific context.	A mid-term review was undertaken in 2018. The review found the strategic intent and long term outcomes remained relevant. However, the pilot had not yet demonstrated proof of implementation at the time. A design refresh process was undertaken in 2019 to ensure the recommendations of the mid-term review were implemented. Pacific RISE has published a series of reports on its website to reflect on key achievements and lessons learnt. These reports are available at www.pacificrise.org/publications.

Title	Description	Assessment
Investing in Women	**Lead portfolio / department:** Department of Foreign Affairs and Trade **Funding:** $30 million (of $102 million total program funding) **Years active:** 2016 - 2023 **Description:** The Investing in Women (IW) program uses innovative approaches in partnering with the private sector to improve women's economic participation as employees and as entrepreneurs, and to influence the enabling environment to promote women's economic empowerment in South East Asia. The program aims to increase impact investment into women-led small to medium enterprises. This is to be achieved through partnering with impact investors (through blended financing arrangements) and with ecosystem builders to expand market opportunities for women, with a view to incentivising and catalysing access to capital for SMEs led by and responsive to the needs of women. Investing in Women has partnered with nine impact investors who have growing experience in the local markets to close the financing gap, provide capacity building support, and build a business case for more gender inclusive investing – providing evidence that investing in women's SMEs can deliver good financial and social returns. The program has adjusted quickly to respond to COVID-19 through an emergency relief and resilience facility. This is providing emergency funding to women entrepreneurs to continue operations, and to help adapt their business to manage the impacts of COVID-19 and contribute to the resilience of local economies.	Annual Monitoring Evaluation and Learning reports look at progress in IW's work with impact investors and ecosystem partners over the past year, and draw out key insights and lessons from analysis of partner interviews and reporting. Reports also touch on the challenges facing women's SMEs and investors in the COVID-19 context, and how IW is adapting to this context. The IW website's Knowledge Hub contains IW's information resources (such as reports, case studies, fact sheets, research briefs)[4] An independent review of IW's gender lens impact investing was undertaken in 2018: *"Catalytic Capital for Women's Economic Empowerment: Report of the External Review of Component 2 of the Investing in Women Initiative"*.

[4] Investing in Women (2020) *Impact Investing Knowledge Hub*. Accessed on 20/10/20 at https://investinginwomen.asia/knowledge_cat/impact-investing/#category-results

Title	Description	Assessment
Scaling Frontier Innovation	**Lead portfolio / department:** Department of Foreign Affairs and Trade **Funding:** $15 million **Years active:** 2017-2021 **Description:** The Scaling Frontier Innovation initiative aims to leverage private sector capital into initiatives that deliver to development outcomes. It focused on closing the funding gap, creating opportunities and growing the impact investing ecosystem. This initiative focuses on various interdependent parts of the impact investing ecosystem including; entrepreneurs (called innovators), intermediaries, brokers and capital providers (incubators and brokers). • $4 million was provided for impact investment intermediaries to develop the ecosystem • Frontier Incubators resulted in $3.1 million being raised by ventures using strategies developed under the program and 100% of participant organisations feeling better able to support enterprises to scale. • Frontier Innovators: 700 applications from 52 countries of which 14 businesses from 10 countries were successful. There was a supported grant process and successful applicants received a combination of grant funding ($100,000 and tailored advice. Educational element (Frontiers – documentary series): https://scalingfrontierinnovation.org/documentaries/	Evaluation and learning is a significant component of the program. The program has achieved strong results, enhancing the capacity of incubators and accelerators to support social enterprises in the region and demonstrating the benefits of integrating gender into enterprise support. Further information on the results of the program are included in Impact and Lessons learnt report 2019 Frontier Innovators: Interim Results and Learning Report (2019) Frontier Incubators Interim Results and Learning Report (2020) Evidence Base for Gender Lens Investing (2020).[5]

[5] Scaling Frontier Innovation (2020) *Resources.* Accessed on 28/10/20 at https://scalingfrontierinnovation.org/resources/

Title	Description	Assessment
The Clean Energy Finance Corporation (CEFC)	**Lead portfolio / department:** statutory authority under the Clean Energy Finance Corporation Act 2012 **Funding:** $10 billion **Years active:** over ten years from 2012 **Description:** The Clean Energy Finance Corporation (CEFC), an independent Commonwealth statutory authority, facilitates increased flows of finance into the clean energy sector. The CEFC has been active in driving the establishment of Australia's green bond market and has been involved in four green bond issuances to-date with Westpac, National Australia Bank, Monash University and FlexiGroup. The CEFC also works with large scale investment funds and individual businesses. For example, the $100 million Recycling fund focuses on large-scale projects which use clean energy technologies to support recycling.	The CEFC Statutory review in 2018 found that the CEFC has been effective at facilitating increased flows of finance into clean energy projects and has leveraged between $1.80 and $2.90 in private capital for every $1 invested since its inception. The review also found that the knowledge, expertise and experience of CEFC provides benefit to the market. Further information contained in: CEFC Statutory Review – by Deloitte for DEE (2018)[6]

[6] Deloitte (2018) *Statutory Review of the Clean Energy Finance Corporation Act 2012.* Accessed on 28/10/20 at https://www.cefc.com.au/media/402001/cefc-statutory-review-deloitte-october-2018.pdf

Title	Description	Assessment
National Housing Finance and Investment Corporation (NHFIC)	**Lead portfolio / department:** A corporate Commonwealth entity under Department of the Treasury **Funding:** $9.6 million initial Government investment + under-writing bond issuances **Years active:** over four years from 2017-18 **Description:** The National Housing Finance and Investment Corporation (NHFIC) acts as a financial intermediary, bridging the financing gap for the community housing sector. It provides low cost longer-term loans for community housing providers to support the provision of social and affordable housing. It also provides finance for eligible infrastructure projects that will unlock new housing supply, particularly affordable housing. Under the affordable housing bond aggregator, two bonds have been issued to date ($315 million in March 2019 and $562 million in June 2020). To date it has supported over 2200 new homes and saved community housing providers more than $195 million in interest.	Annual reporting on activities through NHFIC annual report and Social bond report.[7] Review commissioned in Budget 2020-21.

[7] NHFIC (2020) *Bond Issuance* Accessed on 28/10/20 at https://www.nhfic.gov.au/what-we-do/investor-relations/bond-issuance/

Title	Description	Assessment
Indigenous Procurement Policy **(IPP)**	**Lead portfolio / department:** Whole of Commonwealth Government **Funding:** leveraging the Commonwealth procurement spend (around $96.1 million annually) **Years active:** Launched on 1 July 2015 **Description:** The Indigenous Procurement Policy (IPP) leverages the $96.1 annual Commonwealth procurement spend to drive demand for Indigenous goods and services, stimulate Indigenous economic development and grow the Indigenous business sector. The IPP has a target of 3% of Commonwealth procurement contracts being awarded to Indigenous owned businesses by 2027. The IPP has 3 components: 1. A target for the number of contracts to be awarded to Indigenous businesses. 2. A mandatory set-aside of contracts valued between $80,000 to $200,000 and all remote contracts. 3. Indigenous participation requirements for Indigenous employment and/or supplier use in contracts valued at $7.5 million or more in specified sectors.	There have been two independent Evaluations into the IPP and transparency is maintained through required publishing of Commonwealth wide and individual portfolio results against the target on the NIAA website annually. The recent December 2019 evaluation found that the implementation of the IPP had an overall positive effect on Indigenous businesses. However, the review also highlighted the potential for unintended consequences such as the "black cladding" of businesses to gain contracts and specific barriers to entry.[8]

[8] Department of the Prime Minister and Cabinet (2019) *Third Year Evaluation of the Indigenous Procurement Policy.* Accessed on 20/09/20 at: https://www.niaa.gov.au/sites/default/files/publications/third-year-evaluation-indigenous-procurement-policy.pdf

Title	Description	Assessment
Procurement for Disability Enterprises	**Disability Enterprises** In 2008 a revision to the Commonwealth Procurement Guidelines enabled government departments to purchase from Australian Disability Enterprises (ADEs) (businesses existing to provide employment to people with a disability not those providing a service to people with a disability) without first going to public tender when: - the purchase involves a simple procurement process (low risk, low complexity, readily available goods/services); - where the goods / services to be purchased represent value for money; - where normal procurement principles and procedures are still followed (eg. Probity issues still apply). However, this change does not require any percentage of ADE procurement.	There has been no evaluation of this initiative.

State and territory initiatives

The below table includes State and territory SII initiatives. These are grouped by the role each government is playing to support the development of mature SII markets including market facilitator, participant and regulator.[9]

Title	Description	Evaluations
New South Wales		
Market Participant		
Newpin	**Type:** Social Benefit Bond (SBB) **Funding:** Expected contract value: ~$50 million / SBB: $7 million **Contract length:** 7.25 years from March 2013 **Description:** The Newpin Social Benefit Bond (SBB) funded the Newpin program by Uniting. Newpin is an intensive therapeutic program that aims to safely restore children in out-of-home care (OOHC) to their families and to work with at-risk families to keep their child/ren out of care. **Target cohort:** The Newpin SBB aims to work with ~550 families with at least one child six years or younger. **Outcomes achieved:** The outcome metric used under the SBB was the percentage of children who are returned to their families (i.e. the 'restoration rate'). At the end of the Bond, an overall restoration rate of 61% was achieved, compared to counterfactual rate of 20%. **Provider:** UnitingCare Burnside, Intermediary: SVA **Expected (or actual) return:** Newpin delivered an overall financial return to investors of 10% per annum.	Evaluations of the Newpin SBB are available on the NSW Office of Social Impact Investment (OSII) website.[10]

[9] Global Steering Group for Impact Investment (2018) *Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit.* London, UK: Global Steering Group for Impact Investment

[10] NSW Office of Social Impact Investment (2020) *Evaluation of the social impact investments.* Accessed 27/10/20 at: https://www.osii.nsw.gov.au/tools-and-resources/evaluation-of-the-social-impact-investment/

Title	Description	Evaluations
The Benevolent Society SBB	**Type:** Social Benefit Bond **Funding:** Expected contract value: ~$12.75 million / SBB: $10 million **Contract length:** 5 years from October 2013 **Description:** The Benevolent Society SBB funded the pilot of the Resilient Families program, an intensive family preservation service designed to prevent children from entering out-of-home care (OOHC) by improving family functioning and creating a safer environment for children. **Target Cohort:** 303 families who are expecting a child or have at least one child under six years of age, and who have been reported to FACS as being at risk of significant harm. **Key outcome measurements:** a reduction in the number of entries to out-of-home care, fewer Helpline Reports from six months after entry to the service, and, a reduced number of safety and risk assessments. **Outcomes achieved:** 32% fewer children referred to Resilient Families entered OOHC compared to children from the matched control group. The SBB contract expired in October 2018. Following the success of the pilot, the NSW Government and The Benevolent Society successfully negotiated a new payment-by-results contract to mainstream this proven service so that the program can continue to help families in need. **Provider:** The Benevolent Society **Intermediary:** Westpac/CBA **Expected (or actual) return:** Investor returns of 6% to Protected Class Investors and 10.5% to Equity Class Investor	Evaluations of the Benevolent SBB are available on the NSW Office of Social Impact Investment (OSII) website.[11]

[11] NSW Office of Social Impact Investment (2020) *Evaluation of the social impact investments.* Accessed on 27/10/20 at: https://www.osii.nsw.gov.au/tools-and-resources/evaluation-of-the-social-impact-investment/

Title	Description	Evaluations
On TRACC	**Type:** Payment by Results contract **Contract length:** 5 years from September 2016 **Description:** The On TRACC program aims to reduce the re-incarceration rates for adult parolees. The program offered post-release support services to eligible parolees. Upon the mutual termination of the contract, approximately 1,500 adult parolees with a medium to high risk of reoffending were supported. These people were released to supervision in selected Sydney metropolitan areas. Key outcome measure: Reduction in the re-incarceration rate of participating parolees in the 12 months after their release compared to a randomly selected control group. **Provider:** Australian Community Support Organisation (ACSO) and arbias: Investors: ACSO and NAB.	As part of the contract, a review of the performance of the first group of individuals to participate in the program ('Cohort 1') was undertaken in December 2018. The review indicated that while there was a reduction, there was no statistically significant difference in the rate of re-incarceration between the treatment and control groups. Following this review, all parties worked collaboratively to explore program refinements to improve performance, before mutually agreeing to end the contract in January 2019. All clients were successfully transitioned to other support services and all program staff redeployed or obtained external employment.

Title	Description	Evaluations
Resolve	**Type:** Social Benefit Bond (SBB) **Funding:** Contract value: $21.7 million / SBB: $7 million **Contract length:** 7.75 years from October 2017 **Description:** The Resolve Social Benefit Bond (SBB) aims to improve the well-being of individuals experiencing a mental health illness. It is a community-based program that will work with approximately 530 mental health patients in the Western New South Wales and Nepean Blue Mountains Local Health Districts over seven years. **Target performance:** 25% reduction in participants' utilisation of hospital services compared to a matched control group. **Provider:** Flourish Australia, Intermediary: SVA **Investors returns:** Under the target performance scenario, investors would receive returns of approx. 7.5% p.a.	Urbis has been commissioned to evaluate the Resolve program over the period of seven years (2018 to 2025). The Resolve SBB Baseline Report 2019 is available on the OSII website.[12]

[12] Urbis (2019) *Resolve Social Benefit Bond – Baseline Report.* Accessed 27/10/20 at: https://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/ESA31417-Resolve-Social-Benefiline-Report-27-Aug-2019-FINAL.PDF

Title	Description	Evaluations
Silver Chain	**Type:** Payment by Results contract **Funding:** Contract value: ~$80m **Contract length:** 7.75 years from June 2017 **Description:** The Silver Chain Community Palliative Care Service focuses on people in their last three months of life and supports clients to die in the place of their choice. The service is expected to support 8,300 people over seven years who have an advanced, progressive and life-limiting illness living in Western Sydney LHD. Outcomes are measured annually and are based on reduced hospital use when compared to a control group. **Provider:** Silver Chain Group	The Silver Chain Implementation Evaluation Report is available on the OSII website.[13]

[13] Paxon Group (2020) *Silver Chain – Evaluation of the Silver Chain Community Palliative Care Service Western Sydney.* Accessed 27/10/20 at: https://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Silver-Chain-Implementation-Evaluation-Report.pdf

Title	Description	Evaluations
Sticking together	**Type:** Social Impact Bond **Funding:** Contract value ~$10m, SIB: $5m **Contract length:** 4.5 years from April 2019 **Description:** The Sticking Together Project (STP) Social Impact Bond aims to reduce youth unemployment through an intensive, 60-week coaching program. The program aims to support young people to develop work readiness skills and capabilities to enable them to find jobs, and 'stick' in work for the long term. The outcome metric used for the SIB is linked to the amount of time program participants spend in productive activities, particularly in paid employment, over a 60-week measurement period. **Target cohort:** STP will work with approximately 870 young people aged 18-24 years, who experience high barriers to employment. **Provider:** SYC **Intermediary:** Social Ventures Australia **Expected return:** Under the target performance scenario, investor return of 7% p.a.	N/A
Home and Healthy	**Type:** Payment by Results contract **Funding:** Contract value: $20m **Years active:** over 6 years from July 2019 **Description:** The Home and Healthy Program is aimed at reducing the prevalence of homelessness for adults exiting health facilities. The Program will support approximately 1,220 people who are homeless or at risk of homelessness, through holistic case management to meet participants' needs to achieve sustained housing, and improved employment and training outcomes. Home and Healthy is Australia's first social impact investment that uses a 'rate card' approach. **Provider:** Mission Australia	N/A

Title	Description	Evaluations
Foyer Central	**Type:** Social Impact Bond **Funding:** The bond will not be launched until the construction of the accommodation is nearing completion. **Years active:** Announced in September 2017 **Description:** Foyer will be a purpose-built integrated accommodation and learning centre located in central Sydney, offering young out of home care leavers a safe and affordable place to live while engaging in education, training and employment. **Providers:** Uniting, St George Community Housing **Intermediary:** Social Ventures Australia	N/A
Aboriginal economic development	**Type:** To Be Developed **Funding:** $10 million over 4 years **Years active:** Opportunity announced in March 2018 and successful proponent announced in December 2019. Joint Development Phase (JDP) currently underway. **Description:** An SII opportunity focused on Aboriginal Economic Development was announced in the 2018-19 NSW Budget and was successfully awarded to Momentum. The project aims to remove barriers for Aboriginal and Torres Strait Islander people obtaining identification and accessing training and employment opportunities, with a target cohort of more than 2000 located in Northern NSW regional hubs. Subject to the outcome of further negotiations (Joint Development Phase is currently underway), the NSW Government will enter into a transaction with the consortium. **Provider:** Consortium of partner organisations – Pathfinders, ACE Community Colleges, Real Futures and Serco Australia.	N/A

Title	Description	Evaluations
Market Facilitator		
Office of Social Impact Investment and Social Impact Investment Policy	The NSW Office of Social Impact Investment (OSII) was established in 2015 to grow the SII market in NSW and to oversee the delivery of the NSW Government's Social Impact Investment Policy (SII Policy). The SII Policy includes 10 actions, including delivering two new social impact investment transactions to market per year. In 2020, the NSW Government plans to launch the next phase of the SII Policy and OSII's core goals going forward in *Social Impact Investment Policy 2.0: Growing Our Impact*. Other functions of the OSII include: • establishment of the SII Interjurisdictional Network (IJN) in 2015 to provide a regular forum for jurisdictions to keep up-to-date with government investments in Australia, share lessons from the investment process and facilitate the transfer of templates and other key transaction materials; • holding regular market engagement events to consult with stakeholders on OSII's initiatives and promote the understanding of social impact investments across NSW; • co-hosting the Investing for Good conferences in 2016, 2017 and 2019 with the NSW Council of Social Services (NCOSS); and • launching the Expert Advice Exchange (EAX) in 2015 as a flagship capacity building platform to connect non-government organisations with leading professional services firms for pro bono expert advice (from 2015-2017, the EAX facilitated over 2,000 hours of pro-bono advice between 135 organisations and 41 advisory firms).	OSII launched its Social Impact Investment Statement of Outcomes in December 2019 to look back at the progress made over the past four years of delivering the SII Policy. This review found that, since 2015, all 10 actions under the SII Policy had been successfully delivered including the development of eight social impact investments, representing approximately $235 million in payment by outcomes contracts.[14]

[14] NSW Office of Social Impact Investment (2020) *NSW Policy and Guidance* Accessed on 19/2/20 at https://www.osii.nsw.gov.au/policy-and-guidance/

Title	Description	Evaluations
SII Evolve	Announced in August 2018, SII Evolve is a trial approach by OSII to co-develop SII ideas in any policy area. This is a complementary stream to OSII's issue-specific Request for Proposal process. SII Evolve provides an opportunity to test, design and progress proposals collaboratively with government and organisations, before proceeding to the formal approval phases.	SII Evolve was piloted in 2018, with multiple SII proposals placed on the NSW Government SII pipeline.
NSW Sustainability Bond Programme	NSW was the first Australian state to establish a sustainability bond programme enabling the issuance of green, social and/or sustainability bonds. The NSW Sustainability Bond Programme provides investors with the opportunity to be part of a more sustainable future by helping to finance projects that support positive and transparent economic, social and environmental outcomes for the community. In November 2018, TCorp issued its inaugural 10-year, $A1.8 billion Green Bond and in November 2019 issued its inaugural 5-year, A$1.8 billion Sustainability Bond.	The inaugural *Creating a Sustainable Future, Annual Report 2019*[15] provides an overview of bonds that were issued under the program in the preceeding year and found that the program: • established close partnerships and collaboration across the NSW Government; • Aligned with NSW Government policies and goals; • met required goals to diversify the program's investor base; • had a positive impact on NSW people and communities; and • implemented the *NSW Sustainability Bond Framework.*[16]
Sponsorship of the Social Enterprise Council of NSW & Act (SECNA)	In August 2020, the NSW Government was announced as the inaugural sponsor of the Social Enterprise Council of NSW & Act (SECNA) – a recently formed peak body representing the voice of social enterprises in NSW and ACT.	N/A

[15] NSW Treasury Corporation (2019) *Annual Report 2019 – Creating a sustainable future.* Accessed on 27/10/20 at: https://www.tcorp.nsw.gov.au/resource/TCORP-Sustainability-Bond-Programme-Annual-Report-2019-Secured.pdf
[16] NSW Treasury Corporation (2019) *New South Wales Sustainability Bond Framework.* Accessed on 27/10/20 at: https://www.climatebonds.net/files/files/New%20South%20Wales%20Sustainability%20Bond%20Framework.pdf

Title	Description	Evaluations
NSW Whole of Government Agreement with Social Traders	Announced in August 2020, the NSW Government agreement with Social Traders is driving updates to the NSW Government Procurement Framework to encourage agencies to consider social enterprises in their procurements.	N/A
Victoria		
Market Participant		
Journey to Social Inclusion Social Impact Investment (J2SI SII)	**Type:** Social Impact Investment **Contract value:** Greater than $10 million **Start date:** August 2018 **Contract length:** 6.5 years **Description:** The J2SI program aims to deliver long-term housing and improved health and wellbeing outcomes for vulnerable Victorians. It is expected that the J2SI SII will support 180 people over five years. The J2SI SII is the first social impact investment in Australia to leverage funding from government, financial guarantees provided by philanthropy and low-cost debt. **Service Provider:** Sacred Heart Mission	The Victorian Government has publicly committed to undertaking an evaluation of the J2SI SII to further the evidence base and focus on measurement for social programs.

Title	Description	Evaluations
COMPASS Social Impact Bond (COMPASS SIB)	**Type:** Social Impact Bond **Contract value:** Greater than $10 million **Start date:** October 2018 **Contract length:** 7.5 years **Description:** The COMPASS program will provide more than 200 care leavers with two years access to housing and access to a worker to help them navigate the system, an education specialist, and other support services based on the level of their needs. The COMPASS SIB is the largest Social Impact Bond in Australia, with $14.2 million raised from more than 50 investors. **Service Providers:** Anglicare Victoria and VincentCare.	COMPASS will generate financial returns for investors which are variable based on measured performance against the following 3 outcome measures: • Housing (60% weighting): assessed by monitoring requests for emergency accommodation, measured 2 and 4 years after each participant commences the program; • Health (20% weighting): assessed by hospital emergency department presentations, measured 2 and 4 years after each participant commences the program; and • Justice (20% weighting): assessed by the number of recorded convictions, measured 4 years after each participant commences the program. In each case, performance will be assessed by comparing the outcomes for COMPASS participants with a statistically matched, stratified control group of care leavers across the state. Results will be independently certified. Based on current research, COMPASS is expected to deliver material improvements in the lives of Out of Home Care leavers in each of these areas and provide material cost savings to the Victorian community.[17]

[17] https://compassleavingcare.org.au/the-compass-program/

Title	Description	Evaluations
Partnerships Addressing Disadvantage	The Victorian Government's Partnerships Addressing Disadvantage (PADs) initiative aims to pilot new ways to address deep-seated disadvantage and develop innovative services that generate better social outcomes for the community in collaboration with the private and not-for-profit sectors. In October 2018, Berry Street Victoria and the Victorian Aboriginal Child Care Agency (VACCA), as well as Melbourne City Mission (MCM) were selected to further develop their proposals. Berry Street and VACCA's program aims to improve outcomes for primary school students by providing culturally sensitive training to schools to better engage vulnerable students, as well as intensive support to students and families (of which, 25% will identify as Aboriginal). MCM's program would provide coordinated support services to young people who are not engaged in education. These services will help students complete Year 10 or higher at the Hester Hornbrook Academy – an independent school that caters for students with complex needs. Program negotiations are nearing completion.	PADs will be evaluated to further the evidence base and focus on measurement for social programs.
Victoria's Social Procurement Framework	**Start date:** Launched in 2018 The whole-of-Victorian-Government Social Procurement Framework is the first of its kind in Australia. The Framework leverages the Government's approx. $30 billion procurement of goods, services and construction each year to maximise social, economic and environmental benefits. Each of the 10 objectives (7 social and 3 sustainable) have specific and measurable outcomes to promote inclusive growth.	

Title	Description	Evaluations
Market Facilitator		
Victorian Social Enterprise Strategy	Launched in 2017, the Victorian Government's $10.8 million Social Enterprise Strategy includes eight initiatives to support the growth of the social enterprise sector and inclusive economic growth across Victoria. The strategy, the first of its kind in Australia, has been developed to improve and expand on existing support for the sector and to position Victoria to lead the country in driving employment participation and inclusive economic growth through social enterprise. The strategy advocates for greater co-ordination across government to support social enterprises. A healthy sector will support inclusive economic growth, new job creation and more opportunities for people facing barriers to employment to get and sustain meaningful work. Key initiatives under the strategy include: • Establishing the Victorian Social Enterprise Network (SENVIC) • Primary research into the Victorian Social Enterprise Sector (Map For Impact: Victorian Social Enterprise Mapping Project) • Four rounds of Boost Your Business: Social Enterprise Capability Stream Voucher Program • Targeted support for Social Traders to link businesses and government to social enterprises • Establishment of Victoria's Social Procurement Framework	An evaluation of the Victorian Social Enterprise Strategy is underway.

Title	Description	Evaluations
Social impact investment for sustainability (SIIS) fund	The Social Impact Investment for Sustainability Fund (the fund) was set up in 2016 by Sustainability Victoria to provide financial assistance to existing, investment-ready social enterprises that deliver environmental benefit. Investment-ready social enterprises could apply for up to $200,000 as a combination grant and low interest (2.5%) loan to scale up and expand their operations, with the aim of: • creating new jobs and training opportunities • delivering social benefits • responding to climate change • avoiding and recovering waste • improving resource efficiency in the Victorian community The aim was to have the loans repaid over three to five years and those funds returned through repaid loans would be re-invested in the program to support other social enterprises. The fund has so far financed seven different sustainable social enterprises with varying social impact objectives such as providing access to affordable housing and employment opportunities for marginalised people and asylum seekers.	Under review
Unlocking Innovative Finance pilot – facilitate a low interest loan with a private financier for a community based social enterprise	This pilot was launched in 2019 and is being delivered by Sustainability Victoria, in partnership with Department of Environment, Land, Water, and Planning (DELWP). The pilot seeks to test a grant mechanism that will assist Indigo Power – a registered social enterprise based in the Hume Region of Victoria – to secure a low-interest loan with a third-party financier and establish Victoria’s first community battery storage facility in the township of Yackandandah. This facility, along with existing solar PV on Yackandandah households, will enable the community to generate, consume and share locally sourced renewable energy and contribute to Yackandandah’s 100% renewable energy target.	Under review

Title	Description	Evaluations
LaunchVic Grant Round 3: Increase participation for migrants and refugees	Since August 2017, LaunchVic has delivered $1.4 million in funding to five organisations for programs to increase the number of first generation migrants and refugees participating in the Victorian start-up ecosystem by improving their access to supports.	
LaunchVic Grant Round 7: Entrepreneurial Programs for Aboriginal Victorians*	**Start date:** Launched in September 2018 This funding was part of *Tharamba Bugheen*, the Victorian Aboriginal Business Strategy, which sets out the Victorian State Government's vision for helping Aboriginal Victorians become innovative entrepreneurs and business leaders. Launched $1.37 million was provided to service providers that could strengthen entrepreneurship and start-up activity amongst Aboriginal Victorians.	**LaunchVic also funded various grant recipients in other funding rounds and supported content such as other programs align with social impact; including a Round 1 program with Social Traders; a Round 2 program with Impact Co; certain founder education and entrepreneur in residence programs.*
Support for Impact Investment Group's "Impact Angel Network" (LaunchVic)	This program ($250,000) seeks to connect pre-seed and seed stage start-ups with impact angel investors through an online deal-flow platform, networking events, pitch sessions and various education workshops.	

Title	Description	Evaluations
Queensland		
Market Participant		
Newpin	**Type:** Social Benefit Bond **Contract value:** $26 million **SIB:** $6 million **Indicative return:** **Start date:** June 2017 **Contract length:** 7.25 years **Description:** Newpin aims to increase the reunification of children in out-of-home care. It provides emotional and practical support to families, empowering them to break the cycle of child neglect and abuse and to provide safe, nurturing environments for children. A key focus is addressing the over-representation of Aboriginal and Torres Strait Islander children in out-of-home care.	A scheduled review was commenced in December 2019 with details of results achieved to date available in the final investor report.[18] The review identified significant challenges with program implementation due to the low number of eligible people being referred to the program and the numbers of children entering the program being lower than anticipated, directly affecting the number of reunifications that could be achieved.
Youth Choices	**Type:** Social Benefit Bond **Contract value:** UNKNOWN **SIB:** $8 million **Indicative return:** **Start date:** June 2017 **Contract length:** 6.75 years **Description:** Youth Choices aims to address youth recidivism through a family focused, community based intervention. **Target cohort:** Up to 600 high risk young people aged between 10 and 16 years in Brisbane and surrounding areas. **Provider:** Life Without Barriers **Intermediary:** NAB	No evaluation is available.

[18] Social Ventures Australia (2020) *Newpin Qld Social Benefit Bond Final Investor Report* Accessed on 28/10/20 at https://www.socialventures.com.au/assets/Newpin-Qld-SBB_Annual-Report-2020.pdf

Title	Description	Evaluations
YouthCON	**Type:** Social Benefit Bond **Contract value:** UNKNOWN **SIB:** $5 million **Indicative return:** **Start date:** June 2017 **Contract length:** 6.25 years **Description:** YouthCON aims to address youth homelessness. Target cohort: 300 young people aged 15 to 25 who are exiting or have exited statutory care and are homeless or are at risk of homelessness Outcome metrics include housing stability and employment and/or education stability. **Provider:** Churches of Christ **Advisor/Intermediary:** Social Outcomes/Westpac	No evaluation is available.
Market facilitator		
Social Enterprise Strategy	The Queensland Social Enterprise Strategy outlines 3 key focus areas of targeted support to address the challenges social enterprises face: • building capability and capacity in the sector including access to financial support • making connections across the sector to increase collaboration and promotional opportunities • improving market access by linking social enterprises to procurement opportunities. Funding of $1 million was announced in the 2019–20 Budget to support the strategy.[19]	No evaluation is available.

[19] Queensland Government Department of Employment, Small Business and Training (2020) *Queensland Social Enterprise Strategy.* Accessed 27/10/20 at: https://desbt.qld.gov.au/small-business/strategic-documents/social-enterprise-strategy

Title	Description	Evaluations
Social enterprise grants program	The Social Enterprise Grants Program will provide assistance between $5,000 to $50,000 to enable social enterprises to access professional advice and support in the critical early stages of establishing and growing their business, and to assist in testing ideas in the market or using technology to achieve their reach and mission. Social enterprises eligible to apply for this grant are those based in Queensland that meet the following definition: • led by an economic, social, cultural or environmental mission consistent with a public or community benefit • trades to fulfil their mission and derive more than 50% of their income from trade • reinvest the majority of any profit/surplus into the fulfilment of their mission.[20]	No evaluation is available.
Western Australia		

[20] Queensland Government Business Queensland (2020) *Social Enterprise Grant Program.* Accessed 27/10/20 at: https://www.business.qld.gov.au/starting-business/advice-support/grants/social-enterprise

Title	Description	Evaluations
WA Social Enterprise Fund	Launched in 2012, the $10 million Social Enterprise Fund – Grants Program (SEF) aimed to increase the number, effectiveness and efficiency of social enterprises in Western Australia by supporting non-profit community sector organisations to establish new or strengthen existing social enterprises. It was delivered through a consortium, made up of SVA, Social Traders, Centre for Social impact (CSi), and Western Australia Council of Social Service (WACOSS), on behalf of the Government. Services provided through the SEF included pre-investment support to social enterprises preparing to apply and aftercare business support to successful funding recipients. The SEF is now closed.	Key outcomes: • Over 550 organisations reached • 154 applications received across two funding rounds • Over $5 million in grants committed across two funding rounds • 40 organisations funded for capacity building • 21 organisations funded to commence or grow a social enterprise[21]
South Australia		
Market participant		

[21] Social Ventures Australia (2020) *WA Social Enterprise Fund.* Accessed 27/10/20 at: https://www.socialventures.com.au/work/social-enterprise-fund/

Title	Description	Evaluations
Aspire	**Type:** Social Impact Bond **Contract value:** $9 million investor capital **Start date:** March 2017 **Contract length:** 7.75 year bond term **Description:** The COMPASS program will provide more than 200 care leavers with two years access to housing and access to a worker to help them navigate the system, an education specialist, and other support services based on the level of their needs. A social impact bond which aims to improve the lives of homeless people in Adelaide. This bond funds the delivery of the Hutt St Centre, a highly respected and innovative frontline service for homeless and vulnerable adults in Adelaide. Through this SIB model investor returns are based on the Government savings generated by the intervention and distributed through Government payments to the Aspire trust. • Outcomes are determined by measuring health, justice and homelessness service utilisation relative to historical baseline. • 2% pa fixed coupon over 4.75 years, then performance coupon based on level of Trust assets. • Termination rights for poor performance to limit downside loss to approximately 50% of principal. • Target scenario estimated return 8.5% pa (objective only). **Provider:** Hutt Street Centre **Intermediary:** SVA	Annual investor report[22] includes information on results achieved each year.

[22] Social Ventures Australia (2020) *Aspire SIB* Accessed on 28/10/20 at https://www.socialventures.com.au/work/aspire-sib/#:~:text=The%20Aspire%20Social%20Impact%20Bond,Australia's%20first%20homelessness%20focused%20SIB.&text=It%20is%20anticipated%20that%20around,for%20up%20to%20three%20years.

Title	Description	Evaluations
Payment by Outcome trial in partnership with the Commonwealth Department of Social Services	**Type:** Payment by Outcome **Start date:** Procurement underway in early 2019, with contract execution intended in the 20/21 financial year **Description:** Focused on children in out-of-home care, and young care leavers.	N/A
Reboot Intensive Intervention Trial	**Type:** Youth justice program with pay by results (PBR) component **Published:** 2018 **Description:** The ReBoot program was designed to assist young people in Adelaide who are in contact with the criminal justice system and at risk of reoffending. It works with young offenders aged 14–18, their families, communities and the justice system to reduce offending and antisocial behaviours; increase engagement in education and employment; and increase engagement in structured, prosocial activities such as sport and volunteering. The PBR components focussed on reductions in reoffending and improvements in education or employment. Process and outcome evaluation by Australian Institute of Criminology. Offending desistance associated with higher achievement in education and employment outcomes.	Evaluation of the ReBoot Intensive Intervention Trial: Final report [23]

[23] Lyneham, S., Voce, I., Fuller, G. & Boxall, H. (2018) *Evaluation of the ReBoot Intensive Intervention Trial: Final report.* Research Report no.14. Canberra: Australian Institute of Criminology.

Title	Description	Evaluations
Market facilitator		
LaunchME microfinance program	• Collaboration between Good Shepherd Microfinance and the SA Department of Human Services. • Combines microenterprise loan with mentoring. • Program targets disadvantaged people on welfare with a desire to start their own business. • Coordinates with Commonwealth Govt. New Enterprise Incentive Scheme. • LaunchME is one of the successful applicants to the Commonwealth Try, Test and Learn Fund, with an expanded focus of young carers.	No evaluation available.

Title	Description	Evaluations
The Value of Social Enterprise: Two Case Studies The South Australian Centre for Economic Studies, University of Adelaide	**Published:** August 2018 The Stretton Centre, in conjunction with Housing SA, formerly part of the Department of Human Services (DHS), and now operating as the South Australian Housing Authority (SAHA), commissioned the South Australian Centre for Economic Studies of the University of Adelaide to:[24] • map established social enterprises in South Australia, and • assess the value of using social enterprise to facilitate job creation for socially and economically disadvantaged populations. **Report summary:** • Economic analysis of the benefit-cost ratio to public procurement of two social enterprises. o First enterprise provided job training for disadvantaged youth. o Second enterprise supported employment for people with disability. • Social benefits of employment calculated with data from the Social Value Bank, to account for deadweight loss etc. • Disability social enterprise generated the most economic value	No evaluation available.
Social Impact Investment Network South Australia	• Peak body and advocacy organisation promoting social impact investment in SA. • Focus includes social impact bonds, social enterprise and UN Sustainable Development Goals	No evaluation available.

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Title	Description	Evaluations
The Social Capital Residencies; **The Purpose Economy;** **Purpose Council of SA;** **Purpose Business Network – North**	• A set of initiatives supported by the Don Dunstan Foundation (a thought leadership organisation) to grow social enterprise. • Specific actions include developing a social enterprise action plan for northern Adelaide	No evaluation available.
SA Industry Advocate	• SA Aboriginal Business Strategy • The Far North Aboriginal Economic Collective • Initiatives designed to grow SA Government procurement from Aboriginal owned businesses, including supply chain.	No evaluation available.
Aboriginal Business Connect	• Directory of 100+ SA businesses, at least 50% Aboriginal owned, to connect the SA Aboriginal business sector to procurement and contracting or sub-contracting opportunities.	No evaluation available.
Renewal SA	• Works Program focussed on community and social inclusion benefits from urban renewal activities. It also builds capacity and supports social enterprise through residential and industrial development activities.	No evaluation available.

Title	Description	Evaluations
Tasmania		
Social Enterprise Study	The Tasmanian government supported a Social Enterprise Study in 2011 by University of Tasmania.[25] This builds off the Finding Australia's Social Enterprise Sector 2010 report with a focus on Tasmanian social enterprises.	No evaluation available.
Social Enterprise Funding	**Description:** Funding of a café based social enterprise operating as both café and registered charity that delivers targeted training and work readiness skills to Tasmanians facing disadvantage via on-the-job work experience and training opportunities in the hospitality industry. There are two arms to its social enterprise: the café and a catering arm. The participants in the café have significant barriers to employment and apart from this program are likely to be long-term welfare recipients.	Not formally evaluated, however 72% of participants have either secured paid employment or continued to further education and training.

[25] Eversole, R. & Eastley, K. (2011) *Tasmanian Social Enterprise Study.* Accessed 27/10/20 at: https://nla.gov.au/nla.obj-1382264987/view

Social Enterprise Funding	**Description:** Funding of a youth social enterprise, specialising in personal growth, work experience and making (following cessation of Australian Government funds). The program includes: ▪ One-on-one and group coaching using a goal setting approach ▪ Work experience in the social enterprise ▪ Support for participants to leverage their work experience to achieve placement in a job, training and/or further education ▪ Support for s participants to stay in work utilising existing employment and apprenticeship programs and incentives.	Yes - From July 2017 to June 2019, 146 participants commenced the initiative. Of those who commenced, 121 (83%) were retained for a satisfactory period of attendance. Employment outcomes for participants in terms of verified job placements, verified 4-week outcomes and verified 12-week outcomes were greater than for a comparative group of young jobactive participants in Southern Tasmania who did not participate in the program. It is too early to accurately compare 26-week, 12-month and longer-term outcomes. As a whole, young people engaged in the program achieved significant improvements across eight employability areas identified by employers and governments as being critical to gaining and keeping a job including communication, teamwork, problem solving, self-management, planning/organising, technology, learning, and initiative/enterprise. The central innovation, a social enterprise where young people can develop and use practical work skills and have a true life ‘work experience’ worked well. The combination of life coaching and employment coaching allowed for flexibility so that young people got what they needed when they needed rather than just completing another ‘program’. The program demonstrates that young people at higher risk of continuing unemployment face a number of challenges. Their needs differ due to their differing life circumstances, including mental health status, drug and alcohol use, family support and housing. The question of how employment initiatives such as this program respond to these life circumstances needs further consideration.

Title	Description	Evaluations
Procuring from Australian Disability Enterprises	**Launched:** February 2018 - ongoing A limited tendering market approach implemented specifically to make it easier for Tasmanian government agencies to engage with Australian Disability Enterprises, thereby increasing employment opportunities for people with disabilities. Definition: An Australian Disability Enterprise is a business that predominantly exists to provide the services of persons with a disability.	
Australian Capital Territory		
Strengthening Partnerships – Commissioning for Social ImpACT Strategy	The Community Services Directorate is working with the community to develop options for a transition to the commissioning of community services across the ACT, which focuses on the partnership between government and community to deliver on shared outcomes. In response to COVID-19, the development of the Commissioning for Social Impact Strategy, and the associated co-design activities, are temporarily on hold.[26]	N/A

[26] ACT Government (2020) *Strengthening Partnerships-Commissioning for Social ImpACT*. Accessed 27/10/20 at: https://www.communityservices.act.gov.au/about_us/strategic_policy/strengthening-partnerships-commissioning-for-social-impact

Title	Description	Evaluations
Northern Territory		
Social outcomes framework	The Northern Territory Government is developing a Social Outcomes Framework to articulate how the Northern Territory Government and its partners will measure whether social and human services and programs are making a lasting and positive difference in people's lives. The Framework will identify agreed priority outcomes for government and the community as well as the high level indicators that will show what needs to be measured in order to progress toward the outcome. Development of the framework is expected to take two years (as at November 2019).[27]	N/A

[27] Northern Territory Government (2019) Submission by the Northern Territory Government to the Productivity Commission Study into Expenditure on Children in the Northern Territory. Accessed 27/10/20 at: https://www.pc.gov.au/__data/assets/pdf_file/0005/244148/sub031-nt-children.pdf

Appendix F: Implementation detail – Establish an Early Stage Social Enterprise Foundation

Next steps

If Government agrees to adopt this recommendation, the following are the likely next steps in progressing the co-design and establishment of the Early Stage Social Enterprise Foundation (the 'Foundation')

- Propose Government commit to co-fund the Foundation with philanthropy as part of 2021-22 budget process.
    - A co-design process would be led and/or facilitated by the Government with extensive involvement from philanthropic co-funders and experts in the social impact investing (SII) sector. The purpose of the co-design phase would be to determine the detail of the Foundation's programs (including financial modelling) and the various roles of Government and philanthropy and how these are reflected in a legal structure.

Support provided by the Foundation

Support provided by the Foundation will include loans and capacity building grants for early stage social enterprises. Twenty-five million dollars will be allocated to capacity building funding and a further $25 million will be allocated to providing flexible loan capital.

Loan capital would be provided by three intermediaries working directly with social enterprises. These intermediaries will be specialists in providing capital to social enterprises and will have good networks in the SII market. These intermediaries may also be specialist advisors and technical specialists providing capability building support.

The Foundation could engage these intermediaries to deliver loans through contracts to ensure they are delivering the loans in line with the intent of the Foundation. Intermediaries will receive additional payments from the Foundation to compensate them for the cost of administering and managing loans. These payments are covered under 'operational funding' which is described in more detail below under Funding arrangements.

The pool of capacity building grants for social enterprises could sit separately, within the Foundation. The Foundation could work directly with social enterprises by playing a 'triage role' to determine the appropriate amount of capacity building support needed and whether the Foundation is the most appropriate source of that support or whether there is another program or organisation that could provide that support. This grant funding could pay for accelerator programs, specialist intermediaries and other activities throughout the lifecycle of social enterprises. The funding could support activities that build social enterprises' capability to bid for procurement contracts as well as to become investment ready. The Foundation may hold a list of specialist advisers, which social enterprises could refer to when selecting firms to help them build their capacity. The list could also include specialist advisers who work in regional and rural areas to ensure all social enterprises can be supported. Social enterprises could also engage other specialist advisers not on the Foundation list, for example where they have a pre-existing relationship. Examples of possible capability building activities and indicative costs are below.

	Max ($)	Median ($)
Constitution / Restructuring	55,000	35,000
Legal	67,000	25,000
Accounting / Tax Structuring	25,000	12,500
Financial Modelling / Valuation	45,000	22,500
Capital Raising Advisory	53,000	29,000
Social impact	40,000	11,000
Pitch Deck/Other Materials	50,000	10,000
Investor Engagement /Roadshow	60,000	10,000
Market Analysis	15,000	12,000

Source: Impact Investing Australia data from implementation of the Sector Readiness Fund

The Foundation would develop the detail of its programs through co-design and collaboration with SII sector experts prior to implementation. This will also involve working with other organisations currently providing support to social enterprises in the SII sector to ensure the Foundation can integrate with this work. The goal of this recommendation is to grow the support available to social enterprises to increase their impact.

Details of each of the activities of the Foundation and associated proposed eligibility criteria is outlined below.

Early Stage "Seed" Capacity Building Grants

Enterprise eligibility

- Has clear mission of solving a social or environmental problem
- Can be charitable, not-for-profit or for-profit for-purpose and eligibility for the various grant and loan pools will depend on tax status of applicant
- Has developed a business model that needs to be worked on, tested and refined
- Has not yet obtained commercial investment/capital (but may have received some non-commercial early seed funding support)
- Is looking for assistance to further develop, test and refine its business model to reach a Minimum Viable Product (MVP) and scale its impact in a sustainable way

Indicative type of support available

- Business model development and refinement
- Marketing, branding and customer acquisition advice
- Assistance in securing revenue streams e.g. tender and contract advice
- Financial model development
- Tax/legal/accounting/governance/structuring advice
- Impact measurement and management advice

Amount of funding available & timeframe

- $20,000 - $40,000
- Activities funded to be carried out within 12 months

Early Stage "Growth" Investment/Contract Readiness Grants

Enterprise eligibility

- Has core mission of solving a social or environmental problem
- Can be charitable, not-for-profit or for-profit for-purpose and eligibility for the various grant and loan pools will depend on tax status of applicant.
- Has developed a business model and Minimum Viable Product (MVP) and is seeking to grow and scale
- Typically has revenue of around $100,000 (industry specific lens would be required)
- May have received an 'Early Stage 'Seed' Social Enterprise Grant and/or some non-commercial early seed funding support
- Has likely developed a basic theory of change and/or impact measurement metrics which require further work and refinement
- Is looking to scale and grow via commercial investment/capital and/or securing larger social procurement contracts within the next 12-18 months.

Indicative types of support available

- Assistance to refine business model toward scaling.
- Assistance to develop growth strategy
- Assistance to become contract ready including to develop partnership arrangements for social procurement opportunities
- Financial modelling development
- Tax/legal/accounting/governance/structuring review
- Impact measurement and management advice
- Preparation of the investment case, investment structure and valuation
- Preparation of investor materials, term sheets, legal documentation
- Liaison with and connections to investors

Amount of funding available & timeframe

- $50,000 – 100,000
- Activities funded to be carried out within 18 months

Loans

- Loan book would need to be longer than 3 years to be effective, given that social enterprises have long durations (similar to private equity)
- Each of the three different loan stages will be administered by a different intermediary/ intermediaries
- Where loans are made to for-profit-for-purpose enterprises, it is expected that they would be repaid if/when commercial capital is raised by the enterprise
- Intermediary payment structure (covered by the Foundation's operational funding):
  - prepayment on loan spread (based on expected default rate);
  - loan support and establishment fee (based on number of loans written); and
  - performance fee on no default (balance of interest margin).
  - Intermediaries can also apply for grant funding.
- Investment Committee (IC) for loans would sit within the Foundation and intermediaries would submit loan proposals to the IC for approval
- The Foundation would have governance of the loan portfolio and monitor default rate
- Average default rate of 28% assumed, based on experience with the Access: The Foundation for Social Investment Growth Fund.

In addition to the detailed eligibility criteria outlined above, the Foundation would include a definition of early stage social enterprises who are eligible for support along the spectrum of the Foundation's activities. The Taskforce defines a social enterprise as an organisation that seeks to solve social problems using a revenue generating business model. They are organisations whose primary purpose is the promotion, development and advancement of social and/or environmental goals. Typically, a social enterprise:

- generates a significant proportion of income through entrepreneurial or trading activity, for example, the sale of products or services or through social and affordable housing development activity.
- reinvests principally to further the social purpose of the organisation. The extent of this will depend on whether the enterprise is for profit or not for profit, and if not for profit whether it has charitable and/or deductible gift recipient status.

The Taskforce defines early stage social enterprises as social enterprises that are developing their product or service, building a minimum viable product, building a customer base, establishing cash flow and securing funding. This includes all social enterprises who have not yet raised their first round of venture capital financing (also known as series A financing) but may have received initial seed capital. This stage of financing usually occurs once an enterprise has a minimal viable product.

While the Foundation is aimed at supporting early stage social enterprises, enterprises at all stages of development will be eligible for support.

Social enterprises supported by the Foundation may also include Indigenous social enterprises and organisations from the community-controlled service sector in alignment with the Closing the Gap Priority Reform Two: *Building the Community-Controlled Sector*. Direct investment in the community-controlled service sector, as the Foundation could do, is critical to improving outcomes for Indigenous Australians.[28]

While the Foundation would have a broad remit, one of its target areas initially could be the identification and support of social enterprises focused on the achievement of better mental health outcomes, an issue which has been exacerbated by COVID-19. This would align the Foundation with the Government's broader COVID-19 recovery priorities.

The Foundation will also ensure that social enterprises in rural and regional locations can be supported by working with local providers in those locations and ensuring virtual support is available.

Social enterprises who receive support from the Foundation will be required to have systems in place to measure their impact and contribute to a broader evaluation of the Foundation. The Foundation will support social enterprises to establish this.

[28] Australian Government (2020) *Priority reforms*. Accessed on 27/10/20 at: https://www.closingthegap.gov.au/priority-reforms.

Funding arrangements

Total amount to cover 10 years of operation is $65.5 million with philanthropy providing $20 million and Government providing the remaining $45.5 million, broken down below. Allocating Government's funding contribution over the 10 years will occur during a formal costing process if the Government takes this initiative forward during MYEFO or Budget.

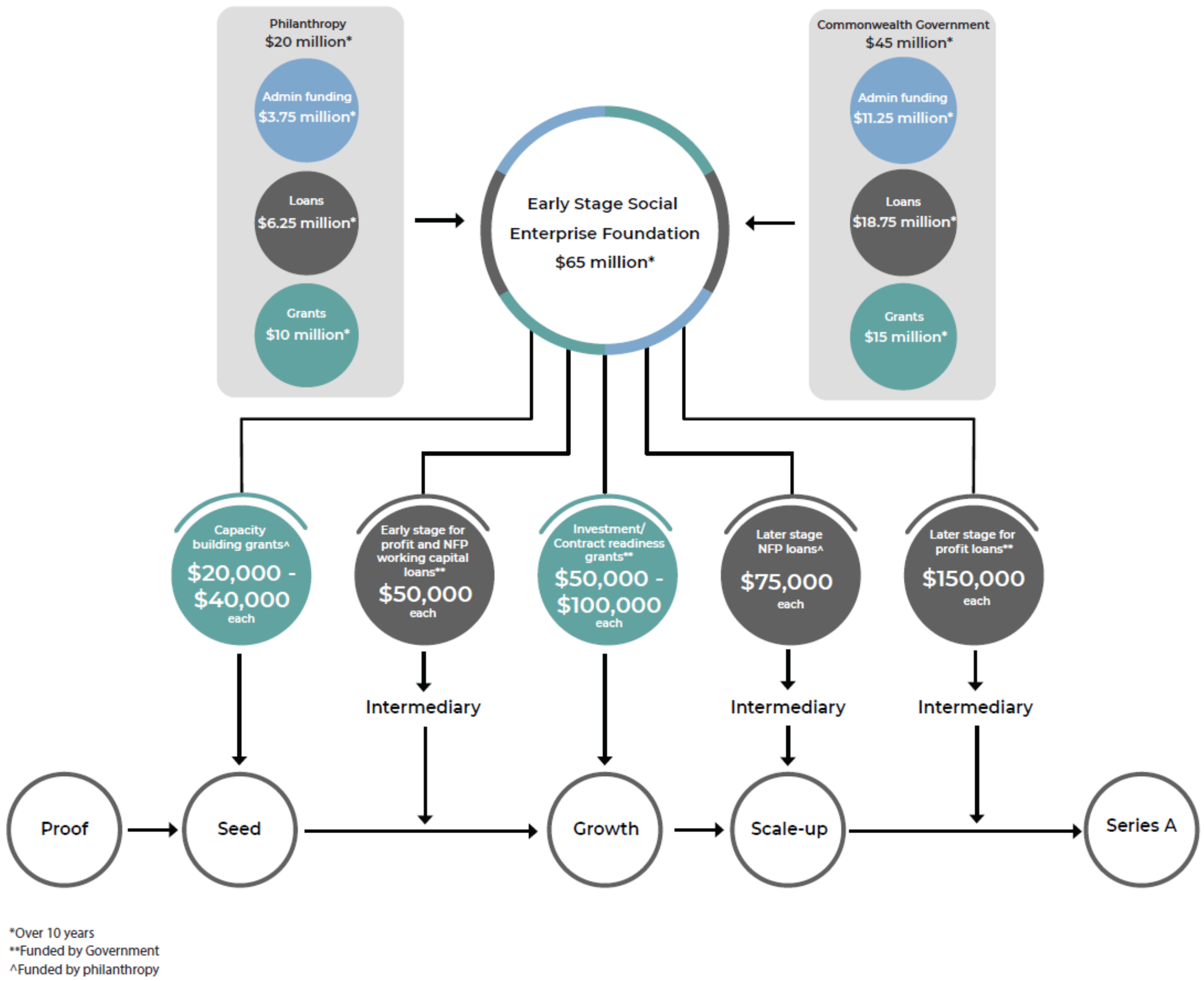
- **Operations: total $15.5m** ($1.5m per year x 10 years) – funded 25% by philanthropy and 75% by government. Includes:
  - Operational funding
  - Fees to intermediaries to administer loans
  - Funding to cover education and market building activities
  - Funding for an evaluation of the Foundation ($500,000 total)
- **Grants pool: total $25m** – funded 40% by philanthropy and 60% by government
  - Early stage 'seed' capacity building grants: $10m total – funded by philanthropy
  - Investment/contract readiness grants: $15m total – funded by government
- **Loan pool: total $25m** – funded 25% by philanthropy and 75% by government
  - Loans of $50,000 - for early stage NFP and for profit for purpose working capital - $6.25m total, funded by government
  - Loans of $75,000 - for NFP enterprises between seed and growth stage- $6.25m total, funded by philanthropy
  - Loans of $150,000 - for for-purpose-for-profit enterprises at scale-up stage - $12.5m, funded by government

	Government	Philanthropy
Early stage loans	$6,250,000	
Later stage NFP loans		$6,250,000
Later stage for profit loans	$12,500,000	
Early stage 'seed' grants		$10,000,000
Early stage 'growth' grants	$15,000,000	
Operations	$11,750,000	$3,750,000
	$45,500,000	**$20,000,000**

The Foundation would run for 10 years, with government funding received in first 3 years as loan book is built up and philanthropic funding received in first 5 years.

The split of funding has accounted for the need for most philanthropic foundations to fund charitable and DGR Item 1 organisations (a subset of not-for-profits) and has allocated Government spending to fund for-profit social enterprises.

A visualisation of the Foundation's funding split and activities is below.



Philanthropic incentives

- Philanthropists will be active partners in co-designing and co-funding the Foundation.
- The impact and leverage of philanthropic funding would be increased due to the Government covering operational costs of the Foundation.
- Philanthropy may have an opportunity to co-invest with the loan fund. For example, if an intermediary makes a loan to a social enterprise, philanthropists could have the opportunity to also loan an amount to that social enterprise. In this structure, philanthropy could take senior debt in the arrangement and also benefit from the extensive due diligence and impact framework of the intermediary. Philanthropy may wish to make these investments through program related investments.
- Philanthropy will have opportunities to ‘get to know’ funded social enterprises, allowing for a smoother due diligence process if the social enterprises later seek follow on philanthropic investment.
- Philanthropy will be able to make a single investment that will benefit multiple social enterprises. This minimises the administrative burden of undertaking multiple smaller deals and will potentially allows philanthropists to make larger donations.

Governance and legal structure

The Foundation will sit as a subsidiary of or in a group with the impact investment wholesaler to also allow it to help build the pipeline of businesses that wholesaler's investee funds could invest in. The Foundation and the wholesaler have the same objective – to grow the SII market, by focusing on different parts of the market, social enterprises and intermediaries. Close coordination and efficiencies in this would be generated by making these two initiatives part of the same organisation, sharing back office services and a governing board.

A strong Governance structure will be required to ensure Foundation remains focused on its mission. The board may include a government representative to ensure both the Foundation and the Wholesaler remain 'on mission' from a Government perspective. This is similar to how the Access: The Foundation for Social Investment Growth Fund operates as it sits under the Big Society Trust, which includes government representatives on its board. The board structure and leadership team of the Wholesaler and Foundation will need to be considered in greater detail during co-design of both initiatives. The Foundation may want to learn from and duplicate the governance structure of the Foundation for Rural and Regional Renewal which plays a similar role to the Taskforce's recommended Foundation.

It will be important for the Foundation to attain charitable and DGR Item 1 status to receive donations from philanthropic co-funders and achieve financial viability – and as such this issue will be at the forefront of the design of the Foundation. The Foundation may be able to obtain eligibility as an Item 1 DGR, through an amendment to the Income Tax Assessment Act to specifically list an organisation as a DGR. The funding model of the Foundation has been designed to account for the constraints of philanthropic funding only being available to charitable and DGR Item 1 organisations and has been allocated accordingly.

Risks and sensitivities

There is a risk that social enterprises that are well developed could receive loans despite having the ability to raise capital independently of the Foundation. This would mean that the concessional loans are displacing other sources of finance rather than building the market. An appropriate investment and governance framework with strong investment committee oversight could mitigate this risk and ensure intermediaries' loan evaluation processes apply a "But for" test in social enterprise qualification.

There is a risk of the Foundation duplicating activities already underway in the SII sector. This will also be addressed per the point above and further mitigated by the Foundation's loans being administered by intermediaries already operating in the sector. It is expected this may add some scale benefits to the selected intermediaries as well as further leverage existing expertise and connections. In addition, the Foundation will play a 'triage' role to determine the appropriate support needed and whether the Foundation is the most appropriate source of that support or whether there is another program or organisation that could provide that support.

There is a risk that the Foundation struggles to engage organisations in regional and rural areas. To manage this risk, the Foundation could work with locally based specialist advisors and technical specialists to assist in delivering capacity building to organisations in regional areas. In addition, the Foundation could work with intermediaries to support them to provide the concessional loans in regional areas. This may involve intermediaries working with social enterprises virtually. Implementation of the Foundation could also be informed by the work of organisations such as Indigenous Business Australia (IBA) who have successfully engaged enterprises in regional areas. This could potentially result in a partnership with IBA to leverage their networks and experience in this area.

There is a risk that the Foundation becomes focused on providing concessional loans as a form of finance to social enterprises and is less supportive of enterprises who need to raise equity. A well-articulated mission for the Foundation that embeds a focus on assisting social enterprises to grow whether through capacity building or an appropriate funding mechanism could mitigate this. Particularly if combined with a strong governance structure and operating principles that underscore this mission. Some social enterprises may also grow through social procurement opportunities and contract readiness may be an aspect of their development.

There is a risk that the Foundation cannot be funded by Government in its current design due to constitutional constraints. The Taskforce's supporting team at PM&C have sought advice from the Australian Government Solicitor on this matter and it will be considered further through the Government's approach to implementation. The Taskforce notes the creation of the Foundation for Rural and Regional Renewal in 2000 as a model where Government has worked with philanthropy to establish a foundation with a specific social focus.

Measures of success

The following measures have been adapted from the measures of success for Access: The Foundation for Social Investment in the UK.[29] Learning from the UK's experience will ensure the Foundation will be successful in its activities and build on work with social enterprises to date.

1. The primary measure of success will be that more social enterprises are able to sustain or grow their impact as they become financially sustainable and resilient over time. Social enterprises will have better access to finance when they need it.
2. Social enterprises are diversifying their incomes more successfully including through developing and growing enterprise models, bidding for contracts and obtaining investment. Social enterprises are able to successfully do this through increased capability.
3. There is better evidence on what works for social enterprise development and on social enterprises in Australia. This includes the following components:
    a. The Foundation understands and adapts to evidence from its programs on what works for social enterprise development. Evidence collected will be shared across Government and the SII sector to inform future policy development and privately funded initiatives.
    b. The Foundation contributes to the evidence base on social enterprises in the sector, including working with the Commonwealth Office of Social Impact to develop data on the SII sector.
4. The social impact of the enterprises, especially relating to job creation, retained employment and support for people managing their mental health.

These measures will be tracked through rigorous ongoing evaluation of the Foundation and its activities as a whole. Funding for the evaluation will be provided through the Government contribution to the Foundation. Performance indicators will be put in place alongside each grant and outcomes will be measured for the loans. The Foundation could have annual or two-yearly review points of its activities as a whole to allow for iteration or decommissioning individual activities as necessary.

[29] Access: The Foundation for Social Investment (2020) Measures of Success: What does success look like, and how can we measure it?. Accessed on 02/09/20 at https://access-socialinvestment.org.uk/learning/measures/

Appendix G: Implementation detail – Establish an Australian impact investing wholesaler (Social Capital Australia)

Next steps

If Government agrees to adopt this recommendation the following are the likely next steps in progressing the co-design and establishment of Social Capital Australia

- NPP on co-design of the wholesaler proposed as part of 2021-22 budget process
  - This would include establishment of a reference group with all possible co-investors and other participants from the sector.
  - It would also include a bid to support Government costs of participating in the co-design process including funding for financial modelling to further explore different capitalisation structures and the trade-offs between investment strategies and capitalisation structures on the cost of capital for intermediaries and the ability of SCA to effectively build the market.
  - To ensure the co-design process is far enough progressed to secure Government support for establishment and capitalisation, it is expected that the capitalisation would be considered as part of the 2021-22 MYEFO process.
- If this is approved, establish a small unit in Treasury or PM&C (within the Commonwealth Office of Social Impact once established) to take forward the co-design process and negotiate Commonwealth involvement in establishment and capitalisation
  - This will require decisions on the investment strategy, capitalisation structure, pathway to scale and preferred governance and institutional models.
- Note that agreement to any Commonwealth capitalisation would require Cabinet approval at two stages in the co-design and establishment process as outlined in the Department of Finance Commonwealth Investments guidance. [30]
- Assuming the timelines above, the wholesaler would likely become operational in 2022.

Further detail on proposed functions and operations of Social Capital Australia (SCA)

The primary purpose of the wholesaler (Social Capital Australia - SCA)[31] is to build the Australian impact investment market so that private and institutional capital can make a larger contribution to solving social challenges in Australia. The activities of the SCA will help to increase the volume of money invested for social impact while ensuring that money is achieving real and measurable social impact.

[30] https://www.finance.gov.au/publications/resource-management-guides/commonwealth-investments-rmg-308
[31] Social Capital Australia is a working title

The SCA will build the market by:

- acting as a *cornerstone investor* into funds and other investment vehicles
- acting as a *market champion and advisor*, building and sharing market information and expertise.

As a *cornerstone investor,* the SCA will invest and provide non-financial support to draw in additional private or institutional investment. It could invest using equity, non-concessional or concessional debt and guarantees depending on what investee funds require.

- In addition to investing, the SCA could co-create investment funds or vehicles (origination), take on the costs of due diligence for other investors, and build the capacity of investee fund managers, including by actively supporting funds to raise capital or manage and measure impact.
- Through its impact measurement and management approach it will demonstrate the benefits of a rigorous yet cost effective approach to managing, measuring and communicating the social impact of its portfolio.
- To achieve its long-term market building objective, it will invest primarily through intermediaries. It may consider direct investments if they will demonstrate the viability of a new investment structure or sector, providing a demonstration effect in the market.
    - The demonstration effect/additionality of SCA investment would be a key consideration for the Investment Committee assessment across all investments.

As a *market champion and advisor,* SCA will be a source of market information, particularly related to its investment portfolio, the SCA will publish and share information, tools, successes, failures and key learnings from its portfolio to support market development.

- This will enhance investor understanding of the social impact investing market, the most appropriate financial structures to achieve particular social objectives in different contexts and build investor and intermediary capability.

Along with the Social Enterprise Foundation (the Foundation), and as a result of its investment activities, the SCA will become a natural knowledge aggregation and dissemination point in the SII market. Many investors and intermediaries will want to go ‘direct to the source’ to the SCA for information from an investor perspective. The SCA will be closely connected with the Foundation given their mutual objectives of building the SII market, but with a focus on different stakeholders and types of intermediaries.

Measures of success for SCA will include how it has supported the SII market to grow and evolve, as well as the direct social outcomes that have been achieved through the SCA portfolio. A rigorous monitoring, evaluation and learning strategy for the SCA will allow adaptive management of its operations to ensure it achieves its objectives as market conditions evolve. This will also contribute to its market champion role.

Based on the *operating costs* of Big Society Capital (BSC) in the UK, an institution with an equivalent role in building the market as a cornerstone investor and market champion, and the proposed scale of SCA, operating costs are expected to be around 1.5% of net asset value (NAV). In BSC experience, 40-45% of operational expenditure relates to market development activities such as pipeline development and origination and investor and other external engagement. The other 50-55% of operational expenditure relates to fund management.[32] Using this and other

[32] Big Society Capital (2020) *Big Social Capital Quadrennial Review.* London: Big Society Capital. https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/BSC_Quadrennial_Review_Report_Jul_30.pdf

impact-focused fund of funds as a benchmark, the annual operating costs for an Australian wholesaler of $400 million would be around $6 million.

The co-design process for SCA will continue to draw on the lessons from BSC, particularly as it is expected to exist its first investments in 2022, providing more concrete data on the financial returns of its portfolio.

Key strategic decisions to be made during detailed co-design process (2021-22)

Investment Strategy

There are a number of elements of the SCA investment strategy that will have significant impacts on the type and depth of social impact that will be achieved by the SCA portfolio, the market building impact of SCA investments, and the financial returns expected from the SCA. These factors will all influence the willingness and ability of the Commonwealth and other investors to support and capitalise the SCA.

- *Impact focus* – the SCA should retain flexibility to invest where it can achieve the biggest social impact, however could initially focus its activities in a few key areas such as employment, social and affordable housing and post-COVID recovery in disadvantaged parts of Australia. Once the model demonstrates particular results in these impact areas and the need for SCA investment and market building activities reduces it could expand into new social impact areas.
- *Investment instruments and terms* – the type of investment instruments that can be used by the SCA and whether allocations of the portfolio between these instruments is fixed or flexible will influence how flexibly the SCA can respond to specific financing needs of fund managers. It will also influence how catalytic the SCA can be in drawing other investors in. For example if the SCA could provide guarantees or first loss equity this could catalyse more additional capital than providing only senior debt, however would affect the expected financial returns of the portfolio (level of return and the risk to achieving that). While this will be explored further during the co-design process, previous experience of BSC and in similar wholesalers focused on market building internationally, suggests that SCA should retain as much flexibility in instruments as possible. This would allow SCA to respond to the needs of investee funds in the most efficient and effective way possible through different investments.
- *Investee focus* – there are multiple areas of the SII market that would benefit from cornerstone investments from the SCA. For example large scale social housing projects that require additional capital to reach the scale required for commercial viability, as well as fund managers who support growth stage social enterprises with unsecured debt who need to demonstrate the track record of their team and investment strategy. To maximise its market building role, the SCA should retain flexibility across all these areas however the final makeup of the portfolio will have implications for the financial returns and impact areas. The Panel recommends retaining flexibility across investee focus areas, but consider portfolio allocation thresholds as a way to allow more accurate modelling of portfolio returns as they will differ based on investee focus e.g. housing fund vs early stage venture capital fund for social enterprise.
- *Portfolio allocation thresholds* – these provide a mechanism to ensure diversification of the SCA portfolio across geography, impact themes, investee focus and investment instruments. For example, the investment strategy could set portfolio limits for different investee focus areas as a way to ensure it supports a broad cross section of the market e.g. social housing projects (large, small), social enterprises (small, medium, large). These thresholds ensure diversification within the portfolio and allow different investors in SCA to be sure that their impact themes or other interests will be reflected in the portfolio.

Capitalisation structure

The experience from Impact Investing Australia's work to establish Impact Capital Australia, and consultations undertaken by the Expert Panel, highlighted the importance of government as a cornerstone investor to drive establishment and capitalisation of a wholesaler. While government support and commitment to capitalisation is critical, the SCA is very unlikely to get to the required size and scale without additional investment from Australian banks or other investors. Investment from multiple sources also demonstrates the benefits of collaboration between government and the private sector to achieve social outcomes.

Building on the key lessons from the first eight years of operation of the BSC, the Commonwealth could capitalise their share of the SCA using a combination of a grant and investment. The Commonwealth investment would require returns that covered the cost of borrowing and factored in the investment risk to minimise the impact on underlying cash in the budget. While grants would have a negative budget impact, the grant portion could be used as:

- a source of funding for operational costs, particularly to support the market building function of the SCA. This would reduce the overall returns required by the portfolio to cover these operational costs; and
- first loss capital for the SCA, reducing the risk or increasing returns for other investors; or
- cornerstone investment into a catalytical capital fund within the SCA to take on the higher risk portion of the portfolio. By ringfencing this part of the portfolio, other investors are able to invest in the lower risk/higher return portion of the SCA portfolio in line with their risk-adjusted return requirements, but the SCA as an institution is still able to achieve its market building objectives by investing in riskier, more innovative impact investing products.

Operational funding is required because of the business model and therefore cash flows of the wholesaler. Like a commercial private equity fund of funds, the wholesaler will make long-term investments into funds so it is unlikely to get any returns on its investments until year 6 or 7 of operations. But, it won't only make equity investments, there will be a mix in its portfolio between equity and debt investments. This means there will be some reflows prior to this but debt investments are also likely to be long-term.

Providing five years of operational costs would give the wholesaler sufficient cash flows in the early years to do its market building work and build its investment portfolio before it generates sufficient investment reflows to cover its operations. Operational funding requirements will be modelled in more detail during the co-design phase once the investment strategy has been agreed.

A combination of a grant plus investment would allow the Commonwealth to provide a larger scale capitalisation for a smaller budget impact than capitalising only with grants, while ensuring that SCA market building activities closely align with government objectives through the grant agreement.

This approach is used for Australia's work through the multilateral development banks like the World Bank and Asian Development Bank where we have a 'share' in the bank (investment) as well as providing grant funding for specific activities that are directly aligned with our foreign policy and international development objectives in particular countries.

The Commonwealth could choose to fund the investment through a special bond issuance (the first Australian Government Social Bond) or general Treasury borrowing. A special social bond issuance would also enable additional institutional investors (superannuation funds) and foundations to support capitalisation of the SCA. This could also provide additional stimulus to the SII market by providing investors a new investment product (Treasury backed social bond) to support impact in the market. This would help to create additional market momentum around social and SDG aligned bonds.

Governance and institutional models

Based on decisions made on the investment strategy, capitalisation structure and pathways to scale, the governance and institutional model will need to be negotiated as part of the co-design process.

The experience from BSC highlights that organisational independence from Government is important to allow the wholesaler to be nimble and flexible enough for it to achieve its market building objectives. It will also be critical to have the right mix of skills within the organisation to ensure it is successful from a market building, impact and investment perspective.

It is not yet clear which entity or group of individuals will establish the wholesaler, however it will not be established by government and will not be a Commonwealth company. SCA will be an external entity that the Commonwealth would invest in. It will use a corporate structure, and likely be established as a Company Limited by Guarantee with members (the Commonwealth and other investors would be founding members). Members would appoint the Board based on the constitution that would be drafted as part of the co-design process.

The corporate structure is also likely to include the Foundation as a subsidiary or in a group with the wholesaler. All members would likely share the costs associated with establishment (estimated around $0.5 million in total) but this would be determined during co-design.

As part of establishment the members would appoint a Board Chair and constitute the Board. The Commonwealth could hold a Board seat, or appoint a representative to hold a board seat, but could not ‘control’ the company to ensure it is not a Commonwealth company. The Board would appoint the management team who would be responsible for SCA’s ongoing operations.

If private investors did not co-invest in the SCA, a different institutional and governance structure would be needed. There are also number of alternative options that could support the market building objectives of this recommendation, although without the same scale or scope of impact as the proposed wholesaler. While these options would not create a partnership between investors and the Commonwealth at the level of the wholesaler, they could still create partnerships between the Commonwealth and private co-investors through the wholesaler’s investment portfolio.

If the Commonwealth was the only investor in the SCA there are additional legal structures that are possible. A *statutory corporation* is likely to be the most appropriate (like CEFC or ILSC). This structure would allow higher levels of Commonwealth control over the investment strategy of the SCA which would be specified in the enabling legislation. It could also be funded using a combination of investment and grants.

This model would enable the SCA to demonstrate the benefit of working in partnership across sectors to build the SII market through its operations, and catalyse additional investment into each investee fund or vehicle. The governance structure (Investment Committee and Board) could still bring in external expertise and ensure investment decisions were made at arms-length from government.

Appendix H: Implementation detail – Establish a Commonwealth-State Outcomes Fund

Next steps

Timing to get Commonwealth Government approval for the Outcomes Fund

Proposed timing is as follows:

- Late 2020 (MYEFO) – seek approval to engage states to seek proposals for the Outcomes Fund (no cost).
- Mid-early 2021 (Budget) – seek funding for the outcomes fund ($100m).

Process to partner with states on Outcomes Fund

Following the Government's agreement to Commonwealth agencies engaging states on proposals for the Outcomes Fund, the following process could be undertaken.

<u>From late 2020 - early 2021</u>

- The Commonwealth asks states for proposals via an EOI document that outlines the outcomes the Commonwealth is seeking and associated payments for achievement of outcomes.
- States respond with proposals that includes some key elements of their proposed programs, for example at minimum this could include:
    - target cohort
    - state-based outcomes to complement Commonwealth outcomes
    - total top-up $ requested (noting % of total contract value)
    - proposed risk sharing (i.e. split of standing charge payments between the Commonwealth and states)
    - max length of contract etc.
- The Commonwealth provides a letter confirming funding for state initiatives that meet criteria the Commonwealth sets out at Step 1. The letter will need to be conditional on funding being provided for the Outcomes Fund in the 2021-22 Budget.
    - Examples of different letters that could be provided to states are attached. These letters are from DSS and vary in terms of the level of commitment – the 'intention to partner' letters were provided to states initially but were insufficient for NSW, the letter to the SA Gov was provided to support their state budget process and confirms funding from the Commonwealth.

<u>From mid-2021</u>

- The Commonwealth seeks funding for the Outcomes Fund at 2021-22 Budget.
- The Commonwealth issues National Partnership Agreement to states to sign onto the Outcomes Fund – at which point the Outcomes Fund becomes operational.

Further implementation details

Outcomes Fund working group

If Government agrees to adopt this recommendation, establishing a working group of officials from Commonwealth, state and territory governments will be essential to work through the key parameters of the fund. The working group offers the opportunity for states to co-design the Outcomes Fund with the Commonwealth, which ensures key issues are addressed early and supports ‘buy in’ from states. A working group will also help to build the capacity of states with less experience in SII to develop policies and programs. Initial activities of the working group could include:

- Determine the theme/s of the Outcomes Fund
- Review relevant programs and apply learnings to the Outcomes Fund
- Determine the data integration and analysis to be undertaken and establishing data sharing agreements
- Inform targeted outcomes, metrics and pricing of outcomes for the rate cards
- Consider cohort eligibility and referral pathways to maximise the impact of the fund and minimise the deadweight implicit in outcomes pricing (i.e. the impact of outcomes that would have been achieved in the absence of additional investment).
- Consider the maximum contribution of the Fund to any state/territory contract, in both absolute dollar terms, and as a maximum percentage of total contract value.
- Consider application thresholds that support the equitable distribution of funds across jurisdictions.

The working group could also include or consult regularly with the Coalition of Peaks to ensure that Aboriginal and Torres Strait Islander-controlled and supported programs are considered by the working group. The working group should also remain involved throughout the implementation of the fund to provide timely feedback on the suitability of fund parameters.

It will be critical for the Commonwealth to engage with state and territory governments well in advance of the fund’s establishment. The timeframes noted in the above section provide a suggested option to engage state and territory governments sufficiently early to support their budget processes. The suggested timeframes and design of the Outcomes Fund build on early learnings from DSS which indicate that it is important for the Commonwealth to:

- Be involved in the commissioning process early to ensure the inclusion of metrics relating to outcomes that result in savings to the Commonwealth.
- Contribute a material amount of money to state-based contracts that is commensurate to related Commonwealth savings in the initiative and the state government’s contribution.
- Provide clarity on the contract terms upfront.
- Determine the Commonwealth’s payment structure to states upfront.
- Provide an extended application process for states to provide expressions of interest for funding from the Outcomes Fund. This allows states to run their own selection processes with service providers before applying to the Outcomes Fund.

- DSS' SII trials require state governments to take the lead in the partnership by designing initiatives with service providers. However, DSS found that a number of states were not ready to engage on the trials, as they did not yet have established SII policy capability. Lessons from this experience suggest that states may be more willing to participate in SII partnerships with the Commonwealth if they are better supported throughout the process.

Undertake data work

An important step is to build the necessary data to enable outcomes of programs funded by the Outcomes Fund to be measured. Outcomes-based funding arrangements require quality data to understand whether an intervention has had an impact.

Data is critical at every stage of the cycle: to identify areas of need in the community; to understand the needs and circumstances of the intended beneficiaries or users of a service or product; to understand the cost of inaction; to set appropriate target outcomes and a fair price for them; and to verify outcomes to determine payments to service providers and, in turn, investors.

In particular, integrated data will enable a nuanced understanding of the value of particular outcomes. Integrated data (also known as data linkage or record matching) is the method by which information about people, places and events from different data collections is brought together. It uses existing government administrative datasets (such as income support, hospital admissions, child protection or employment data) to combine information about people across different databases (subject to ethical approval and the permission of the data owners). Integrated data provides an opportunity to tell a bigger story than would be possible from one database alone.[33][34]

Integrated Commonwealth and state datasets may be needed for the operation of an outcomes fund. Integrated Commonwealth and state data does not currently exist across a range of outcomes and cohorts in a form that could be used for an outcomes fund. New data integration projects should build on recommendations from the Data Integration Partnership for Australia, outlined under Other details to consider during implementation.

Linking Commonwealth and state data is necessary to understand the current cost of particular cohorts to the different levels of government and to set appropriate prices for the achievement of outcomes. For example, integrated data will allow us to understand the benefit and associated Commonwealth and state government costs avoided by a program that assists young people in out of home care into work, if the alternative is for the cohort to later receive income support payments or other services. By providing a detailed picture of cohorts' experiences, integrated data will also provide us with a greater understanding of how to address issues effectively.

Integrated datasets can also reduce the timeframes for negotiations with states and service providers by providing greater clarity on outcomes the Commonwealth is seeking from programs.

Where possible, the Commonwealth should build on existing data integration projects. This work would complement work by DSS to identify cohorts with high lifetime welfare costs through the Australian Priority Investment Approach to Welfare program.

Integrated data projects to support the Outcomes Fund implementation will be assisted by the upcoming Data Availability and Transparency Bill which will allow government agencies (Data Custodians) to share government data to accredited users such as government agencies, state and

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[33] Australian Institute of Health and Welfare (2014) Data linkage services for clients. Accessed at: https://www.aihw.gov.au/getmedia/65b450ed-49ec-4e7d-b06c-79b2139566f7/aihw-data-linkage-services-brochure.pdf.aspx.
[34] Australian Institute of Health and Welfare (2020) Data linkage services. Accessed at: https://www.aihw.gov.au/our-services/data-linkage/data-linkage-services.

territory authorities, and non-government entities such as universities[35]. Accredited Data Service Providers under the Data Availability and Transparency Bill will be accredited to be able to provide data integration services. Given this new legislation, the Outcomes Fund may the test a number of data development partners as a prelude to inform a data lab function within COSI.

Develop rate cards

Rate cards will be provided alongside the Outcomes Fund to signal the price governments are willing to pay for specific outcomes. An outcomes rate card is a list of outcomes that government seeks to achieve and a price government is willing to pay for each outcome – usually based on actuarial analysis of the potential avoided costs of early intervention for a particular cohort. For example, a rate card for the cohort of unemployed youth would provide the price service providers could be paid for each participant they support to move into a job and off welfare. This can help service providers model their programs and applications for funding from the Outcomes Fund appropriately.

By sending a clear market signal on the government's targeted outcomes and willingness to pay, rate cards streamline the development process and will catalyse more SIBs and PbR contracts, which in turn will create more opportunities for SII. Consistency of outcome metrics also supports evaluation of outcomes across a portfolio of projects.

Rate cards require actuarial analysis of data (usually integrated data) to determine the appropriate price for the achievement of an outcome, relative to the cost to government of inaction. The actuarial analysis will need to be commissioned prior to the implementation of an outcomes fund as it will provide the foundation for outcome payments from the fund. Sometimes, integrated data is required to develop and inform rate cards to calculate costs across Commonwealth agencies or levels of Government.

DSS previously commissioned work similar to this from actuarial analysts, Taylor Fry, to analyse the welfare-related costs of youth cohorts to the Commonwealth. This work could be built on and expanded to broader cohorts for a Commonwealth Outcomes Fund. Further consideration needs to be given to the currency of the rate cards at the point of releasing the request for proposals. Development of rate cards will likely involve some cost to the Government which will vary depending on the type of integrated data required to inform the rate card, if necessary at all. The cost of this activity is included in the $10 million suggested for foundational work outlined below in Expected financial implications.

Expected financial implications

Costs of initial foundational work

Commonwealth costs of foundational work are expected to be under $10 million, based on similar work undertaken by Taylor Fry actuarial analysts commissioned by DSS. This will largely fund the Foundational work outlined above including linking new integrated datasets and creating rate cards for the Outcomes Fund.

As part of the foundational work, the Commonwealth will need to determine the appropriate size of the Outcomes Fund and targeted leverage from top-up contribution to state/territory led outcomes-based contracts:

[35] Office of the National Data Commissioner (2020) *New legislation*. Accessed on 20/10/20 at: https://www.datacommissioner.gov.au/data-sharing/legislation

Cost of the Outcomes Fund

The Commonwealth will need to contribute a substantial amount to the Outcomes Fund to ensure payments from the Commonwealth are commensurate to state government contributions. An estimated minimum of $100 million could be committed to state government (or service provider) projects. The Outcomes Fund will provide funding for the Commonwealth to co-invest in a total of 5-10 state government led social impact investments. This is based on the average cost of an outcomes-based contract in Australia which is around $20 million.

The Taskforce advises that the funding is committed over two tranches of $50 million approximately five years apart. This allows for:

- new projects to be funded over the lifetime of the Outcomes Fund
- the Outcomes Fund to pivot to changing Government priorities over this time.
- The Outcomes Fund to learn from the previous tranche of funding and iterate its design as necessary.

Following commitment, funding from the Outcomes Fund will need to be available over the life of the programs (potentially between 5-7 years depending on the duration of each program). Outcomes-based programs usually run longer than other programs to allow outcomes involving sustained changes in behaviour (such as stable housing) to be observed and data to be collected to verify the changes.

The appropriation for the Outcomes Fund would likely be best placed in a special account, although further consultation will need to be undertaken on this issue. This would allow for more flexibility for the Commonwealth to make outcome payments to state governments as outcomes are achieved. DSS has found that paying states using standard budgeting arrangements is challenging for outcomes-based contracts where the amount and timing of payments may change throughout the program.

The proportion of Commonwealth payments from the Outcomes Fund will depend on the proportion of projected savings the program could achieve that relate to Commonwealth costs. The fund will not be restricted to particular contract types (e.g. social impact bonds or payment by results contracts).

Payments from the Outcomes Fund will also pay for outcomes achieved by programs in addition to standing charge. Standing charge payments are traditionally paid to service providers by state governments in Australian outcomes-based contracts to cover up-front costs and the risk of service providers not delivering outcomes and receiving a payment. The Outcomes Fund will provide standing charge payments commensurate to the Commonwealth's total contribution to the program being funded.

Key risks and mitigation strategies

There is a risk the Outcomes Fund is perceived to overlap with existing Commonwealth programs, such as Jobactive and Disability Employment Services. This risk has been mitigated in the design of the Outcomes Fund which is intended to align with existing employment programs. The Commonwealth's outcome payments will be based on thorough analysis of Commonwealth administrative datasets and only be made on outcomes and reliable leading indicators that are likely to result in long term improvements for participants and savings in Commonwealth expenditure. The majority of funding from the Outcomes Fund will aim to address complex social issues holistically with state governments. Programs funded will are likely be to addressing issues where there is clear state government responsibility and clear benefits to the Commonwealth (such as reduced income support payments or improved employment outcomes). Programs could target issues such as recidivism, out-of-home-care, homelessness and health.

It is critical that the Commonwealth is involved early in state government commissioning processes to ensure Commonwealth outcomes can be integrated into the program design. This has been a lesson from DSS who anticipate difficulty in assisting state governments in using commonwealth data for outcome measurement in their partnership trials, as the states set the outcome metric without commonwealth consultation and without consideration of the nature and limitations of the Commonwealth's admin data.

Following consultation with the state governments, the Taskforce understands this risk can be mitigated by the Commonwealth providing state governments with sufficient certainty of funding to allow them to conduct their own budget and subsequent procurement processes.

To provide certainty of Commonwealth funding to state governments, it will be essential for the Commonwealth to set clear and precise payment amounts and criteria for state governments applying for funding from the Outcomes Fund. This will provide clear funding parameters to state governments and help provide more certainty of whether Commonwealth funding is likely to be provided or not. For example, the Commonwealth could release an expression of interest (EOI) document that outlines the preferred outcomes the Commonwealth is seeking and the associated payments for the achievement of these outcomes. State governments could then apply to the Commonwealth EOI with a proposed program that incorporates these outcomes. If the Commonwealth approves state government proposals, a Commonwealth minister could issue a letter confirming funding for state initiatives. States could then continue with their commissioning process with a confidence that the funding will be available within the approved parameters. This process is outlined further in the timeline under Next steps.

There is a risk that rate cards may need to change throughout the life of programs funded by the Outcomes Fund due to unanticipated changes. For example, the NSW homelessness rate card was required to change after COVID-19. Review points during the operation of the Outcomes Fund can help to determine the efficacy of the payments from the rate card compared to outcomes being achieved and allow for iterations as necessary.

The Outcomes Fund working group will also ensure there is early buy-in to the Outcomes Fund from state governments.

There is a risk that publishing rate cards may result in calls for additional funding for social service providers as the rate cards reveal the actual cost of service provision (which may be higher than current payment rates). This can be mitigated by clearly stating that the rate cards represent the cost of delivering the service in an outcomes-based contract and account for associated risk in their prices.

There is a risk that outcome metrics in programs funded by the Outcomes Fund create perverse or distortionary incentives. To manage this risk, possible outcome metrics should be evaluated according to their likeliness to cause a perverse incentive. Possible criteria to evaluate the robustness of outcome metrics could include:

- **Alignment with impact:** It's likely that outcome metrics selected for the Outcomes Fund will be proxy measures to indicate the ultimate impact on the lives of beneficiaries. The Commonwealth could evaluate available evidence on the correlation between the ultimate outcome and the proxy measure.
- **Correlation with fiscal savings:** It is important that a measure correlates well with either reduced expenditure or increased revenue to the government. Welfare savings will likely be the primary fiscal savings of interest in the Outcomes Fund meaning that supported programs will need to have a direct linkage to welfare reduction.

- **Implementation practicality:** The practically of how the data needed to support each outcome measure will be collected, reviewed and reported must be assessed. Considerations include the time and cost to source data or gain ethics approvals for data extraction, the operational impost of extracting, cleaning and analysing data and whether the data must be independently validated. The upcoming Data Availability and Transparency Bill will provide a framework for Commonwealth agencies to share data with accredited users in a streamlined and safe manner. States and Territories could become accredited users. The Office of the National Data Commissioner will also release guidance on ethics in relation to data sharing. This will help provide better access to government held data which will assist the implementation of the Outcomes Fund significantly.
- **Potential for gaming & perverse incentives:** avoiding known examples of metrics that create perverse incentives should be avoided. These include:
  - A binary outcome measure which can easily be 'failed,' potentially leading to those that can no longer achieve the outcome being 'parked' by the provider. For example, an outcome for a homeless person that can be achieved only if they remain continuously in accommodation for a defined period, will be failed if the person leaves that accommodation for a short period.
  - A binary outcome measure which can be easily 'ticked off', potentially providing an incentive to discontinue support once no further financial reward is available. For example, an outcome measure of commencing a job may be met quickly, but if support is withdrawn employment may not continue.
  - Self-reported measures have obvious potential bias without strong validation
  - processes.
- **Objectivity:** Outcome measures should be able to be determined objectively with minimal ambiguity in how they are defined and measured. The advantages of objective outcome measures are that they are simpler to implement and there is limited scope for disagreement about outcome achievement. Data sourced from government administrative datasets is preferable as it is objective.

Alternative structures considered

The Taskforce considered the relative merits of a centralised top-up fund (currently proposed) versus a joint outcomes fund involving co-contributions from state and territory governments. Based on extensive consultation with Australian and international experts, the top-up model has been prioritised for the following reasons:

- A joint fund requiring co-contributions from states would involve protracted negotiations and risk losing the momentum generated by the Taskforce.
- The ongoing governance of a joint outcomes fund would be highly problematic, as states would be delegating funding decisions to a cross-jurisdictional working group. This is exacerbated by states essentially competing for the limited funds available.
- The strong advice from international players who have developed or accessed outcomes funds is to keep it simple, particularly in the early days to build trust and competence in a collaborative approach to outcomes funding.

Purpose of an outcomes fund

Outcomes funds support multiple outcomes based contracts to be delivered in parallel, under a single framework. The purpose of an outcomes fund is to deliver the advantages of outcomes based programs (such as social impact bonds), but on a larger and more strategically focused scale.

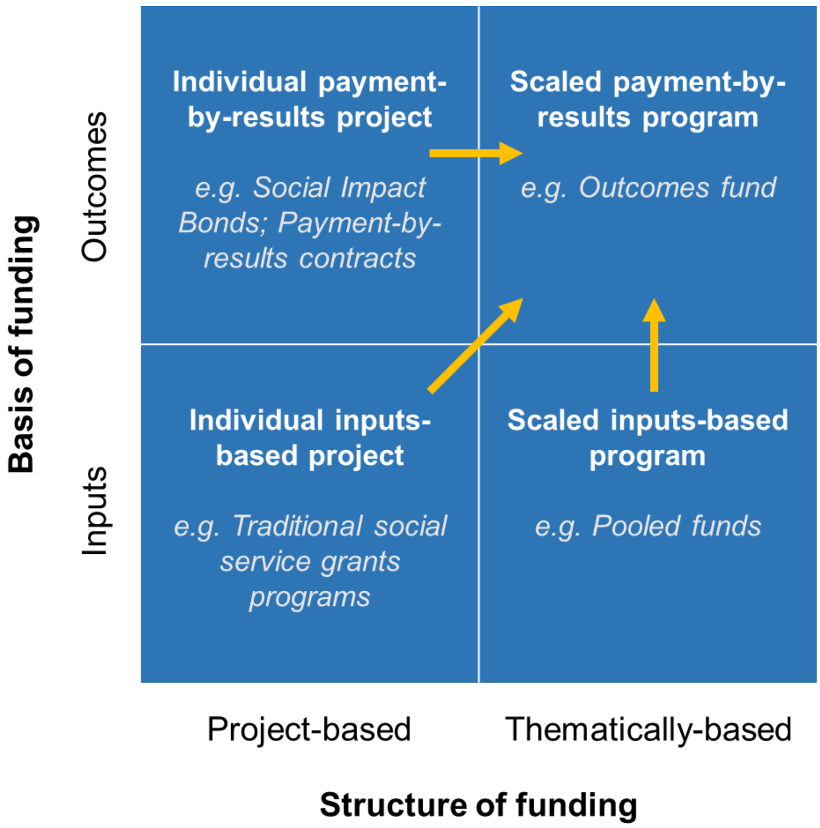
The Commonwealth Outcomes Fund has the following key objectives:

- Effectively address complex social issues for cohorts experiencing entrenched disadvantage by coordinating outcomes funding with state governments and sharing costs and benefits across jurisdictions and Commonwealth portfolios.
- Incentivise state governments to implement programs that contribute to the thematic focus of the fund, e.g. employment and/or mental health, both of which have been exacerbated by the COVID pandemic.
- Better understand and measure the full impact of social impact investment programs across all levels of government.
- Support and streamline multiple outcomes-based contracts under a single framework, enabling comparison of program efficacy and offering a larger and more strategically-focused scale
- Bring more social impact investing deals to market, in part by enabling transactions that would be economically marginal without participation by the Commonwealth.

Outcomes funds were first adopted in the UK as a means to overcoming cross-departmental budgeting barriers in recognition that the cost and responsibility for complex social problems is spread across multiple government departments. An outcomes fund can be similarly used in Australia to overcome barriers to Commonwealth-state funding for complex issues that span across levels of governments and their responsibilities.

Figure 2: Outcomes fund funding structure

An outcomes fund sees funding allocated across numerous programs on the basis of outcomes achieved:


Individual payment-by-results project
e.g. Social Impact Bonds; Payment-by-results contracts
Scaled payment-by-results program
e.g. Outcomes fund
Individual inputs-based project
e.g. Traditional social service grants programs
Scaled inputs-based program
e.g. Pooled funds
Basis of funding
Outcomes
Inputs
Project-based
Thematically-based
Structure of funding

Evaluation of the Outcomes Fund

The Outcomes Fund will be rigorously evaluated by the Commonwealth Office of Social Impact throughout its operation, commencing in the implementation phase. For example, the evaluation could provide evidence on the impact, process and value for money offered by outcomes-based contracts compared to other commissioning methods. The evaluation will provide evidence to inform program and policy development across the Commonwealth and inform decisions by the Commonwealth on future commitments to outcomes-based funding models.

The evaluation will include adaptive monitoring and management of the Outcomes Fund as a mechanism, including its effectiveness in different contexts. Because the Outcomes Fund is a relatively new mechanism for the Commonwealth, a monitoring and evaluation and learning plan will be built into the design and revisited regularly.

The evaluation could span the various aspects of the Outcomes Fund including:

- the Fund as a whole and its effectiveness as a tool to grow the SII market,
- the partnership process with states or service providers,
- the impact and value for money of outcomes-based programs compared to alternative commissioning approaches (such as grants)
- the outcomes achieved by the programs funded by the Outcomes Fund - these will contribute towards building the evidence base of 'what works' in preventative interventions.

DSS is planning an evaluation across both their Payment by Outcomes Trials and their State and Territory Government Partnership Trials to evaluate the effectiveness of SII as a financial mechanism to address social disadvantage and determine the value to Government of achieving outcomes under these funding models. The evaluation activity will commence in 2021, with reports throughout the evaluation until completion in 2027. The Outcomes Fund will have multiple review points that align with reports and findings from DSS' evaluation, which will be incorporated into the Outcomes Fund's design where possible.

Measures of success

The overall aim of the Outcomes Fund is to increase the number of SII opportunities in Australia's social impact investing market by streamlining funding for these programs. The secondary aim of the Outcomes Fund is to develop a better evidence base on what works to generate better employment outcomes by rigorous measurement of program outcomes achieved across Commonwealth and state governments.

Building on the objectives of the UK's Life Chances Fund[36], the Outcomes Fund could have the following objectives to measure its success:

- To increase the number of outcomes-based contracts in Australia
- To generate public sector efficiencies by delivering better outcomes and use this to understand how cashable savings are.
- To build a clear evidence base for what works to achieve better employment outcomes for particular cohorts;
- To increase the number of state government outcomes-based contracts that include outcome metrics involving employment or reduced welfare payments;

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[36] ICF Consulting Services Limited (2020) *Evaluation of the Life Chances Fund - Interim Report*. Birmingham: ICF Consulting Services Limited. p.8-9

- To provide better evidence of the effectiveness of outcomes-based contracts as a mechanism and the savings that are being accrued to the Commonwealth Government; and
- To grow the scale of the social investment market.

These objectives can be built into various evaluations of the Outcomes Fund and can be measured through surveys of key stakeholders and evaluations of individual programs and the outcomes achieved.

Other details to consider during implementation

- Which outcome measures/metrics the outcomes fund will use.
    - o have commonwealth involvement, and include data custodians, in the design of outcome metrics of the fund particularly when Commonwealth data will be relied upon for measurement.
- What counterfactual analysis approach will be used.
- What the payment values and payment terms will be between the Commonwealth and states.
- Which legal contracts the Outcomes Fund will use.
- Issues being considered in the current DSS trials include the difference in timing between outcomes resulting in saves to the states and the Commonwealth and the indirect attribution of the actual service delivery to the outcome. In a number of the initiatives the outcomes resulting in Commonwealth saves are either longer term or indirectly attributable to the actual service delivery. The Commonwealth rate card may need to factor in paying on indicators of future saves to Commonwealth spending to address this issue.
- Careful consideration should be placed on project complexity and how many outcome metrics are needed.

Key recommendations from the Data Integration Partnership for Australia (DIPA) – not for further distribution

1. Benefits realisation supports successful delivery of government programs
    a. Embed benefits realisation as an integral part of project monitoring – this helps maintain focus on program outcomes rather than easy deliverables.
    b. Develop a theory of change, benefits, measurements and targets in original funding proposals with clear accountability, and continually review and refine benefits and their measurements over a program.
2. Cross-portfolio programs require strong Governance, monitoring and ongoing communication.
    a. For cross-portfolio or large scale data projects, use high level governance structures to encourage collaboration and management across multiple and complex components.
    b. Provide governance bodies with the authority to manage and adjust funding across the cross-portfolio program to address evolving priorities.
    c. Invest early in program management governance, processes, tools and resources to support the success of cross-portfolio and data programs.

d. Funding proposals should include funding and staff for project management, including additional resources for cross-portfolio programs.
e. Establish communication channels to regularly communicate achievements and progress of data and showcase data assets, including to support broader use of and investment in assets.
f. For complex data programs and cross-portfolio meetings, support a platform allowing real time regular communication and collaboration across agencies.
g. Showcase the data assets and the benefits of programs across the APS.
h. Require publication of non-sensitive results as a prerequisite of program participation to demonstrate the value of the program and support broader use of the knowledge created.

3. Data Analytical projects need strong links to policy and service delivery to have significant impact.
    a. Involve policy and service delivery staff when identifying data analytical projects to meet government priorities. Ongoing close relationships are necessary between policy areas, researchers and technical agencies to deliver policy/service relevant projects.
    b. Data analytical projects should be used as one mechanism to prioritise data infrastructure development.
    c. Provide data analytical units with staff, base funding and funding for specific small and long-term projects to provide flexibility to respond to emerging and priority areas for government analysis.
    d. Funding for data analytical projects should require agencies co-fund projects to increase agency commitment and accountability for projects.
4. Maintaining and expanding Data assets and integration builds government tools to answer current and emerging policy questions.
    a. Create and support mechanisms to enable collaboration across data assets in the Commonwealth including supporting common governance, metadata, standards and systems.
    b. New or expanding data assets should assess whole-of-government value, use existing data assets where possible and minimise overlap between assets being built.
    c. Support data integration activities across the Commonwealth to ensure integrated data assets are maintained and expanded to answer current and emerging policy priorities.
5. Technical and assurance partnerships can help deliver transformative projects.
    a. Consider focusing assurance of data or cross-portfolio programs on benefits realisation to ensure objectives of the program remain in focus during the life of a program.
    b. Funding for technical support should focus on providing assistance to deliver transformative prototype projects rather than advice.
6. Public trust in Government data use is essential for government data programs.
    a. Earning public trust in government data use should be an element in future data proposals to maximise Government’s ability to access the many social and economic

benefits offered by improved data use, and to meet our ethical and social responsibilities to the public.

Appendix I: Implementation detail – Establish a Commonwealth Office of Social Impact

This paper provides implementation detail on the establishment of a Commonwealth Office of Social Impact (COSI) including key proposed roles to:

- house a data hub to support to the SII sector
- facilitate collection and public release of baseline and regular comprehensive longitudinal data on the state of the Australian SII sector
- develop an Australian Government impact measurement framework.

Next steps

If Government agrees to adopt this recommendation, the following are the likely next steps in progressing the establish a COSI as a statutory authority.

- Seek necessary authority for the establishment of the COSI within the Department of the Prime Minister and Cabinet (PM&C), and associated funding (approximately $35 million over ten years) through either the 2020-21 MYEFO or 2021-22 Budget process.
- Draft and introduce new legislation to the Parliament to enable the COSI as a statutory authority.
- Following passage of enabling legislation, seek Ministerial authority for the appointment of members to governance positions (e.g. CEO and Board).
- Manage other operational matters, including recruitment of staff (through PM&C).

COSI implementation detail

Options for establishing a COSI

Statutory Authority: Statutory Agencies are established under their own enabling legislation to provide advice to government. They may assist with policy development, regulation, assurance activities or promote international relations.

Creating a statutory body may be suitable:

- if the activity requires a level of independence from the responsible minister or the executive government
- to legally enforce decisions made by a regulator or decision-maker
- to provide for a distinct ongoing status for the activity by describing it within legislation
- to achieve higher levels of accountability and transparency by describing the activities and powers in legislation.

Statutory authorities may report to a Commonwealth entity, an accountable authority (such as a departmental Secretary) or to the responsible portfolio Minister.

Governance arrangements are set out in enabling legislation. Statutory authorities are generally governed by a Board and a CEO. Often Ministers appoint members of statutory authorities. Members are likely to be external to the Australian Government. A representative of the Commonwealth entity may be included as an ex officio member.

A Commonwealth entity will usually provide financial support and staff to the body.[37]

The Workplace Gender Equality Agency (WGEA) and the Australian National Audit Office (ANAO) are examples of Statutory Agencies in the PM&C portfolio.

The Taskforce recommends the COSI is established as a Statutory Authority.

Non-statutory Authority: Non-statutory advisory bodies provide advice to government but are not established in legislation. These bodies commonly report to a Commonwealth entity, an accountable authority or to the minister directly. Often ministers appoint Members. Members are likely to be external to the Australian Government. A representative of the Commonwealth entity may be included as an ex officio member.

An existing body can undertake new activities with separate branding. For example, COMCAR within the Department of Finance, AusIndustry in the Department of Industry, Innovation and Science or the Australian Government Actuary in the Department of the Treasury. In this case, the Department of the Prime Minister and Cabinet (for example), could undertake activities specific to coordinating social impact investing policy under the COSI branding. This would support engagement with external stakeholders.

A Commonwealth entity will usually provide financial support and staff to the body. Co-locating a new activity within an existing body minimises set-up and ongoing administrative costs. Co-locating a new activity in an entity may require changes to enabling legislation or the Administrative Arrangements Order.

[37] Department of Finance (2020) *Australian Government Organisations Register – Types of Bodies.* Accessed 20/10/20 at: https://www.finance.gov.au/government/managing-commonwealth-resources/structure-australian-government-public-sector/australian-government-organisations-register/australian-government-organisations-register-types-bodies

This is suitable for activities delivering services to the public or to government.[38]

A **policy unit within a government department** can be set up with minimal administration, for example with an appropriation to the managing department for the activities of the policy unit. An example includes the Office for Women (OfW) in the Department of the Prime Minister and Cabinet.

Staffing and operating costs for the COSI

The COSI will require funding for staffing and operational costs. While it depends on the structure and functions of the entity, the Taskforce expects the COSI will require approximately 15 staff at an estimated cost of $17 million over ten years (based on 1x SES1, 2x EL2, 6x EL1, 6x APS6), including staff to support the Social Impact Investing Data Hub embedded in key data holding agencies, such as the Department of Social Services, AIHW and ABS. Staffing and resourcing will be further considered and costed through the Budget process.

Other costs for operations of the COSI include:

- Establishing a Social Impact Investing Data Hub – approximately $10.5 million over 10 years
- Commissioning state of the market data – approximately $2 million over 10 years
- Developing an Australian Government Impact Measurement framework – approximately $4 million.
- Evaluation of the Commonwealth SII Strategy – approximately $1 million over 10 years (noting each initiative, e.g. the Early Stage Social Enterprise Foundation, will be reviewed on a similar timeline to the overarching Strategy evaluation, and these costs are built into the design of the specific initiatives).

Total operating costs for the COSI is estimated to be up to $35 million over ten years.

Evaluation and review of the COSI

The Taskforce proposes the Commonwealth SII Strategy is a ten year strategy, with evaluation and review points every three years. The ongoing value of the COSI would be considered at the three-yearly Strategy review points, to determine its effectiveness and make any necessary adjustments to its role.

For the COSI, the key measures of success will include:

- Ministers' satisfaction with the quality of advice delivered by the COSI.
- The extent of success implementing the Commonwealth strategy as determined by Government, including:
    - The number and scope of SII policies successfully implemented (such as targets set by the NSW Government to bring two new social impact investment transactions to market per year).
    - The impact and outcomes of SII policies successfully implemented.
    - The confidence and satisfaction of stakeholders – including Commonwealth and state government departments and the SII sector – with the advice offered by the COSI, including in relation to the 'community of practice' and 'tools and resources'.

[38] Department of Finance (2020) *Australian Government Organisations Register – Types of Bodies.* Accessed 20/10/20 at: https://www.finance.gov.au/government/managing-commonwealth-resources/structure-australian-government-public-sector/australian-government-organisations-register/australian-government-organisations-register-types-bodies

- Broader measures on the maturity and impact of the SII market will be measured as part of the broader strategy, where related to the success of the COSI.

Australian Social Impact Investing Data Hub implementation detail

The Taskforce recommends the COSI establish and house a social impact investing data hub to provide data and analysis support to the SII sector. Further rationale is provided at Attachment A.

As the custodian of data sets in the areas of employment, education, health and housing, the Commonwealth is uniquely positioned to support the SII sector to harness data to enable social impact investments and measure impact. A SII data hub within the Commonwealth Government would provide necessary and ongoing data support for the sector.

The functions and operations of the data hub should be developed in consultation with existing data holders and sector experts, including the ABS Data Lab and the CSIRO's Data61 project – to ensure the hub builds on, rather than duplicates, existing structures.

Functions and operation

The SII data hub will provide services to outcomes commissioners and for purpose organisations (service providers, social enterprises and intermediaries) engaging in SII to assist with access and analysis of Commonwealth-owned data sets. The purpose is to enhance access to data for social outcomes commissioners and for purpose organisations to enable outcomes-based commissioning and support outcomes focussed service delivery and policy development.

The objectives of the SII data analysis hub are:

- Work with the AIHW and ABS to develop and enhance existing or new data sets that allow long-term analyses of the use of government services and payments for a range of priority cohorts.
- Facilitate access to Commonwealth government data for outcomes commissioners and for purpose organisations. This may include person-level data, aggregated data, analysis and standard data outputs. The data hub will not hold person level data. It will assist its stakeholders to articulate data needs, match them to the most appropriate source, and provide advice on applying to access data resources.
- Undertake a trial of providing social impact measurement services at the program level by liaising with the Department of Social Services and other Commonwealth agencies, and evaluate the costs and benefits of providing such a service.

The SII data hub may undertake the following activities:

- Provide general advice to data custodians, outcomes commissioners and for purpose organisations on the use of data in social impact investments.
- Work with AIHW/ABS to develop and coordinate an agenda of data integration, with the aim of establishing national data sets to inform outcomes-focused service delivery for a wide range of disadvantaged or vulnerable cohorts, with a particular focus on integration of Commonwealth and state owned data. Building on existing projects and ensuring easy and low cost data access for state governments should be priorities.
- Design and release standard outputs and self-service data products to assist the sector to understand potential social impact.
- Assist outcomes commissioners and for purpose organisations to articulate their data needs and match them to the most appropriate source of data.

- Liaise with Commonwealth data custodians to facilitate access to person-level data by state governments and intermediaries, provided by the data agencies through their standard data access platforms.
- Assist the proposed Outcomes Fund with the development of rate cards.
- Trial an outcomes measurement service by liaising with Commonwealth data custodians to extract and share aggregated program-level data for selected outcomes-based funding activities (which should include programs delivered by the Outcomes Fund and the DSS payment by outcomes and states and territories partnerships trials).
- Develop a guide for the SII sector on government administrative data (Commonwealth, state and integrated) that is fit for the purpose of measuring social impact and how to access it, including examples of ethics applications and recommended informed client consent procedures.

Commonwealth-state data integration and sharing

A person-centric and integrated approach to data fosters a focus on outcomes and enables collaborations to address issues faced by disadvantaged and vulnerable cohorts. The Commonwealth is in a unique position to drive and accelerate the development of integrated national data sets to inform outcomes-focused service delivery and enable better policy and program development.

Developing integrated data across Commonwealth and state data collections and improving access to it for organisations engaged in SII would foster a shared understanding of the interactions of social issues across jurisdictions. It would allow a greater dialogue and collaborations between commonwealth and state governments on policy/program development and outcomes-based funding approaches that recognise the long term avoided costs at both levels of government.

The Australian Government has prioritised data integration by building infrastructure and capability and investing in data assets, such as the MADIP. And the Commonwealth is beginning to collaborate with state government data custodians to integrate state owned data through MADIP and other projects in the fields of health, disability, child protection and homelessness services. But there is much more than could be done and the social impact investing sector is yet to harness these data resources to design and deliver outcomes-focused services for beneficiaries.

There may be opportunities to build on work undertaken by the Australian Data and Digital Council (led by PM&C) to enable data sharing between the Commonwealth and states to assist with the COVID-19 response.

Recent Commonwealth consultations on sharing and releasing government data has found that there is broad public support for sharing data when its use results in a benefit to the public. With its focus on data and outcomes, SII provides real opportunities to demonstrate to the public the power of data to drive better service delivery for Australians.

While the proposed Commonwealth Data Availability and Transparency legislation, if introduced, will address many current barriers to data sharing, the SII data analysis hub is considered to serve additional and necessary functions: driving a Commonwealth/state data integration agenda needed to enable SII; and overcoming some of the specific challenges faced by the SII sector in accessing government data, such as conflict of interest and ethical issues related to the investment aspects of SII.

The COSI will work with the Office of the National Data Commissioner (ONDC) on an authorising environment for sharing Commonwealth Government data, underpinned by the Data Availability and

Transparency Bill. The data hub may also adopt the Australian Data Sharing Principles and the Data Sharing Agreement template as part of its governance approach to sharing data.[39]

Develop and publish research on the state of the Australian SII market implementation detail

Subjects of research

The key subjects of the research should be determined through the co-design process. In addition the subjects should be involved in the co-design process to ensure any data collection and reporting burdens are minimised.

If resources allow, the SSIISR should seek to engage all actors active in the SII sector, including:

- Major SII organisations;
- Impact investors, including fund managers and retail investors;
- Philanthropists;
- Intermediaries;
- Social entrepreneurs;
- Professional services advisors (including financial, legal, business or program strategy and impact management specialists etc.); and
- Outcomes commissioners.

The Taskforce does not recommend end beneficiaries are surveyed in this particular type of research, given the ethical considerations of surveying vulnerable cohorts.[40] The COSI should support complementary research on end beneficiaries' experiences to ensure their voices are heard.

Data types

The Taskforce proposes the SSIISR includes three main forms of data: *quantitative* survey data; *qualitative* focus group data; and *incidental* data.

Quantitative surveys: can provide rigorous and comprehensive data that can be used to make clear determinations.

Qualitative focus group research: can provide more nuanced information that may not be captured by survey questions. In particular this type of research can help to draw out causal factors.

Incidental data: organisations (such as the Foundation or the wholesaler) will collect data from intermediaries and social enterprises in the course of their normal activities. The collation of this data will be critical for providing a comprehensive, accurate and longitudinal picture of the sector.

- Much of this information will be collected by the Foundation and wholesaler as part of standard due diligence practices; and much will be collected by the intermediaries and social enterprises as part of normal business management practices.

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[39] Office of the National Data Commissioner (2020) *Draft Data Sharing Agreement Template*. Accessed 30/10/20 at: https://www.datacommissioner.gov.au/resources/draft-data-sharing-agreement-template
[40] Note: The following research details some of the ethical considerations when conducting research on the experience of end beneficiaries: Farmer, J., De Cotta, T., McKinnon, K., Munoz, S-A., Douglas, H., & Roy, M. (2016) *Social enterprise and wellbeing in community life.* Social Enterprise Journal, 12(2). pp.235–254

- When developing the SSIISR, the research designers should work closely with all organisations involved to minimise any additional data collection or reporting burdens.
- De-identified and aggregated data may be linked with the use of Australian Business Numbers (ABN). This approach will rely on collecting appropriate permissions upfront from relevant organisations.

The Commonwealth should engage the services a suitable organisation, or a consortia of suitable organisations, to undertake the data collection and reporting. Examples of suitable organisations may include:

- Responsible Investment Association Australasia (who developed benchmarking reports in 2016,2018 and 2020)
- Impact Investing Australia
- Universities such as the Australian Centre for Philanthropy and Nonprofit Studies or the Centre for Social Impact.

Coordinating this work through COSI will ensure the longevity of this research and that the data is of a consistently good quality and comparative over time (based on the same/similar metrics).

Frequency of reports

The SSIISR should be updated every three years to ensure the data is longitudinal and can indicate changes over time.

Regular updates to the SSIISR will support evaluation and updates of the proposed Commonwealth SII Strategy—which the Taskforce proposes be undertaken every three years (see Chapter 4 for more detail).

Proposed key metrics

As discussed, the Taskforce proposes the final set of key metrics are co-designed with the intended end users and subjects of the SSIISR. Where possible the data should be comparable to mainstream enterprise and investment benchmarks to ensure a clear picture of the specific characteristics of the SII sector.

In addition, where appropriate the data should be comparable to international benchmarks in order to measure Australia's SII market against others. Some key metrics to consider for inclusion are below.

Social enterprise metrics:

- The number of social enterprises—and change in number over time;
- Characteristics including: legal form; sector; region; age; size; employee diversity; and customers.
- Activities including: social mission; social impact management practices; access to business advice.
- Organisational performance including: profit; turnover; and employment practices.
- Financing practices including: demand for finance; types of finance sought; and ability to obtain external finance.
- Social performance including: measurable social outcomes achieved.

- To develop an understanding of causality: perceived obstacles to and enablers of success.

Impact investment metrics:

- Characteristics of impact investments including: number; value; region; asset class; sector or focus of investment; and stage of investment.
- Activities including: social impact management practices.
- Financial performance of investments including: expected returns; and realised returns.
- Social performance including: measurable social outcomes achieved.
- To develop an understanding of causality: perceived obstacles to and enablers of success.

Other metrics to consider for inclusion:

- Characteristics of business advice intermediaries; and
- Characteristics of professional service advisors (including financial, legal, business or program strategy and impact management specialists etc.)
- Characteristics of retail investors who may be interested in impact investing.[41]
- Experiences and motivations of government or other outcomes commissioners.

Australian examples

The following section details some additional information on the existing research on the state of the SII sector—both in Australia and internationally. These are some of the main reports available and provide useful lessons for development of the SSIISR.

FASES reports

The two reports on Finding Australia's Social Enterprise Sector (FASES) remain the most comprehensive national research on Australia's social enterprise sector. , The reports were published in both 2010 and 2016 by Social Traders in collaboration with academic institutions. (In 2010, the research was led by Professor Jo Barraket, then at the Australian Centre for Philanthropy and Non-profit Studies at the Queensland University of Technology; in 2016, the research was again led by Professor Barraket, this time at CSI Swinburne.)

The FASES reports draw on surveys and focus groups with social entrepreneurs to map the social enterprise sector. They provide much information, including: the estimated size of the sector; the types and sizes of social enterprises; and financial aspects. They also survey the opportunities and constraints facing the sector; and in this way point policymakers toward issues that may be addressed.

Map for impact

Another noteworthy example of social enterprise sector research is the 2017 Map for Impact—a social enterprise mapping project commissioned by the Victorian Government, and conducted by CSI Swinburne.

Given the Map for Impact was commissioned by the Victorian Government, it provides some insight into the type of research that is of use for government engagement and public policymaking.

[41] Note: More recent policy focus in the UK has focused on growing the number of retail investors. While Australia is at an earlier stage of development, this is a future avenue to consider.

The Map for Impact contains:

- An online searchable map of social enterprises in the state of Victoria;
- A database of Victorian social enterprises and intermediaries, including names, ABN and contact details—to support the Victorian Government's engagement with the sector; and
- A report that describes the organisational characteristics, activities and impacts of Victoria's social enterprises—including age, size, diversity of management, social purpose, performance measurement practices, and economic and social impacts.

Benchmarking Impact & Investor reports

The Benchmarking Impact reports have been published in 2016, 2018 and 2020. , , In 2016 the report was led by Impact Investing Australia (IIA); in 2018 by Responsible Investment Association Australasia (RIAA) and CSI Swinburne; and in 2020 by RIAA and Deakin University Business School.

The reports survey active and prospective impact investors and include information on impact investments including characteristics (number, value, asset class, focus, and stage); and performance (financial; and impact). The 2020 report is the most wide-reaching and contains additional questions which shed light on impact management and measurement practices.

In 2016, IIA produced an Investor Report, which surveyed investors on their awareness, interest and activity in impact investing. A number of the questions in this report were incorporated into the 2020 Benchmarking Impact report.

These reports contain the most comprehensive public information on Australian impact investment products.

International examples

UK Government Social Enterprise Market Trends reports

Internationally, key reports provide insights into best practice, lessons to heed, and international benchmarks.

The central government unit responsible for SII in the UK, the Government Inclusive Economy Unit, has produced and published a series of research reports, *Social Enterprise Market Trends*.

The 2017 report surveys a representative sample of businesses to identify: the number of social enterprises in the UK small business population; and the key characteristics of social enterprises, including their current business performance, perceived obstacles to success, access to finance, business support and customers.[42]

A key strength of the *2017 Social Enterprise Market Trends* survey is that it surveys a random representative sample of social enterprises in order to be able to draw broader inferences. Much of the Australian research relies on non-random sampling which reduce the extent to which the samples are truly representative of a broader population.

A second key strength of this report is that throughout, social enterprises are compared against the general UK population of small to medium-sized enterprises. This ensures a clearer understanding of the characteristics that are specific to social enterprises.

[42] Government Inclusive Economy Unit, UK (2017) *Social enterprise market trends 2017*. London: UK Government. Accessed 31/03/20 at https://www.gov.uk/government/publications/social-enterprise-market-trends-2017

As discussed earlier, this report also addresses the methodological shortcomings of definitions of social enterprises in previous reports. It contains valuable lessons on how to address the challenge of defining a social enterprise for the purposes of producing reliable data.

International example: GIIN investor surveys

The Global Impact Investing Network's (GIIN) flagship publication is its *Annual Impact Investor Survey*. The 2020 survey will be the tenth edition.

The 2019 report surveyed 266 impact investors on their activities and perspectives on industry development, including the role of governments in supporting the industry.[43]

Another noteworthy GIIN publication on the SII sector is its 2020 report, *The State of Impact Measurement and Management Practice*.[44] The reports surveys 278 impact investors on issues such as their motivations for measuring impact, key challenges to measuring impact, the importance of various resources; and the costs and value of measuring impact. The report contains far more detail on impact management practices than exists in the Australian research.

The metrics in the GIIN reports should be considered when developing the SSIISR to ensure the research is internationally comparable.

[43] Mudaliar, A., Bass, R., Dithrich, H. & Nova, N. (2019) *2019 Annual Impact Investor Survey.* Global Impact Investing Network. Accessed 01/04/20 at https://thegiin.org/research/publication/impinv-survey-2019

[44] Bass, R., Dithrich, H., Sunderji, S. & Nova, N. (2020)*The State of Impact Measurement and Management Practice*. Global Impact Investing Network. Accessed 01/04/20 at https://thegiin.org/research/publication/imm-survey-second-edition

Develop an Australian Government impact measurement framework

The Taskforce recommends that Government should develop and champion its own impact measurement framework, to measure the impact of Government programs and services, that is applicable to the Australian context by mid-2022.

An Australian Government measurement framework for SII in Australia would bring together four elements of the SII market and provide suggested tools and metrics that are applicable to each element. These are: SII market maturity; social impact, economic benefits; and financial benefits.

- **SII market maturity:** this refers to the effectiveness of market elements (i.e. number of social enterprises, value of investment, number and size of SII deals) as well as the effectiveness of the market overall (i.e. the contribution of the market to achievement of social outcomes, economic benefits and financial returns).
- **Social impact:** this refers to the positive change in a given outcome area. For example, an increase youth employment.
- **Economic benefits:** this refers to the savings, avoided costs and increased revenue as a result of the social impact. For example, reduced welfare payments and increased tax receipts.
- **Financial (monetised) returns:** this refers to the financial dividend that investors can expect or receive as a result of the achieved social impact. For example, repayment of loan plus 5%.

The Commonwealth holds and owns large quantities of valuable administrative data on large cohorts. Alongside the framework, the Commonwealth should assist the SII sector to better measure impact through providing greater access to this data (see the proposed data hub, to be housed in the COSI, also at Chapter 8).

Risks and sensitivities

The development of outcomes frameworks that specify metrics and targets are challenging to develop in a participatory way. Consultation with NSW Government, who have introduced a Human Services Framework, noted that developing a framework across government was extremely difficult. It should be acknowledged that developing a framework across jurisdictions would be even more difficult, and would risk being too broad and aspirational to be meaningful. For these reason, the Taskforce does not recommend a framework that endorses specific metrics or outcome targets.

Service providers and beneficiaries should play a role in identifying and designing a measurement framework. If they are excluded, there is a risk that outcomes measurement becomes focused on funding and outputs, rather than outcomes that are meaningful for clients and the community.

Other Australian Government examples

Department of Social Services Outcome Measurement Initiative

In 2018 the Government committed $6.7 million to support the SII sector build its capability to define, measure and communicate their outcomes. The Department of Social Services (DSS) is managing this initiative. A number of projects are currently underway with more to come over the next two years until June 2022.

In September 2020, Urbis Pty Ltd completed a scoping study into outcomes and impact measurement. Over 180 stakeholders were consulted covering all aspects of the social impact sector. The Study considered opportunities for the market to lead improvements to outcomes measurement as well as opportunities for governments to assist this progress. A roadmap to outcome and impact measurement maturity is presented across four strategic enablers: value creation; market norms; market capability; and enabling systems.

The Study considered differing views on standardisation, preferring an initial focus on convergence of language and approaches noting the diverse social issues that impact enterprises and impact investors focused on. Stakeholders suggested that any standardisation adopted should be globally relevant, locally adaptable, utilise existing frameworks, use inclusive design and measure relative change.

Indicator Engine

As an outcomes framework, the Centre for Social Impact has developed a platform for social services and social enterprises for identifying metrics and measuring and reporting outcomes, as well allowing services to compare outcomes of their programs with benchmarks informed by robust Australian datasets.

Investment of time and expertise would be required to work with CSI to include metrics that are applicable to SII in Australia, in particular to build out outcomes metrics in missing areas. This could be informed by the Commonwealth and led by Australian impact investors.

It should be noted that the Indicator Engine has not yet been launched, thus there is no evidence on the effectiveness of the system or feedback on its utility from the sector. The CSI team have indicated that the platform could be customised to the meet the needs of the Commonwealth for the purposes of measuring SII however this claim has not been properly evaluated.

Department of Social Services Data Exchange

The Data Exchange is a platform built by the Department of Social Services to report on the outcomes of DSS-funded activities. The Data Exchange SCORE framework contains the boundaries: per client; per program; per organisation. With the use of tools like the Multi Agency Data Integration Project, client information could be compared with population-wide datasets such as those held by the ABS.

While the Data Exchange could offer an appropriate platform to collect and integrate social impact measurements, this forms only part of the four elements of the proposed Australian impact measurement framework. Further work is recommended to consider how the Data Exchange could form part of the practical application of an Australian

Further information

Rationale for establishing an Australian SII Data Hub

Social Impact Investing is naturally a data driven approach. Funding arrangements based on social impact require quality data to understand whether an intervention has an impact. Data is critical at every stage of the cycle: to identify areas of need in the community, to understand the needs and circumstances of the intended beneficiaries or users of a service or product; to understand the cost of inaction; to set appropriate target outcomes and a fair price for them; and to measure outcomes to determine payments to service providers and, in turn, investors.

Through extensive consultation with the SII sector, the Taskforce has heard that it is difficult and time consuming to access government data. Issues include:

- There is a lack of transparency about what data is available, who holds it and how to access it.
- Some person-level data sets are not available to analysts external to the Commonwealth Government and requests for custom data extractions must be made on an ad-hoc, as needed basis; it can be difficult to negotiate an agreement for ongoing supply of data.
- Data supply is costly, especially for custom requests, and not all agencies have a clear cost-recovery model for data services. Not all outcomes commissioners and for purpose organisations could afford to pay for the data needed to implement or evaluate their services.
- It can be difficult to gain the necessary ethics committee approvals for data use, particularly for social impact investments, as they involve financial transactions based on measurement of data.
- As a result, for purpose organisations do not have the evidence to develop the best solutions to address entrenched disadvantage and outcomes commissioners do not have the certainty they need to enter outcomes-based funding agreements. The Taskforce has heard that access to data can be the greatest hurdle in realising social impact bonds or payment by results arrangements.

Rationale for best practice impact measurement

A best practice impact measurement approach ensures investors, social enterprises and other deliverers, investors and intermediaries have a clear example to follow when developing approaches to measuring impact. It provides a practical way to measure the impact at a program level, which will be of interest to social enterprises and investors. Aggregating program level impacts under a common framework would show the impacts at a broader level – at the fund, policy or societal level.

Better access to and understanding of government data and measurement provides a better understanding of how Australians use government payments and services over time. Data linked and analysed for the purposes of SII can also be used for other policy development purposes. Data can be used to improve the efficiency of service delivery and support innovative solutions to complex problems in a wide range of areas.

Researchers in this field describe measurement approaches as being largely investor-developed and as a result approaches are uncoordinated, opaque and inconsistent. As noted by researchers in the Harvard Business Review, "forecasting gains [from impact investing] is too often a matter of guesswork". [45]

As most approaches to measuring social impact have been developed by investors for investors, they tend to be focused on investor requirements rather than the requirements of the whole market. While there are many frameworks for responsible investing that have been applied by Australian investors, they tend to focus on environmental, diversity, ethical and governance standards rather than social outcomes. They commonly aim to avoid investments that harm society (i.e. negative screen) rather than to create positive social impact.

The sector also felt that if the Government were to champion consistent measurement standards and criteria, this may lead to the development of accreditation/certification system that could simplify due diligence processes for investors[46]

Data collection from service providers also needs to be revisited so that it becomes a central feature of performance improvement. All too often, service providers are required to submit extensive data to Government and private funders and report frustration with one way data flows. The Commonwealth could facilitate greater data sharing back to providers in a way that supports their continuous improvement and understanding of what works.

Rationale for commissioning SSISR data

Government use of data

State of the Social Impact Investing Sector Research (SSIISR) would be invaluable to both Commonwealth and state governments for policymaking purposes. While organisations outside of government have produced useful research, much of which has been drawn on for this report, there are some key limitations which constrain the extent to which the research can be used to inform evidence-based policy.

In particular, high-quality research on the SII sector would be valuable for informing the proposed ongoing evaluations of the Commonwealth's SII Strategy. The evaluations will allow the Strategy to be adjusted over time to ensure it remains on track to achieve objectives. The Taskforce proposes that the evaluations be conducted every three years to inform the future direction of the Strategy (see Chapter 7.)

The SSIISR would also be of use for the COSI when developing policy advice and programs, including those proposed in this report. For example, the SSIISR would be used to inform the proposed Commonwealth Social Procurement Strategy (see Chapter 4).

State governments would also find the SSIISR to be of value. States will be able to use the data to better understand the SII sector in their jurisdiction, generate comparisons with other states—and inform their own SII policymaking.

The various international bodies that regularly aggregate data on international SII markets would also benefit information on the state of Australia's sector to enable comparability.[47]

SII sector use of data

[45] Addy, C., Chonrengel, M., Collins, M., and Etzel. M. (2019) *Calculating the Value of Impact Investing*. Harvard Business Review. January-February 2019. Available at https://hbr.org/2019/01/calculating-the-value-of-impact-investing.
[46] Inside Policy (2020) Developing a Social Impact Investment Strategy, A detailed consultation report (Roundtable number 2).
[47] Examples of international organisations that conduct research on SII include: the OECD's social impact investment team; the Global Steering Group for Impact Investment (GSG); and the Global Impact Investing Network (GIIN).

The SSIISR will also be a useful resource for the SII sector when making decisions on how to best participate in SII or conduct research. IIA observed the sector's demand for this type of research as early as 2016.[48] This demand was reinforced during the Taskforce's consultations.

In particular, SII actors such as investors, philanthropists, intermediaries and social enterprises could draw on the SSIISR to better inform their investment, advice, business strategy, financing and impact management decisions.

And research organisations will be able to use the SSIISR to better inform their analysis of social enterprises and social impact investment.

In addition, the proposed independent entities recommended elsewhere in this report would benefit from SSIISR to inform their organisational strategies. In particular:

- The Early Stage Enterprise Foundation (see Chapter 5) needs information on the forms of financing and support required by early stage social enterprises.
- The impact investing wholesaler (see Chapter 6) needs information to help inform potential investment opportunities and benchmark performance, among other requirements.

Existing research on the state of the sector

Some research on the state of the Australian SII market does already exist. Much of this research has been invaluable to the preparation of this report.

Key Australian research on impact investments includes:

- the *Benchmarking Impact* reports (2016, 2018 and 2020),[49, 50, 51] and
- IIA's *Investor Report* (2016).[52]

Key Australian research on social enterprises includes:

- the *Finding Australia's Social Enterprise Sector* (FASES) reports (2010 and 2016),[53, 54] and
- the Victorian Government's *Map for Impact* (2017).[55]

The Department of Industry, Science, Energy and Resources is also running a National Startup Data project, working in collaboration with all state and territory governments, which may collect relevant data on social enterprises that fall within the scope of the project. This project aims to develop a unified national approach on the identification, standardisation, acquisition, funding and accessibility of data to measure Australia's startup ecosystem – including social enterprise startups.

There is also much international research on the state of the SII sector in other countries, which provides insight into best-practice, lessons to heed, and internationally comparable benchmarks.

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[48] Castellas, E., Findlay, S., & Addis, R. (2016) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016*. Melbourne: Impact Investing Australia. p.v
[49] Castellas, E., Findlay, S., & Addis, R. (2016) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016*. Melbourne: Impact Investing Australia.
[50] Castellas, E. I. & Findlay, S. (2018) *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2018*. Melbourne: Responsible Investment Association Australasia.
[51] Responsible Investment Association Australasia (2020) *Benchmarking Impact*. [Update ref. when published]
[52] Impact Investing Australia (2016) *2016 Investor Report*. Accessed 30/03/20 at https://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-2016-Investor-Report.pdf
[53] Barraket, J., Mason, C. & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne: Centre for Social Impact Swinburne & Social Traders.
[54] Barraket, J., Mason, C. & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne: Centre for Social Impact Swinburne & Social Traders.
[55] Department of Economic Development, Jobs, Transport and Resources (2017) *Map for Impact*. Melbourne: Victorian Government. Accessed 25/03/20 at https://mapforimpact.com.au/

The key Australian and international research is discussed in greater detail at the end of this section. The following section contains a summary of the strengths and constraints of the Australian research.

Strengths of existing research

There is clearly demand for research on the SII sector. The FASES reports, for example, have been downloaded over 15,000 times.[56] The 2018 *Benchmarking Impact* survey has been downloaded over 4,500 times.[57]

The existing research is of good quality. Some key strengths are:

- *End user focus*: The majority of existing reports have been commissioned by SII sector actors, which means they are designed with the needs of the end user of the research in mind. As such they are valuable resources for the SII sector.
- *Combination of research methods:* The FASES reports contain both quantitative survey questions and qualitative focus group responses. This enables both accuracy and nuance. The addition of qualitative data allows for important insights, such as a deeper consideration of causality.
- *Longitudinal:* The FASES and *Benchmarking Impact* reports have been conducted multiple times. This ensures changes in responses can be tracked over time.

Constraints of existing research

Key constraints of the existing research includes:

- *Government policymaking purposes:* The Commonwealth cannot rely on entities outside of government to reliably and consistently produce research that is appropriate for the purposes of long-term government policymaking. If the Commonwealth plans to benchmark and measure the impact of the Commonwealth SII Strategy over time, it will need to produce its own research for this purpose.
- *Certainty of production:* There is no certainty that the existing research will continue to be produced at regular intervals in order to provide the Commonwealth longitudinal data. The Taskforce understands the FASES reports are not likely to be commissioned again in the future. And the most recent RIAA research was conducted with the financial support of the SII Taskforce.
- *Reliability of data*: The 2016 FASES report notes that the survey had a poor response rate, which constrains the generalisability of the findings. The authors of the FASES report recommend SII entities (such as regulators or intermediaries) conduct routine data collection as part of their normal activities in order to create a larger and longer-term dataset and achieve more reliable data.[58] Government-led data collection may also improve response rates—in particular if led by an organisation such as the Australian Bureau of Statistics (ABS).

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[56] Social Traders (2019) *Social enterprise in Australia*. Accessed 30/03/2020 at https://www.socialtraders.com.au/about-social-enterprise/fases-and-other-research/social-enterprise-in-australia/
[57] Based on unpublished data provided by the Responsible Investing Association Australasia.
[58] Barraket, J., Mason, C. & Blaine, B. (2016) *Finding Australia's Social Enterprise Sector 2016: Final Report*. Melbourne: Centre for Social Impact Swinburne & Social Traders. Accessed 25/03/20 at, https://www.socialtraders.com.au/wp-content/uploads/2018/02/FASES-2016-full-report-final.pdf p.5

- *Comprehensiveness:* The existing research focuses primarily on the views of institutional impact investors and social entrepreneurs. A wider net may be cast to include more information on, for example, intermediaries, professional service advisers, and impact management practices.
- *Benchmarking:* The majority of existing research does not benchmark responses against mainstream data on—for example—investment returns or business types. Benchmarking against mainstream investors and enterprise would assist in determining the 'special features' of the SII market.
- *Causality*: The Victorian Government's Map for Impact is a useful resource, in particular for supporting government engagement with the sector. But a limitation of a mapping exercise is that it does not provide information on causality. This can limit the usefulness of the data for some policymaking purposes.

The design of the SSIISR will seek to build on the strengths of existing research and address the constraints.

Appendix J: Research Reports

The Social Impact Investing Taskforce engaged Indigenous-owned consultant Inside Policy to conduct research and stakeholder engagement to support the work of the Expert Panel.
Inside Policy produced the following reports:

- Detailed consultation report
- Research Report 1 – Determining the most effective social impact investment initiatives with application to Australia
- Research Report 2 – Determining social impact measurement frameworks with application to Australia
- Research Report 3 – How the Commonwealth might enable large-scale social impact investment in particular sectors

Developing a Social Impact Investment Strategy

A detailed consultation report

28 January 2020

Prepared by Inside Policy for
the Department of the Prime Minister and Cabinet
on behalf of the Social Impact Investing Taskforce

Disclaimer

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Executive summary

Social impact investing (SII) is an emerging approach in which governments, philanthropic and private sector bodies, and market participants invest in solutions to address social disadvantage.

As part of the 2019–20 Budget, the Morrison Government announced $5 million to establish an SII Taskforce, which is now engaging with state and territory governments, the private and not-for-profit sectors, philanthropic bodies and relevant Commonwealth agencies to advise on the development of a Commonwealth SII Strategy.

In October 2019, the Taskforce engaged Inside Policy to facilitate, deliver and report on a series of consultations with key stakeholders to inform the development of the Strategy.

In November and December 2019, 273 individuals from 80 organisations participated in a range of consultations. These participants represented seven cohorts:

- trusts and foundations, family offices, high-net-worth individuals, corporate foundations, aggregators and impact investment funds
- mainstream superannuation and institutional funds
- Indigenous enterprises
- impact-driven organisations and intermediaries (such as business advisory services)
- outcomes commissioners and service providers[1] – government and not-for-profit
- social and affordable housing and disability housing representatives
- rural and regional investors, social enterprises and advisors.

After detailing the consultation methodology, the report summarises the findings of these consultations for each cohort. It identifies perceived barriers to the growth of an SII market in Australia, and suggests how a Commonwealth Government strategy might overcome them to enable a strong, sustainable SII market that addresses entrenched disadvantage. It then maps these insights against the four key actions proposed in the draft Strategy:

- measure and incentivise SII
- foster the growth of SII opportunities
- support the flow of capital into SII
- enable a well-functioning SII market.

The conclusion of the report summarises participants' perspectives on the Commonwealth Government's role as an enabler and driver of the Australian SII market. It also provides potential items for additional consultation should the Taskforce wish to gain further insights to inform its work on a Commonwealth SII Strategy.

Key insights

[1] Service providers refers to the organisations funded to deliver services that improve outcomes for a particular population. Throughout this report, the terms 'services provider', 'social enterprise' and 'deliverer' are used interchangeably.

SII is not a silver bullet

Participants demonstrated a clear appetite for a Commonwealth strategy that enables an effective SII market. However, they also noted that SII is not a silver bullet; that the Commonwealth would first need to identify which social issues SII is best placed to address, and provides guidance on which investment vehicles are likely to achieve the right social impact.

The market is fragmented

Participants consistently said the SII market in Australia is fragmented, and hampered by a mismatch between needs, capital and investment vehicles. Participants considered the fragmentation a barrier to market growth and effectiveness, creating an SII environment where:

- investors, product and investment vehicles are looking for a cause (or opportunity) to invest in
- service providers don't know where to find investment or support
- opportunities or deals are built without a specific beneficiary or cause in mind.

Participants felt that specialist individuals and organisations could help resolve this fragmentation by pulling together different experts and helping to originate more effective deals.

SII is poorly defined and misunderstood

Many participants felt the lack of an agreed definition for SII and social enterprise fundamentally undermined the strength and effectiveness of the market. They felt that market players were confused about how to best participate in SII and what SII can achieve, which was dampening investor and government appetite for SII.

Participants suggested that organisations could not benefit from government SII policies without a clear definition of social enterprise. Also critical is confirming SII means investors can expect social and financial dividends.

Diverse investment types are needed to address diverse issues

Participants saw the need to deploy investment capital through a more diverse range of products. Some suggested that the Strategy should:

- create an impact investment wholesaler (or fund of funds) to support social enterprise with early-stage capital and capacity building
- explore payment-by-results (PBR) models as an alternative to social impact bonds (SIBs), including hybrid SIBs that have less rigorous pricing and outcome measurement requirements
- enable existing, mainstream, large-scale investment models (such as public–private partnerships) to operate in the SII context
- offer incentives (such as tax credits, tax concessions and subsidies) for investors in social housing and other SII areas
- blended investment products
- support retail investment so that individuals and communities can participate in SII.

Many participants argued that it is essential to have a framework to establish which investment product is the right fit for the particular SII objective. Specifically, participants said that:

- SIBs are not the only form of SII, and are only effective in particular circumstances

- larger investment institutions such as super funds will only invest in large-scale deals
- community members, especially in regional and rural towns, are willing to invest in co-operatives to keep local businesses open in order to keep local jobs.

Support goes beyond capital

Participations noted that investing in social enterprise goes beyond capital, and includes support to enable engagement with investors, originate and execute deals, seek out the right specialist advice and report on their impact.

They suggested that intermediaries, advisors and 'opportunity creators' could play an important role in raising awareness, undertaking due diligence and increasing investor confidence in SII.

Defining success is important

Social enterprises, their advisors and intermediaries specifically noted the detrimental effect that SII chasing scale is having on service providers. Participants noted that not-for-profit social enterprises find it challenging to achieve scale, and that scale is not necessary to achieve social impact. On this point, participants emphasised that success in SII should not be about size or scale, rather it should focus on impact.

Investors don't understand the non-financial benefits of SII

Participants reported that although management teams seem to accept SII, boards and investment committees still have little or no appetite because they don't fully understand SII, including its potential risks and returns. Boards and investment committees seem to perceive SII as offering limited or no financial return. This view is perpetuated in part because management teams are ill-equipped to undertake rigorous due diligence on specialised SII deals.

Participants felt that this view of SII as a poor investment could be resolved with the support of robust evidence on:

- the level of need for an intervention in a particular area of social disadvantage
- the measurable and defined social impacts and outcomes SII could achieve
- the real risks and financial returns associated with a particular investment or social issue.

Investors also noted the importance of seeing SII both as a 'lens' and as an 'asset class'. Investors shared that traditionally SII is viewed as an alternative asset class making it inherently higher risk. When viewed as a lens, all investments could be assessed for the potential for social impact.

Perception of regulatory barriers to SII

Investors – particularly those representing trusts and public ancillary funds – raised perceived difficulties in fulfilling their fiduciary duties while also making SIIs. At times the two seemed to be in conflict. The sole purpose test was raised specifically by superannuation funds as a barrier to SII. While other investors noted that the narrow interpretation of the rules can stymie investment.

Multiple levels of regulation in specific sectors (e.g. social housing) also presented a disincentive to investors.

The Strategy needs to include all stakeholders

Participants noted that the process of developing and implementing the Strategy needs to actively include groups that have historically been excluded – such as Indigenous social enterprises, and organisations in regional and rural communities.

Siloed decision-making in government stymies SII activity

Social enterprises shared the experience of changing their objectives, idea or service to meet funding criteria and outcomes which have been developed in isolation by government. This hampers innovation and the creation of new solutions that cut across programmatic boundaries.

Support for the Strategy's actions and suggested solutions

In support of SII as a tool for helping solve entrenched disadvantage in Australia, participants identified a range of solutions framed by the Strategy's action areas of:

- Measure and incentivise SII – proposed solutions include:
    - developing a standardised outcomes measurement framework and processes for measuring outcomes in SII
    - defining SII
    - establishing formal mechanisms for sharing information and learnings
    - opening up access to government data.
- Foster the growth of SII opportunities – proposed solutions include:
    - applying mainstream investment models (i.e. public-private partnerships and procurement policies) to SII
    - developing alternative PBR models to SIBs
    - increasing access to early-stage capital and business as well as transaction support for social enterprise
    - supporting the creation of 'opportunity creators' to originate deals and bring the right parties together to make a transaction successful
    - investment parties jointly defining success (of the SII).
- Support the flow of capital into SII – proposed solutions include:
    - increasing the capability of intermediaries and advisors in specialist SII expertise
    - introducing incentives (i.e. tax concessions and subsidies) for investors in SII
    - review existing legislative and regulatory frameworks which may inhibit SII
    - raise awareness of and educate investors in SII including stories of success
    - reviewing and reforming particular constraints on investment in social housing.
- Enable a well-functioning SII market – proposed solutions include:
    - Commonwealth designates a lead agency for SII and the Strategy
    - establishing a wholesale fund or 'fund of funds'
    - exploring investment models for retail social impact investors
    - improving access by particular cohorts (i.e. Indigenous social enterprise and investors and social enterprise in regional locations) to high-quality SII advice and due diligence.

The role of the Commonwealth

The vast majority of participants agreed that the Commonwealth Government has a role in opening up the SII market in Australia. But the consensus was that this role should be high-level, as an enabler and driver of the system, and apart from decisions about commissioning outcomes, the Government should not have a direct role in making investment decisions relating to particular deals.

Potential next steps for the Taskforce

The consultations exposed a groundswell of enthusiasm among participants keen to build and participate in a more open SII market. This energy and goodwill may be a strong launching point for the Taskforce to continue engaging with stakeholders and participants as it prepares an effective, sustainable Commonwealth SII Strategy.

Introduction

Social impact investing (SII) is an emerging approach to tackling entrenched social disadvantage that draws on support from government, philanthropic and private sector capital, and market participants – including governments, service providers, investors and communities. In the context of this report and the work surrounding it, SII refers to investments that:

- generate a social and financial dividend
- aim to solve entrenched social disadvantage.

Project overview

As part of the 2019–20 Budget, the Morrison Government announced $5 million to establish an SII Taskforce (the Taskforce). This Taskforce comprises an Expert Panel appointed by the Prime Minister, and is supported by a team within the Department of the Prime Minister and Cabinet (the Department). The Expert Panel – led by its Chair, Mr Michael Traill AM – is engaging with state and territory governments, the private and not-for-profit sectors, philanthropic bodies and relevant Commonwealth agencies to identify an SII Strategy (the Strategy) for Commonwealth investments. This Strategy will advise how SII can help address entrenched disadvantage, achieve measurable social impacts and facilitate private capital investment in the SII market.[2] The Taskforce will report to the Prime Minister by mid-2020.

In October 2019, the Taskforce engaged Inside Policy to facilitate, deliver and report on a series of consultations with key stakeholders to inform the development of the Strategy. In November and December 2019, Inside Policy consulted with industry representatives to gather their perspectives on the Commonwealth Government's role in supporting the development of a mature and sustainable Australian SII market that addresses entrenched disadvantage.

Purpose of this report

This report:

- details the consultations undertaken, the findings from these activities and their implications for the Strategy
- analyses these findings against the Issues Tree developed by the Taskforce, which informs the Strategy's proposed actions, issues and solutions.

Structure of this report

The remainder of this report is structured as follows:

Consultation method	This section details the consultation activities, their purpose and the groups consulted.
Findings by cohort	This section details the consultation findings, including an examination of common and divergent themes according to the various participant cohorts.
Findings by proposed Strategy action	This section analyses the consultation findings as they relate to the Strategy's four early-action areas and their related issues and proposed solutions.

[2] https://www.pmc.gov.au/domestic-policy/social-impact-investing-taskforce, accessed 16 December 2019.

Implications and potential next steps	This section outlines the implications of the findings for the Strategy and any future engagement with stakeholders.
Appendices	A. Consultation overview B. List of organisations represented in the consultations C. Roundtable and break-out session agendas D. SII Taskforce Issues Tree

Consultation method

This section outlines the consultation objectives, activities and participants.

Consultation objectives

The consultations focused on better understanding stakeholder perspectives of the Commonwealth Government's role in supporting the growth of a mature and sustainable Australian SII market that enables SII to address entrenched disadvantage.

The consultations achieved this by asking:

- What is the current state of SII in Australia?
- What is the future state of SII in Australia?
- How do we achieve this future state of SII in Australia?

Following the consultations, Inside Policy mapped the answers to each of these questions to the actions and issues contained in the draft Strategy. It is important to note that participants did not provide direct feedback on the draft Strategy itself, or the actions it proposes.

Consultation activities

Inside Policy conducted a total of 12 consultations, in Sydney, Melbourne and Adelaide. These consultations involved facilitated face-to-face roundtables, break-out sessions at the Impact Investment Summit Asia Pacific and workshops. Overall:

- specific SII cohorts participated in eight roundtables of up to three hours each
- a mix of SII cohorts attending the Impact Investing Summit participated in three hour-long break-out sessions
- small to medium social enterprises attended the Scaling Impact: The Impact Investment Readiness Journey workshop hosted by Social Impact Hub.

Depending on the size of the group, participants explored the consultation questions through a mix of individual, small group and large group exercises. Inside Policy recorded audio from all roundtable sessions, and a notetaker recorded the proceedings. The consultation facilitator reviewed the scribe's notes before their inclusion in the thematic analysis for this report. Roundtable participants received a participant report summarising their session.

Participants

A total of 273 individuals from 80 organisations (the participants) took part in the consultations. The cohorts targeted for participation were:

- trusts and foundations, family offices, high-net-worth individuals, corporate foundations, aggregators and impact investment funds
- mainstream superannuation and institutional funds
- Indigenous enterprises
- impact-driven organisations and intermediaries (such as business advisory services)
- outcomes commissioners and service providers[3] – government and not-for-profit
- social and affordable housing and disability housing representatives
- rural and regional investors, social enterprises and advisors.

[3] Service providers refers to the organisations funded to deliver services that improve outcomes for a particular population. Throughout this report, the terms 'services provider', 'social enterprise' and 'deliverer' are used interchangeably.

Individuals quoted in this report consented to their quotes being used in the Taskforce's final report.

More detail about the above can be found in the appendices to this report.

Findings by cohort

This section details the overarching themes to emerge from the consultations, as discussed by each consultation cohort.

Across and within all cohorts, there is a strong appetite for an Australian market that supports SII. Participants firmly held the view that a mature and sustainable SII market can play an important – though not exclusive – role in addressing some of Australia's most intractable social problems. As noted in one investor roundtable, SII puts capital markets to work pursuing the mission of 'doing good and being kind'.

Underpinning this appetite is a desire for a Commonwealth SII Strategy that propels the market beyond its current state, which most perceive to be nascent. Participants argued that to be effective, a coherent national Strategy should:

- define the fundamentals for effective operation of the market, including SII, social enterprise, and social and financial dividends
- clarify the role of market participants in delivering SII
- develop standardised measures for social outcomes and impacts, and financial returns
- articulate the social impact lens through which all investments should be viewed.

Participants agreed unanimously that government's primary role in this Strategy is as an enabler.

The following sections discuss the common themes that emerged within each consultation cohort.

Indigenous social enterprises

Participants at the Indigenous social enterprise roundtable recognised the immense opportunity that SII presents in helping them fulfil their social purpose ambitions. This cohort also acknowledged the existence of various capability programs, funding and finance designed to support Indigenous social enterprise.

Despite these opportunities, this cohort noted the following challenges in participating in SII:

- Outcomes for Indigenous SII are often narrowly defined as higher employment; that is, the aim of the investment is to employ Indigenous Australians. Participants talked about the social impact of investment being much broader and deeper, as it includes the broader economic and social impact successful Indigenous enterprises can create by 'giving back' to their communities.
- Investors set a higher standard for Indigenous enterprises than for non-Indigenous enterprises, including by:
    - assuming Indigenous enterprises involve a higher risk, and factoring this into return expectations (on equity investments) or interest rates (for debt finance)
    - preferring to invest in more established enterprises that have stronger balance sheets, including a mix of current and non-current assets.
- This assumption of greater risk creates a third challenge: a lack of capital and other support for early-stage enterprises.
- Government data is difficult to access. Participants noted that access to government SII data would enable better assessment of need, and help in establishing a baseline against which to measure progress.

- Investors (including governments) often predetermine the outcomes to be achieved, without first consulting or engaging with Indigenous social enterprises.

Given the above challenges and opportunities, this cohort advocated for the Strategy to recognise the importance of:

- Indigenous enterprise and communities defining their own social problems and needs, designing solutions, and determining what success looks like
- ensuring Indigenous enterprises have assistance to access features of the SII market, including investment, intermediaries and advice
- supporting Indigenous enterprises, specifically in regional and remote areas that historically have had limited access to the SII market.

This cohort saw the Commonwealth Government as:

- a purchaser of Indigenous social enterprise products and services
- an agent that incentivises investors
- a facilitator of growth of social service providers
- a provider of population-level data
- a leader in developing an overarching SII measurement framework
- a driver in opening up the SII market.

Social and affordable housing providers, investors and intermediaries

Participants in the social and affordable housing, and disability housing roundtable acknowledged that SII was at varying levels of maturity across the housing sector. Participants noted that the greatest maturity, activity and future opportunity exists within the fields of specialist disability accommodation (SDA) and affordable housing. At the other end of the SII development scale, they flagged social housing as the least mature.

Participants identified the National Disability Insurance Scheme (NDIS) as the catalyst for opportunity within SDA. Specifically, the NDIS has provided the policy imprimatur for SDA, which is supported by:

- transparent and robust pricing
- clear specification of SDA types
- rental subsidies for SDA tenants (subject to having an NDIA-approved plan).

Investors in this cohort stated that this strong framework provided enough incentive to invest in SDA, such that one investor had established a multimillion-dollar fund to build SDA developments.

The other advantage of SDA that investors noted was the ability to design properties that have universal appeal. This means they can sell properties back into the private market if NDIS participants have no interest in renting them. This helps to manage any downside risk to the investment.

Participants also appreciated how the current approach to SDA focuses on outcomes and provides a clear role for government in supporting the sector.

Although participants noted there are opportunities in affordable housing, they also accepted that these opportunities rely on the National Rental Affordability Scheme (NRAS). NRAS provides a subsidy to property owners that enables them to rent their properties at below market rates. The NRAS is set to end in April 2020, and participants said this removes the incentive for investors to develop, buy or continue to own and rent affordable properties.

The role of investors in social housing was less obvious to participants. Many participants felt there was no role for impact investment in social housing unless governments provided incentives and subsidies. Participants suggested that governments could enable investment in social housing by introducing:

- mandatory inclusionary zoning (used for social housing in the United Kingdom)
- a national housing policy or strategy
- an incentive program that gifts land and social housing assets.

Participants also noted that various housing-related regulatory regimes – as well as inconsistent or non-existent state and territory policies on social housing ownership, asset maintenance, and rent pricing – are a disincentive to investment.

Given the above challenges and opportunities, this cohort advocated for a Strategy that recognises the importance of:

- clear and consistent government policy on housing – including a National Housing Strategy – to drive SII in all forms of housing
- transparent and robust pricing for proposed SII opportunities, particularly in housing
- streamlined sector-specific regulation at all levels of government.

This cohort saw the Commonwealth Government as:

- a strategy leader
- an agent that incentivises investors
- a policy setter
- a driver in opening up the SII market.

Regional and rural social enterprises, advisors and investors

This cohort believes that regional and rural areas have their own strengths and challenges when it comes to SII.

Participants shared their experiences of tight-knit communities that had devised local solutions to successfully deliver positive outcomes. Participants championed the need for local solutions and autonomy. They felt that investors could do more to understand the communities they invest in, and to provide more than just capital to ensure that these investments reach their full potential. By 'more than just capital', participants meant access to high-quality advice, information on how to invest or find investment, and different approaches to originating SII opportunities.

Participants saw investing locally in regional and rural areas as giving communities agency and ownership over the solutions that affect them. This participation has a tangible reward, because communities can see the impact of their investment firsthand.

Participants raised a number of issues and concerns regarding SII, including:

- the level of competition in the sector (where many organisations compete for the same funds), which pushes social enterprises to change their services or intervention to suit what they think investors (including governments) are looking for
- a lack of awareness of and appetite for SII among boards and investment committees, even after obtaining specialist advice and conducting rigorous due diligence on investment proposals
- investors being unwilling to support innovation or adopt new approaches to solving 'wicked problems'

- the siloed view of social impact, which precludes a system-wide view of the problems, solutions and measurement metrics.

Given the above challenges and opportunities, this cohort advocated for a Strategy that recognises the importance of:

- encouraging and enabling retail investment in SII
- supporting social innovation in areas of entrenched disadvantage
- educating boards and investment committees about SII
- working with communities to co-design SII opportunities
- coupling capital with capability support and specialist advice, particularly for social enterprises.

This cohort saw the Commonwealth Government as:

- a developer of a long-term view for the SII sector
- an enabler of SII market growth, by enabling the right policy settings and providing catalytic capital
- a provider of data
- a remover of red tape.

Investors

Representatives of the non-institutional investor cohort[4] felt that SII could play an important – yet targeted and complementary – role in addressing some of the most intractable social problems facing Australia. Indeed, most investors expressed an ambition to invest more in the SII sector.

However, the current state of SII is not allowing investors to pursue these ambitions. This is due to:

- a lack of 'mission-aligned' investment opportunities
- the unique nature of SII opportunities, which require bespoke due diligence processes and risk-return assessments, making SII a very resource-intensive transaction
- the absence of a policy imprimatur for investment in particular social issues and SII itself
- product (or investment vehicles) looking for a social impact opportunity to invest in, rather than investors, service providers and beneficiaries originating and presenting opportunities
- the incoherent definition of SII, according to which SII must produce social and financial dividends
- perceived barriers to trustees and foundations investing in social impact, based on an interpretation of their fiduciary duties and the 'sole purpose' test
- limited or no robust evidence on need and outcomes, which could be used to set and measure performance and assess deals
- ad hoc and unco-ordinated efforts to share information, insights and learnings
- limited capacity across the social enterprise sector to originate SII deals and effectively manage investments.

Investors noted that the above factors present significant challenges in finding and investing in the right opportunities.

Given the above challenges and opportunities, this cohort advocated for a Strategy that recognises the importance of:

[4] This includes trusts and foundations, family offices, high-net-worth individuals, corporate foundations, aggregators and impact funds.

- working with beneficiaries and service providers (social enterprise) to co-identify the problem to be solved and co-design the solution (including deals)
- opening up access to better data that presents evidence of need, financial return and social outcome
- reforming regulation in the areas of tax (to provide concessions and incentives for SII) and corporations law (to address perceived barriers related to the 'sole purpose' test)
- helping legal and tax advisors better understand how SIIs can exist within existing regulatory frameworks
- establishing a fund wholesaler or multilateral bank responsible for undertaking due diligence and aggregating smaller investments
- seeding early-stage investments and developing the capability of social enterprises.

This cohort saw the Commonwealth as:

- a provider of catalytic, early-stage capital
- a policy setter
- an agent that incentivises investors
- a facilitator of growth of social service providers
- a leader in developing an overarching measurement framework
- a driver in opening up the SII market
- a reformer of regulation.

Institutional investors

Representatives of mainstream superannuation and institutional funds were generally positive about investing in SII opportunities. However, the participants acknowledged there are significant barriers regarding the:

- alternative nature of the SII asset class and SII deals, such that conventional risk–return assessment methods do not apply and due diligence can be time-consuming and costly
- small size of SII deals
- capacity of service providers to engage with institutional investors
- general immaturity of the sector
- 'sole purpose' test, in particular its interpretation and how this limits funds' ability to invest in SII
- lack of an agreed definition for SII
- lack of policy clarity on why SII is important and what social problems it should be directed at
- role and scope of the private sector in delivering social impact.

In response to the above challenges, some institutional investors said they invest both directly and indirectly in SII. Their indirect investments are via SII fund managers that have the specialist expertise to assess, implement and manage SII deals (such as the Social Ventures Australia Diversified Impact Fund).

Given the above challenges, this cohort advocated for a Strategy that recognises the importance of:

- defining the roles – if any – of the public and private sectors in delivering social outcomes
- examining mainstream investment models that can be applied to SII (such as public–private partnerships)

- acknowledging that the role of institutional investors in SII is limited to large-scale investment
- providing a clear policy imprimatur
- examining how certain regulations enable or stifle SII.

This cohort saw the Commonwealth Government's role as that of an SII enabler, with a primary focus on clarifying policy around key social issues. Participants felt that more clarity from the Commonwealth would incentivise investment.

Outcomes commissioners

Outcomes commissioners and service providers (mostly government and not-for-profits) generally supported the use of social impact bonds (SIBs) and payment-by-results (PBR) contracts within the Australian SII market. Participants gave numerous examples of SIBs and PBR contracts that were working well, and shared what they had learnt from these cases.

Existing SIBs and PBR contracts taught participants that:

- SIBs and PBR contracts are time- and resource-intensive at all stages of design, implementation and review
- service providers (including large not-for-profits) need to upskill to understand SIBs and their complexity
- it is difficult but necessary to collect data and attribute outcomes and impacts
- there is a need for openness and trust between outcomes commissioners and social enterprises.

Overall, participants suggested there is a clear – though limited – role for SIBs in SII. In other words, SIBs are not and cannot be the only product available to achieve more SII in Australia.

Given the above challenges, this cohort advocated for a Strategy that recognises the importance of:

- developing a standardised framework for measuring SII outcomes
- examining PBR alternatives to SIBs that are less intensive and complex
- developing standardised forms for obtaining permission to access and use client data
- enabling service deliverers and governments to better understand SIBs.

This cohort felt that the Commonwealth Government should continue to commission outcomes using a variety of fit-for-purpose PBR models.

Intermediaries

The intermediary and advisor cohort focused on barriers and enablers for early-stage social enterprises. Participants named early-stage capital shortfalls and capacity gaps as two major issues affecting the sector. They suggested a number of mechanisms to address these particular issues, including:

- ongoing support from intermediaries and advisors to build capability
- seed capital
- a catalyser for social enterprises in the early stages of their lifecycles.

Participants also suggested that forms of blended capital would be valuable, especially if paired with capacity-building support mechanisms tailored to the needs of social enterprises.

This group also emphasised the importance of intermediaries to help social enterprises and investors negotiate and execute SII deals. This cohort sees intermediaries as playing a critical role in helping both sides understand each other and broker a deal.

Participants felt any future Commonwealth-level approach to early-stage support should incorporate lessons learnt from state and territory models, such as Victoria's Boost Your Business Vouchers.[5]

Given the above challenges and opportunities, this cohort advocated for a Strategy that recognises the importance of:

- intermediation and high-quality SII advice
- early-stage, first-loss risk capital for social enterprises
- a clear approach to measuring impacts.

This cohort saw the Commonwealth Government's role as one of:

- providing catalytic capital in the form of first-loss risk capital to early-stage enterprises
- supporting the growth of intermediaries, so they can expand into creating opportunities and assisting more social enterprises
- incentivising investment through impact credits and subsidies.

[5] Boost Your Business is a voucher program that is designed to help businesses grow and has a stream targeting social enterprise: https://www.business.vic.gov.au/support-for-your-business/grants-and-assistance/Boost-Your-Business (accessed 24 January 2020).

Findings by proposed Strategy action

Overall, participant feedback validated the four actions that the Taskforce identified as essential to creating a mature and sustainable Australian SII market:

1. Measure and incentivise SII
2. Foster the growth of SII opportunities
3. Support the flow of capital into SII
4. Enable a well-functioning SII market.

This section maps the feedback from the consultations against these four actions, the specific issues (or challenges) related to each action and the potential solutions, as set out in the Issues Tree that will frame the SII Strategy. The Issues Tree is included in this report at Appendix D.

Measure and incentivise SII

Across all roundtables and workshops, participants agreed there is a need to focus on measuring and incentivising social impact. Common messages in support of this action called for:

- clear and consistent definitions for the foundational elements of SII, including:
  - what SII means (with a broad consensus across all cohorts that it involves both social and financial return)
  - what constitutes a social enterprise
- transparent and consistent data that evidences:
  - need
  - the effectiveness of intervention in addressing the need and generating investor returns
- standardised tools for measuring social and financial impact.

Participants emphasised the importance of the above in helping to build participant confidence in the SII ecosystem, in turn driving growth in Australia's SII market.

The consultations affirmed the following issues that the Taskforce had identified in its Issues Tree.

Issue 3.1: Social impact is challenging to measure and put a value on, which makes it difficult to determine the extent of social impact and the effectiveness of PBR models.

Participants across all cohorts agreed that social impact is challenging to measure and value, regardless of the social impact being created and the investment vehicle used. As one participant in the investor roundtable asked: *"How much [social return] is enough?"*

Participants stated that this challenge is largely driven by:

- poor or non-existent data collection by service providers, investors and governments
- lack of evaluation of interventions and investment products or instruments, to determine if they are effective
- lack of an accepted standardised outcomes measurement framework for SII
- lack of robust methods for pricing outcomes
- limited understanding of SIBs as a PBR model, and therefore how to measure outcomes and price them appropriately
- incoherent and inconsistent definitions of SII, especially in terms of social impact and financial return.

Some representatives of social enterprises and intermediaries stated that this dearth of information has created a vacuum in which investors (including government commissioners) are determining outcomes on behalf of beneficiaries and social enterprises. From these participants' perspective, this means that outcomes are either mismatched, inappropriate or unrealistic, and often require the service provider to change its intervention model. A participant in the Indigenous social enterprise roundtable emphasised this point:

> *"[In] any sort of power imbalance where there is a well-heeled investor which has a preconceived idea or worldview about how things should be developed, and therefore will prosecute their worldview through application of their funds."*

Some social enterprises also perceive that investors set higher standards for SII than for other investments. In one example cited, an investor's low risk tolerance resulted in higher interest rates on the investment, without any adjustment for the social benefit that was created.

Social enterprises and some investors felt it was unrealistic for investors to expect high financial returns alongside strong social returns. In the words of one participant in the Indigenous social enterprise roundtable:

> *"You can't wear two hats. You can't say you're a social investor, then also get back those [double-digit] sort of levels of return."*

Outcomes commissioners and service providers identified their own challenges with measuring SIB performance, including:

- not having access to data to understand outcomes (also a common issue across other cohorts, as mentioned above)
- historical baselines 'flexing' or changing over time[6]
- data and outcomes being predetermined by funders and based on key performance indicators, rather than on how the client defines success
- inability to access evidence on appropriate outcome measures
- conceptual difficulties understanding the outcomes of the intervention (for example, where there is no program logic, or the logic is flawed), which can stymie the implementation of an SIB.

Potential solutions

Participants suggested a number of ways for governments to improve measurement and pricing, including:

- developing a standardised outcomes measurement framework and formulating evaluation methods
- establishing a group of experts to oversee SII outcomes measurement and evaluation
- agreeing on the definition of SII, including an expected social and financial return.

Issue 3.2: Entrepreneurs, investors and governments face barriers to developing and accessing evidence of best-practice SII.

As noted in the sections above and below, participants in all cohorts stressed the challenge of lacking evidence on what works and what doesn't in SII. This problem

[6] Many transactions rely on historical baselines that are themselves based on potentially unreliable or changing administrative government datasets (such as flexing towards an unemployment rate and other economic conditions). The cohort targeted by the intervention may also change over time and no longer be reflected in the baseline.

exists because the robust evaluation required to establish efficacy is not undertaken, or evaluations are conducted but information is not shared. This lack of transparency fosters an environment where service providers, investors and commissioners are forced to make things up as they go along.

Intermediaries and advisors mentioned they lacked clarity regarding financial products, in particular which products are the right fit for certain social problems. Knowing what financial products to use and when and then how to access them is a significant challenge for investors, especially those in regional and rural locations.

On the topic of SIBs in particular, outcomes commissioners and service providers (both government and not-for-profit) believe there are limitations in attributing outcomes to SIB interventions, due to:

- clients receiving multiple interventions at a time, making it difficult to determine the extent to which change can be attributed to each intervention (despite collecting baseline data before the SIB-funded intervention)
- evaluations with control groups being rigorous but also complex and expensive
- an inability to access evidence on effective interventions, which could inform a better understanding of the full impact of the intervention
- the long waiting period for interventions to manifest outcomes; for example, the outcomes of interventions relating to child protection may not be visible for decades
- changes to the intervention environment; for example, if a shift in the policy environment results in more funding being allocated to a cohort, it can be difficult to determine if and to what extent the SIB-funded program was responsible for change.

Overall, although outcomes commissioners and service providers noted specific challenges with PBR models like SIBs, they also acknowledged their place in the suite of SII models. As one participant in the outcomes commissioners and service providers roundtable stated:

> *"The whole process of the joint development phase [of a PBR model], some people say 'well, it takes a long time'. Yes, but it's not just the time it takes. It's what you achieve at the outcome. [Through this process] you get to an outcome with a really solid foundation."*

Potential solutions

Participants suggested solutions regarding better collecting and sharing data, information and knowledge were identified in the consultations.

On information and knowledge sharing, social enterprise and investors encouraged solutions that enabled market participants to share knowledge and learnings about SII. Building communities of practice was a mechanism often suggested.

Participants in the outcomes commissioners roundtable suggested revising PBR models. They proposed that incentive-style payment models or hybrid SIB models that pay based on results, but without the detailed pricing and measurement regime, might achieve the same or better outcomes without the high cost to service providers.

Issue 3.3: Government data can be limited, poor quality and hard to access.

All cohorts emphasised the issue of limited, poor-quality, hard-to-access data, including government-owned and -collected data. They especially mentioned:

- data on need (or demand) regarding the social policy problem to be solved

- data and evidence on how effectively the intervention improved a particular social problem
- evidence and information on the most effective SII models
- data on the cost of an intervention and its benefits, to inform appropriate pricing methods
- data on financial returns on investments.

Government-based outcomes commissioners noted that access to data is difficult even within and especially across governments. Agencies can spend a lot of time gaining access to each other's data and finding the right information, and this process requires trusted relationships. This point was clearly illustrated by a participant in the outcomes commissioners and service providers roundtable:

> *"As a central agency we reached out to nine government agencies to work together and it took us nine months to access data. We developed trusted relationships with data custodians."*

Outcomes commissioners identified specific issues related to SIB data. They reported that some SIBs did not progress to market because the relevant data critical to implementing and managing the SIB could not be accessed or was poor quality. An inability to access data was often due to a failure to obtain appropriate consent from beneficiaries or service users. One participant from the outcomes commissioners and service providers roundtable shared an example of how they resolved this:

> *"We had a view that we should also provide something back too. So we developed [a method for] how we could share the data. We developed a platform that the proponents [deliverers] could actually get into … so they could make their own decisions."*

All participants stated the value of having access to high-quality data. Besides fostering confidence in the sector and investment decisions, strong data can help prove the model, serve as a guide where needed, inform investment decisions, and help identify areas ripe for replication or expansion. As noted by one participant in the regional and rural roundtable, the role for government here is clear: *"If only for its data, government needs to be involved in this."*

Participants suggested that governments should provide high-quality, accessible data that will help to:

- identify and improve understanding of social problems
- show evidence of successful programs and interventions
- provide benchmarks to measure social outcomes
- guide funding decisions and identify areas of focus
- measure social shifts and changes over time
- reframe measures for assessing outcomes, rather than focusing on outputs and activities.

Potential solutions

Participants suggested a number of solutions to open up access to government data, including:

- using the NSW Government's approach to opening up access to data under the Their Futures Matter project as a practical model
- creating a Minister for Data to demonstrate the importance of the issue
- developing a standardised consent form for gathering, sharing and analysing data.

Foster the growth of SII opportunities

This action area received strong support. Participants across all cohorts identified a number of barriers that inhibit the growth of SII opportunities, particularly in existing social enterprise, intermediation and investment models. They agreed with the need to focus on actions that foster the growth of SII opportunities.

Common messages in support of this action included the need to:

- explore mainstream financing models as they apply to SII
- better support early-stage social enterprises, with access to capital, advice and capabilities, especially in the case of Indigenous social enterprise and enterprises in regional and rural communities
- assist social enterprises to grow sustainably (if growth is their preference), especially Indigenous social enterprises and enterprises in regional and rural communities
- increase the capability of intermediaries and advisors providing the above assistance.

Across all consultations, participants proposed that resolving the above issues would enable social enterprises to engage more effectively and sustainably with SII.

The consultations affirmed the following issues that the Taskforce identified in its Issues Tree.

Issue 4.1: Governments and other stakeholders such as large corporations have an opportunity to use their market power to incentivise the creation of social impact.

Participants recognised the power that governments and large companies have in fostering growth in the SII market.

Ensuring the right financial product is available and deployed to create the required social impact would help foster growth in the sector.

Institutional investors, outcomes commissioners and intermediaries suggested using existing mainstream models such as procurement to drive growth in SII opportunities. This could be achieved by government and large companies:

- buying more goods and services from organisations that operate with a social purpose
- requiring their suppliers to buy more goods and services from these organisations
- requiring their suppliers to report on the social impact of their procurement activities.

Participants suggested that public–private partnerships (PPPs) might also be used in the context of SII. Institutional investors found this particularly appealing, given the potential size of PPPs. One institutional investor noted that superannuation funds can comfortably invest in PPPs because the model is familiar to investors, but also lends itself to arrangements involving social impact delivery organisations and projects aimed at achieving social outcomes. On the value of using existing investment vehicles to achieve social outcomes, one participant noted: *“We’re investors. We’re not in the business of providing services.”*

Outcomes commissioners advised against growing opportunities through SIBs alone, as they are complex, resource-intensive and even the most effective SIBs have a limited application.

Intermediaries and advisors said achieving certain outcomes would require completely new models. To foster growth in SII in particular, this group suggested a Fee-Help type of model, in which social entrepreneurs could access low- or no-interest loans to help them seed their social impact idea. In addition, they felt there could be some benefit in breaking down silos by blending different products and finance options.

Beyond different finance and investment types, assistance with capability building and strong investor–investee relationships are critical factors in growing SII opportunities. On the topic of capability building, one participant in the intermediary and business advisor roundtable said: *"There's general agreement that the finance alone doesn't do it."*

Potential solutions

Participants suggested solutions to encourage adoption of new financing models, including:

- using PBR models as alternatives to SIBs
- applying existing mainstream models, such as social procurement policies and PPPs.

Issue 4.2: Social enterprises lack access to early-stage capital.

All participants across all cohorts agreed that social enterprises lack access to early-stage capital. Social enterprises, intermediaries and advisors emphasised that the lack of access is particularly pronounced for small and start-up enterprises, Indigenous social enterprises, community housing providers, and enterprises located in regional and rural locations.

On the ability to raise capital, one participant in the Indigenous social enterprise roundtable noted: *"It needs to be easier for not-for-profit organisations to raise capital."*

According to social enterprises in regional and rural communities, limited access to early-stage capital is compounded by a highly competitive funding environment. This manifests in three main ways. Firstly, competition for investment narrows solutions to a single point that aligns with the investor's expectations. Participants felt this resulted in 'clusters' of solutions, where different approaches were discounted and not funded. Participants felt that difficult problems would benefit from a diversity of solutions to test what works best for different cohorts.

Secondly, entrepreneurs burn out due to the 'funny' market – a market that is product-driven and highly competitive, lacks collaboration and pressures entrepreneurs to 'do everything themselves'.

Thirdly, participants noted that intellectual property was the greatest asset for social enterprises and not-for-profits organisations, which put them off developing service models that other service providers could replicate, especially if the model was successful. Participants felt that governments should develop more service models. The intellectual property would then sit with the government, which can make it open-source and replicable, to benefit the sector more broadly.

As one participant in the regional and rural roundtable noted, the level of competition for investment should not be underestimated:

> *"We're at an incredibly competitive point in time now – competitive tendering has driven a huge amount of competition, mistrust and siloing within the sector."*

Potential solutions

Participants supported solutions that provide better access to early-stage capital, including:

- a fund that provides early-stage, first-loss risk capital for social enterprises
- information for social enterprises about SII, and how and where to find funds and investors.

Issue 4.3: Early-stage social entrepreneurs lack the capabilities required to establish their enterprise.

Investors, social enterprises, intermediaries and outcomes commissioners all agreed that social entrepreneurs lack certain capabilities required to establish their enterprises. They referred specifically to the:

- limited understanding of how to engage with investors (as opposed to grant makers or philanthropists)
- limited understanding of SII-specific financial products such as SIBs
- lack of experience in implementing SII as a service provider, including managing and being accountable for the funds
- lack of experience in how to originate, pitch and execute an SII deal.

In this context, participants said early-stage enterprises need ‘capital plus’ support. The ‘plus’ here is access to expertise, knowledge and skills to fill the gaps listed above. As one participant in the investor roundtable said, having the capacity to take on the capital and support is also critical:

> *“What is the capacity of enterprises to absorb capital? That needs to be addressed if you’re going to get the market functioning in a more effective way.”*

Intermediaries and advisors also stated the need for pre-feasibility, pre-concept capability support. It can be extremely difficult for entrepreneurs in this early stage to access capital, as they most likely have a limited track record and no proof of concept. As one participant in the intermediaries and business advisors roundtable noted:

> *“[For] smaller enterprises in that kind of early-stage, start-up phase, the access to capital is difficult. You’re constantly asked to go back and trial, [and] prove your idea. We probably did that for about six years. We’re only at the point now where we have a pathway to both capital and scale.”*

Potential solutions

Participants indicated support for government policies that provide early-stage capability expertise for social enterprises, including, how to:

- get investment-ready as an organisation
- design a service or program that is attractive to investors
- collect and analyse the right data to support the service or program seeking investment.

Outcomes commissioners also suggested government should provide additional support to help intermediaries and advisors better understand SIBs.

Issue 4.4: Existing social enterprises face a range of capability challenges, including how to become investment- and contract-ready.

Following on from the findings outlined in Issue 4.3, participants provided similar feedback on the capability challenges facing existing social enterprises.

Intermediaries, advisors, investors and social enterprises all stated that existing social enterprises have capability needs similar to those of mainstream start-up enterprises, especially when it comes to understanding the SII market and how to engage in it effectively.

Regarding SIBs, service providers commented that rigorous outcome measurement can be costly and outside the skill set of most social enterprises. One service provider explained that the calculations needed to measure SIB performance required much more work than those for services that do not provide a social benefit.

Intermediaries suggested that some existing social enterprises may have more sophisticated capability needs, such as being able to co-design a viable SII deal with a social enterprise from the ground up. In this instance, advisors, investors and intermediaries also needed to become more sophisticated.

Potential solutions

As noted above, participants indicated support for government policies that assist social enterprises in becoming investment-ready.

Issue 4.5: Some government legislation and regulations constrain the ability of social entrepreneurs to establish sustainable organisations.

Participations did not identify any specific legislative or regulatory constraints to social entrepreneurs establishing sustainable organisations. But, in general, they said that government expectations, red tape and bureaucracy were big constraints on the sustainability of their organisations and ventures. Social enterprise participants described this as governments ‘removing agency’ from enterprises and ‘taking over control’ by introducing accountability standards that inhibit innovation and are costly for enterprises to meet. On the role of government, one participant in the regional and rural roundtable said:

> *“If this is to work, government needs to have as limited a role and function as possible. Government needs to cede control. What we’re really talking about is social impact investment as a vehicle for community control and self-determination.”*

Participants in the intermediary and business advisor roundtable commented on the not-for-profit structure limits to scale. In particular, where scale is the objective of SII for an investor, not-for-profits are less likely to achieve this ambition without significant upfront, ongoing capital. However, being a not-for-profit can limit the ability to access this type and level of investment.

Potential solutions

No solutions were suggested on the specific topic of legal structures of social enterprise. On scale however, intermediaries and advisors suggested scale as a proxy measure for impact should be abandoned.

Support the flow of capital into SII

This action received strong support among participants in all cohorts, who identified a number of barriers that inhibit capital flow to SIIs, particularly to regional and rural locations and Indigenous social enterprises. They supported the need to focus on actions that support capital flow to SII. Investors and service providers in particular highlighted the importance of social impact being seen as an asset class but also a lens through which all investments are viewed.

Common messages in support of this action included calls for:

- more streamlined, less costly due diligence for investors considering SII deals and opportunities
- increased investor awareness and education around SII – particularly among boards and investment committees – including what SII is and isn't, and its benefits and risks
- greater use of existing and readily accepted mainstream mechanisms to facilitate SII, such as procurement and PPPs
- a change to regulations that are perceived to inhibit trusts, including superannuation funds, public ancillary funds and philanthropic foundations, from making SIIs
- a clearly identified role (if any) for SII in social housing.

Participants in all cohorts posited that resolving the above issues would increase the level and type of capital available for SII, and the type of investors participating in SII.

The consultations affirmed the following issues that the Taskforce had identified in its Issues Tree.

Issue 5.1: Investors face high transaction costs when funding SII because deals are often bespoke and investments too small.

Investors (including institutions) highlighted the high transaction costs related to SII deals. These include:

- fees for specialist SII tax and legal advice, and policy area advisors (for example, in the areas of specialist disability accommodation or out-of-home care)
- the time required to undertake due diligence because SII opportunities are complex and often don't fit the 'mould' of traditional deals
- the time and fees spent on expertise required to appropriately price the opportunity, its value, the level of risk, the potential returns and the social impact of the opportunity.

The higher transaction cost of SII deals – which are often smaller than standard deals to begin with – means that most SII opportunities are ruled out before they even proceed to due diligence. As one participant in the investor roundtable emphasised:

> *"It's just not seen as a big enough opportunity for people to invest the time in. It's a disproportional investment of time and effort. The due diligence is so much higher, because you're not just looking at the financial side, you're also looking at the impact."*

Potential solutions

Participants backed solutions such as:

- supporting new and existing aggregators (such as a fund wholesaler, or funds of funds)
- building capacity in intermediaries and deal origination teams.

Positive initiatives that intermediaries and advisors suggested should be further researched included:

- Big Society Capital
- the Global Innovation Fund
- the Aspire Foundation
- impact tax credits.

Issue 5.2: The gap between market rate of return and the SII rate of return reduces incentives to invest, especially for high-risk, low-return, early-stage investments.

Participants framed this challenge as a way to reduce the risk for investors and incentivise them, rather than closing the gap between the market rate of return and the SII rate of return.

Across all cohorts, participants noted the sector overall would benefit from government incentives (such as tax concessions and subsidies) for those investing in SII, especially in the early stages. Indigenous enterprises and participants in regional locations stated that incentives for SII would greatly benefit their cohorts.

Participants were quick to point out that not everything can and should be incentivised, and that governments should set investment priorities. Overall, participants hoped that incentivising investors over the short term would lead to a longer-term culture change where SII is the norm.

Outcomes commissioners said that subsidies were a useful way to reflect the public value of an issue, and the value created by social enterprises. In return, these subsidies enable social enterprises to operate sustainably. Though, as one investor in the housing roundtable noted, it is critical that eligibility for subsidies and other concessions are well understood:

> *"There is an exemption on GST. But if you sell in the first 10 years, the exemption gets pulled back, so you may end up with an extra sting in the tail."*

On reducing risk, participants noted that incentives that reduce the capital cost of investment or underwrite loss and downside risk would be of most use. Outcomes commissioners and investors also suggested that building the capacity and capability of early-stage social enterprises could reduce risk for investors.

Managing risk requires better alignment between need, opportunity, financial instrument and level of capital. This alignment also helps to identify the right incentives. Outcomes commissioners emphasised this point in the context of SIBs, which governments often see as the only SII option. This perception becomes a problem when SIBs involve higher cost and risk than other investment types.

Outcomes commissioners and social enterprises all noted that SII investors cannot and should not avoid risk. As one participant in the outcomes commissioners and service providers roundtable noted, investors in SII must carry some risk, just as they do with their 'mainstream' investments:

> *"What capital looks like needs to be different. It can't be straight equity [or debt] investment. It needs to respond to the need. There needs to be some appetite and some risk that funders take to go, 'Okay, we're going to test depending on what they actually need', but also provide a bespoke service to get [investors and social enterprise] to the point of investment readiness."*

Potential solutions

Participants suggested a number of solutions to incentivise and reduce risk for investors. These included:

- tax incentives such as GST and stamp duty exemptions, and credits or concessions for those who invest in social impact
- subsidies similar to those used in social and affordable housing, including interest subsidies for investments in scale-up opportunities
- government guarantees on returns or first-loss provisions

- government gifting land to deals that involve housing or other investments that require land
- a tradeable 'impact credits' scheme, so businesses can offset any negative impact by buying credit from businesses that are creating positive impacts.

Investors and social enterprises also felt that SII should be used as a 'lens', allowing all investments to be viewed from a social impact perspective. This approach could help investors see SII as mainstream rather than bespoke or unique.

Issue 5.3: Some government legislation and regulations hamper investment in SII.

Most participants across all cohorts confirmed that some existing legislation and regulation is hampering investment. As one participant in the investor roundtable stated: *"By law, as trustees, we look after the corpus. We have fiduciary responsibility that it is not being diminished."*

Participants generally felt that two legal and regulatory constraints were the most limiting:

- Some investors, particularly super fund trustees, felt the sole purpose test was a barrier preventing their investment committees and boards from approving SIIs. Trustee investors stated that they could not invest in social causes if there was a sub-investment return or if the perceived risk was too high.
- Other regulatory barriers were sector-specific. For example, social and affordable housing often has three levels of regulatory oversight (federal, state and local), which increases the cost to comply, risk of non-compliance, and risk of conflicting requirements between the regulatory regimes.

A minority of participants from the investor, intermediary and social enterprise cohorts suggested that interpretation of the laws and regulations (including confusion and misunderstanding relating to laws and regulations) was the real barrier, rather than the regulatory framework itself. For example, one investor talked about how guidance on GST and stamp duty exemptions in the affordable housing sector was confusing and often caused investors to baulk at such deals.

Institutional investors offered international examples of trustees being supported to fulfil their fiduciary duties while engaging in SII. The critical ingredients to support this were a clear government strategy aligned with the United Nations Sustainable Development Goals, and greater alignment between regulators, the government and trustees. As noted by one participant in the institutional investor roundtable:

> *"[Our super fund] is not in a unique position. Many industry funds have both the cultural groundswell and also the ability to understand that there is no trade-off between meeting social impact and a financial return."*

The same minority group of participants suggested that the real barrier was a 'will' to invest in social impact, rather than any legal or regulatory impediment.

Potential solutions

Participants supported:

- reviewing legislative and regulatory barriers, including the sole purpose test, the sophisticated investor test, trustee obligations and disclosure requirements
- educating the investor community – especially trustees – about how they can fulfil their fiduciary responsibilities while engaging in SII.

Issue 5.4: Investors are sceptical or lack understanding of SII.

Although the participants were self-assessed supporters of and advocates for SII, many faced scepticism and a lack of understanding of SII within their organisations. This seemed to exist especially among investment committees and boards, and included views that:

- SIIs inherently offer no or extremely low financial return, bordering on philanthropy
- SIIs carry a higher risk than conventional investments, due to the 'social impact' elements
- SIIs operate in an uncertain or unclear policy environment, which again increases the risk profile
- SII service providers are not investment-ready, and are therefore too risky
- SII-related deal sizes are too small
- opportunities that align with the social issues investors want to invest in are not available.

Although many participants viewed SII in this way, they could also point to solutions to many of these challenges.

One participant in the institutional investor roundtable suggested an explanation for the perceived additional time and cost associated with assessing SII deals, saying:

> *"Everyone has put more resourcing into it [SII] than is the immediate payback, which is why you don't get many funds really doing impact investing."*

The issues listed above are compounded by a lack of agreed definitions for:

- SII as a whole – what it means, its benefits and risks, and how it includes both social and financial returns
- social enterprise, including who is tasked with achieving the social impact and how these enterprises should be constructed
- the type and scale of social impact that SII seeks to achieve.

Participants from all cohorts agreed with the need for a definition that encompasses investment that has a social and financial return. Participants also noted that SII should be seen as both an asset class and a lens through which all investments are viewed. As one participant in the investor roundtable noted: *"When we're talking about social impact investment, we're talking about a return of capital – it's not philanthropic."*

Participants felt that the general lack of understanding and scepticism was also fuelled by a limited understanding of how to assess, execute and manage SII transactions within an investor organisation. Some institutional investors chose to invest indirectly through dedicated SII funds, which are perceived as having the capabilities required to operate within the investment sector. One participant in the investor roundtable framed the challenge of convincing investors to participate in SII:

> *"How do you create product that looks and smells like what they [investors] usually invest in, so they're not thinking about concessional returns? The more you make it look different from what they usually invest in, the harder your job is going to be [to get people to invest]."*

Potential solutions

To increase investor knowledge of SII, participants suggested:

- building a body of case studies that highlight effective SIIs – those that deliver social and financial returns – and sharing these with investors
- establishing an SII community of best practice

- delivering SII education and information targeted at investment committees and boards
- developing SII specialist expertise among advisors and intermediaries.

Issue 5.5: Non-government investment in social housing is hampered by the requirement for a large upfront capital investment and low rental returns.

Participants in the housing roundtable confirmed that investing in social housing is challenging for investors and community housing providers (CHPs). When considering housing, investors advised that the role of SII in affordable housing and SDA is clearer than in social housing. Social housing is challenging for investors because it involves:

- complex regulation, at multiple levels
- unclear state and territory social housing policies, in particular regarding how to manage need (the waiting list for housing), asset ownership and rent settings
- large upfront capital investment coupled with low rental returns.

Investors and CHPs called for resolution of the above, as well as subsidies and other incentives (such as mandatory inclusionary zoning[7]) to encourage investment. In this environment, participants suggested that investors could help grow new social housing stock. CHPs noted that any new housing stock must be developed with the needs of social housing tenants in mind. As one participant in the housing roundtable noted: *"What is required and in demand now will change."*

Investors see SDA as attractive because it offers:

- accurate and clear pricing
- rental payments for tenants from the NDIS
- clear policy mandates within the NDIS framework
- demand as a result of approved participant plans under the NDIS.

Another upside for SDA investors is the ability to manage vacancy risk by selling SDA properties into the private market if there is no appetite from disability service providers or people with disability.

Meanwhile, rental subsidies under the NRAS have encouraged investment in affordable housing.

Potential solutions

Participants suggested addressing the constraints CHPs face when seeking investment. In particular, they suggested:

- adopting mandatory inclusionary zoning requirements for new housing developments
- providing rental subsidies
- gifting Crown land to community housing developments
- tasking the National Housing Finance and Investment Corporation with providing an interest subsidy to CHPs.

[7] Inclusionary zoning is a government-driven land use planning intervention that either mandates or creates incentives to ensure that a proportion of a residential development includes a number of affordable housing dwellings. Source: AHURI, https://www.ahuri.edu.au/policy/ahuri-briefs/Understanding-inclusionary-zoning, accessed 14 January 2020.

Enable a well-functioning SII market

This action received strong support from participants across all cohorts, who described the Australian SII market as:

- fragmented
- lacking long-term vision and strategy
- having unresolved key foundational issues, such as a clear view on how the market operates, the role of the private sector in delivering public good, what SII means, and how social enterprises are defined.

As a result of the above challenges, participants agreed with the need to focus on actions that might enable a well-functioning market. Common messages encouraged the need for:

- a long-term Commonwealth SII Strategy
- a clear articulation of the Commonwealth Government's role in enabling the SII market
- clarity (via education and awareness raising) about how the market operates and the range of investment mechanisms available, which would increase access to the market and make it easier to navigate
- high-quality specialist SII advisors.

Across all cohorts, participants suggested that resolving the above issues would increase SII activity and its impact in Australia.

The consultations affirmed the following issues that the Taskforce identified in its Issues Tree.

Issue 6.1: Commonwealth SII initiatives are fragmented, and lack a clear long-term strategy.

Participants consistently described Australia's SII market as 'fragmented', and said the Commonwealth Government and other market participants lack a long-term strategy.

On the fragmentation of the market, participants commonly said that although there is some activity in the market (some existing government policy, investments and funded interventions), it is patchy and lacks centralised co-ordination or oversight. As one participant in the outcomes commissioners and service providers roundtable commented:

> *"It is very fragmented. For a lot of these enterprises it's hard to know where to go. There's no central body stitching it all together."*

To illustrate the nature and level of fragmentation, participants said that:

- the rate of growth of social enterprises is affected by inconsistent state and territory SII policy and support funding
- siloed decision-making across government – especially regarding funding and how it is appropriated – pushes social enterprises to agree to funding even if it does not align with their mission. To address this, participants advocated for more flexible, diverse and blended sources of capital and funding
- there is not enough high-quality, independent intermediation in urban, regional and rural locations, to help create connections, find opportunities and funding across the sector. Although intermediaries exist, there is a perception that:
    - some have vested interests; for example, if they are managing funds
    - social enterprises and investors are not willing to pay for their expertise

  - social enterprises don’t always understand the benefits of using intermediaries
- there are particular barriers to entry and participation in regional and rural locations, especially for Indigenous social enterprises and retail investors.

Underpinning this market-level fragmentation is the lack of a clear, long-term strategy for SII across Australia. Every roundtable and workshop commented on the lack of a clear vision and purpose, and stated roles and responsibilities for key players – including the Commonwealth Government. Investors noted that for the SII market to be successful it needs to have clearly articulated goals, which should align with national and international priorities such as the United Nations Sustainable Development Goals. Indigenous social enterprises noted that a long-term strategy backed by leadership, policy commitment and funding would lend itself to achieving better outcomes in Indigenous communities.

These discussions all led to the role of the Commonwealth Government in SII. As one participant in the regional and rural roundtable noted: *“We’ve done pretty well in Australia. The missing player is the Commonwealth.”*

Potential solutions

Participants proposed that the Commonwealth Government establish a lead agency responsible for co-ordinating an SII Strategy, reviewing the Strategy and building the capacity of intermediaries.

Participants strongly advocated for the Commonwealth Government to have a clear and targeted role in SII. Across the consultations, participants described a role that included:

- setting, in partnership with the sector, a long-term SII vision and Strategy. Investors and service providers (social enterprises) in particular emphasised the importance of this Strategy aligning with national and international priorities
- setting a clear, long-term policy on key social issues related to entrenched disadvantage to create an environment in which service providers could operate and investments could be made. Participants identified clarity and consistency in housing policy as a particular area of need
- investing in catalytic activity, such as social enterprise and deal incubation, and communities of practice to help co-design SII opportunities and provide first-loss risk capital
- co-ordinating SII efforts at the Commonwealth level and across all levels of government in key policy areas, including the NDIS and housing
- enabling SII by reforming the legislation and regulations that inhibit SII.

Overall, participants said the Commonwealth Government should signal to the market that SII is a priority, and should take actions to ‘build the system’ – taking the lead from governments in the United States and United Kingdom. As one participant in the institutional investor roundtable noted, the long-term view is critical in SII:

> *“My personal experience in dealing with government is they’re extremely [focused on the] short term – shorter term than the private sector. They run to electoral cycles, and worse, they run to single-year budgeting.”*

Issue 6.2: There are opportunities to establish additional mechanisms that champion the market and facilitate the efficient exchange of impact capital.

Many participants advocated for additional mechanisms to champion the SII market and facilitate the efficient exchange of capital. In particular, participants recommended:

- having greater clarity about how the current market operates, including how to access the market, the various players and their roles, what products are available and how to identify opportunities
- being clearer about the available investment mechanisms and how they operate. Outcomes commissioners said governments, service providers and investors needed to better understand SIBs in particular
- establishing a more connected market, where needs are matched with the right funding mechanisms and capital. All cohorts agreed that Australia's SII market is product-driven – investors create products then look for an idea, need or opportunity to invest in. This means needs are massaged to fit into an investment product rather than the investment being structured to fit the need or opportunity. Participants felt that co-designing opportunities to include beneficiaries, service providers and investors could resolve this
- better defining the role of the private sector in delivering public good. Institutional investors, in particular, said the role of the private sector was to bring assets and capital to the SII sector, rather than working to directly achieve social outcomes or social innovation. They felt that if SII delivered social innovation, it was government's role to apply these successes to other existing issues
- increasing oversight of the effectiveness of the market and particular incentives and investments
- creating and enabling opportunities for retail investment.

Most cohorts suggested that the Commonwealth Government has a role in co-ordinating and enabling these efforts. As one participant in the institutional investor roundtable said, investors want clarity and government oversight:

> *"Some clients will not invest [in SII] due to the view that these things should be delivered by government. Any return that the private sector is making is a payment that is being taken away from that social sector."*

Potential solutions

Investors of all types mentioned the need for different mechanisms that enable aggregation of funds and blending of finance.

Participants in the outcomes commissioning group in particular supported the creation of an impact investment wholesaler akin to Big Society Capital in the United Kingdom. They suggested that this could provide ongoing support, seed capital and catalytic drive for early-stage social enterprises. One participant felt that creating an impact wholesaler would be the most significant positive signal to the market that the Commonwealth Government is serious about SII.

Investors in regional and rural communities noted the power of investment vehicles that enable retail investment. They highlighted the potential for community members to invest in keeping their local bakery, pub or hotel open, creating and building on economic benefit for the community, including fending off high rates of unemployment.

Issue 6.3: There are too few SII specialist advisors and professional services (especially in research, advisory, recruitment and law) because returns are too low to attract and retain new entrants and talent.

Participants consistently raised concerns that many professional service advisors, such as lawyers and financial advisors do not have sufficient knowledge or expertise in the field of SII. Investors specifically mentioned that a lack of SII knowledge and expertise among tax and legal advisors has resulted in funds, investment committees and boards receiving inadequate advice.

Participants also identified the value of social enterprises having access to specialist SII advice to help build their capacity and capability in this space. Indigenous social enterprises specifically mentioned the need for access to high-quality, specialist expertise and advice. As one participant in the Indigenous social enterprises roundtable pointed out, Indigenous enterprises are taking the advice they can find and have no way to gauge its quality:

> *"How can we pre-empt or spearhead Aboriginal-led solutions so that the Indigenous population is not left behind? And how can we develop the entrepreneur themselves to then essentially stay on country, work on country and overcome the tyranny of distance, and still have access to experts, capital and experiences? Place-based and people-centred solutions with a global reach."*

Aside from specialist SII advisors and other talent, participants highlighted a potential role for 'opportunity creators'. In this context, opportunity creators would bring together all key players (service providers, beneficiaries and investors) to co-design opportunities and deals. They would also provide 'translation' services, bridging the language and knowledge divide between service providers and investors. Translation in this sense includes:

- bringing together the relevant information for all players to engage with
- enabling a process for engaging with the information and determining whether a deal can be structured
- helping participants determine how the deal would be structured.

Opportunity creators could also assist with due diligence and identifying appropriate metrics for measuring value.

Identifying and co-designing opportunities differentiates this role from that of existing intermediaries. A participant in the investor roundtable highlighted the importance of this specialist creator role: *"Somebody has to pull all those complex pieces together and create something that can then be taken to the market."*

Potential solutions

Participants recommended introducing more specialist SII advisors, specifically a cohort of opportunity creators tasked with finding, co-designing and executing deals, to complement and expand on the role of existing intermediaries.

Indigenous social enterprises and participants in regional locations also emphasised the importance of access to high-quality expert SII advice.

Implications and potential next steps

The role of the Commonwealth Government

This section synthesises the consultation findings with respect to the role of the Commonwealth Government in the SII market.

All participants agreed that the Commonwealth Government does have a role in opening up the Australian SII market, which at a high-level is a systems enabler and driver. The specific actions participants felt the Commonwealth Government could take to drive and enable the SII market included:

- leading the co-development of an SII Strategy, which should:
    - define the fundamentals for effective market operation, including SII and social enterprise
    - clarify the roles of various market participants
    - prioritise the development of standardised measures for social outcomes and impacts, and financial returns
    - articulate the social impact lens through which all investments should be viewed
- setting clear and consistent policy on priority areas within entrenched disadvantage cohorts (such as housing), and provide incentives for SII such as tax concessions, first-loss risk capital and subsidies
- opening up access to Commonwealth data
- using the Commonwealth's procurement policy to incentivise government bodies and the private sector to purchase goods and services from social enterprises
- supporting the establishment of a wholesaler fund, or a fund of funds
- examining how existing mainstream structures such as PPPs can be applied to the SII market, from the perspective of an outcomes commissioner
- continuing to invest in and use SIBs as appropriate
- investing in the development of intermediaries, opportunity creators and other resources, to help build social enterprise capabilities
- reviewing legislation and regulations, especially relating to the sole purpose test and mandatory inclusionary zoning requirements.

Participants also suggested that the Commonwealth Government's role does not include:

- directly making investment decisions related to particular deals, unless those decisions relate to commissioning outcomes
- directly building SII capability.

Considerations for further consultations

The consultations exposed a groundswell of enthusiasm among participants keen to build and participate in a more open SII market.

The Taskforce may wish to draw on this momentum and goodwill by testing specific ideas among selected participants. Social enterprises, outcomes commissioners, investors and intermediaries may be able to provide crucial insights into the ideas, changes or recommendations that would directly impact them, which may help focus the Taskforce's efforts in developing the Strategy.

The Taskforce may also benefit from sharing findings, testing ideas and validating underlying assumptions with key supporters and opponents of government's role in SII. They may be able to contribute diverse perspectives on the SII market.

Key themes from the consultations that the Taskforce may wish to further explore with the above groups include:

- priority focus areas within the draft Strategy
- mechanisms for standardising outcomes measurements
- the concept of an impact investment wholesaler model
- proposed incentives for investors.

Appendix A: Consultation overview

The breakdown of participants by consultation type and location is as follows:

No.	Date	Location	Type	Focus	Number of participants
1.	18 Oct	Melbourne	Roundtable	Investors	15
2.	21 Oct	Sydney	Roundtable	Investors	10
3.	6 Nov	Melbourne	Roundtable	Institutional investors	6
4.	12 Nov	Sydney	Roundtable	Indigenous enterprises	15
5.	13 Nov	Sydney	Break-out session: Impact Investment Summit	Impact measurement	30 to 40 per session
6.	13 Nov	Sydney	Break-out session: Impact Investment Summit	Growing the 'demand side'	30 to 40 per session
7.	14 Nov	Sydney	Break-out session: Impact Investment Summit	Large-scale social enterprises	30 to 40 per session
8.	15 Nov	Sydney	Scale Up Investment Summit	How can government assist in scaling up social enterprises?	Approximately 60
9.	26 Nov	Melbourne	Roundtable	Impact-driven organisations and intermediaries (business advisory services)	25
10.	26 Nov	Melbourne	Roundtable	Outcomes commissioners and service providers (government and not-for-profit sector)	6
11.	27 Nov	Sydney	Roundtable	Social and affordable housing and disability housing	10
12.	10 Dec	Adelaide	Roundtable	Regional and remote service providers and investors	6

Appendix B: Organisations that participated in the roundtables

1. AMP Capital
2. Atlassian Foundation
3. Australian Capital Territory Community Services Directorate
4. Australian Centre for Social Innovation
5. Australian Community Philanthropy
6. Australian Impact Investments
7. Australian Philanthropic Services
8. AustralianSuper
9. Bank Australia
10. The Barnett Foundation
11. Benefit Capital
12. The Bennelong Foundation
13. Big River Foundation
14. The Centre for Social Impact Swinburne
15. Centre for Social Impact (UNSW)
16. Commonwealth Bank of Australia
17. Community Sector Banking
18. Community Services Industry Alliance
19. Crestone
20. The Cultural Intelligence Project
21. Department of Treasury and Finance
22. The Difference Incubator
23. Family Life
24. First Australians Capital
25. Fitted for Work
26. For Purpose
27. The Foundation for Rural and Regional Renewal
28. The Foundation for Young Australians
29. The Futures Foundation
30. Gandel Philanthropy
31. GiantLeap
32. Gilbert + Tobin
33. Good Cycles
34. HESTA Super Fund
35. Housing Choices Australia
36. Impact Investing Australia
37. Impact Investment Group
38. Indigenous Business Australia
39. IndigiSpace
40. Interjurisdictional State Government Group
41. Jennifer Duncan Consulting
42. Jigsaw
43. Justice Connect
44. KMPG
45. Macquarie Asset Management
46. Macquarie Group Foundation
47. McAuley Community Services for Women
48. The Minderoo Foundation
49. National Australia Bank
50. The NAB Foundation

51. National Centre of Indigenous Excellence
52. National Indigenous Australians Agency
53. Paul Ramsay Foundation
54. Perpetual Trustees
55. Philanthropy Australia
56. Reason Group
57. Responsible Investment Association Australia
58. Sacred Heart Mission
59. Save the Children Australia – Impact Investment Fund
60. Scalzo Family Foundation
61. Social Enterprise Finance Australia
62. Social Impact Legal
63. Social Traders
64. Social Ventures Australia
65. South Australia Department of Treasury and Finance
66. Spark Strategy
67. StepStone
68. The Unexpected Guest
69. The Trawalla Foundation
70. University of Canberra
71. University of Sydney
72. VincentCare Victoria
73. The WeirAnderson Foundation
74. Westpac Foundation
75. The William Buckland Foundation
76. Wolf Capital
77. Worldview Foundation
78. Wyatt Trust
79. ygap
80. The Yunus Centre (Griffith University)

Appendix C: Roundtable and break-out session agendas

<table>
<tr><th>No.</th><th>Date</th><th>Target cohort</th><th>Discussion questions and agenda</th></tr>
<tr><td>1.</td><td>18 Oct</td><td>Investors*</td><td rowspan="2">The current state of SII in Australia:
• What is your current level of investment?
• How do you invest?
• What is your appetite for more investment?
• What enables and constrains investment?
The future state of SII in Australia:
• What does a future successful SII ecosystem in Australia look like?
Bringing it all together:
• How do we achieve this future state?
• What do investors need to be more confident in investing?
• What are some concrete examples of SII in the entrenched disadvantage space that have and haven’t worked?</td></tr>
<tr><td>2.</td><td>21 Oct</td><td>Investors*</td></tr>
<tr><td>3.</td><td>6 Nov</td><td>Institutional investors^</td><td>The current state of SII in Australia:
• What is your current level of investment?
• How do you invest?
• What are the opportunities and limitations for bigger fund commitments in the SII space?
• How do you expect to balance returns and social impact metrics?
• What are the issues for trustees and directors?
The future state of SII in Australia:
• What actions and enabling mechanisms can the Commonwealth Government deliver to drive growth?
Bringing it all together:
• What do funds need to be more confident in investing?</td></tr>
<tr><td>4.</td><td>12 Nov</td><td>Indigenous enterprises</td><td>The current state of SII in Australia:
• What does SII mean to you?
• Where are the gaps for Indigenous enterprises?
• Where are the opportunities for Indigenous enterprises?
The future state of SII in Australia:
• What does a successful SII ecosystem that benefits Indigenous Australia look like?</td></tr>
</table>

No.	Date	Target cohort	Discussion questions and agenda
			• What role does Indigenous enterprise play? • What actions and enabling mechanisms can the Commonwealth Government deliver to drive growth? Bringing it all together: • How do we achieve this future state? • What are specific examples of initiatives that have and haven't worked to: - improve outcomes in Indigenous communities - support the growth of Indigenous social enterprises?
5.	13 Nov	Impact measurement	How do we improve the measurement of social and financial outcomes? • How do you currently measure the impact of SII? • What do the following groups need to know when it comes to impact? - investors - intermediaries - social enterprises - beneficiaries - governments • How could impact measurement be improved by: - improving access to data - improving data collection - having a standard set of outcomes to measure against - adjusting other approaches? • If you had better information about the impact of SII, how would you use it?
6.	13 Nov	Growing the 'demand side'	How will small and medium businesses in the social enterprise and for-purpose market grow the demand side of the SII ecosystem Australia? • What social challenges could benefit from scalable social enterprises? • What stops social enterprises from scaling up? • What big change will encourage social enterprises to scale up? • Which social enterprises are making SII work?
7.	14 Nov	Large-scale social enterprises	Why aren't there more large-scale social enterprises in Australia? • What role can large-scale social enterprises play in Australia?

No.	Date	Target cohort	Discussion questions and agenda
			• What are the ingredients for success for large-scale enterprises? • What do investors need to be more confident in investing? • What can the Commonwealth Government do to enable the establishment of large-scale social enterprises?
8.	15 Nov	Small- and medium-scale social enterprises	• What are the challenges in starting, sustaining and scaling a social enterprise? • How can the Commonwealth Government foster the growth of social impact enterprises? • What is the best practical advice you have received as a social enterprise? What would you tell an aspiring social entrepreneur?
9.	26 Nov	Impact-driven organisations and intermediaries (business advisory services)	The current state of SII in Australia: • What support or services do you provide to social enterprises and impact investors? • What funding is available at the different stages of investment? • What are the gaps in nurturing and building the capacity of social enterprises? The future state of SII in Australia: • What does a successful Australian SII ecosystem look like? • What actions and enabling mechanisms could the Commonwealth Government deliver to drive growth? Bringing it all together: • How do we achieve this future state? • What do impact-driven organisations need to be sustainable, and to grow and scale up sustainably? • What are some specific examples of impact-driven opportunities that have and haven't worked?
10.	26 Nov	Outcomes commissioners and service providers (government and not-for-profit)	The current state of SII in Australia: • What is your experience with outcomes commissioning and SIBs? • What has worked? • What is challenging in the context of outcomes commissioning and SIBs? The future state of SII in Australia: • What does a successful Australian SII ecosystem look like? • What do successful SIBs look like?

No.	Date	Target cohort	Discussion questions and agenda
			• What actions and enabling mechanisms can the Commonwealth Government deliver to drive growth in outcomes commissioning and SIBs? Bringing it all together: • How do we achieve this future state? • How do we get to scale? • How do we streamline measurement? • What are some specific examples of SIBs that have and haven't worked?
11.	27 Nov	Social and affordable housing, and disability housing	The current state of SII in Australia: • What is your experience of SII in housing? • What has worked in the models used to date (Foyer? SDA under the NDIS? Anything else?) • Why do existing models fail to increase in scale? • What are the gaps and opportunities? The future state of SII in Australia: • What is the role of SII in social housing? • What is the role of other investment in social housing? • What is different between the two? • What are the investment-ready or investment-worthy features of each model? Bringing it all together: • How do we achieve this future state? • What do models need to be sustainable, and to grow and scale sustainably? • What are some specific examples of SII in housing that have and haven't worked?
12.	10 Dec	Regional and remote service providers and investors	The current state of SII in Australia: • What is your experience with SII? • What is in place to support SII in regional and remote areas? • What are the gaps and opportunities for SII in regional and remote areas? The future state of SII in Australia: • What does a successful SII in rural and regional Australia look like? • What actions and enabling mechanisms can the Commonwealth Government deliver to drive growth? Bringing it all together: • How do we achieve this future state?

No.	Date	Target cohort	Discussion questions and agenda
			• What are specific examples of impact-driven opportunities that have and haven't worked in rural and regional areas?

* Trusts and foundations, family offices, high-net-worth individuals, corporate foundations, aggregators and impact funds

^ Mainstream and industry superannuation funds and institutional funds

Appendix D: Issues Tree

How should the Commonwealth best support Australians experiencing disadvantage through developing a mature and sustainable SII market?

- O = payment by results programs (inc. SIBs)
- O = small to medium orgs. / investments
- O = large scale orgs. / investments

3. Measure and incentivise social impact

- **3.1** Social impact is challenging to measure and price, which limits the ability of all actors to determine the extent of social impact and an appropriate value.
  - **3.1.1** Support standardised and transparent reporting of social and financial outcomes.
  - **3.1.2** Develop cross-sectoral principles for best-practice outcome measurement, including how to measure and share costs and benefits between jurisdictions and agencies (in alignment with existing work at DSS).
  - **3.1.3** Publish rates cards which specify the amount the government is willing to pay for specific outcomes.
- **3.2** Entrepreneurs, investors and governments face barriers to developing and accessing evidence on best-practice social impact and payment-by-results models.
  - **3.2.1** Establish a Data Lab to better compare the impact of different interventions—using data already collected and developing more granular data (with support from across government, research and SII sectors) (consider whether we are able to integrate with existing platforms).
  - **3.2.2** Support an independent SII Institute, which would develop, collate and release information and evidence on best-practice SII to support: social entrepreneurs to build strong and sustainable businesses; investors to make evidence-based investment choices; and impact-seeking purchasers to make evidence-based commissioning decisions. (In alignment with existing support for other entities such as the Centre for Social Impact).
- **3.3** Government data can be hard to access, poor quality and slow.
  - **3.3.1** Facilitate the linking, analysis and release of data across all levels of government (in alignment with the Office of the National Data Commissioner and existing data reform agenda).

4. Foster the growth of social impact investing opportunities

- **4.1** Governments and others such as large corporates have an opportunity to use their market power to incentivise creation of social impact.
  - **4.1.1** Support social procurement policies in both the government and non-government sectors.
  - **4.1.2** Encourage more payment-by-results opportunities across the government and non-government sectors, including outcomes funds (including, for example, an employment outcomes fund).
- **4.2** Social enterprises lack access to early-stage capital.
  - **4.2.1** Build the capacity of early stage social enterprises to access capital, including both returnable and non-returnable (eg. philanthropic) forms of capital (including working with specialist advisors).
  - **4.2.2** Commonwealth to provide early-stage capital (eg. grants, debt, equity) in accordance with Constitutional boundaries.
- **4.3** Early-stage social entrepreneurs face a range of capability challenges to establish their enterprise.
  - **4.3.1** Build the capacity of aspiring social entrepreneurs to establish and grow social enterprises (including through working with specialist advisors and educational organisations) (integrate with existing supports for mainstream entrepreneurs).
- **4.4** Existing social enterprises face a range of capability challenges, including how to become investment and contract ready.
  - **4.4.1** Build capacity of social enterprises to support and grow their organisations. This may be to build business skills to attract investment and participate in payment-by-results programs; or to build social impact skills (eg. through working with specialist SII advisors and educational orgs) (integrate with existing supports for mainstream entrepreneurs).
- **4.5** Some government legislation and regulations constrain the ability of social entrepreneurs to establish sustainable organisations.
  - **4.5.1** Review legislative and regulatory barriers to the establishment and growth of social enterprises – including a need for specific legal forms – and consider release of guidelines or amendments.
  - **4.5.2** Provide fiscal incentives or reduce the tax burden for impact organisations.

5. Support capital to flow to social impact investments

- **5.1** Investors face high transaction costs to fund social impact investments as often deals are bespoke and investments too small.
  - **5.1.1** Support contract standardisation.
  - **5.1.2** Support new and existing aggregators.
  - **5.1.3** Build capacity in intermediaries and deal origination teams.
- **5.2** The gap between market rate of return and social impact investment rate of return reduces incentives to invest, especially for high-risk low-return early stage investments.
  - **5.2.1** Reduce risks of private investment through financing mechanisms (eg. Through first loss protection, debt, credit wrap/guarantee etc.).
  - **5.2.2** Provide incentives to invest through long-dated financing tenor, tax incentives or other.
  - **5.2.3** Support social impact to become a mainstream consideration in investment and procurement decisions. For example, support the adoption of reporting frameworks such as 'double or triple bottom line accounting' to guide investment decisions and other measures.
- **5.3** Some government legislation and regulations hamper investment in SII.
  - **5.3.1** Review legislative and regulatory barriers to supporting capital flow – including the sole purpose test, sophisticated investor test, trustee obligations and disclosure requirements – and consider the release of guidelines or amendments.
- **5.4** Investor scepticism or lack of understanding about SII.
  - **5.4.1** Support investors to better understand SII—for example through improved communication and education about SII (if not addressed through other recommendations).
- **5.5** Non-government investment in social housing is hampered by the requirement for large upfront capital investment and low rental returns.
  - **5.5.1** Given the potential for high social impact and scalability, the Commonwealth should consider how to address the particular constraints social housing providers face seeking investment.

6. Enable a well-functioning market

- **6.1** Commonwealth government SII initiatives are fragmented and lack clear and long term strategy.
  - **6.1.1** Establish a permanent Commonwealth Government unit in a central agency to develop and coordinate SII policies (e.g. in PM&C or Treasury).
  - **6.1.2** Consider the Commonwealth's next steps on social impact investing, including a point for review and evaluation of the Commonwealth SII strategy.
  - **6.1.3** Support development of evidence and data on the Australian social impact investing market—including for measuring and evaluating the impact of the Commonwealth SII strategy.
- **6.2** There are opportunities to establish additional mechanisms to champion the market and facilitate the efficient exchange of impact capital.
  - **6.2.1** Support establishment of social impact investing wholesaler, tailored to specific requirements of the Australian market (eg. Wholesaler may support deal origination, blended finance, credit enhancement etc.).
  - **6.2.2** Support establishment of an impact stock exchange or crowdfunding platform (eg. A centralised database to connect investors with impact opportunities).
- **6.3** There are too few SII sector specialist advisors and professional services (research, advisory, recruitment, lawyers) – returns are too low to attract and retain new entrants and talent.
  - **6.3.1** Enable specialist advisors to build their capacity to support social entrepreneurs to establish, support and grow social enterprises– for example through support to build sustainable business models. [Note: Specialist advisory sector expected to grow as market develops and direct support for intermediaries may not be the most effective intervention.]

Developing a Social Impact Investment Strategy

Report on Project 1: Determining the most effective social impact investment initiatives with application to Australia

18 March 2020

Prepared by Inside Policy for
the Department of the Prime Minister and Cabinet
on behalf of the Social Impact Investing Taskforce

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Table of contents

Executive summary

In October 2019, the Social Impact Investment (SII)Taskforce engaged Inside Policy to conduct research to determine the most effective international SII initiatives with application to Australia.

This report focuses on the initiatives within the following countries SII ecosystems:

- Canada
- France
- India
- Israel
- New Zealand
- South Korea
- United Kingdom (UK).

It details the findings and implications of our research including:

- the international SII initiatives that are most effective and applicable to Australia
- the components of SII initiatives that should be explored for implementation in Australia
- application of the research into a potential policy approach for the Commonwealth.

The research answers the following three research questions:

1. What is the current state of the SII ecosystem in each international example?

2. What are the impacts of SII initiatives within the identified ecosystems? How do the SII initiatives in the identified ecosystems apply to Australia?

3. What lessons can be drawn for Australia from international activity on SII? What activities in each country have potential for adaption to the Australian ecosystem?

The above questions were answered by reviewing roundtable and journey-mapping consultation data and reports, and broader desktop research. Where possible, Inside Policy consulted independent evaluations, peer-reviewed literature and government reports. It used grey literature, such as websites, media articles, and promotional material to establish the inputs, outputs and infrastructure within SII ecosystems.

Findings

Internationally, the most effective and applicable SII initiatives are policy responses, capability development, intermediaries, wholesaler funds, outcome funds, and Payment-by-Results (PBR). Governments and other ecosystem actors use policy responses, capability development, intermediaries and wholesaler funds to drive the flow of investment, knowledge, skills and capacity to create effective SII ecosystems. Once established, PBR initiatives deliver programs for beneficiaries by drawing on investment, knowledge, skills and capacity. PBR can then be scaled through outcome funds, which provide outcome and payment metrics to guide program design and outcome payments. Outcome funds also provide a mechanism to build agreement on payments for programs that deliver outcomes across federal and state governments.

Together these initiatives can address the challenges, barriers and gaps in Australia's SII ecosystem, to facilitate scale and growth in SII. The specific examples of applicable SII initiatives and their components that should be explored for implementation in Australia are discussed throughout the report.

Implications

The international evidence indicates that an effective path for developing a mature SII ecosystem is firstly developing policy responses, then facilitating capability building, developing the intermediary sector, developing wholesaler funds, developing outcomes funds and finally delivering PBR. By implementing these components, an SII ecosystem is able to build a strong SII foundation, then stabilise and then grow.

Inside Policy recommends that the Commonwealth develops a 15-year strategy where policy responses, capability development, intermediaries, a wholesaler fund and a outcomes fund are introduced in the first five years. This will create a strong foundation for SII that can support PBR and other emerging developments in SII. In the second five years the Commonwealth can build on this foundation by developing industry specific strategies, partnerships, investment incentives and de-risking approaches, and review the wholesaler fund. In the final five years, the Commonwealth can reengage the sector to build the strategy for the next future.

Introduction

Project overview

This project analysed international approaches to delivering SII, to recommend key initiatives for developing the Australian SII ecosystem. It examined the approach to SII in the following countries:

- Canada
- France
- India
- Israel
- New Zealand
- South Korea
- UK.

This project explored three overarching questions:

1. What is the current state of the SII ecosystem in each international example?
2. What are the impacts of SII initiatives within the identified ecosystem? How do the SII initiatives in the identified ecosystems apply to Australia?
3. What lessons can be drawn for Australia from international activity on SII? What activities in each country have potential for adaptation to the Australian ecosystem?

The methodology for the project is included in Appendix D.

What is SII?

SII brings together capital, expertise and innovation from the public, private and the not-for-profit sector to solve social issues and generate social outcomes. By drawing on private investment, SII also aims to deliver a return of investment.[1]

SII is delivered though a number of key actors who interact to create and participate in an ecosystem of SII. Key actors produce and engage with SII initiates that enable or deliver SII. The definitions for SII ecosystems, ecosystem actors, and SII initiatives used throughout the report are described in the table below.

Table 1: Definitions of SII

	Definition
SII ecosystem	Network of actors, policy, infrastructure, investment, research and programs, that work together to achieve social outcomes and deliver returns to investors.
Ecosystem actor	Individuals, groups of people, organisations and institutions that create and participate in SII ecosystems to generate social outcomes and deliver returns to investors. Each actor is defined below.
Government	Within Australia this refers to Commonwealth, state and territory, and/or local governments.
Investors	Institutional and non-institutional investors that provide capital for SII initiatives. Institutional investors include super funds, insurance company and savings institutions. Non-institutional

[1] Office of Social Impact Investment. (2020). What is Social Impact Investing?. Available at: https://www.osii.nsw.gov.au/what-is-social-impact-investing/.

	investors include trusts and foundations, family offices, high-net-worth individuals, corporate foundation, aggregators and impact funds.
Intermediaries	Individuals, organisations and institutions that enable and support SII, but do not directly deliver SII initiatives to a cohort of beneficiaries.
Deliverers	Organisations and institutions that deliver a SII initiative to a cohort of beneficiaries to achieve a social outcome. Delivers can include social enterprises and charities.
Beneficiary	Citizen that achieves an improved social outcome as results of an SII initiative.
SII initiative	A product, program, policy or fund that enables SII or delivers social impact to a cohort of beneficiaries. Throughout the report, key SII initiatives explored are: • policy response • outcomes fund • capability development • wholesaler fund • intermediary organisations • PBR programs. These initiatives will be defined throughout the report.

Current state in Australia

Australia has an emerging and growing foundation for SII. Commonwealth and state and territory governments, investors, intermediaries and delivers are increasingly engaging in SII.

The Commonwealth Government has implemented incremental initiatives to support SII in Australia, including developing the Social Enterprise and Development Investment Funds (SEDIF), trialling SII with states, developing a Sector Readiness Fund for for-purpose organisations, building the outcome measurement capacity of sector, and developing a payment by outcomes trial. State and territory governments have also progressed a range of SII initiatives. Key approaches have included building social impact procurement and commissioning approaches, developing outcomes frameworks, supporting social enterprises and establishing PBR programs such as social impact bonds (SIBs).

Investors have shown increased interest in SII. Managed impact investment grew from around $1.2 billion in mid-2015 to $5.8 billion by the end of 2017. However, just 4 per cent of the 2017 total, or $242 million was invested in social issues. This money was far reaching, as despite the low dollar value, socially focused investment accounted for over 60 per cent of the total number of managed impact investments.[2]

Intermediaries have been increasing their role within Australia's SII ecosystem. Social Ventures Australia (SVA) and Social Enterprise Finance Australia (Sefa) are leading intermediaries, who help delivers access financing to deliver social outcomes. Intermediaries can also facilitate opportunities between investors, government and delivers; design and source potential SII opportunities; and support deliverers to build business cases, develop investment readiness and capability, and attract and broker investment.

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[2] Responsible Investment Association Australasia. (2018). Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2018. Available at: https://responsibleinvestment.org/wp-content/uploads/2018/07/Benchmarking-Impact-2018.pdf

Delivers are also engaging with SII, although evidence indicates that there may have been limited growth in social enterprises over the 2010s. Survey research on social enterprises in both 2010 and 2016 indicates that there were at least 20,000 social enterprises in Australia in both years.[3] Majority of social enterprises operate in the service economy (68.0 per cent in 2016), and leading industries were retail trade; health and social assistance; education; and accommodation, cafés and restaurants. Common cohorts of focus in 2019 were young people (49.1 per cent), people with disability (30.7 per cent) and disadvantaged women (27.5%).[4]

Charities of varying sizes also play a role in delivering social impact. However, this sector is characterised by a high number of small organisations with low turnover, and very few large organisations with high turnover. The Australian Charities and Not-for-profits Commission (ACNC) reports in 2017 that of 1,195 registered charities[5] 61.5 per cent turned over less than $250,000 per annum. The 10 charities with the highest revenue accounted for almost 14 per cent of the sector's entire revenue.[6]

How does Australia's federal system influence SII?

Australia's federal system influences SII as responsibilities for policy, regulatory responses and service delivery for complex social issues can cut across the three levels of government in Australia. As a result of this system, up until this point Commonwealth and state and territory governments have delivered SII initiatives within their areas of responsibilities. However, as SII scales in Australia, its likely mechanisms to better manage the overlay of responsibilities will be required.

Challenges

Despite the emerging foundation for SII in Australian, there are a number of challenges that need to be resolved to encourage further growth in the SII sector and deliver social impacts at a broader scale.

While government involvement in SII has been increasing, responses are still piecemeal, lack a cohesive strategy, and do not address the impact of an SII initiative on all levels of government within a federal system. Specific challenges exist in developing an agreed approach for measuring the outcome and cost-saving of an SII initiative for all levels of government. In addition, a standardised data sharing agreement, which does not currently exist in Australia, prevents actors measuring outcomes across government data sets. [7]

Within the broader ecosystem, investment in SII has remained small scale, suggesting investors have limited opportunities or appetite for a higher value or larger scale SII. The intermediary market is fragmented and there are gaps in providing the services delivers need to scale SII. As discussed above, there has been limited growth in social enterprises between 2010 and 2016, and majority of charities are

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[3] Barraket, J., Mason, C. and Blain, B. *Finding Australia's Social Enterprise Sector 2016. Final Report,* Social Traders and Centre for Social Impact Swinburne. Available at https://www.socialtraders.com.au/wp-content/uploads/2016/07/FASES-2016-full-report-final.pdf (accessed 28 January).
Barraket, J., Collyer, N., O'Connor, M. and Anderson, H. (2010). *Finding Australia's Social Enterprise Sector: Final Report*, Australian Centre for Philanthropy and Nonprofit Studies June 2010.
[4] Ibid.
[5] Registered charities providing statements to the ACNC.
[6] Australian Charities and Not-for-profits Commission, *Australian Charities Report 2017.*
[7] Notably, the Data Availability and Transparency Act (DATA) is under development. See, Office of the National Data Commissioner, 'New Legislation'. Available at https://www.datacommissioner.gov.au/data-sharing/legislation (accessed 14 February).

small with limited scope for turnover, which impacts their ability to deliver SII programs.

Inside Policy also conducted a series of consultations with ecosystem actors between November and December 2019. Throughout these consultations, ecosystem actors reported the following challenges:

- SII market in Australia is fragmented, and hampered by a mismatch between needs, capital and investment vehicles.
- There is no agreed definition for SII or social enterprises. This undermines the strength and effectiveness of the market as actors are unsure how to best participate in SII and investors can have unrealistic expectations of social and financial dividends. This lack of understanding was perceived as dampening investor and government appetite for SII.
- The types of investment opportunities are limited and support a limited number of SII product types.
- Social enterprises and other delivers need greater support to engage with investors, originate and execute deals, seek out the right specialist advice, and report on their impact.
- Government responses to SII have largely been siloed, which has hampered innovative solutions.
- Investors perceive barriers in engaging in SII, while fulfilling their fiduciary duties.
- Some actors have traditionally been excluded from conversations around SII, for example Indigenous social enterprises, and organisations in regional and rural communities.

Inside Policy considered these challenges when assessing the applicability of international approaches to delivering SII in Australia.

Findings

1. What is the current state of the SII ecosystem in each international example?

Overall, the SII ecosystems in the examined countries are developing, with most only emerging in the 2010s. The UK has the most established ecosystem, having first emerged in 2000s and its maturity is demonstrated by the high numbers of investment, initiatives and social enterprises in the ecosystem. France has drawn on a longer history in the solidarity economy[8] to address SII in the 2010s, and while Canada is in the early stages of a national strategy some regions, such as Quebec have established SII ecosystems. In France, this has led to moderate investment in SII[9] but a significant number of social enterprises. In Canada this has resulted in significant investment in SII but a still developing social enterprise market.

Israel, New Zealand and South Korea are later entrants to SII and are still developing their ecosystems. This results in lower numbers of investment, initiatives and social enterprises overall. As India's ecosystems is focused more broadly on development, it is difficult to assess its maturity against the other reviewed countries. Its high population is also likely driving the high value of investment and numbers of social enterprises, especially compared to the low number of government initiatives.

For more information on social enterprise and investor indicators, and the ecosystem summaries for each country see Appendix B and Appendix C.

Dollar investments in SII

The dollar investment in SII is increasing. UK has the leading amount of investment in SII, with the UK Government reporting that responsible investment in the UK in 2017 was US$7, 700, 000 million.[10] This is followed by Canada with US $2,200 million in 2017, and India with $US 1,100 million in 2016.[11] New Zealand had more modest investment of US $556 million into SII in 2019[12], followed by France with US $465 million in 2017.[13] Israel deployed $US 260 million of capital in 2018[14], and

[8] The solidarity economy is characterised by limiting profits in the name of social, solidarity and cooperation objectives. It includes associations, insurance companies, cooperatives, foundations and integration structures.
[9] It is possible definitions around the solidarity economy influenced moderate reporting of SII investment (US $465 million in 2017), especially given the high number of social enterprise (163,000).
[10] Department for Digital, Culture, Media and Sport & the Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017.* Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf (accessed 14 February 2020).
[11] GSG. (2019). India: Capital for Impact. Available at https://gsgii.org/nabs/india/.
[12] Responsible Investment Association Australasia. (2019). Impact Investor Insights: 2019 Aoteatoa New Zealand. Available at https://responsibleinvestment.org/wp-content/uploads/2019/09/Impact-Investor-Insights-Aotearoa-NZ-2019-SUMMARY.pdf (accessed 14 February 2020).
[13] Impact Invest Lab (2017). State of the French Social Impact Investment Market. Available at https://iilab.fr/wp-content/uploads/2019/04/RAPPORT-MARCHE-IIS_EN.pdf.
[14] Our Crowd. (2019). *Impact Investing in Israel: Status of the Market.* Available at https://cdn2.hubspot.net/hubfs/353882/Status%20of%20the%20Market%20Report.pdf (accessed 14 February).

Korea aims to supply $US2.7 million to SII in 2019 through government driven funding.[15]

Social enterprise market[16]

India, the UK, and France have the highest number of social enterprises with 2 million[17], 471,000[18] and 163,000[19] enterprises respectively. These numbers may be influenced by a broader definition of a social enterprise, which may partly demonstrate an approach to SII which is more integrated with the broader economy. For example, in France, social enterprises operate within a broader solidarity economy which is more established in the country.

There is a more modest number of social enterprises in Canada (7,000[20]), New Zealand (2,589[21]), Israel (2,576[22]), South Korea (1,937). Following government intervention, South Korea has seen significant growth in number of social enterprises, increasing from 774 in 2012 to 1,937 in 2018. [23]

Initiatives in SII

Overall, the rate of investment and number social enterprises align with the number of SII initiatives identified throughout this research project. For example, researched identified 68 initiatives in the UK research, 23 initiatives in France, 17 initiatives in Canada, 11 initiatives in both South Korea and India, 9 initiatives in Israel, and 8 in New Zealand. The significant majority of these initiatives are government led or directed.

Government investments in SII

Governments are increasing their investment in SII through direct expenditure or by developing policies, strategies and regulation. Canada, France, India and South Korea have all invested government money in wholesaler or investment funds, with the aim of attracting broader private capital to invest in SII. Canada and South Korea

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[15] GSG. (2019). *Transition to Impact Economies – A Global Overview.* Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/ (accessed 10 February).

[16] The definition for social enterprises varies across the reviewed ecosystems, which influences analysis around the number of social enterprises in each country.

[17] British Council. (2016). *The State of Social Enterprise in Bangladesh, Ghana, India and Pakistan.* Available at https://www.britishcouncil.org/sites/default/files/bc-report-ch4-india-digital_0.pdf (accessed 10 February).

[18] Department for Digital, Culture, Media and Sport & the Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017.* Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf (accessed 14 February 2020).

[19] Richez-Battesti, N., and Petrella, F. (2016). *Social Enterprises and their Eco-systems: A European mapping report*, p.15 [PDF] European Commission. Available at https://halshs.archives-ouvertes.fr/halshs-01461283/document.

[20] Elson, P., Hall, P. and Wamucii, P. (2016). *Canadian National Social Enterprise Sector Survey Report.* Institute for Community Prosperity and Simon Fraser University. Available at http://sess.ca/wp-content/uploads/Canadian-National-Social-Enterprise-Sector-Survey-Report-2016.pdf (accessed 10 February).

[21] Responsible Investment Association Australasia. (2019). Impact Investor Insights: 2019 Aoteatoa New Zealand. Available at https://responsibleinvestment.org/wp-content/uploads/2019/09/Impact-Investor-Insights-Aotearoa-NZ-2019-SUMMARY.pdf (accessed 14 February 2020).

[21] Te Tari Taiwhenua: Department of Internal Affairs. (2019). Community Development Policy.

[22] Our Crowd. (2019). *Impact Investing in Israel: Status of the Market.* Available at https://cdn2.hubspot.net/hubfs/353882/Status%20of%20the%20Market%20Report.pdf (accessed 14 February).

[23] GSG. (2019). *Transition to Impact Economies – A Global Overview.* Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/ (accessed 10 February).

have delivered strategies to develop or promote SII, and France and South Korea have invested in developing the regulatory environment for SII. The UK's approach to SII has situated around a central unit in government, the Government Inclusive Unit. As many of the UK's initiatives have leveraged private capital alongside government investment, it is difficult to establish the dollar amount the UK Government has invested into SII.

Differences across SII ecosystems

Of the countries reviewed, their broader economic context, cultural attitudes towards social spending and regulatory approach influenced development of the SII ecosystem. For example, SII initiatives in Israel aim to leverage the broader start-up economy; France capitalises on its long history of SSE; India facilitates the flow of money to social ecosystems or charities through legislation within the context of broader development; and Canada has a long-term culture of philanthropy, which has led the market to drive SII.

Conclusion

Internationally, SII is still emerging and developing. However, the trends between amount of investment, number of social enterprises and number of SII initiatives, indicate that the rate of government commitment and investment appears to play a role in catalysing the market.

2. What are the impacts of SII initiatives within the identified ecosystems? How do the SII initiatives in the identified ecosystem apply to Australia.

This question reviewed SII initiatives within each ecosystem to assess their impacts and application to Australia. Appendix C includes a review of each country's SII ecosystem and the name, description, impact and application to Australia of the main reviewed initiatives.

SII initiatives driving impact

Policy responses, capability development, wholesaler funds and intermediaries deliver impact by increasing the flow of investment, knowledge, skills and capacity to create robust ecosystems. PBR initiatives then access this investment, knowledge, skills and capacity to deliver programs for beneficiaries. Outcomes funds provide a mechanism to scale PBR through outcome and performance metrics.

Most policy responses strive to improve a component of an ecosystem or drive holistic change across the entire ecosystem. Internationally, there are more examples of targeted legislation addressing a specific barrier, challenge or gap in the SII ecosystem to achieve an outcome. Policy responses have also adapted to address emerging barriers or gaps. For example, the policy approach to Big Society Capital adapted to address intermediaries' and delivers' capability, when it became clear skills and capital gaps were preventing the uptake of capital.

Governments are now leveraging evidence of international progress in SII to holistically scale SII through comprehensive and integrated strategies. For example, in Canada, the Social Innovation and Social Strategy Co-Creation Steering Committee has delivered recommendations to strategically leverage the current state to build the Canadian SII ecosystem. These recommendations focus on developing government commitment and legislation, developing capability and skills, developing funding and capital opportunities, developing market access, addressing barriers, facilitating evidence and building awareness.

Across ecosystems, governments have sought to improve delivers' ability to uptake investment capital through capability development programs. The Access Foundation's Reach Fund evaluation found that initiatives that address a specific barrier to participating in SII and focus on the relationship between delivers and investors are most successful in supporting deliverers to uptake SII capital.[24] Similarly, wholesaler funds that initially focused on distributing funding to social finance investment funds for investments, are now increasingly focused on developing the capability of delivers and the other intermediaries to increase their impact.[25]

PBR is the example of SII program delivery with the most evidence, and SIBs have been trialled in the UK, Canada, France, Israel and New Zealand. There is evidence that SIBs can support social outcomes to be delivered to beneficiaries and also

[24] Access the Foundation for Social Investment (2019). The Reach Fund Learning Report. Available at https://access-socialinvestment.org.uk/wp-content/uploads/2019/03/Reach-Fund-Learning-Report-FINAL-14-March-2019.pdf.
[25] For example see Big Society Capital.

deliver returns for investors. Outcomes Funds scale this impact, as they determine an outcomes and payment metric that can be applied to multiple PBR programs.

SII initiatives most applicable to Australia

SII initiatives that operate in a federal government system and align with Australia's broader economic, cultural and regulatory environment and the Commonwealth Government's SII priorities; and/or have clear program features and operations are most applicable to Australia.

Initiatives within the UK are examples that align to Australia's broader economic, cultural and regulatory environments and Commonwealth Government priorities for SII. Evaluations and commentary on the Public Services (Social Value) Act, Big Society Capital, and the Access Foundation demonstrates how a specific legislation, wholesaler and capacity building programs can deliver outcomes.[26] Other key UK initiatives, such as the Government Outcomes Lab (research intermediary), Centre for Social Impact Bonds (government intermediary) and Inclusive Economy Unit (central policy unit) demonstrate how initiatives can develop part of the ecosystem that are currently undeveloped in Australia. However, there is limited information on how these initiatives were implemented to demonstrate the development path in Australia.

Most government-led initiatives in Canada have been recently developed, as a result there is little evidence of the research that underpins the initiatives' design and information on how the initiative is implemented and operated. The Social Innovation and Social Strategy Co-Creation Steering Committee's final paper reviews international and Canadian evidence to recommend a path for scaling SII in Canada. Many of these recommendations have detailed design and implementation information that is applicable to Australia. For example, the Social Finance Fund which is being implemented by the Canadian government, demonstrates a mechanism to increase investment opportunities and provide capability development for intermediaries in Australia. The Investment Readiness Grant Fund also demonstrates useful ways to distribute government funding for capacity building, such as administering funding through investment readiness support partners, providing funding to intermediaries to strengthen and address system-level gaps. However, as an emerging ecosystem there is less evidence on the achieved impacts of these initiatives.

Outside the UK and Canada, Akina in New Zealand is an applicable example of how government can partner with a key intermediary to build capacity and cohesion across ecosystem actors. Akina delivered a three-year strategy that has led to intermediary development, a social procurement platform and working groups, including for Maori social enterprise sectors.

SII ecosystems most applicable to Australia

As is evidenced above, the SII ecosystems in UK and Canada are the most applicable for Australia, followed by New Zealand. The French, Israeli and South Korean SII ecosystems confirm that policy response, capability development, intermediaries, wholesaler funds, outcomes funds and PRB are the common initiatives governments and other ecosystem actors uses to develop SII. However, it is hard to apply these ecosystems to Australia for a range of reasons including

[26] Please note, evidence base for Big Society Capital is focused on design and implementation information. There is limited information on Big Society Capital's broader outcomes.

language barriers, lack of evidence, differences in approaches to SII, and different economic, cultural and regulatory environments. India is the less useful ecosystem, as SII is situated in broader development context.

3. What lessons can be drawn for Australia from international activity on SII? What activities in each country have potential for adaption to the Australian ecosystem?

Across the ecosystems examined, policy responses, capability development, intermediary[27], wholesaler fund, capital fund and PBR emerge as the common types of SII initiatives. These types of initiatives are implemented across the different countries with varying degrees of maturity and impact.

While all the ecosystems examined are still evolving and changing as they continue to respond to gaps and challenges, the evidence indicates that the above intervention types facilitate system-level change and provide the best conditions for SII to deliver social and economic outcomes.

While these initiative types were consistent across countries, a country's broader economic context, cultural attitude toward social spending and regulatory approach influenced the types of initiatives undertaken, and their design and implementation.

Policy response

Government policies are the foundation of a mature and well-functioning SII ecosystem. Governments can help develop an SII market by announcing a clear strategy to draw in and leverage other stakeholder involvement, establishing regulatory environments and building transparency in SII. Successful policies are a catalyst for private investment, rather than government dominating the market.[28]

Policy responses include establishing strategic bodies, bureaucratic structures and ministerial roles, and developing strategies and legislation. Of the countries reviewed, governments strategised to shape the SII ecosystem as well as responded to challenges as they emerged. A policy response also usually underpins any government-led action in capability development, wholesaler fund, outcomes fund, intermediaries and payment by results programs.

Why it works?

Overarchingly, policy responses work as they signal the government's commitment to SII. In addition, the scope and focus of the policy response also addresses a range of other challenges, barriers, or gaps in the SII ecosystem.

What features would be effective in Australia?

International policy responses that seek to build national cohesion for SII, or address a key challenge, barrier or gap in Australia's SII would be effective.

In terms of building cohesion for SII, the key findings and recommendations from the Canadian Social Innovation and Social Strategy Co-Creation Steering Committee demonstrates an effective path for building a federal system of SII across an already

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[27] Intermediaries can also deliver capability building, wholesaler fund, outcome fund and investment funds.

[28] OECD. (2015). *Social Impact investing: building the evidence base*. Available at https://read.oecd-ilibrary.org/finance-and-investment/social-impact-investment_9789264233430-en#page1.

emerging SII market. The Committee's recommendations are group by a development path that recommends the Canadian Government:

- demonstrates government commitment through legislation, and then builds the supporting infrastructure
- provides support to develop the capacity and skills of ecosystem actors, including deliverers
- develops funding and capital opportunities
- develops market access to through government social procurement
- address policy, legal and regulatory barriers to SII
- facilitate evidence and knowledge sharing
- build awareness and mobilisation.[29]

Policy responses in the UK also demonstrate some effective features that could be transferrable to Australia. As a leader in SII, the UK's policy responses centred around a central policy unit, now the Inclusive Economy Unit, that was able to respond to reform as the ecosystem developed. The Public Services (Social Value) Act, for example, provides a mechanism to use government procurement to leverage broader social change.

What features would ineffective/challenging to implement in Australia and why?
Some governments, such as Israel and New Zealand, have demonstrated a preference for displaying a commitment to SII through a memorandum or commitment statement. However, given the Roundtable consultation process indicated that Australia ecosystem actors seek alignment between government commitment and action, its likely a strategy that communicates both commitment and action will be more effective than merely a commitment statement.

Policy responses in France, Israel and South Korea demonstrates how governments can address key challenges in SII through policy mechanisms. However, differences within the design of SII ecosystems and broader economic, cultural and regulatory influences on SII will make it difficult to transfer these initiatives to Australia.

Capability development

What is it?
Capability development in the SII environment relates to the systems or programs, governments, investors, charities and intermediaries use to scale up and/or improve skills and knowledge, tools, equipment and financial resources. Ecosystems require capable deliverers to deploy and receive investment, develop and deliver PBR contracts, deliver and respond to impact procurement, and deliver and measure social outcomes. Due to the cross over between capability development and intermediaries, this section will focus on the capability development for delivers. Capability development for other ecosystem actors will be explore in the intermediaries' sub-section.

Why it works?

[29] Government of Canada. (2018). Inclusive innovation: new ideas and new partnerships for stronger communities: Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group. Available at: https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/reports/recommendations-what-we-heard.html#h2.05.

Capability development of ecosystem actors is key to developing and scaling SII. International evidence has demonstrated that building the capacity of delivers, in particular, is necessary to ensure the uptake of capital help by wholesalers and investments funds.

What features would be effective in Australia?

Research of the international ecosystems suggests establishing a government policy position, and then establishing an independent agency or procuring a non-government organisation to deliver capability development is an effective strategy. In some cases, capability development is also delivered as part of a wholesaler or investment fund. In delivery, capability development is effective when it targets an identified barrier to SII, fosters relationships with investors and invests in scaling organisations.

In Canada, New Zealand, France, Israel and South Korea government has developed a policy position towards capability development, which is then delivered by establishing an independent capability development agency or partnering with a key non-government agency. It is likely this approach to design would be effective in Australia, as it aligns with the Commonwealth's preference to guide the SII ecosystem.

Key features of capability development involve addressing the financial capacity and financial skills sets of deliverers. The Access Foundation uses two complementary funds, the Reach Fund and the Growth Fund, to prepare delivers for SII. The Reach Fund provides charities and social enterprises with up to £15,000 grants to address a specific barrier to SII, such as completing financial modelling; developing social impact measurement, governance support or systems; or improving use and management of data. In the Reach Fund delivers work directly with an investor, rather than a development intermediary, which was evaluated being a more successful program design for securing investments.[30]

The Growth Fund complements the Reach Fund by providing grants or repayable finance up to £150,000 to charities and social enterprises to grow or diversify their business models. The Growth Fund is delivered as a wholesaler fund, and social investors provide the financing to charities and social enterprises.[31] It addresses a gap within the SII ecosystem, as social investors deem financing for growth business models too risky.[32] The Quarterly Dashboard for 30 September 2019 indicates 388 investments have been made to date. Of these 388 investments 58% also received a Growth Fund grant, indicating that there is a strong need for mixed finance.

What features would ineffective/challenging to implement in Australia and why?

Examples of capability development in Israel and India would be difficult to implement in Australia, given the broader innovation focus in Israel and the development focus in India. In addition, the language barrier and lack of evidence

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30 Access the Foundation for Social Investment (2019). The Reach Fund Learning Report. Available at https://access-socialinvestment.org.uk/wp-content/uploads/2019/03/Reach-Fund-Learning-Report-FINAL-14-March-2019.pdf.

31 Access the Foundation for Social Investment. (2016). The Growth Fund: An Introduction. Available at https://access-socialinvestment.org.uk/wp-content/uploads/2016/07/Growth-Fund-guidance-basics-v3.pdf.

32Access the Foundation for Social Investment. (2015). The Growth Fund: Simple, Suitable, Small Sized Finance. Available at https://access-socialinvestment.org.uk/blended-finance/the-growth-fund/

makes it difficult to recommend implementing features of the capability building in France and South Korea.

Intermediaries

What is it?

Intermediaries are organisation that support the SII ecosystem, but do not directly deliver SII programs. Intermediaries can provide a range of functions, including supporting the capacity of deliverers and other actors, accessing and distributing capital, sharing knowledge and skills, and providing specialist services. Intermediaries can deliver wholesaler funds, outcomes funds and capability building. They can also deliver investment funds where capital is invested directly from the fund to the delivers.

Why it works?

Intermediaries play an important role in building cohesion and developing SII ecosystems. Intermediaries can act to help support governments translate policy direction into action, by supporting and working with delivers. Intermediaries can also help governments develop their skill set in SII, particularly around commissioning and procuring for social outcomes.

What features would be effective in Australia?

As the intermediary market is dispersed and varied, a key feature for supporting intermediaries is establishing primary intermediary role that can then lead to broader development in the SII ecosystems. Canada established this role through the Social Finance Fund, who expect social finance investment funds to work to build local intermediaries as part of receiving distributed capital. In New Zealand, Akina is the government's strategic intermediary that is building cohesion in the SII ecosystem.

Akina developed a three-year programme of work, the Impact Initiative[33], to grow the social enterprise sector in New Zealand. The Impact Initiative focuses on developing the capability of social enterprises; demonstrating the impact of social enterprises for government; reducing legal barriers to unlocking funds; and working to grow opportunities for social procurement. It demonstrates features that could be useful in Australia, including methods for developing localised SII networks and building broader infrastructure within the SII ecosystems.

To develop localised SII networks, Akina undertook a 'Regional Hubs' pilot between November 2018 and September 2019 as part of the capacity development component of the Impact Initiative. The pilot connected and trained a network of social enterprise champions (champions), with the aim of understanding if and how a network can facilitate peer-learning and localised support to build the capability of social enterprises. An evaluation of the pilot found it delivered key outcomes to increase connections in the sector, increase the confidence of champions to support social enterprises, and increase levels of stakeholder engagement. However, the Pilot did not achieve one short term outcome to build the capability of champions to support social enterprises more meaningfully due to process and implementation decisions.[34]

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[33] The Impact Initiative is also referred to as the Social Enterprise Sector Development Program.
[34] Losch, Z, Malandain, H., and Purcell, A. (2019). The Hubs Pilots Insights Report. Available at https://static1.squarespace.com/static/5b02f1bd85ede13734718842/t/5df98025437fa7242cb229f4/1576632424590/Hubs_Insights_Report_November_2019.pdf.

To build the broader SII ecosystem, Akina launching New Zealand's first social procurement platform; establishing a social enterprise sector working group to represent the needs of the wider community, Maori and social enterprise sectors; improving social enterprises capability through investment readiness grants[35]; and improving access to markets by advocating for social procurement and connecting buyers with social enterprises.[36] Providing an intermediary that supports engagement of traditionally excluded groups, including Indigenous social enterprises may also be a useful feature to include.

In addition to building cohesion across the ecosystem, an intermediary that focuses on the capacity of government is likely to be effective in Australia. The Centre for Social Impact Bonds in the UK demonstrates how government can be supported through a centralised intermediary that can provide guidance on developing and implementing SII reform. While the Centre for Social Impact Bonds is a useful example on developing centralised support, its likely Australia would benefit from an intermediary that has a more-broad SII mandate.

A final feature of an SII intermediary market is developing a research organisation that is able to lead research to support SII policy and practice. In the UK, this is delivered by partnering with the University of Oxford to deliver the Governments Outcomes Lab. In Canada, this role is delivered through the Investment Readiness Grant Fund.

What features would ineffective/challenging to implement in Australia and why?
Internationally, some intermediaries, such as the SRI Label (France) focused more on developing the confidence of investors. While such intermediaries may have some value in Australia, they are unlikely to address some of the more pressing challenges of developing the capability of ecosystem actors, building cohesion or facilitating investment opportunities.

Wholesaler funds

A wholesaler fund can help build the capacity of social enterprises, charities and intermediaries and provide opportunities for investment. A wholesaler is typically established through some form of government investment, which is then used to attract private investment. Capital is distributed to a range of social financing investment vehicles, making it particularly effective in supporting a diversity of investment opportunities.

Why it works?

Wholesalers work as they provide a mechanism to mobilise government investment and attract large scale private sector investment. This capital can be used to underpin the SII market, as it is distributed to a wide range of investment vehicles.

By working with social financing investment vehicles wholesalers can also support the capability and development within the broader intermediary market - leveraging new capital, developing measurement instruments and encouraging collaboration in

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35 Investment Readiness Grants provide grants of up to $20,000 to help them get ready for investment. This can include business, financial, or legal support.
36 Akina. (2019). The Impact Initiative: Social Enterprise Sector Development Programme. Te Tari Taiwhenua Internal Affairs. Available at: <https://static1.squarespace.com/static/5b02f1bd85ede13734718842/t/5d34eef37a66810001fff65f/1563750173637/SESDP_Year_One_A3_Summary.pdf>.

the sector. Internationally, wholesalers are also increasingly working to build the capability of deliverers.

Evidence from the UK demonstrates that the original wholesaler, Big Society Capital has been effective in raising capital. In recent years, wholesaler funds, similar to Big Society Capital have also been established in Canada and South Korea.

What features would be effective in Australia?

Big Society Capital provides the most effective example of a wholesaler. It is explored below as many of its features are transferrable to Australia.

Big Society Capital (BSC) is a financial institution, or wholesaler, established in 2011 to build the social investment market in the UK. Each investment made by BSC aims to make both a financial and social return and build the market for social investment, with the ultimate aim of capitalising the social sector to fund initiatives that create social impact.[37]

BSC is independent of the UK Government and was funded with £400 million from dormant bank accounts of the four major high street banks.[38] This was done through creation of an intermediary special purpose vehicle into which the banks transferred money from dormant accounts. This in turn transferred money to the UK Big Lottery Fund to provide capital to BSC's principal shareholder, the Big Society Fund, to invest in BSC. BSC was established as an operating company overseen by a majority equity holding entity, the Big Society Trust, whose Board ensures BSC's commitment to its social mission.[39]

The strategy behind BSC was to build the social investment market 'from the top down'. This presented challenges in sourcing deals in its first years of operation. BSC had to take a flexible approach to investment decision-making, ensuring that the type and price of its capital was appropriate to support a pipeline of social investment opportunities. To help build its pipeline, BSC advocated for Social Investment Tax Relief, a tax break designed to incentivise investors to accept lower rates of return for certain investments. A further market-building initiative was creation of the Access Foundation, a 'sister organisation' to BSC intended to increase deal flow through provision of grants, loans and capacity support to social service organisations, to help bridge the gap in investment ready deliverers.[40]

Since inception, and alongside other investors BSC has made £1.7 billion available for social enterprises and charities with a focus on housing, places and communities and tackling early-stage social problems.[41] It does this through co-investment of equity or debt in social-purpose funds managed by intermediaries; providing

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[37] Daggers, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank.* Said Business School. University of Oxford. Avilable at: http://eureka.sbs.ox.ac.uk/6277/1/BSC%20Case%20Study%20Final%20October%202016.pdf.
[38] Laing, N., Long, C., Marcandalli, A., Matthews, J., Grahovac, A., & Featherby, J. (2012). *The UK Social Investment Market: The Current Landscape and a Framework for Investor Decision Making.* Available at: <http://www.huckfield.com/wp-content/uploads/2014/07/12-Cambrodge-Assoc-UK-Soc-Invest-Mkt.pdf> [accessed 7 January 2020].
[39] Daggers, J. and Nicholls, A. (2016). *Big Society Capital.*
[40] Daggers, J. and Nicholls, A. (2016). *Big Society Capital.*
[41] Big Society Capital (2018). *Annual Review.* Available at: <https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/Big_Society_Capital_2018_Annual_Review.pdf> [accessed 14 January 2020].

subordinated capital to social investment intermediaries and funds; investing in existing intermediaries and their capability development; investment in infrastructure organisations; and investment and underwriting for innovative financial products. A key consideration in each investment decision made by BSC is 'market building', defined in its 2013 investment strategy as "understanding how each prospective BSC investment helps strengthen a component of the social investment market, and how each investment contributes to a larger, more sustainable and diverse market".[42]

BSC uses the Impact Measurement Project impact dimensions to help define intended outcomes of initiatives funded through its investments. BSC reports some evidence of social outcomes, such as over 3,800 people housed as a result of housing investments.[43]

What features would ineffective/challenging to implement in Australia and why?
Experience from implementing Big Society Capital indicates that it can be difficult to mobilise capital, without also supporting the capability of deliverers. In Australia, it is likely a wholesaler will be ineffective at developing SII without also a strategy and program to address capability of delivers and other ecosystem actors.

Outcomes fund

What is it?
Outcomes funds commit to paying for measurable social outcomes at scale. They pay for PBR programs, rather than activities or outputs. They are underpinned by a measurement framework and pool funding from government, philanthropic and/or private investment sources. Service deliverers can partner with social investors and/or an intermediary to apply for funding and are paid based on the outcome achieved.[44]

Why it works?
Outcomes funds enable a scaled approach to addressing complex social challenges. They provide a structure to manage different investors' risks, returns and objectives. Performance metrics are used to track progress, and act as a trigger for payment. They also foster collaboration between investors and deliverers to address social issues and innovate.[45] Outcomes funds may also be particularly useful in Australia's federal system, as they provide a mechanism to agree on costs and savings to governments based on interventions.

What features would be effective in Australia?
Of the international SII ecosystems reviewed, the DWP Youth Unemployment Innovation Fund (IF) is a key example of an outcomes fund. It is reviewed below as many of its features would be effective in Australia.

The DWP Youth Unemployment Innovation Fund (IF) pilot was a £30 million outcomes fund which commissioned 10 SIBs to support young people aged between

[42] Daggers, J. and Nicholls, A. (2016). *Big Society Capital.*
[43] Big Society Capital (2018). *Annual Review.*
[44] Government Outcomes Lab. (2020). *Outcomes Funds*. Available at https://golab.bsg.ox.ac.uk/the-basics/outcomesfunds/.
[45] GSG. (2019). *Developing Outcome Funds*. NAB Action Guide from the Global Steering Group for Impact Investment.

14 and 24, who were either disadvantaged or at risk of disadvantage, participate in education, training and employment, and in so doing reducing their longer-term dependency on benefits. The IF also tested the ability of social investment models to produce benefit savings and/ or other wider fiscal and social benefits and deliver Social Return on Investment (SROI); and help develop the social investment market and smaller delivery organisations and producing credible evidence that can guide similar social investment funded initiatives.[46]

The PBR structure of the fund was perceived as incentivising better performance in the final evaluation. Payments were based on an agreed rate for both early intervention and substantial outcomes.[47] Payment amounts were calculated based on the potential benefit savings to HM Treasury for two or three years. The financial sensitivity of the PBR structure also lead to increase performance monitoring within the pilot SIBs, which incentivised a continuous improvement approach to delivery. However, as is discussed below the return on investment and client outcomes were not as great as other programs of similar nature, which contradicts with this perception.

According to the Willingness to Pay (WTP) metric, the program received a social return on investment and the ratio of benefits to cost was 1.3 and 1.25 for the two project rounds. However, these ratios are smaller than those produced by similar programs, and its likely many of the client outcomes would have been achieved without the SIBs. There is also evidence suggesting that the proportion of participants achieving higher level qualifications was reduced as a result of the programme. It is possible that data constraints affected the analytical approach used to estimate impacts, and therefore the findings should be interpreted with caution. This caveat also restricts the ability of the SROI analysis to confidently state that the benefits of the IF exceeded its costs.[48]

The key implication of the final evaluation of IF was to establish the types of outcome for payment, the amount of payments for outcomes and program specifications from the start, to incentivise the desired outcomes and avoid any perverse incentives. The final evaluation also revealed that paying a high rate for an outcome will not deliver the required outcome if investors perceive the outcome as too high risk.[49]

What features would ineffective/challenging to implement in Australia and why?
Developing an outcomes fund that accurately prices costs and savings to government, across the Commonwealth, state and territories, and if necessary local government, is likely to be challenging.

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46 UK Department of Work and Pensions (DWP) (2014). *Youth Unemployment Innovation Fund Pilot: Starts and Outcomes, April.* Available at: <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/307070/youth-unemployment-innovation-fund-pilot.pdf> [accessed 8 January 2020].

47 Early intervention outcomes included proxy measures such as improvements in attitude, school behaviour and attendance, and achieving qualification. Substantial outcomes included entry into and maintaining employment. Payments were caped per an individual, at £8,200 for SIBS in the first rounds and £11,700 for SIBs in the second round.

48 UK Department of Work and Pensions (DWP) (2014). *Youth Unemployment Innovation Fund Pilot: Starts and Outcomes, April.*

49 Department for Work and Pensions. (2016). Qualitative Evaluation of the DWP Innovation Fund: Final Report. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/535032/rr922-qualitative-evaluation-of-the-dwp-innovation-fund-final-report.pdf

Payment by results

What is it?

PBR allows government to pay a service provider based on outcomes achieved rather than inputs or outputs the provider delivers. SIBs are a PBR mechanism.

PBR works by sharing the risk of achieving outcomes between the government, investors and deliverers, allowing for innovation in the sector by providing new service models and creating flexible delivery for government and beneficiaries. Investors are also able to try various financial models to maximise returns and adjust the risk to their needs.

Why it works?

PBR works as the payment system incentivises the delivery of social outcomes, rather than program outputs. The design of SIBs also allows a mechanism to use private investors to engage in initiatives and programs that are addressing a social need.

What features would be effective in Australia?

As has already been demonstrated in Australia, the design features of SIBs are effective in Australia. Key features include establishing a performance metric, with agreed payments for outcomes.

What features would ineffective/challenging to implement in Australia and why?

Evaluators of the HMP Peterborough SIB noted that PBR can be undermined by unintended outcomes. For instance, SIBs might create incentives to cherry pick service users likely to achieve the desired outcome, and not provide an intervention to those who might be difficult to work with. The costs of establishing and operating a SIB could outweigh savings achieved through outcomes.[50] Stakeholders who participated in the journey-mapping consultations also expressed concerns that SIBS were expensive, time-consuming and legally complex.[51]

SIBs can also present challenges in measuring and attributing outcomes and assigning value to the outcomes to determine appropriate payments.

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[50] Disley, E. Rubin, J., Scraggs, E., Burrowes, N. and Culley, D. (2011*). Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough.* Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/217375/social-impact-bond-hmp-peterborough.pdf (accessed 7 January 2020).
[51] Inside Policy. (2019). *Journey Mapping.*

Implications and potential next steps

How to build an SII ecosystem

Internationally, countries are striving to deliver SII through initiatives that target and address the needs of governments, deliverers, intermediaries, investors and citizens, and a number of these initiatives could be adapted and replicated in Australia. An effective path for building an SII ecosystem is developing policy responses, facilitating capability building, developing the intermediary sector, developing wholesaler funds, developing outcomes funds and then delivering payment-by-results.

Policy responses

Policy responses provide the foundation for delivering a coordinated response to SII. The Canadian Social Innovation and Social Strategy Co-Creation Steering Committee demonstrates the most effective federally led path for building SII across an already emerging SII market. In addition, a Central Policy implementation unit, as demonstrated in the UK, can support a strategy through coordinated and responsive implementation.

Policy responses are also a foundational component for the other types of SII initiatives - facilitating capability building, developing the intermediary sector, developing outcomes funds, developing wholesaler funds, and delivering PBR. While developing an overarching strategy is the recommended approach to address these initiative types, there is scope to develop more bespoke policy responses to emerging issues as SII develops.

From the review of international ecosystems, the key components of a policy response that should be explored for implementation in Australia are:

- Develop a holistic strategy that creates a development path for SII. A potential development is:
    - demonstrates government commitment through legislation, and then builds the supporting infrastructure
    - provides support to develop the capacity and skills of ecosystem actors, including deliverers
    - develops funding and capital opportunities
    - develops market access through to government social procurement
    - address policy, legal and regulatory barriers to SII
    - facilitate evidence and knowledge sharing
    - build awareness and mobilisation.[52]
- Establish a central policy unit, that can be responsible for coordinating and responding to policy implementation.
- Provide mechanism for developing bespoke policy responses to SII as issues emerge.

Capability development

[52] Government of Canada. (2018). Inclusive innovation: new ideas and new partnerships for stronger communities: Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group. Available at: https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/reports/recommendations-what-we-heard.html#h2.05.

A capable social enterprise and charity market that can take up investor capital to produce results for vulnerable groups is essential in a SII ecosystem. As this market in Australia is still developing, it will require support through capability development. Evidence from the UK also indicates that ill-prepared deliverers are barriers to SII, as they are unable to uptake capital that government makes available through a wholesaler or outcomes fund.

Key components of capability development that should be explored for implementation in Australia are:

- Developing a government policy position, which is then implemented by establishing an independent capability developing agency or partnering with a non-government organisation.
- Focusing capability development on both building delivers' skills and financial capacity to engage in SII. The following design features should be considered:
    - Building delivers' skills should focus on addressing a specific barrier to SII, such as competing financial modelling; developing social impact measurement; governance support or systems; and improving use and management of data, are more effective.
    - Partnering delivers with investors at the start of a capability development grant program, is a more successful way to ensure capital uptake.
    - Developing a grant or repayable finance program to support scaling deliverers, as scaling is often too risky for investors.

Intermediaries

A strong SII ecosystem is underpinned by a network of intermediaries that support delivers and other actors to access and distribute capital, sharing knowledge and skills, and providing specialist services. The intermediary market can include intermediaries that facilitate capability development and ecosystem cohesion, intermediaries that support government development, and investment funds.

Key components of intermediaries that can be explored for implementation include:

- Developing a primary intermediary, or intermediary function that work to build the capacity and networks within the broader intermediary market. This can also occur through a centralised wholesaler fund.
- Strategies for developing ecosystem cohesion include training a network of regional social enterprise champions, building social procurement platform, engaging subsections of the SII ecosystem including Indigenous SII actors, and advocating for SII.
- Developing a centralised intermediary for government that can provide guidance on developing and implementing SII reform.
- Developing a research intermediary to support research into SII to support policy development and practice.

Wholesaler fund

A wholesaler fund facilitates large-scale distribution of investment to delivers, through intermediaries such as social finance funds. As has been demonstrated overseas, such a fund could also play a role in developing the capabilities of social enterprises and charities.

Key elements of a wholesaler funds that can be explored for implementation include:

- To be effective government will need to provide or facilitate an upfront investment, that can be used by the wholesaler to attract private sector investment. A complementary tax incentive may also support investment into the wholesaler.
- Facilitating capacity development will be essential for ensuring the uptake of capital.
- A measurement framework may help define and measure the intended outcomes of initiatives funded through its investments.

Outcomes funds

Agreed standard outcome measurement and payment frameworks between the Commonwealth and states and territories, would support SII achieve outcomes across multiple jurisdictions. Internationally, the DWP Youth Unemployment Innovation Fund demonstrates how government can develop payment metrics for achieved outcomes that are based on savings to government. Establishing an independent body to help measure outcomes, like the GoLab model in the UK may also provide clarity in the market on measurement methodologies and data sources.

Key elements of outcomes funds that can be explored for implementation include:

- Developing a payment metric that establishes agreed outcomes and payments at the start of the fund. When developing the metric consider how the outcomes and payment structure may incentives any perverse outcomes and investor appetite for risk.
- Establishing a research intermediary can assist in undertaking the research to development outcomes and payments.

PBR

PBR initiatives are the final outcome of an SII ecosystem, that can be delivered once the key parts of an SII ecosystem's direction and infrastructure has been delivered. Payment by results can be delivered through SIBs or other outcomes commissioning.

Key elements of payment by results that can be explored for implementation include:

- Performance metric that specifies desired outcomes and payments. An outcomes fund could streamline this process, as developing outcome measures and payments can be a time consuming and resource heavy process.

What this means for the Commonwealth in developing its SII strategy

Overall strategy

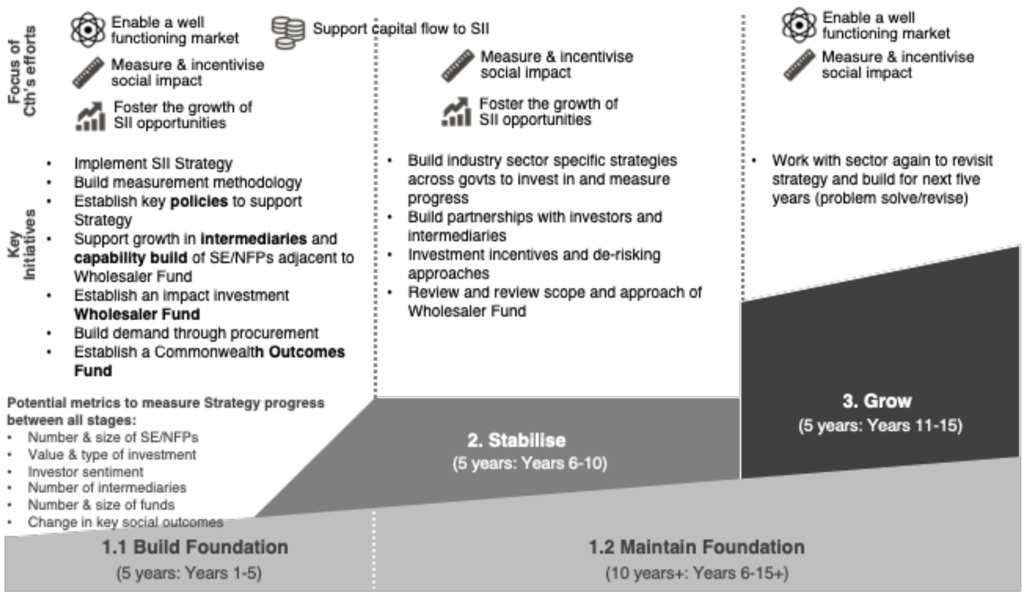
The Commonwealth can develop a strategy for a long-term and mature SII ecosystem. It can set long-term policy parameters, including the social outcomes to be achieved, build the capability of deliverers and intermediaries, and establish an impact investment wholesaler fund. It may not have to build capability and support programs from scratch; it could adapt existing Commonwealth and state business support programs for the social enterprise sector, for example. While doing this, the Commonwealth could act as a market builder, creating the right policy, measurement and support mechanisms to establish a sector that is ready to deliver, and social impact outcomes that can be measured.

Once it has established the foundations of the ecosystem, the Commonwealth could focus on stabilising it by building industry sector strategies and partnerships with investors and intermediaries. It could develop investment incentives and de-risking approaches, through the use of a wholesaler fund, adapted for the Australian context. During this stage, the Commonwealth could harness opportunities in particular sectors to provide focus and clarity about social outcomes to be achieved. It could also be considered a market participant as it de-risks investment.

In the final stage, the Commonwealth could continue its role as a policy setter, refreshing the strategy based on progress, to help the ecosystem grow. Once again, it could consider itself a market participant.

Inside Policy recommends that the Commonwealth develop a 15-year strategy, with five-yearly goals. The first five years could focus on building the ecosystem's foundation, followed by stabilising the ecosystem and, finally, growing the foundation. This is demonstrated in the diagram below.

Figure 1: The 15-year plan



Further work required

Further research will be required to develop the government's stewardship role to achieve greater social outcomes and investor returns. Research shows that investors focus on receiving returns, which needs to be balanced with a strong government priority on meeting social outcomes.

To successfully monitor the development and progress of the SII ecosystem, the government will also need to develop a reporting framework that measures the development of the Australian SII ecosystem, at a systems level.

Developing a standard approach to impact measurement and reporting will be key to developing the SII ecosystem. In addition, developing an agreed measurement methodology and payment framework, will develop shared agreement for paying on social outcomes for the Commonwealth and state and territory governments.

Appendix A: SII initiatives in Australia

The following initiatives were raised by stakeholders during the roundtable consultation process. The jurisdiction, type of investors and purpose have been completed based on desktop research.

Name	Jurisdiction	Type of investors	Purpose
Aspire SIB	South Australia	Institutional Foundations	Social housing Training Empowerment Reduce hospital days, convictions, and recidivism
Barnett foundation	Victoria	Public Benevolent Institution	Social housing Financial literacy
Benevolent Society SBB	National	Public Benevolent Institution	Protection of the vulnerable
Big River Impact Foundation	National	Corporates	Indigenous issues
Boost Your Business	Victoria	Government grants	Development projects
Brightlight impact	NSW and Victoria	Government Superannuation funds High net-worth individuals	Delivering U.N. Sustainable Development Goals.
Buckland Foundation	Victoria	Trustees	Housing Employment Health Education Agriculture
Buy Assist (shared Equity) Aust	Queensland	Builders Banks Finance institutes Not-for-profits	Affordable homeownership
Cages Youth Foundation	Queensland	SEFA Client contribution	Community engagement Employment Education Community enterprise Crisis care and advocacy
Cooryong Neighbourhood Centre (bakery and mechanic workshop)	Victoria	SEFA Foundations Cash reserves	Education Social inclusion Employment (for youth and long-term unemployed)
Cummins	South Australia	Unavailable	Community development
Giant leap fund	National	Unavailable	Venture Capital for start ups

Name	Jurisdiction	Type of investors	Purpose
Global Sisters	National	Foundation	Women's empowerment
Goodstart	National	Banks Government loans Private investors Philanthropy	Childhood early leaning
Grameen Australia	National	Institutional investors Private investors	Microfinance
Habitat for Humanity	Victoria	SEFA Lord Mayors Charitable Foundation	Crisis and affordable housing
Independent Living Villages	New South Wales	SEFA Client contribution Partners	Disability housing
Indigenous Social Enterprise Fund	National	SVA Indigenous Bank of Australia Reconciliation Australia	Capacity building
Lockington Hotel Coop	Victoria	Community	Social inclusion
Maragnuka (Bourke) Justice Reinvestment	New South Wales	Philanthropy	Aboriginal children and young people welfare
MiHaven	Queensland	SEFA Private investment	Education and training Empowerment Social inclusion Employment
Newpin SBB	New South Wales	Newpin SBB Trust Service provider High net worth individuals Family foundations Superannuation funds	Child and family welfare Family reunification Empowerment
Newpin Qld SBB	Queensland	High net worth individuals Foundations Institutional investors	Child and family welfare Family reunification
Nightingale Housing	Victoria	SEFA SVA Superannuation Fund Private investors	Affordable housing Community enterprise
Old Beechworth Gaol	Victoria	Community investors Philanthropy Australian Centre for Rural Entrepreneurship	Supporting rural areas
Providential Homes	New South Wales	SEFA Private investment Cash reserves	Homelessness Social inclusion Wrap around support

Name	Jurisdiction	Type of investors	Purpose
Sacred Heart Mission – Journey to Social Inclusion SIB	Victoria	Investors Philanthropy	Homelessness
Sector Readiness Fund (SRF)	National	Government	Capability building
Shopfront Arts Co-op	New South Wales	SEFA Government grants Club grant Philanthropy Client contribution	Social inclusion At-risk youth Disability Community enterprise Empowerment
Social Enterprise Development and Investment Funds (SEDIF)	National	Government Private investors	Funds social enterprises
Social start up studio	Victoria	Trust University Client contribution	Social enterprise development
Summer Foundation	Victoria	Corporate support Trusts and foundations Donors and bequests Government	Disability housing Young people
Social Ventures Australia	National	Institutional Individual investors Corporate Philanthropic Foundations	Funding social enterprises in disability, employment, working with First Australians, aged care, education, social and affordable housing, and community care
Sydney Women's Fund	New South Wales	Donors and patrons	Women's empowerment
Transport Accident Commission Victoria Residential Independence Program	Victoria	Government	Accessible housing
Tender Funerals	New South Wales	SEFA VFFF grant Crowdfunding	Empowerment Community enterprise
Thallon (pub)	Queensland	Community investment	Social inclusion
Victorian Social Procurement Policy	Victoria	Not applicable	Increasing social value and inclusion
Westpac Foundation	National	Philanthropy	Social inclusion
Worldview foundation	ACT	Government Institutional investor Philanthropy	Breaking disadvantage, particularly for

Name	Jurisdiction	Type of investors	Purpose
			Aboriginal and Torres Strait Islander people
Yackandandah	Victoria	Community	Social inclusion
Your Town	Queensland Tasmania New South Wales South Australia	Charity	Unemployment
ygap	International	Not-for-profit	Poverty alleviation
Youth Connect/Churches of Christ SBB	Queensland	Government Private investment	Supporting young people leaving out of home care

Appendix B: SII ecosystem indicators

This section establishes the current state of social enterprises and SII investment in Canada, France, India, Israel, New Zealand, South Korea and the UK, through key indicators. The indictors are explored in the table below.

Table 2: Key social and economic indicators assessed in each ecosystem

	Indicators	Method
Social enterprise	Number of social enterprises, employees and sectors	Country-level data
Investors	Capital deployed and return on investment. Capital and return on investment is recorded in US dollars, as per the exchange rate on 9 March 2020.	Country-level data

Canada

Indicators	Results
Social enterprise Number of social enterprises, employees and sectors	A 2016 survey identified approx. 7,000 social enterprises in Canada and 31,000 workers in the sector ranging from construction to arts.[53]
Investors Capital deployed and return on investment	In 2010, Canada reported responsible investments into SII, totalling US $518 million. This increased to US $2,200 million in 2017.[54]

France

Indicators	Results
Social enterprise Number of social enterprises, employees and sectors	France's SII ecosystem stems from the 'social and solidarity economy' (SSE). The solidarity economy accounts for more than 2.3 million employees in over 163,000 enterprises.[55]
Investors Capital deployed and return on investment	In 2017, US $465 million were invested in SII.[56]

[53] Elson, P., Hall, P. and Wamucii, P. (2016). *Canadian National Social Enterprise Sector Survey Report.* Institute for Community Prosperity and Simon Fraser University. Available at http://sess.ca/wp-content/uploads/Canadian-National-Social-Enterprise-Sector-Survey-Report-2016.pdf (accessed 10 February).
[54] RIA Canada. (2018). *2018 Canadian RI Trends Report.* Available at https://www.riacanada.ca/research/2018-canadian-ri-trends-report/ (accessed 10 February).
[55] Richez-Battesti, N., and Petrella, F. (2016). *Social Enterprises and their Eco-systems: A European mapping report*, p.15 [PDF] European Commission. Available at https://halshs.archives-ouvertes.fr/halshs-01461283/document.
[56] Impact Invest Lab (2017). State of the French Social Impact Investment Market. Available at https://iilab.fr/wp-content/uploads/2019/04/RAPPORT-MARCHE-IIS_EN.pdf.

India

Indicators	Results
Social enterprise Number of social enterprises, employees and/or sectors	In 2016, the British Council reported that there were 2 million social enterprises in India.[57] In 2018 social enterprises were operating from agriculture to health to sanitation sectors.[58]
Investors Capital deployed and/or return on investment	In 2016 $US 1,100 million was invested in SII.[59]

Israel

Indicators	Analysis
Social enterprise Number of social enterprises, employees and/or sectors	A total of 2,576 companies are in SII sectors.[60] Eight SII sectors were identified from health to technology, agriculture, education, smart cities and civic and social services[61]
Investors Capital deployed and/or return on investment	In 2018, $US 260 million of capital was deployed.[62]

New Zealand

Indicators	Results
Social enterprise Number of social enterprises, employees and/or sectors	In 2019, Business and Economic Research Limited estimated there was a baseline of 2,589 potential social enterprises.[63]
Investors Capital deployed and/or return on investment	Responsible Investment Association Australasia reported that 99 investors who participated in a survey had put US $556 million into SII.[64] It estimated they had social impacts valued at US $268 million in 2019.[65]

[57] British Council. (2016). *The State of Social Enterprise in Bangladesh, Ghana, India and Pakistan.* Available at https://www.britishcouncil.org/sites/default/files/bc-report-ch4-india-digital_0.pdf (accessed 10 February).
[58] Ganesh, U., Menon, V., Kaushl, A. and Kumar, K. (2018). *The Indian Social Enterprise Landscape: Innovation for an Inclusive Future.* Bertelsmann Stiftung. Available at https://www.bertelsmann-stiftung.de/fileadmin/files/user_upload/201810_The_Indian_Social_Enterprise_Landscape_Study_EN.pdf.
[59] GSG. (2019). India: Capital for Impact. Available at https://gsgii.org/nabs/india/.
[60] Our Crowd. (2019). *Impact Investing in Israel: Status of the Market.* Available at https://cdn2.hubspot.net/hubfs/353882/Status%20of%20the%20Market%20Report.pdf (accessed 14 February).
[61] Ibid.
[62] Ibid.
[63] Te Tari Taiwhenua: Department of Internal Affairs. (2019). Community Development Policy. Available at https://www.dia.govt.nz/diawebsite.nsf/wpg_URL/Resource-material-Our-Policy-Advice-Areas-Community-Development-Policy?OpenDocument#Social-Enterprise (accessed 14 February 2020).
[64] Responsible Investment Association Australasia. (2019). Impact Investor Insights: 2019 Aoteatoa New Zealand. Available at https://responsibleinvestment.org/wp-content/uploads/2019/09/Impact-Investor-Insights-Aotearoa-NZ-2019-SUMMARY.pdf (accessed 14 February 2020).
[65] Te Tari Taiwhenua: Department of Internal Affairs. (2019). Community Development Policy.

South Korea

Indicators	Results
Social enterprise Number of social enterprises, employees and/or sectors	In 2012, there were 774 social enterprises, and by 2018 this had grown to 1,937.[66] In 2007, there were 1,403 employees in social enterprises, and by 2012 this had grown to 18,698.[67]
Investors Capital deployed and/or return on investment	In South Korea, government driven funding aims to supply $US2.7 million in 2019.[68]

United Kingdom

Indicators	Results
Social enterprise Number of social enterprises, employees and/or sectors	In 2017, the UK government reported that there were 471,000 social enterprises.[69] In 2017, the UK government reported that 1.44 million people were employed in social enterprises.[70]
Investors Capital deployed and/or return on investment	Responsible investment in the UK in 2017 was US$7, 700, 000 million.[71]

[66] Sugeno, F., Tanaka, Y. and Watanabe, T. (2016). *Country Analysis Republic of Korea*. Multilateral Investment Fund: The Japan Research Institute. Available at https://publications.iadb.org/publications/english/document/Study-of-Social-Entrepreneurship-and-Innovation-Ecosystems-in-South-East-and-East-Asian-Countries-Country-Analysis-Republic-of-Korea.pdf (accessed 14 February 2020).
[67] Sugeno, F., Tanaka, Y. and Watanabe, T. (2016). *Country Analysis Republic of Korea*. Multilateral Investment Fund: The Japan Research Institute.
[68] GSG. (2019). *Transition to Impact Economies – A Global Overview*. Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/ (accessed 10 February).
[69] Department for Digital, Culture, Media and Sport & the Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017*. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf (accessed 14 February 2020).
[70] Ibid.
[71] Ibid.

Appendix C: SII ecosystems and initiatives

This is the review of the impacts of SII initiatives in each ecosystem, to assess the applicability of the initiatives to Australia.

Initiatives were deemed applicable to Australia according to two stages of criteria.

Firstly, Inside Policy considered if the **intent** of the initiative aligns to a challenge, barrier or gap currently prevalent in the Australian SII ecosystem by:

- Developing a definition, or shared understanding of SII
- Demonstrating government commitment to SII
- Building cohesion across government strategies
- Building capability and supporting ecosystem actors - government, investors, intermediaries and deliverers
- Building cohesion across ecosystem actors
- Supporting investment opportunities, including a variety of investment vehicles
- Addressing regulatory barriers to SII
- Including traditionally excluded actors in SII.

The intent was assessed as being applicable, somewhat applicable or not applicable to Australia.

Secondly, Inside Policy considered if the **design** of the initiative could be useful to Australia according to:

- Program features and operation
- Australia's federal system of government
- Australia's broader economic, cultural and regulatory environment
- The Commonwealth Government's target SII priorities.

The design was assessed as being applicable, somewhat applicable or not applicable to Australia.

Canada

The SII ecosystem in Canada has traditionally been market driven, with investors such as large foundations, companies and financial institutions playing an important role in supplying the capital for market-based initiatives. For example, the sector-led Canadian Task Force on Social Finance emerged independently of government to identify opportunities to mobilise private capital for public good and consider the role of government in partnering with other ecosystem actors to deliver social outcomes. It became a national advisory board in 2013.

Localised responses have also developed localised SII ecosystems, including for First Nation communities. Quebec, for example, has a strong SII ecosystem driven by key actors, including the intermediary Quebec Solidarity Fund. This Fund, alongside federal and provincial governments and other intermediaries created the First Nations of Quebec Investment that invests directly in Aboriginal, community or private commercial enterprises to create jobs and economic benefits for First Nations people in Quebec.[72]

In recent years, the Canadian government has responded to market and regional developments, to coordinate a federal response to SII. The Social Innovation and Social Strategy Co-Creation Steering Committee was established by the government in 2017. The Committee recommended the government coordinate and scale SII by addressing gaps in the Canadian SII ecosystem. These gaps included skills and capacity, funding and capital, market access, policy and regulatory environment, evidence and knowledge sharing, and awareness and mobilisation. The Committee made 12 recommendations, which the Canadian government is now in the process of responding to and in some cases implementing. A key recommendation was the wholesaler investment fund, the Social Finance Fund.

Ecosystem actors

Prior to the Co-Creation Steering Committee, Canada's SII ecosystem was largely market or locally driven. The Committee has increased government response with the aim of creating more cohesion across ecosystem actors. Locally, the Taskforce identified the Quebec social economy as a sophisticated ecosystem that includes legislation to provide coordination and commitment between the Government and other non-government actors, research and knowledge transfer, capacity-building, labour force development and financing.[73]

Gaps addressed

The Co-Creation Steering Committee has increased the federal government's response to SII, with the aim of creating more cohesion across the national SII ecosystem. The Steering Committee identified gaps in:

- deliverers' skills and capacity
- developing funding and capital and market access for deliverers
- enabling policy and regulatory environment for social innovation
- social finance and deliverers to flourish
- building evidence and knowledge sharing
- awareness and mobilisation

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[72] Ivestissement Premieres Nations Du Quebec. (2017). Mission. Available at https://www.ipnq.ca/mission/.

[73] Inclusive innovation: new ideas and new partnerships for stronger communities: Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group.

Extent of government investment

The Canadian government is increasing its investment in SII, through the Social Finance Fund and Investment Readiness Grant funding (both discussed below). In addition, the Canadian government has introduction of legislation and changes to governance structures to support the SII sector, including the appointing of two ministers in the Department of Employment and Social Development, and the amendment to Department of Public Works and Government Services Act(community benefit)

Table 3: Key Canadian initiatives and their outcome and investment over time

Name	Description	Key impact	Application to Australia
Social Finance Fund (2020)	The Social Finance Fund is a wholesaler fund that aims to provide charitable, non-profit and social purpose organisation access to finance and non-government investors seeking to drive positive social change. The Canadian government is proposing to make up to $755 million available on a cash basis over the next 10 years.	The Canadian Government anticipates the Fund could generate up to $2 billion in economic activity and create up to 100,000 job at the next decade.[74]	**Intent aligns** Through its wholesaler structure, the Social Finance Fund aims to distribute funding to a range of social finance investor funds. This will support a range of investment opportunities and investment vehicles. In addition, the Social Finance Fund aims to build capacity and support ecosystem actors, for example through investment readiness. **Design is useful** The design of the initiative could be applied to Australia. Key transferrable features of the Fund are: • Investment is distributed to multiple social finance investment funds, with the aim of developing the intermediary sector and also making capital available to respond to local need.

[74] Government of Canada. (2018). Backgrounder: The Social Finance Fund. Available at https://www.canada.ca/en/employment-social-development/news/2018/11/backgrounder-the-social-finance-fund.html.

			• The expectation intermediaries will leverage non-government capital and, capital will be repaid over a 15 to 20 year-time frame, to ensure the sustainability of the system. • Establishing capability building features as part of the fund, and supported social finance investment funds.[75]
Investment Readiness Grant Fund (IRGF) (2019)	The IRGF is a $50 million capability development pilot program. It provides time-limited investment to support deliverers to build capacity, to improve their ability to participate in SII, including taking up funding through the Social Finance Fund.	A key aim of the program is to ensure service delivers have the capability to uptake financing opportunities through the Social Finance Fund. It also aims to provide a learning opportunity on the future direction of supporting and mobilising the social finance sector.[76]	**Intent aligns** The IRGF addresses a key challenge within the Australia SII ecosystem, building the capacity of ecosystem actors. By building capacity, it will also support investment opportunities by allowing for the uptake of capital. **Design is useful** The model can inform the design of a similar initiative in Australia. Key design features are: • administering the fund through readiness support partners

[75] Inclusive innovation: new ideas and new partnerships for stronger communities: Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group.

[76] Government of Canada. (2019). Investment Readiness Program. Available at https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/investment-readiness.html.

			• providing funding to strengthen programs already provided by key intermediaries • providing funding to intermediaries who can address system-level gaps, including research and development, knowledge sharing and impact measurement.[77]
Social Innovation and Social Strategy Co-Creation Steering Committee (2017)	Created by Government in 2017 the Steering Committee was appointed to guide the development of the Canadian Social Innovation and Social Finance Strategy.	The Steering Committee recommended the government support the SII ecosystem in Canada by addressing key gaps (see page 13). These gaps were addressed through 11 recommendations, such as developing a Social Finance Fund, which has since been implemented.[78]	**Intent aligns** The Steering Committee's final recommendations demonstrate a federal government-led path to demonstrating government commitment and addressing a range of challenges, barriers or gaps in SII. **Design is useful** The gaps and recommendations identified by the Steering Committee are highly relevant to Australia, as they demonstrate key steps to scaling SII in a federated system.

[77] Ibid.
[78] Inclusive innovation: new ideas and new partnerships for stronger communities: Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group.

<table>
<tr><td>Saskatchw “Sweet Dreams” (2014)</td><td>The Sweet Dreams was a payment by results SIB that aimed to keep 22 children in their mother’s care. The SIB’s investors included a private investor and a credit union.</td><td>The SIB proved successful and over the five-year period, 54 children were kept out of care.[79]</td><td>Intent aligns

The SIB supported investment opportunities to deliver social impact to beneficiaries.

Design is useful

As has been already demonstrated, SIBs can be practically implemented in Australia.</td></tr>
<tr><td>Canadian Taskforce on Social Finance (2010)</td><td>The Taskforce on Social Finance (Taskforce) was a sector-led national partnership focused on developing social innovation in Canada.</td><td>The Taskforce increased the value of mission-related investments (MRI), with $50 million new MRI capital committed in 2011.[80]

The Taskforce was also successful in increasing government interest in SII and was appointed as a National Advisory Board in 2013.[81]

It is an example of an industry-led body catalysing change in SII.</td><td>Intent aligns

The Taskforce demonstrates how the broader SII sector can lobby to build cohesion across ecosystem actors to deliver SII outcomes and engage government interest.

Design is not useful

While the Taskforce demonstrates how the sector can take initiative in setting goals to build momentum and increase investment in SII, it is likely Australia’s SII development has surpassed the need for this type of industry engagement.</td></tr>
</table>

[79] Innovation Skaskatchewan. (2019). The Sweet Dreams Initiative. Available at https://innovationsask.ca/success-stories/the-sweet-dreams-initiative.

[80] MaRS. (2011). Canadian Task Force on Social Finance Celebrates a Year of Momentum. Available at https://www.marsdd.com/news/canadian-task-force-on-social-finance-celebrates-a-year-of-momentum/.

[81] GSG. (2019). *Transition to Impact Economies – A Global Overview.* Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/ (accessed 10 February).

First Nations of Quebec Investment (2007)	First Nations of Quebec Investment makes direct investments in Aboriginal, community or private commercial enterprises and thus allows the establishment and realisation of business projects that create jobs and economic benefits for all First Nations of Quebec. Key areas of work by First Nations of Quebec Investment include financial support; professional support and its network of contacts.	The fund was initially capitalised with \$6 million. In 2010, the FNCQ completed its second phase of capitalisation, increasing its position to \$8 million. This additional capitalization is intended to allow the FNCQ to pursue its investment towards the social and economic development of members of Indigenous communities.	**Intent aligns** The First Nations of Quebec Investment fund demonstrates how non-government organisations can support investment opportunities to deliver social impact to and with First Nations people. **Design is somewhat useful** The First Nations of Quebec Investment fund and the ecosystem it functions within demonstrates the diverse networks of ecosystem actors that are required to deliver SII. However, the fund itself may not be directly transferrable to Australia's broader cultural environment in SII.
Affinity Credit Union Community Development (1996)	A non-profit and community organizations, with a priority on affordable housing. It also provides opportunities to First Nation social enterprises, cooperatives and other rural and urban economic development initiatives, and environmental initiatives and enterprise.	The Board of Directors at Affinity made available a maximum of 6% of their total capital towards First Nations projects. This is approximately \$180 million, including \$90 million for First Nations Lending.	**Intent aligns** The Affinity Credit Union Community demonstrates how corporate and non-governments can support opportunities for First Nation's communities on a corporate governance level by way of board approval. **Design is somewhat useful** The Affinity Credit Union Community Development and the ecosystem it functions within demonstrates how organisations can target investment and lending. However, the credit union

			itself may not be directly transferrable to Australia's credit union and broader cultural environment in SII.
Quebec Solidarity Fund (1983)	The Quebec Solidarity Fund is a $16.7-billion-dollar pension fund, of which 65 percent is invested in small- and medium-sized Quebec-owned enterprises.[82] The Fund plays a key role in financing Quebec's social economy ecosystem, which also includes national coordination, research and knowledge transfer, capability-building and labour force development.[83]	As of November 2019, the Fund held $16.7 billion in net assets and had more than 700,000 owner-shareholders.[84] It contributes to the broader Quebec social economy that generates approximately $40 billion in revenues and 215,000 jobs.[85] An example of key investment includes spending C$82 million to build or renovate building to deliver close to 4,400 quality affordable housing units for low or modest income households.[86]	**Intent aligns** The Quebec Solidarity Fund demonstrates how non-government organisations can support investment opportunities by leveraging tax measures from both the federal and provincial governments, to generate capital for SII. **Design is somewhat useful** The Quebec Solidarity Fund and the ecosystem it functions within demonstrates the diverse networks of ecosystem actors that are required to deliver SII. However, the fund itself may not be directly transferrable to Australia's broader cultural environment in SII.

82 Fonds de Solidarite FTQ. (2020). Financial Information. Available at https://www.fondsftq.com/en/a-propos/donnees-financieres.aspx
Mendell, M. and Neamtan, N., 2010. The social economy in Quebec: Towards a new political economy. Researching the social economy, pp.63-83
83 Inclusive innovation: new ideas and new partnerships for stronger communities: Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group.
84 Fond de Solidarite FTQ. (2019). Financial Information. Available at: https://www.fondsftq.com/en/a-propos/donnees-financieres.aspx.
85 Inclusive innovation: new ideas and new partnerships for stronger communities: Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group.
86 Fonds de Solidarite FTQ. (2019). Investing in all our Futures.

France

France's SII ecosystem is situated within a broader approach to social and solidarity economy (SSE). While this approach is not broadly transferrable to Australia's economic, cultural and regulatory environment, or approach to SII, individual initiatives demonstrate mechanisms for overcoming specific barriers, challenges or gaps within SII.

A key initiative within the French ecosystem is the Social and Solidarity Economy (SSE) Law.[87] This includes recognising SSE as a specific entrepreneurial approach to achieve recognition by funders through the SSE Law. The SSE is underpinned by social solidarity savings and pension funds, which provide capital for investment. Businesses must be classified as 'solidarity' or 'social' to receive funds from SSE sources.

Ecosystem actors

The government has been a key actor in the ecosystem, leveraging traditional support for SSE to foster the market. Solidarity savings and pension funds have been key investors, providing €9.3 billion in 2018.[88]

Evidence shows the private sector is increasing its involvement in the SII market as the government implements favourable regulatory settings, such as laws ensuring social investment options for employee savings and other financial instruments.[89]

Gaps addressed

SII initiatives in France have sought to bring structure, rigour and investment to the ecosystem. For examples, the 2014 SSE law developed two advisory bodies, the Higher Council for the Social and Solidarity Economy and the Higher Council for Co-operation. These bodies structured the network and set legislative provision to facilitate the legal recognition of SSE institutions. The SSE law also established regional SSE conferences for networking and collaboration and clarified legal definitions of public procurement and social innovation.[90] There has also been efforts to address gaps in regulation and governance, to encourage private sector investment.[91]

Extent of government investment

The French Chamber for Social and Solidarity Economy represents some of the French Governments investment into SII. In 2020, the 2020 budget for this Chamber

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[87] McIntyre, R. (2018). The Development of Social Economy in France Since 1945. *Forum for Social Economics,* 47(2), pp. 253–261.
[88] Finansol. (2019). *Study on 90/10 Funds.* Available at https://www.finansol.org/_dwl/Study-On-2090-10-20Funds-20Finansol.pdf.
[89] Impact Invest Lab. (2017). *State of the French Social Impact Investment Market*. Available at https://iilab.fr/wp-content/uploads/2019/04/RAPPORT-MARCHE-IIS_EN.pdf.
[90] OECD/European Union. (2017). The Law on the Social and Solidarity Economy, France, *Good Practice Compendium.* Available at https://www.oecd-ilibrary.org/industry-and-services/boosting-social-enterprise-development/the-law-on-the-social-and-solidarity-economy-sse-france_9789264268500-10-en;jsessionid=DXWeJl6U2oTCP3TzJOh-pWg5.ip-10-240-5-153.
[91] Impact Invest Lab. (2017). *State of the French Social Impact Investment Market*. Available at https://iilab.fr/wp-content/uploads/2019/04/RAPPORT-MARCHE-IIS_EN.pdf;
Crifo P. and Mottis, N. (2013). 'Socially Responsible Investment in France', *Business and Society,* pp. 1–18. Available at https://www.researchgate.net/profile/Nicolas_Mottis/publication/269830175_Socially_Responsible_Investment_in_France/links/55817fd508aeab1e4666d5cc/Socially-Responsible-Investment-in-France.pdf.

was €19.9 million. The French Government has also invested heavily in the regulation for SII.

Table 4: Key French initiatives and their mechanism, outcome and investment over time

Name	Description	Impacts	Application to Australia
Pioneers French Impact (2018)	The Pioneers French Impact is a capability building program that national accelerator program that aims to assist the scaling of impact business.[92]	It aims to scale up 22 impact businesses, to mobilise €1 billion in public and private funding over 5 years.[93]	**Intent aligns** This initiative aims to builds the capability of delivers, which is a key gap in Australia. **Design is not useful** However, due to lack of evidence on the design and achieved impacts of this initiative, its use to Australia cannot be assessed.
SRI label (2016)	Supported by the Finance Ministry, and awarded through two independent bodies, the SRI label is an intermediary that certifies socially responsible investment products. The SRI label provides investors with a tool for choosing sustainable and responsible investments.[94]	As at 2019, the SRI label reported awarding 321 funds with the SRI label, representing €121 billion managed by 59 investment companies in France and abroad.[95]	**Intent aligns** By certifying socially responsible investment products, the SRI label facilitates a shared understanding of SII and supports investment opportunities. **Design is somewhat useful** While being a potentially useful mechanism to encourage

[92] Ministry of the Ecological and Inclusive Transition, 2018, French Impact: innovating in the service of the general interest, https://www.ecologique-solidaire.gouv.fr/french-impact-innover-au-service-linteret-general
[93] Ministry of the Ecological and Inclusive Transition, 2018, French Impact: innovating in the service of the general interest, https://www.ecologique-solidaire.gouv.fr/french-impact-innover-au-service-linteret-general
[94] Label ISR. (n.d.). What is the SRI label? Available at https://www.lelabelisr.fr/en/what-sri-label/.
[95] Label ISR. (2019). SRI Label Scales New Heights with over 321 Labelled Funds and a Volume of EUR 121 Billion. Available at https://www.lelabelisr.fr/wp-content/uploads/2019/12/2019_12_02_Communique%CC%81-Label-ISR_ENG.pdf.

			investment, the SRI label is primarily investor focused, and does not build the capacity of other ecosystem actors, such as deliverers. Given the gaps with capacity in Australia's SII system, this kind of response does not directly align with Australia's current stage of SII development.
Contracts à impact social (2016)	Contracts à impact social is a Social Impact Bond pilot program. It consists of 7 bonds, launched between 2017 and 2019, primarily focused on job integration and education in rural areas.[96] The French government will follow the outcomes of the bonds closely, and modify the national strategy based on the outcomes.[97]	Inside Policy was unable to assess the impacts of the SIBs.	**Intent aligns** Broadly speaking, the intent of this initiative aligns as it facilitates investment opportunities through the 7 SIBs. **Design is not useful** As there is no evidence of the impacts of these SIBs, there is no evidence to assess its use to Australia.
Social and Solidarity Economy (SSE) Law (2014)	The Social and Solidarity Economy (SSE) Law established a regulatory framework for the social enterprise market. Key components of the law were recognising	Analysis in 2017 indicates that the law did not succeed in unifying SSE stakeholders.[99]	**Intent aligns** The SSE demonstrates an approach to developing a shared understanding of SII, building

[96] GSG. (2019). *Transition to Impact Economies – A Global Overview.* Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/ (accessed 10 February).
[97] Lanteri, F., Kamenskaya, A., and Martin, A. (n.d.). Social Impact Investing in France: Current Objectives, Demands and Barriers. Available at http://alpsib-project.eu/media/1065/discussion_paper_france.pdf.
[99] https://www.oecd-ilibrary.org/sites/9789264268500-10-en/index.html?itemId=/content/component/9789264268500-10-en
OECD/European Union. (n.d.). Law on the Social and Solidarity Economy (France). Available at https://www.betterentrepreneurship.eu/en/node/91.

	SSE as a specific entrepreneurial approach through definitions to facilitate understanding and recognition by funders; facilitating access to financing and public procurement; strengthening local sustainable development policies and the approach of the network; and modernising the status of co-operatives.[98]		cohesion across the system, supporting investment opportunities and addressing regulatory barriers to SII. **Design is somewhat useful** The overarching design of the law, such as recognising SSE, facilitating access to SII and strengthening local policies, is useful when considering how to develop structure to scale SII. However, given the differences between SII in Australia and SSE in France, it would be challenging to fully transfer the law to Australia.[100]

[98] OECD/European Union. (2017). Boosting Social Enterprise Development: Good Practice Compendium. Available at https://www.oecd-ilibrary.org/sites/9789264268500-10-en/index.html?itemId=/content/component/9789264268500-10-en.
[100] https://www.oecd-ilibrary.org/sites/9789264268500-10-en/index.html?itemId=/content/component/9789264268500-10-en
OECD/European Union. (n.d.). Law on the Social and Solidarity Economy (France). Available at https://www.betterentrepreneurship.eu/en/node/91.

India

India has a considerable SII ecosystem and is the largest SII market in South Asia. Its ecosystem operates within a broader development economy, and includes social entrepreneurial, domestic development banks, investment bankers and incubators. Capital is deployed primarily through microfinancing.[101] McKinsey estimates that SII will be worth US$6 billion to US$8 billion by 2025, benefitting more than 3 billion people.[102]

Ecosystem actors

Key ecosystem actors include social enterprises, domestic development banks, investment banks and intermediaries such as incubators. Government has played a role in shaping the SII ecosystem, however key initiatives have suggested government has delivered incremental responses, rather than building a cohesive strategy for SII. [103]

Gaps addressed

Initiatives in India have focused on increasing flow of investment into social enterprises and charities, and building the capacity of micro, small and medium-sized social enterprises.[104]

Extent of government investment

Of the evidence available, the government has channelled seed funding into the India Inclusive Innovation Fund, developed mandated social responsibility policies, and developed regulation to support social enterprises.

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[101] OECD. (2019). Social Impact Investment 2019: The Impact Imperative for Sustainable Development. Available at https://read.oecd-ilibrary.org/development/social-impact-investment-2019_9789264311299-en#page1.
See Impact Investors Council. (2017). *Nurturing Social Enterprise: The Pathway*. Available at http://iiic.in/wp-content/uploads/2017/12/RepositeryBooklet_V2.pdf (accessed 29 January 2020).
[102] McKinsey and Company. (2017). *Impact Investing: Purpose-driven finance finds its place in India*. Available at https://www.mckinsey.com/~/media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Our%20Insights/Impact%20investing%20finds%20its%20place%20in%20India/Impact-investing-finds-its-place-in-India.ashx (accessed 29 January 2020).
[103]
[104] Rajan, A., Koerwal, P. and Kerthana, S. (2014). The Global Epicenter of Impact Investing: An Analysis of Social Venture Investments in India, *The Journal of Private Equity*, 17(2) pp. 37–50. Available at https://jpe.pm-research.com/content/17/2/37.

Table 5: Key Indian initiatives and their mechanism, outcome and investment over time

Initiative type and mechanism	Description	Impacts	Application to Australia
SEBI Alternative Investment Funds (AIF) Regulations (2012)	Securities and Exchange Board of India (SEBI) is the capital market regulator. The creation of Alternative Investment Funds (AIF) enables the pooling of domestic and international investment. Category I of the AIF includes social venture funds, venture capital funds, and SME funds, which, once certified, can access government, SEBI and other regulator incentives.[105]	Inside Policy was unable to assess the impacts of the regulations.	**Intent aligns** SEBI AIF Regulations demonstrates how government can address regulatory barriers to investing. **Design is not useful** However, the design of the initiative does not align with Australia's regulatory environment.
India Inclusive Innovation Fund (2011)	The India Inclusive Innovation Fund is an investment fund that supports finance to social entrepreneurs, who were unable to receive financing from the bank system or micro financing. It supports social enterprises that benefit the poor, balance social and financial returns, and contributes to job creation.[106]	The Fund aims to address barriers in the financing system to support social enterprises.	**Intent somewhat aligns** The Fund demonstrates how government can facilitate investment opportunities for social enterprises. **Design is not useful** However, as Australia's finance system is not designed around micro financing, it is unlikely the

[105] GSG. (2019). *Transition to Impact Economies – A Global Overview.* Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/ (accessed 10 February).
[106] Ibid.

			Fund is directly transferrable to Australia's broader economic and regulatory environment.
Cluster Innovation Centres (2011) Capability development – incubator	Cluster Innovation Centres model has been established to enable relationships, and knowledge and resource exchange between enterprises. Seven 'clusters' were established of micro, small and medium enterprises, and at two universities.[107]	Inside Policy was unable to assess the impacts of the Cluster Innovation Centre.	**Intent aligns** The Cluster Innovation Centres demonstrate a strategy for building capability and supporting ecosystem actors. **Design is not useful** However, due to lack of evidence its applicability to Australia is unable to be assessed.

[107] National Innovation Council. (2013). *Report to the People*. Available at: <https://static1.squarespace.com/static/5356af05e4b095ff0fea9e11/t/5398b142e4b02d32b20de300/1402515778055/Report+to+the+People+2013+-+National+Innovation+Council+%28English%29.pdf> [accessed 28 January 2020].

Israel

Israel's approach to SII is situated within its broader start-up and innovation economy. Israel's market for connecting investors with innovative new organisations and entrepreneurs, and SII is strongly focused on technological solutions and social enterprises.[108]

Ecosystem actors

Government-led enablers in Israel's SII have largely focused on supporting social enterprises and start-ups, which are the main deliverers of social impact. Government bodies such as the Israel Innovation Authority provide incubation and grants to start-ups, while building awareness of SII.

Gaps addressed

SII initiatives in Israel have sought to better support start-ups to achieve social outcomes. Policy, investment and funding of accelerators and incubators are increasing the number of successful social enterprises across a wide range of sectors and bringing innovative ideas to areas of need across Israel.[109]

Extent of government investment

Israel's approach to SII is operated through its broader innovation and research and development economy. The National Innovation Authority has a national budget of 1.6 billion NIS.

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[108] Ziskind, J. and Brack, A. (2019). From Israel's 'start-up nation', 4 lessons in innovation, *World Economic Forum* (online). Available at https://www.weforum.org/agenda/2019/09/israel-start-up-nation-innovation/.
[109] OurCrowd. (2019). *Impact Investing in Israel: Status of the Market*. Available at http://www.socialfinance.org.il/userfiles/banners/Status%20of%20the%20Market%20Report%20_Print.pdf.

Table 6: Key Israeli initiatives and their mechanism, outcome and investment over time

Initiative type and mechanism	Description	Impacts	Application to Australia
Memorandum by the Commissioner of Capital Markets Insurance and Savings (2017)	The memorandum aims to encourage financial institutions to adopt investment strategies that include environment, social and governance and impact investment strategies. It is an example of a policy response through a memorandum.	Inside Policy was unable to assess the impacts of the Memorandum.	**Intent somewhat aligns** The memorandum demonstrates government commitment to broad principles around impact investing. **Design is not useful** However, the scope of the initiative is more focused on supporting investors, rather than building the capability of ecosystem actors. It is also likely that Australian ecosystem actors would not find memorandum a strong enough display of commitment.
Societal Challenges Division, The Israel Innovation Authority	The Israel Innovation Authority is an independent, publicly funded intermediary that provides practical tools and funding platforms to address the needs of local and international innovation ecosystems. Within the Authority, the Societal Challenges Division focuses on improving	The Division reported delivering 7 training program, supporting 17 start-ups, 57 innovation projects and 16 innovation projects in 2018-19.[111] Broader impacts were unable to be assessed.	**Intent somewhat aligns** The Societal Challenges Division builds the capability and supports ecosystem player. However, structurally the division is within a broader innovation economy. **Design is not useful**

[111]Ibid

	issues most aligned with SII, working on the quality of public sector services and enhancing social welfare and quality of life through technological innovation. In 2018 the budget for the Societal Challenges Division was 79 million NIS.[110]		In addition to not aligning to Australia's approach to SII, there is limited information on the design or impacts of the initative to transfer to Australia.
Reducing dropout rates in higher education (2015)	This SIB aims to reduce the dropout rates of students studying academic computer science programs. It aims to support 600 computer science students, operate for 8 years and has an $8 million investment.	The bond provides a dual social impact by supporting disadvantaged students, who are more likely to drop out of studies, and facilitating a need for engineers and programmers. In 2018, data reported a 50% reduction in first year dropout rates and a 33% reduction in second year dropouts.[112]	**Intent aligns** This SIB supported an investment opportunity. **Design is useful** The SIB's focus on using education to deliver social impact is also aligns with the Commonwealth's preference to use SII to address social disadvantage.
Yozma Social Business Investment Fund (2015)	The Yozma Social Business Investment Fund provides investment and capability development for social businesses that focus on employment for key cohorts. The fund pools government, private and philanthropic capital.	Israel Ventures network, who administers the fund, reported investing $1,166,92 USD in 2016-17. In 2016-2017 5 new ventures were funded.[113]	**Intent is somewhat applicable** The Yozma Social Business Investment Fund supports investment opportunities and builds capability for ecosystem actors.

[110] Israel Innovation Authority. (2018).*2018-2019: Innovation in Israel Overview.* Accessed at: <https://innovationisrael.org.il/en/sites/default/files/2018-19_Innovation_Report.pdf>.
[112]Social Finance Israel. (n.d.) Reducing Dropout Rates in Higher Education. Available at http://www.social-finance.org.il/category/Reducing-Dropout-Rates-in-Higher-Education.
Edmond De Rothschild Foundation. (n.d.). Reducing Dropout Rates in Higher Education: The Social Issue. Available at https://www.edrf.org.il/en/programs/social-impact-bond-for-academic-dropout-rate-reduction/.
[113]

			Design is not useful While investment funds of this type are transferrable to Australia, its narrow focus on providing employment for specific cohorts may not align with the Commonwealth Government's preference to use SII to address entrenched social disadvantage.
Government support to EdTech program (MindCET) (2012)	MindCET is a taskforce that delivers capability development and information sharing within education technology sector. Initial investment was NIS 20 million.[114] Key priorities included addressing key issues in the sector, providing a support network for start-ups, and encouraging innovation, investment and shared best practices in the field.[115] It is an example of an intermediary that provides capability development.	MindCET reports key activities as providing realistic grounds for investment; supporting start-up development; facilitating education technology adoption; and making recommendations to national and international authorities to assess the implementation of educational technology initiatives and support policy development.[116] Broader impacts could not be assessed.	**Intent somewhat aligns** MindCET is an intermediary that delivers capability development **Design is not applicable** However, its focus on the education technology sector does not meet the breadth of sectors that will require capacity building through Commonwealth lead SII strategy.

[114] Niv, S. (2015). Yeruham welcomes new tech incubator MindCET, *Globes* [online]. Available at: https://en.globes.co.il/en/article-yeruham-welcomes-new-tech-incubator-mindcet-1001091639 [accessed 22 Jan 2020].
[115] Batty, R., Wong, A., Florescu, A., and Sharples, M. (2019). *Driving EdTech Futures: Testbed models for better evidence*. London. Nesta.
[116] Ibid.

New Zealand

As a young ecosystem, New Zealand's responses focus on fostering the growth of market actors through collaboration and policy. New Zealand is particularly focused on developing the capability of charities.[117] The social impact ecosystem is reported to be on the verge of growth, with 2020 forecast to see a surge in social awareness among investors.[118]

Ecosystem actors

The government is a leading actor in the New Zealand SII ecosystem. Government-led initiatives aim to support the capability of charities, particularly through partnering with the third-party capability developer Ākina.[119] Deliver occurs primarily through charities, rather than social enterprises.

Gaps addressed

In 2013, New Zealand academics identified the social enterprise and investment space was small and had room to grow and increase its impact.[120] This was particularly evident in the Maori economy, and SII was identified as an opportunity to develop new, culturally sensitive social businesses.[121]

The New Zealand Government released a policy statement on social enterprises to guide future government work in the sector. Its implementation approach relied heavily on Ākina for technical assistance and capacity building, and policy responses strengthened its relationship with Ākina.

Over time, New Zealand's social investing seems to have naturally grown out of communities under pressure from issues such as housing and poverty. The current government's focus on tackling climate change has also fed growth.[122] Banks have heavily invested in loans to small, local and charitable businesses, growing sustainable investment assets by 133% in 2016–18.[123]

Extent of government investment

In 2019 New Zealand released a Wellbeing Budget, which aims to deliver social outcomes to New Zealanders. The New Zealand Government has allocated NZ$3.8 billion in operational funding and NZ$104 billion in capital funding for the Wellbeing Budget. However, the scope of this budget is broader than SII.

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[117] Department of Internal Affairs. (2014). *Government position statement on social enterprise*. Available at https://www.dia.govt.nz/government-position-statement-on-social-enterprise.

[118] Global Steering Group. (2019). *Transition to Impact Economies*. Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/.

[119] Henare, P. (2017). *$5 million to launch social enterprise programme*. Beehive. Available at https://www.beehive.govt.nz/release/5-million-launch-social-enterprise-programme;
Goodhew, J. (2014). *Government gets behind social enterprises*. Beehive. Available at https://www.beehive.govt.nz/release/government-gets-behind-social-enterprises.

[120] Kaplan, M.J. (2013). Growing the Next Generation of Social Entrepreneurs and Start-ups in New Zealand, *Fellowships in Public Policy*. Available at https://www.fulbright.org.nz/wp-content/uploads/2013/08/axford2013_kaplan.pdf.

[121] UAKN National Secretariat. (2015). *Social Innovation and Aboriginal Communities.* Available at *https://www.mcgill.ca/isid/files/isid/uakn-paper-social-innovation-and-aboriginal-communities-march-2015.pdf*.

[122] Global Steering Group. (2019). *Transition to Impact Economies.* Available at https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/.

[123] Global Sustainable Investment Alliance. (2018). *2018 Global Sustainable Investment Review.* Available at http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf.

Table 7: Key New Zealand initiatives and their mechanism, outcome and investment over time

Initiative type and mechanism	Description	Impacts	Application to Australia
Akina (2018) Capability building	Akina is a capability building intermediary, that has partnered with the New Zealand government to foster the growth and capability of social enterprises. It is receiving $5.55 million of funding over 4 years.	Akina has developed a three-year program of work and has self-reported achieving a number of improvements to the SII ecosystem; including delivering a 'Regional Hubs' capability development pilot, launching a social procurement platform, establishing a working group, delivering investment readiness grants, and improving access to markets.[124] The broader impacts of these initiatives are yet to be evaluated.	**Intent aligns** Akina demonstrates how the government can partner with a key intermediary to deliver capability building to social enterprises. In its strategy Akina also addresses a number of gaps that are also prevalent in the Australian ecosystem, including actors in SII. Through working groups. **Design is useful** Working with a capability building intermediary would address gaps within the Australian SII ecosystem. Akina's program of work demonstrates a path for developing the broader SII ecosystem.

[124] Akina. (2019). The Impact Initative: Social Enterprise Sector Development Programme. Te Tari Taiwhenua Internal Affairs. Available at: <https://static1.squarespace.com/static/5b02f1bd85ede13734718842/t/5d34eef37a66810001fff65f/1563750173637/SESDP_Year_One_A3_Summary.pdf>.
Akina. (2019). Program Insights Report: Year Two. Available at https://www.theimpactinitiative.org.nz/publications/year-two-programme-insights.

Reduce reoffending of at-risk youth (2017)	This $6 million social impact bond is part of the NZ pilot program.[125] It aims to reduce the re-offending rates of enrolled clients by 5% in the first year of the bond, and 10% for clients enrolled in the last 3 years.[126]	In 2018, the bond achieved desired outcomes, and the non-reoffending rate for clients enrolled between 1 September 2017 and 30 June 2018 was 67%. The Social Bond has also led to more targeted client assessment and interventions.[127]	**Intent aligns** As a SIB, this initiative provides investment opportunities. **Design in useful** As has already been demonstrated in Australia, the design of SIBs are useful in the Australian context.
Government Position Statement on Social Enterprise (2014)	The New Zealand Government used the position statement to recognise the value of the growing social enterprise sector. The Government committed to identifying policy barriers to social enterprise growth and working collaboratively to creating an enabling environment for social enterprise to grow and attract investment. It is an example of policy response a position statement.	Inside Policy was unable to assess the impacts of the Position Statement.	**Intent aligns** The Position Statement demonstrates a mechanism to display government commitment to SII. **Design is somewhat useful** However, it is likely Australian stakeholders will require a more firm policy response from government, that displays both commitment and action.

125 Goodwin, P. (2019). Investing Makes an Impact. New Zealand Herald. Available at https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12232964.
Probity evaluation available at Ministry of Health. (2016). *Request For Solution Outline (RFSO) Social Bonds Pilot Scheme: Stage Probity Report*. Accessed at: <https://www.health.govt.nz/system/files/documents/pages/tresscox_report_redacted_final-july2016.pdf>.
Program evaluation available Price, M. (2015). *Genesis Youth Trust: A Programme for Youth Offenders*. University of Auckland, Auckland: New Zealand. Available at: <https://researchspace.auckland.ac.nz/handle/2292/26669>.
126 Genesis Youth Trust, 2018, Annual Report 2018, Accessed at https://static1.squarespace.com/static/5c003b80c3c16a90b803605a/t/5c944644104c7be2541a8acf/1553221257140/Genesis+Annual+Report+17-18.pdf.
127 Ibid.

South Korea

The Government of South Korea is strongly committed to SII. The Social Enterprise Promotion Act (2006) (SEPA) has grown the number of social enterprises by 353% between 2012 and 2015.[128] A new government strategy to promote social finance promises to be a similar, highly effective enabler for SII. It is using methods such as establishing the Korea Social Value and Solidarity Foundation (discussed below), which plans to mobilise US$265 million.[129] It is also supporting training for social enterprises and financial intermediaries.[130]

Ecosystem actors

The government is a leading ecosystem actor in South Korea and is encouraging the private sector's involvement through the Korea Social Value and Solidarity Foundation.

Gaps addressed

The government has used a holistic approach to SII, which includes a policy response, and access to capability development and a wholesaler fund.

Extent of government investment

The South Korean government is pledging US$120 million for the Korean Social Value and Solidarity Fund. Further government funding aimed to supply US$2.7 million in 2019 for loans, guarantees and equity investments in SII.[131]

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[128] Economic and Social Commission for Asia and the Pacific. (2017). *Policy approaches to scaling social enterprise and impact investment in Asia and the Pacific,* presented at the Fourth Asia-Pacific Forum for Sustainable Development. Bangkok. Available at https://www.unescap.org/sites/default/files/pre-ods/EESCAPFSD(4)INF5.pdf.
[129] Korea Social Value and Solidarity Foundation. (2019). *Korea Social Value and Solidarity Foundation.* Available at https://drive.google.com/file/d/11JotkFjgFBG42ao_9mF-eb6kCSG0h03B/view.
[130] Social Finance Hub. (2019). *Korea Social Value And Solidarity Foundation.* Available at https://e3b75d93-aa8a-4829-ae8c-ce6f9abaee18.filesusr.com/ugd/e9ac9a_db05c6cab9f94722b83a3d775bec8ece.pdf.
[131] GSG Transition page 75.

Table 8: Key South Korean initiatives and their mechanism, outcome and investment over time

Name	Description	Impacts	Application to Australia
Korea Social Value and Solidarity Fund (2018)	The Korea Social Value and Solidarity Foundation (SVS) is a wholesale fund established as a public-private partnership. It exists to reduce the barriers of an immature social economy by developing a stable and sustainable social finance ecosystem and promoting the 'social economy'. It is an example of a wholesaler fund.	It was established with an aim of mobilising $265 million in funds, with half coming from government and half from banks and mutual credit Given the SVS is in its early stages, there currently is no evidence of its impacts.	**Intent aligns** The SVS further demonstrates a trend towards wholesale funds, as a means to invest capital in SII. **Design is somewhat useful** However, there is little information available to transfer the design of the SVS to Australia, or measure its impacts.
Seoul social impact bond/ Gyeonggi province (2016/2017)	The Seoul social impact bond is Asia's first SIB. Its target cohort is children and young people in group homes in need of social support, specifically to improve education, mental health and social skills. The social impact bond is a US$9.4 an investment.	Inside Policy was unable to assess the impacts of the bond.	**Intent is applicable** As has been demonstrated, SIBS provide an opportunity for investment. **Design is not useful** However, there is not the available evidence to assess the design and impacts of this initiative, to assess how it will apply to Australia.
Korea Social Enterprise Promotion	The Act is managed by the Korea Social Enterprise Promotion Agency (KoSEA). With a budget of $29.5 million AUD, the Agency aims to foster and promote small to	The KoSEA has contributed to the growth in social enterprises reported in the Social Enterprises Promotion Act 2006.	**Intent aligns** KoSEA demonstrates at a high level how SII legislation can be practically implemented to deliver capability development to social enterprises.

Agency (2012) [132]	medium enterprises and start-up social enterprises. It is an example of a policy response and capability building		**Design is not applicable** However, as information around the structure or impacts of the initiative are not readily available, it is difficult to assess the direct transferability of the agency to Australia.
Social Enterprise Promotion Act 2006	The Social Enterprise Promotion Act (SEPA) (2006) provides a legal status for social enterprises. It provides governance arrangements for social enterprises, including management, taxation and labour affairs, and provisions to allow social enterprises to rent state-owned or public land.[133] It is an example of a policy response through legislation.	Since the Act's commencement in 2007, the number of social enterprises has grown from 57 to 1,937 companies in 2018.[134]	**Intent aligns** SEPA demonstrates how a legislative response can be used to foster growth of social enterprises. **Design is not useful** It is unlikely the governance arrangements, taxation, labour affairs and provisions are directly transferrable to Australia.

[132] Evaluation available at National Assembly Budget Office. (2012). *Evaluation on Promoting Social Enterprise*, [online] Available at: http://korea.nabo.go.kr/publi/publications.php?ptype=view&idx=6509&code=publications&category=104.
[133] Lee, E. (2019). *Establishing a Sustainable Social and Solidarity Economy Ecosystem*. In: UN Inter-Agency Task Force on Social and Solidarity Economy International Conference. Geneva, Switzerland, 5 May 2019. Available at https://unsse.org/wp-content/uploads/2019/06/312_Lee_Establishing-a-Sustainable-Social-and-Solidarity-Economy_En.pdf.
[134] Ibid.

United Kingdom

The UK is at the forefront of SII globally, with the most mature ecosystem of the countries examined. It has pioneered the use of SII through innovative initiatives to grow and support the market, such as Big Society Capital (BSC), widespread use of outcomes funds and public procurement.[135] Globally, the UK has helped to expand SII, especially through its presidency of G8 and the Global Steering Group for Impact Investment.[136]

Ecosystem actors

As a mature ecosystem, the UK has a diverse sector with many investors, social enterprises, charities, intermediaries, incubators, wholesaler funds and knowledge-sharing initiatives. The UK government has played a big role, including creating major actors such as BSC and outcomes funds. These have grown and helped funnel investment into the market.

Gaps addressed

The UK has worked to address gaps within the SII ecosystem. The UK first established a central hub for leveraging support of senior Government policy-makers and officials by establishing the Social investment and Finance Team in the Cabinet Office in 2003. It then focused on developing the supply-side of the market through BSC financing of social investment finance intermediaries, such as fund managers and specialist banks that finance social enterprises and charities.[137] However, this approach has been assessed as not meeting the needs of the demand side of the market, in particular the capability of social enterprises to be 'investment ready' and able to take up capital.[138]

Given this experience, the government has increasingly focused on building the capability of the sector. For example, Access, the Foundation for Social Investment provides blended capital for deliverers that are not ready to take up investor or market finance. The Investment Readiness Programme established in 2012 provides capacity-building grants for investment readiness. It has helped 100 front-line social ventures unlock almost £100 million in investments and contracts, and created 10 social incubators, which will support more than 600 start-ups.[139]

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[135] Implementation Taskforce. (2017). Growing a Culture of Social Impact Investing in the UK. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811914/Final_report_by_the_Implementation_Taskforce_Growing_a_culture_of_social_impact_investing_in_the_UK_2019.pdf.
[136] UK Cabinet Office. (2013). *G8 Social Impact Investment Forum: Outputs and Agreed Actions.* Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/225547/G8_Social_Impact_Investment_Forum_-_Outputs_and_Agreed_Actions.pdf.
[137] Big Society Capital. (2014). *Big Society Capital: Our Strategy for the Next Three Years.*
[138] Hazenburg, R., Seddon, F. and Denny, S. (2015). Intermediary perceptions of investment readiness in the UK social investment market, *VOLUNTAS: International Journal of Voluntary and Nonprofit Organisation,* 26, pp. 846–871; Seddon, F., Hazenberg, R. and Denny, S., What are the barriers to investing in social enterprises? An investigation into the attitudes and experiences of social entrepreneurs in the United Kingdom, *EMES 4th International Conference on Social Enterprise: "If not for profit, for what? And How?,* Liege, Belgium, 1st – 4th July. Available at http://nectar.northampton.ac.uk/5851/7/Seddon20135851.pdf.
[139] Social Impact Investment Taskforce. (2014). *Impact Investment: The Invisible Heart of Markets.* Available at

PBR contracting, mainly implemented through SIBs, has also addressed gaps in service delivery. SIBs allow commissioners to pay for outcomes achieved by clients, rather than paying on outputs such as providing a service to clients. Capital for SIBs comes from external investors who get a return on their investment in successful interventions. Success is a defined social outcome that is set during the design of the SIB. SIBs bring together existing services, helping to overcome uncoordinated departmental siloes.[140]

The UK has also addressed legislative barriers. For example, the UK Law Commission reviewed the responsibilities of trustees in 2014 and provided clarity on the obligation of trustees in balancing their social impact goals with their fiduciary duties to beneficiaries.[141]

Extent of government investment

As many of the large investments in the UK stem from capacity building funds and SIBS which are public private partnerships it is difficult to discern a dollar amount on how much the UK government has injected into the sector. However, the UK policy response has been effective and wholistic with the government playing a key role in supporting and building the SII ecosystem. Since 2003, there has been a dedicated central government unit supporting the UK impact investing market, the Government Inclusive Economy Unit.[142]

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https://jenspeterjensen.dk/onewebmedia/Impact%20Investment%20Report%20FINAL%5B3%5D.pdf (accessed 10 January 2020).

[140] OECD. (2016). *Social Impact Bonds: State of Play and Lessons Learnt.* Available at https://www.oecd.org/cfe/leed/SIBs-State-Play-Lessons-Final.pdf (accessed 7 January 2020).

[141] O'Connor, S. (2016). Deeper Regulatory Clarity around Fiduciary Duty Crucial to Scaling Impact Investments. Impact Investing Australia. Available at https://impactinvestingaustralia.com/blog/trustee-duties-need-clarification/ (accessed 20 February 2020).

[142] GSG transitioning page 83

Table 9: Key UK initiatives and their outcome and investment over time

Name	Description	Impact	Application to Australia
Government Outcomes Lab (2016)	Government Outcomes Lab (GO Lab) is an academic institution supported by the Blavatnik School of Government at the University of Oxford that works with government and organisations to improve outcomes driven policy and practice.	GO Lab produces original research and thought leadership to help project implementers, equip decision makers, encourage policy makers, build consensus and engage researches with practice to deliver outcomes for citizens.[143] GO Lab is seen as a key component of UK's SII ecosystem as it gathers evidence and provides advice on delivering social outcomes.[144]	**Intent aligns** GO Lab helps build a shared understanding to SII, build capability of ecosystem actors, and build cohesion across ecosystem actors through research. **Design is useful** The design of Go Lab is useful to Australia, in that demonstrates how partnerships with researches can develop the knowledge and evidence to support ecosystem development.
Centre for Social Impact Bonds (2013)	The Centre for Social Impact Bonds is part of the Office for Civil Society at the Department for Digital, Culture, Media and Sport.	The Centre partners with stakeholders, local commissioners, service providers, academics, social investors, intermediaries and departments across governments to provide expert guidance on developing SIBS, sharing information	**Intent is applicable** The Centre builds cohesion across ecosystem actors and supports capability development for ecosystem actors, including government departments.

[143] Government Outcomes Lab. (2020). Impact Bonds. Available at https://golab.bsg.ox.ac.uk/.
[144] EVPA National Policy Nexus. (2018). Government Outcomes Lab.

		on outcomes-based commissioning and supporting the growth of the social investment sector.[145]	**Design is somewhat useful** The design of the initiative is transferrable to Australia and provides guidance on how to build cohesion within the ecosystem. However, there are limitations as there is minimal public information on the impacts of the Centre.
DWP Youth Unemployment Innovation Fund (2012 – 2015)	The Innovation Fund pilot was a £30 million outcomes fund that delivered 10 SIBs to reengage young people with education, training, and employment.	According to the Willingness to Pay (WTP) metric, the program received a social return on investment and the ratio of benefits to cost was 1.3 and 1.25 for the two project rounds. However, these ratios are smaller than those produced by similar programs, and its likely many of the client outcomes would have been achieved without the SIBs.[146]	**Intent aligns** As an outcomes fund, the Innovation Fund supports investment opportunities. It also provides a mechanism to agreed rates or payments for outcomes across ecosystem actors. **Design is useful** Key parts of the program, such as the Willingness to Pay metric, would be useful to Australia when developing outcomes funds. While the design of the fund is useful, the evaluations of the 10 SIBs suggests

[145] Gov.UK. (2017). Social Impact Bonds. Available at https://www.gov.uk/guidance/social-impact-bonds.
[146] The fund was evaluated multiple times throughout its lifecycle, the quantitative evaluation is available here: National Centre for Social Research. (2018). *Evaluation of the Innovation Fund pilot: Quantitative assessment of impact and social return on investment.* Available at <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737021/evaluation-of-the-innovation-fund-pilot-quantitative-assessment-of-impact-and-social-return-on-investment.pdf>.

			there were a number of weaknesses with the SIBs.
The Public Services (Social Value) Act (2012) Policy response	The Public Services (Social Value) Act requires people who commission public services to consider securing broader social, economic and environmental benefits in government procurement.	A 2015 review found that the Act had a positive impact, with survey responders reporting that the Act's benefits included financial investment and environmental improvements, use of local businesses in the supply chain, employment for young and disadvantaged people, and opportunities for training and local employment. The review also found that the act delivered value for money by increasing the social value of government procured services.[147]	**Intent aligns** The Public Services Act leverages broader government procurement to demonstrate government commitment to SII, build cohesion across government strategies and support ecosystem actors. **Design is useful** The scope of the Public Services (Social Value) Act would be applicable to both the Commonwealth and states and territories' commissioning roles.
Big Society Capital (BSC) (2012)	Big Society Capital (BSG) is a wholesale fund that brings together capital, knowledge, and experts to create SII opportunities. BSG has an initial investment of £600 million.	By 2018, BSC has helped to make £1.7 billion available to social enterprises.[148] Through the Impact Measurement Project, BSC aims to measure the intended social outcomes of funded investments. One social outcome	**Intent aligns** As a wholesaler, Big Society Capital supports investment opportunities. In addition, it has increasingly worked to build the capability of ecosystem actors.

[147] UK Cabinet Office. (2015). Social Value Act Review. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/403748/Social_Value_Act_review_report_150212.pdf.
[148] Big Society Capital (2018). Annual Review. Available at: <https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/Big_Society_Capital_2018_Annual_Review.pdf> [accessed 14 January 2020].

		has been housing over 3,800 people as a result of housing investments.[149] BSG has delivered capability building through the Access Foundation.	**Design is useful** The design of Big Society Capital has been applied in both Canada and South Korea. It would also apply to Australia. While Big Society Capital is the exemplary wholesaler, there has not been an independent evaluation of the organisation.
HMP Peterborough SIB (2010 – 2015) Payments by result	The world's first Social Impact Bond which aimed to reduce recidivism of prisoners, with a £5 million investment.	The SIB delivered positive client outcomes, with participants' reconviction declining by 11% at the same time as the equivalent national figures rose by 10%. The design of SIB contracts was perceived as a strength, as it enabled providers to deliver flexible and individualised services.[150]	**Intent aligns** As a SIB, this initiative provides an investment opportunity. **Design is useful** As has been demonstrated in Australia, the design of SIBs are useful within Australia.
Inclusive Economy Unit in the Department for Digital, Culture, Media and Sport (2003).	The Inclusive Economy Unit, previously the Social Investment and Finance Team in the Cabinet Office, works to strengthens the social investment market.	The Unit works with government departments to encourage better use of private investment, improve the delivery of public services, and encourage responsible business.	**Intent aligns** The Unit provides an opportunity to build cohesion across government strategies. **Design is useful**

149 Big Society Capital (2018). *Annual Review.*
150 This SIB has been evaluated multiple times throughout its lifecycle, including qualitative, quantitative, process, and impact evaluations. See, Disley, E. and Rubin, J. (2014). *Phase 2 report from the payment by result Social Impact Bond pilot at HMP Peterborough.* Available at <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/325738/peterborough-phase-2-pilot-report.pdf> [accessed 7 January 2020].

			The design will be transferrable to Australia’s government system.

Appendix D: Research Methodology

Rapid review

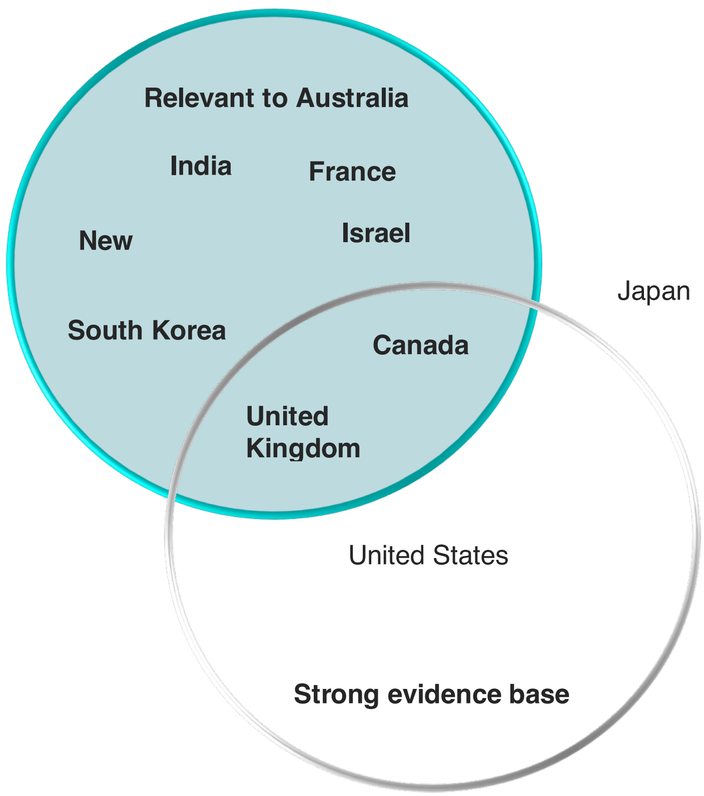
The project began with a rapid review began by outlining the key elements of each international SII ecosystem.

The ecosystems were then assessed against two criteria:

- Were they suitable for transferring to Australia's federal system, and targeted investment sectors and types of investors?
- Was there a mandated measurement framework in place for meaning social impact and investment, and could it be independently assessed?

This review revealed a lack of independent assessments of SII initiatives in Canada, France, India, Israel, New Zealand, South Korea and the UK.

Figure 3: Ecosystems relevant to Australia and with strong evidence bases



Scope

The second stage of the research was based on the findings of the rapid review.

This research project originally addressed the following questions:

1. What is Australia's current context and conditions for SII?
2. What are the social and economic impacts of the identified international SII ecosystems?
3. What are the social and economic impacts of SII initiatives within the identified ecosystems?
4. What are the patterns, if any, across countries in the initiatives made, and changes in social and economic outputs, outcomes and impacts?

However, due to limitations in the evidence base, these questions were updated to:

1. What is the current state of the SII ecosystem in each international example?
2. What are the impacts of SII initiatives within the identified ecosystem? How do the SII initiatives in the identified ecosystems apply to Australia?
3. What lessons can be drawn for Australia from international activity on SII? What activities in each country have potential for adaptation to the Australian ecosystem?

Methodology

Inside Policy reviewed roundtable and journey-mapping consultation data and reports to understand Australia's current context and conditions for SII.[151] This was supplemented with desktop research.

It also undertook a literature review to identify the social and economic impacts of international SII ecosystems; determine the social and economic impacts of SII initiatives within ecosystems; and analyse the patterns, if any, across ecosystems, and changes in social and economic outputs, outcomes and impacts.

Where possible, Inside Policy consulted independent evaluations, peer-reviewed literature and government reports. It used grey literature to establish the inputs, outputs and infrastructure within SII ecosystems.

Limitations of original research questions

Part way through the research project the research questions changed to better address the emerging evidence. The limitations of original research questions explored below.

1. What is Australia's current context and conditions for SII?

   Due to the emerging nature of SII in Australia, only limited research is available, making it difficult to fully assess the current state of the sector. To build a picture, researchers collected data about ecosystem actors, rather than the sector as a whole.

2. What are the social and economic impacts of the identified international SII ecosystems?

   Inside Policy could source only limited data to assess the trajectory of social enterprises, investors and government social procurement purchasing across ecosystems. The trajectory for some or all of these indicators could not be

[151] Inside Policy captured the experiences of intermediaries, outcomes commissioners, social enterprises, charities, philanthropic foundations and institutional investors, and used journey mapping to document their motivations, objectives and key tasks, as well as barriers and enablers.

assessed for Canada, France, India, Israel, New Zealand, South Korea and the UK. Data that was available had inconsistent definitions and collection methodologies, meaning it could not be compared across ecosystems.

Additionally, social indicators could not be identified for specific SII initiatives.

3. What are the social and economic impacts of SII initiatives within the identified ecosystems?

   For most of the SII initiatives assessed, the type of response, market element addressed, mechanism, gap addressed, and original intended outcome could only be assessed by examining grey literature, such as government reports, organisation websites and promotional material.

   The trajectory of investment over time, and intended and unintended outcomes, could not be assessed. Where possible, investment, and intended and unintended outcomes, were assessed for SII initiatives at a point in time using evaluative evidence. If this wasn't available, grey literature was used.

   The SII initiatives assessed were initially sourced from the Organisation for Economic Co-operation and Development (OECD) report *Social Impact Investment 2019: The Impact Imperative for Sustainable Development*. These were supplemented with key SII initiatives identified through the desktop review and consultation with experts in SII. Research initially focused on 146 SII initiatives across seven ecosystems. This was followed by a deeper analysis of key initiatives for each ecosystem, determined in consultation with the Department. While every effort was made to select the most relevant SII initiatives, this cannot be guaranteed due to the evolving nature of ecosystems and the available evidence.

4. What are the patterns, if any, across countries in the initiatives made, and changes in social and economic outputs, outcomes and impacts?

   This question aimed to use the research collected in questions 2 and 3 to answer sub-questions:

   4.1 Were any output, outcome and/or impact level changes observed post intervention?
   4.2 What are the common initiatives across countries that have contributed to positive system-level change?
   4.3 What were the divergent initiatives across countries that may have contributed to positive system-level change?

   Due to the identified limitations for question 2, Inside Policy was unable to accurately observe the level of changes in output, outcome and/or impact after implementation. Inside Policy discussed this with the Department and it was agreed that it would not report findings for question 4.1.

   Analysis for questions 4.2 and 4.3 draws on the findings presented for question 3. While Inside Policy was able to attribute common and divergent initiatives that contribute to positive system-level change, where evaluative evidence was unavailable, analysis was largely based on grey literature, and evidence of improved inputs, outputs and system changes.

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inside policy

Developing a Social Impact Investment Strategy

Report on Project 2: Determining social impact measurement frameworks with application to Australia.

15 April 2020

Prepared by Inside Policy for
the Department of the Prime Minister and Cabinet
on behalf of the Social Impact Investing Taskforce

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Executive summary

In October 2019, the Social Impact Investment (SII) Taskforce engaged Inside Policy to undertake a series of activities including research into the effectiveness of social impact reporting frameworks internationally and their application to Australia.

This report details the findings of our research including, the:

- preferences and needs of social enterprises, investors and governments when it comes to social impact reporting
- role for government and other partners in social impact reporting
- applicability of existing social impact reporting frameworks to the Australian SII context.

This research examined the following current approaches to social impact measurement and reporting:

1. Impact Reporting and Investment Standards
2. Sustainable Development Goals
3. CSI Amplify Initiative
4. Global Value Exchange
5. Big Society Capital Outcome Matrix
6. Social Return on Investment (SROI) / Social Value Accounting
7. Zurich Responsible Investing
8. Impact Multiple of Money
9. Impact Management Project
10. Impact Weighted Accounts
11. Sustainable Accounting Standards Board.

This research project answers the following three research questions:

1. What are the needs and preferences of Australian social enterprises, investors and government, when using social impact reporting frameworks?
2. What are the roles for government and other partners, in facilitating reporting frameworks for impact investing?
3. What is the assessment of the identified reporting frameworks, including analysis of each frameworks' applicability to Australia and the role for government?

The above questions were answered through a mixed method approach of reviewing consultation reports, grey and academic literature and undertaking interviews with key informants[1].

Findings

Overall, SII market participants have a strong desire for a standardised outcomes measurement approach that meets their variety of needs. SII market participants see the government as playing a key role in developing and leading this approach. Unfortunately no single, complete approach that is directly relevant to the Australian social policy environment and that meets all of the needs of market participants currently exists.

[1] Countries examined in Project 1 were Canada, France, India, Israel, New Zealand, South Korea and United Kingdom.

Needs and preferences of SII market participants in Australia

- SII market participants agree that they require a consistent approach to SII measurement and reporting that is relevant to Australia.
- Different participants want to measure different things – "pure" social outcome is important for service providers, intermediaries and government, economic benefits is important for government and intermediaries, and financial returns is important for investors and intermediaries. Together, all three outcome areas are important for SII.
- Governments are particularly interested in outcomes that align to social policy priorities.
- Access to data on costs, need and evidence of what works is critical for measuring all outcome types.
- Measurement is useful for all stages of the deal lifecycle: origination, design, implementation and deciding to scale-up / down.
- The evidence required to measure an outcome is proportional to the investment type, risk, and rate of expected return. For example, an investment that is low risk and expected to have a low level of return on investment may require less measurement then an investment that has a high return on investment.

Roles for government and other partners

- None of the seven national governments reviewed in Project 1[2] have led or facilitated the development of a standardised outcomes measurement and reporting approach for SII in their country.
- Market participants agree that the Commonwealth has a role to play in:
    - standardising outcomes measurement (including methods of calculating economic and financial benefit)
    - opening up access to data (including government-owned datasets on outcomes, evidence of what works and what doesn't work, and cost information)
    - enabling service providers to evaluate their interventions.
- Outside of government other partners such as academics, service providers, investors and beneficiaries can define the outcomes to be measured as well as the benefits that result from these outcomes.
- As the funding source, investors (both government and non-government) play an important role in determining how social impact should be measured and reported.

Applicability of existing measurement approaches to Australia

While useful elements of measurement approaches exist, there is no useful analogue for a complete social impact measurement system that can be applied to Australia.

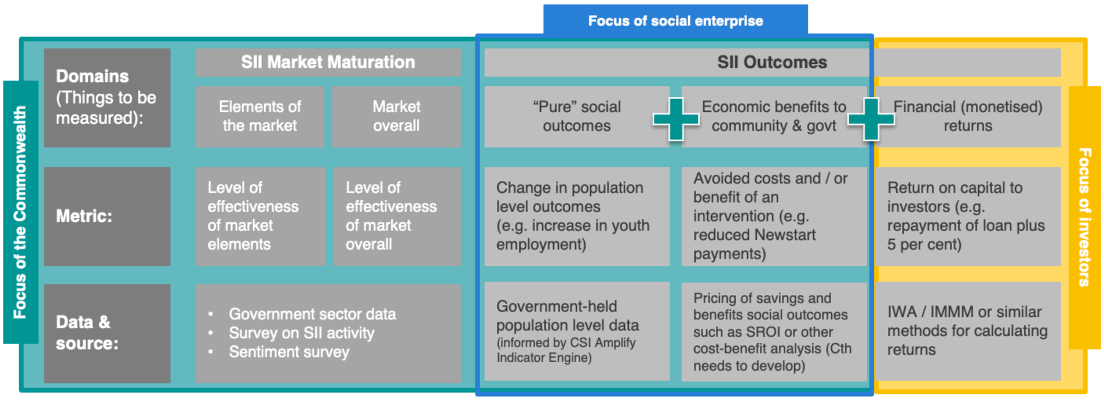
- Most approaches to measuring social impact have been developed by investors for investors therefore focus on investor requirements rather than the requirements of the whole market.
- None of the approaches review provide a single, complete solution to social impact measurement and reporting for SII in Australia.
- Current approaches either (1) calculate economic or financial returns or (2) identify outcomes to be measured.

[2] These governments are Canada, France, India, Israel, New Zealand, South Korea and the United Kingdom.

- The international outcomes frameworks do not have application to Australia as they primarily focus on environmental measures or do not measure social outcomes relevant to Australia. As a result CSI Amplify Initiative based in Australia is the most applicable outcomes framework, though it would require customisations to be fully relevant to the SII market.
- The approaches to monetising the economic and financial benefits of social outcomes that could apply to SII is Australia are SROI (for calculating economic benefit), Impact Multiple of Money (for forecasting returns) and Impact Weighted Accounts (for calculating financial returns during and after the intervention).
- The Global Value Exchange provides a useful analogue for how a framework could be structured to incorporate measurement of “pure” social outcome and economic benefits.
- The availability of robust data to inform social outcome and their economic and financial benefits is critical for an effective social impact measurement system.

Implications

The proposed system of measurement for SII in Australia brings together measurement of SII market maturation as well as the social, economic and financial impacts of the investments. This framework is summarised below.



To deliver this framework, adapting key features from the following frameworks is recommended:

- CSI Amplify Initiative (Indicator Engine) for identifying and measuring social outcomes relevant to Australia.
- Cost-benefit analysis plus SROI for identifying and measuring the economic and other benefits of social outcomes.
- Impact Multiple of Money for forecasting the financial return of a potential investment.
- Impact Weight Account for assessing the financial return of a current or past investment.

In addition, the Commonwealth should develop tools and datasets to mature the SII market. This includes:

- Investor and social enterprise sentiment survey
- SII activity survey
- Government sector data including number of social enterprises, number of PBRs, value of investment deployed by government-backed funds.

To assist implementation, the role of the Commonwealth is to partner with key experts, academics, market participants and measurement method owners to adapt current measurement methods for the Australian context and Commonwealth policy priorities.

On its own steam the Commonwealth must also enable measurement by opening up access to its data and facilitating access to non-government data, setting social policy priorities for government commissioning and payment-by-results models and to signal key areas for non-government investment, signalling preferences for measurement approaches and sharing the evidence on effective interventions.

Doing the above will benefit the whole SII market.

Introduction

As part of the 2019–20 Budget, the Morrison Government announced $5 million to establish an SII Taskforce (the Taskforce). This Taskforce comprises an Expert Panel appointed by the Prime Minister, and is supported by a team within the Department of the Prime Minister and Cabinet (the Department). The Expert Panel – led by its Chair, Mr Michael Traill AM – is engaging with state and territory governments, the private and not-for-profit sectors, philanthropic bodies and relevant Commonwealth agencies to identify an SII Strategy (the Strategy). This Strategy will advise how SII can help address entrenched disadvantage, achieve measurable social impacts and facilitate private capital investment in the SII market.[3] The Taskforce will report to the Prime Minister by mid-2020.

In October 2019, the Taskforce engaged Inside Policy to undertake a series of activities including research into the effectiveness of social impact reporting frameworks internationally and their application to Australia.

Consultation process

During November and December Inside Policy conducted 11 consultation sessions with more than 212 people. These consultation sessions included the following ecosystem participants: trusts and foundations; family offices and High Net Worth individuals and corporate foundations; aggregators and impact fund; mainstream super and institutional funds; Indigenous enterprise; impact driven organisations and intermediaries (business advisory services); outcomes commissioners and deliverers – government and not for profit; social and affordable housing and disability housing; and regional and remote representatives and funders. In February 2020, Inside Policy conducted two more consultation sessions specifically to test a proposed wholesaler fund, and to understand the challenges in measuring social impact outcomes in Australia.

Through all the consultation sessions the requirement for a standardised approach to outcomes measurement in Australia was recurring feedback.[4] This project assesses measurement and reporting frameworks to propose a potential system of measurement for SII for Australia. Further consultation was deemed out of scope for the project.

Purpose of this report

This report details the findings of our research including, the:

- social enterprises, investors and governments' preferences and needs for social impact reporting
- role for government and other partners in social impact reporting
- applicability of existing social impact reporting frameworks[5] to the Australian context.

Structure of this report

The remainder of this report is structured as follows:

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[3] Social Impact Investing Taskforce. (2019). https://www.pmc.gov.au/domestic-policy/social-impact-investing-taskforce, accessed 16 December 2019.
[4] Inside Policy. (2019). Report on the Social Impact Investing Taskforce Consultation; Inside Policy. (2020). Roundtable Summary: Outcomes Measurement Roundtable; Inside Policy. (2020). Roundtable Summary: Targeted Consultation to Test a Proposed Wholesaler Fund.
[5] Review included international frameworks, and some frameworks currently used in Australia and internationally.

Research methodology	This section defines social impact investment measurement and details the objective and scope of the research, including its limitations.
Findings	This section captures the key insights and findings against the three research questions: 1. What are the needs and preferences of Australian social enterprises, investors and government, when using social impact reporting frameworks? 2. What are the roles for government and other partners, in facilitating reporting frameworks for impact investing? 3. What is the assessment of the identified reporting frameworks, including analysis of each frameworks' applicability to Australia and the role for government?
Implications	This section discusses the characteristics of effective social impact reporting frameworks as well as the role that the Commonwealth and other partners can play in facilitating their widespread use.
Appendices	A. References B. List of key informants interviewed C. Impact Multiple of Money calculation example

Research methodology

This section defines social impact investment measurement and details the objective and scope of the research, including its limitations.

What is social impact measurement?

This research's overarching objective is to determine the applicability of social impact measurement approaches, either in whole or part, to the Australian SII market.

Measuring impact investments involves "measuring an investment's social effect"[6]. The Global Impact Investment Network (the GIIN) describes impact measurement as "identifying and considering the positive and negative effects one's business actions have on people and the planet"[7].

Researchers at Harvard Business School have identified that investors use impact investment measurement to:

- Estimate impact – this involves estimating the potential social and financial return at the due diligence stage.[8]
- Plan for impact – this involves choosing the metrics and data collection methods to measure the initiative's effect.[9]
- Monitor impact – this involves assessing the impact of the initiative through its life.[10]

[6] So. I. and Capanyola, A. (2016). How Impact Investors Actually Measure Impact. Stanford Social Innovation Review. 16 May 2016.
[7]GIIN. (2020). Getting Started with Impact Measurment and Meanagement (IMM). Available at https://thegiin.org/imm/#what-is-imm.
[8] So. I. and Capanyola, A. How Impact Investors Actually Measure Impact. Stanford Social Innovation Review. 16 May 2016.
[9] Ibid.
[10] Ibid.

- Evaluate impact – this involves measuring an investment's social and financial consequences after the initiative concludes.[11]

Researchers in this field describe measurement approaches as being largely investor-developed and as a result approaches are uncoordinated, opaque and inconsistent. As noted by researchers in the Harvard Business Review, "forecasting gains [from impact investing] is too often a matter of guesswork"[12].

Based on a rapid review of the literature, approaches to social impact measurement can be categorised in the following way:

- Measurement methods – specific measures which monetise or aim to give an economic value to a social benefit. Impact Multiple of Money, Social Return on Investment, Impact Weighted Accounts and Zurich Responsible Investing are examples of these metrics.
- Standards – standards or agreed protocols for measuring impact and calculating financial returns. Examples of standards in SII include Sustainability Accounting Standards Board and Impact Management Project.
- Outcomes frameworks – identify the social and / or environmental outcome to be achieved, or the "pure" social benefit. Examples of outcomes frameworks include the Sustainable Development Goals, CSI Amplify Project, Impact Reporting and Investment Standards and Big Society Capital Outcomes Matrix.
- Systems of measurement – brings together standards, measurement methods and outcomes. An example includes Global Value Exchange.

For the purposes of this research and the work of the Commonwealth in developing recommendations in its SII strategy for SII measurement, this report defines social impact measurement as approaches to measuring an investment's:

- "pure" social benefit to a group in the population and to the community, and
- economic benefits (of the social benefit) to the government and community, and
- financial returns to investors.

Scope

This research aims to:

1. Provide advice on which social impact reporting frameworks are both effective and have the greatest potential for widespread use by Australian social enterprises and investors.
2. Rapidly review identified social impact measurement frameworks for their applicability to Australia.
3. Consider how the Commonwealth – in partnership with others – can best facilitate the widespread use of a standardised reporting framework for impact investing.

This research examined the following current approaches to social impact measurement and reporting:

1. Impact Reporting and Investment Standards
2. Sustainable Development Goals

[11] Ibid.
[12] Addy, C., Chonrengel, M., Collins, M., and Etzel. M. (2019). Calculating the Value of Impact Investing. Harvard Business Review. January-February 2019. Available at https://hbr.org/2019/01/calculating-the-value-of-impact-investing.

3. CSI Amplify Initiative
4. Global Value Exchange
5. Big Society Capital Outcome Matrix
6. Social Return on Investment (SROI) / Social Value Accounting
7. Zurich Responsible Investing
8. Impact Multiple of Money
9. Impact Management Project
10. Impact Weighted Accounts
11. Sustainable Accounting Standards Board.

Specifically – for each of the above approaches – this research focused on:

- any evaluative evidence regarding the implementation and effectiveness of each approach
- how the approach in its entirety or in part could apply to the Australian SII market and to which segment of the market it best suits
- the applicability of the approach to Australia, including potential partnerships and the role of government.

Consultation with the sector was out for scope for this research project.

Research questions

This research project answers the following three research questions:

1. What are the needs and preferences of Australian social enterprises, investors and government, when using social impact reporting frameworks?

2. What are the roles for government and other partners, in facilitating reporting frameworks for impact investing?

3. What is the assessment of the identified reporting frameworks, including analysis of each frameworks' applicability to Australia and the role for government?

Methodology

The above questions were answered by:

- reviewing and synthesising data collected through consultations (including SII Taskforce roundtables, Department of Social Service Outcomes Measurement Workshop and SII market participant experience mapping)
- reviewing grey literature on the needs and preferences of SII market participants
- interviewing five key informants on specific approaches identified above
- reviewing academic and grey literature on the 11 measurement approaches
- reviewing academic and grey literature on SII measurement and reporting approaches undertaken by the seven countries of focus in Project 1[13].

References for all literature reviewed can be found at Appendix A. A list of key informants interviewed can be found at Appendix B.

Limitations

The two most significant limitations of this research are:

1. A lack of a comprehensive system of measuring the social and financial impact of impact investments, in particular government enablement of SII.

[13] Countries examined in Project 1 were Canada, France, India, Israel, New Zealand, South Korea and United Kingdom.

While elements of a measurement approach exists (i.e. metrics, outcomes and accounting standards) there is no comprehensive single approach that identifies and measures both the social and financial impacts of impact investments. Therefore this research cannot recommend a single approach that is applicable to Australia.

2. Limited evaluative evidence of current measurement approaches. Of the 11 approaches examined, only the SDGs have been evaluated. In the absence of evaluative evidence, academic critique of approaches have informed the assessment of remaining approaches.

Australian Context

Australia has an emerging SII ecosystem made up of the Commonwealth and state and territory governments, investors, intermediaries and delivers. Measuring the impact of SII is a gap within this ecosystem, and feedback from interviews, consult reports and journey mapping indicate that ecosystem players are seeking a standard measurement and reporting framework.

The Commonwealth has a key role in developing and guiding the use of this framework. This role is both guided by and will support achieving the Treasury's principles for the Commonwealth's role in the SII market.

The principles are:

government as market enabler and developer
- value for money
- robust outcomes-based measurement and evaluation
- fair sharing of risk and return
- outcomes that align with the Commonwealth Government's policy priorities
- co-design.

Challenges within data collection

At the Commonwealth level, there are a significant number of national datasets which span the responsibilities of government from health, residential aged care, education, income support, disability services, and child protection.[14] One key opportunity the Commonwealth is using data to better support multi-sectoral approaches to policy / program development and evaluation is through data linkage across these datasets. Data linkage is increasingly being used to bring together a range of health and welfare data.[15]

A number of gaps have been identified in the available national data. AIHW identified that there is currently no national data available or data collection is not comprehensive in the following areas:

- understanding of risk factors
- incidence and prevalence data
- measurement of demand for welfare services
- details about types of welfare services accessed
- pathways through the welfare systems
- outcomes for people who receive welfare services

[14] Australian Institute of Health and Welfare. (2019). Scoping Enhanced Measurement of Child Wellbeing in Australia. Discussion Paper. AIHW: Canberra.
[15] Ibid

- long-term effects on individuals and their families
- information about populations of interest
- geospatial information.[16]

The Office of the National Data Commissioner and the Australian Bureau of Statistics have developed Data Sharing Principles to help agencies manage risk when sharing data.[17] These principles, which could provide a mechanism to improve data sharing for SII, are:

1. Projects: Data is shared for an appropriate purpose that delivers a public benefit.
2. People: The user has the appropriate authority to access the data.
3. Settings: The environment in which the data is shared minimises the risk of unauthorised use or disclosure.
4. Data: Appropriate and proportionate protections are applied to the data.
5. Output: The output from the data-sharing arrangement is appropriately safeguarded before any further sharing or release.[18]

Applying measurement frameworks to the SII ecosystem

To achieve consistent measurement, the framework should be relevant for all the key parts of an ecosystem. Inside Policy reviewed international ecosystems as part of an adjacent research project and determined that the following are key initiative types in SII ecosystems:

Initiative	Definition:
Policy response	Strategies and legislation, strategic bodies, bureaucratic structures, and ministerial roles that strategically shape the SII ecosystem and underpin government led-action in SII.
Capability development	The systems or programs governments, investors, charities and intermediaries use to scale up and/or improve skills and knowledge, tools, equipment and financial resources.
Intermediaries	Organisation that support the SII ecosystem, but do not directly deliver SII programs. Intermediaries can provide a range of functions, including supporting the capacity of delivers and other actors, accessing and distributing capital, sharing knowledge and skills, and providing specialist services.
Wholesaler funds	A fund that distributes capital to a range of social finance investment vehicles, making it particularly effective in supporting a diversity of investment opportunities. Wholesaler funds are typically established through some form of government investment, which is then used to attract private investment.
Outcomes funds	A fund that is underpinned by funding from government, philanthropic and/or private investment sources and a measurement framework and performance metrics. Outcomes funds provide a structure to manage different investors' risks, returns and objectives.

[16] Australian Institute of Health and Welfare. (2019). Australia's Welfare 2019. Canberra: AIHW. P.14.
[17] Ibid.
[18] Ibid.

Payments by results	Payment system that incentivises the delivery of social outcomes rather than program outputs, by paying deliverables based on outcomes achieved rather than inputs or outputs the provider delivers.

Findings

This section details the key insights and findings for the following three research questions:

1. What are the needs and preferences of Australian social enterprises, investors and government, when using social impact reporting frameworks?
2. What are the roles for government and other partners, in facilitating reporting frameworks for impact investing?
3. What is the assessment of the identified reporting frameworks, including analysis of each frameworks' applicability to Australia and the role for government?

Research question 1: What are the needs and preferences of Australian social enterprises, investors and government when using social impact reporting frameworks?

Key insights

- SII market participants agree that a consistent and relevant approach to measurement and reporting is required in Australia.
- Different participants want to measure different things – "pure" social outcome is important for service providers, intermediaries and government, economic benefits is important for government and intermediaries, and financial returns alongside social impacts is important for investors and intermediaries. Together, all three outcome areas are important for SII.
- Governments are particularly interested in outcomes that align to social policy priorities.
- Access to data on costs of delivering services, savings to government as a result of an initiative, need for a service, and evidence of what works is critical for measuring all outcome types.
- Measurement is useful for all stages of the deal lifecycle: origination, design, implementation and deciding to scale-up / down.
- The type of evidence required to justify an outcome should be appropriate for the investment type and expected return.

Drawn from consultation reports and desktop research, below are the social impact measurement and reporting needs and preferences of the following SII market participants:

- Impact investors
- social enterprises
- intermediaries
- government.

Investors

The available literature indicates that investors are interested in social impact measurement and reporting approaches that assist them calculate the forecast and actual return for SIIs.[19] [20]

Investors expressed a preference for:

- a consistent outcomes measurement approach / framework that can be applied to all SIIs
- easy, no cost access to data on need, outcome and cost, especially datasets held by governments
- theories of change which step through what output, outcomes and impacts should be expected for a particular intervention
- evidence on what does and doesn't work in terms of interventions to achieve certain social outcomes
- information on how outcome data is collected by service players, government and/or investors as well as how interventions have been evaluated.[21]

Institutional investors emphasised the importance of outcomes of SIIs being aligned to existing internationally accepted standards such as the Sustainable Development Goals.[22]

The above measures would enable investors to efficiently and effectively:

- originate SII deals
- undertake due diligence, including assess risk and return
- structure finance for SII deals
- assess the outcomes achieved by SIIs
- determine the future of existing SIIs
- assess the returns at the investment and portfolio levels.[23]

Social enterprises

The available literature indicates that social enterprises are interested in social impact measurement and reporting approaches to assist them with:

- identifying social needs and priorities
- designing effective interventions
- reporting to investors, funders and other stakeholders.[24] [25]

To assist in fulfilling this objective, social enterprises expressed a preference for:

- a common language to describe outputs, outcomes and impact in SII
- measurement approaches that recognise the long-term change being sought by interventions (and investments) as well as the complexity of attributing change to a particular intervention
- a social enterprise-built system for data collection, measurement and analysis
- robust and consistent methods for quantifying impact
- access to data on need, outcome and cost, especially such data held by governments

[19] Synthesis of SII Taskforce Consultation Reports for Roundtables 1, 2, 5, 6 and 8.
[20] So. I. and Capanyola, A. (2016). How Impact Investors Actually Measure Impact. Stanford Social Innovation Review. 16 May 2016.
[21] Synthesis of SII Taskforce Consultation Reports for Roundtables 1, 2, 5, 6 and 8.
[22] Ibid.
[23] Ibid.
[24] Synthesis of SII Taskforce Roundtable Report 4 and 8.
[25] SII Taskforce Journey Mapping Report December 2019.

- evidence on what does and doesn't work in terms of interventions to achieve certain social outcomes
- guidance on the level of robustness evidence must satisfy in order for it to have sufficient rigour.[26] [27]

Social enterprises emphasised the importance of service providers and beneficiaries, rather than investors, identifying and designing the outcomes of an initiative. When investors lead outcome design, there is a risk that data collection can become focused on funding and outputs, rather than client outcomes. Social enterprises, on the other hand, are in a better position to identify 'client focused' evidence and measurable outcomes.

The above measures would enable social enterprises to efficiently and effectively:

- originate and design interventions that are in line with the Commonwealth's priorities for SII, especially to address entrenched social disadvantage
- present to investors and funders the expected social outcomes
- assess the outcomes achieved by the intervention
- determine the future of existing interventions.[28] [29]

Intermediaries

The available literature indicates that intermediaries are interested in social impact measurement and reporting approaches to assist them in advising both government and private investors and social enterprise on realistic impacts to be achieved and timeframes to achieve these impacts.[30] [31] [32]

To assist in fulfilling this objective, intermediaries expressed a preference for:

- a consistent measurement methodology based on SII type e.g. payment-by-results versus other SII investment products
- access to data on need, outcome and cost, especially such data held by governments
- theories of change which step through what output, outcomes and impacts over what timeframe should be expected for a particular intervention
- evidence on what interventions best achieve desired social outcomes.[33] [34] [35]

Intermediaries emphasised the importance of having a consistent language and robust outcomes.[36] This information enables intermediaries to manage the expectations of social enterprises and investors about what can be achieved by when.[37]

The above measures would enable intermediaries to efficiently and effectively:

- work with social enterprises to design business models and identify intended impacts
- help investors identify financial returns over realistic timeframes

[26] Synthesis of SII Taskforce Roundtable Report 4 and 8.
[27] SII Taskforce Journey Mapping Report December 2019.
[28] Synthesis of SII Taskforce Roundtable Report 4 and 8.
[29] SII Taskforce Journey Mapping Report December 2019.
[30] Synthesis of SII Taskforce Roundtable Report 5.
[31] SII Taskforce Journey Mapping Report December 2019.
[32] Department of Social Services Outcomes Measurement Roundtable held on 19 February 2020.
[33] Synthesis of SII Taskforce Roundtable Report 5.
[34] SII Taskforce Journey Mapping Report December 2019.
[35] Department of Social Services Outcomes Measurement Roundtable held on 19 February 2020.
[36] SII Taskforce Journey Mapping Report December 2019.
[37] Ibid.

- negotiate outcome payment terms on behalf of service providers and investors
- advise investors on the types of capital and funding models that work. [38]

Governments

The available literature indicates that governments, including the Commonwealth and State and Territory governments, are interested in social impact measurement and reporting approaches to assist them with understanding the social outcomes achieved as well as the broader economic benefits (to community and government) as a result of those outcomes. Governments are interested in the economic and other benefits across portfolios, for example, what is the impact of adequate housing on health outcomes?[39] Governments are also responsible for ensuring taxpayer funds are used as efficiently, effectively and appropriately as possible to achieve outcomes in the community.

To assist in fulfilling this objective, governments expressed a preference for:

- more metrics and measures that align to government policy priorities
- linking of datasets across departments / portfolio areas and across governments
- a consistent and agreed valuation method for SII proposals
- articulating outcomes and expected cost savings when commissioning
- alternative evaluation design when randomized controlled trials are not feasible or realistic.[40] [41]

Governments emphasised the importance of leveraging department-owned datasets as well as aligning outcomes for interventions to government policy priorities.[42]

The above measures would enable governments to efficiently and effectively:

- design the architecture and contracting arrangements when commissioning services, including setting an appropriate price for outcomes that reflect future avoided costs for government
- demonstrate a program's benefits in terms of social outcome as well as savings to government
- determine the most effective evaluation for an SII initiative, as per the type of policy response or SII investment (for example NSW Government prefers the financial valuation method of calculation for its SII)
- identify benefits across portfolio areas.[43] [44]

Advantages of a standardised measurement approach

A standardised measurement approach is advantageous as it ensures investors, social enterprises and other delivers, investors, intermediaries and government have a common language and approach to measuring impact. It provides a practical way to measure the impact at a program level, which will be of interest to social enterprises and investors, and impact at a broader policy or societal level which may be of interest to intermediaries and governments.

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[38] Synthesis of SII Taskforce Roundtable Report 5.
[39] Synthesis of SII Taskforce Roundtable Report 3.
[40] Synthesis of SII Taskforce Roundtable Report 3.
[41] Department of Social Services Outcomes Measurement Roundtable held on 19 February 2020.
[42] Synthesis of SII Taskforce Roundtable Report 3.
[43] Synthesis of SII Taskforce Roundtable Report 3.
[44] Department of Social Services Outcomes Measurement Roundtable held on 19 February 2020.

Research question 2: What are the roles for government and other partners, in facilitating reporting frameworks for impact investing?

Key insights

- None of the seven national governments reviewed in Project 1 have led or facilitated the development of a standardised outcomes measurement and reporting approach for SII in their country.
- Market participants agree that the Commonwealth has a role to play in:
  - standardising outcomes measurement (including methods of calculating economic and financial benefit)
  - facilitating and encouraging open access to relevant data sources (including government-owned datasets on outcomes, evidence of what works and what doesn't work, and cost information)
  - enabling service providers to evaluate their interventions.
- Outside of government other partners such as academics, service providers, investors and beneficiaries can define the social outcomes to be measured as well as the benefits that result from these outcomes.
- As the funding source, investors (both government and non-government) play an important role alongside beneficiaries and social enterprises in determining how social outcomes should be measured and reported.

Drawn from consultation reports and desktop research, discussed below are the roles governments and other partners can play in facilitating social impact measurement and reporting.

Role and responsibilities of governments

Based on the various consultation activity and literature review, there is common agreement that the role and responsibility of government in facilitating the use of social impact measurement systems, is to:

- provide or facilitate easy, free access to data on:
  - evidence of effective interventions
  - cost of programs, interventions and savings to government
  - outcomes and need.[45]
- enable social enterprise / service providers to use the data in a meaningful way as well as generate their own data using robust methods
- ensure social outcomes align to policy priorities, especially in the instance of payment-by-results models and outcomes commissioning
- set preferred methods of measurement, especially for determining the economic benefits (including avoided costs, savings and other benefits) to government and community of a particular intervention.

On access to data, Social Ventures Australia notes the important role of governments in opening up access to their data sets to avoid service providers, intermediaries and investors spending scarce resources on developing their own data sets.[46] Governments should also be realistic about the quality and robustness thresholds

[45] Establishing outcomes can occur in collaboration with other ecosystem actors.
[46] Social Ventures Australia. (2017). Response to the Commonwealth Government's Social Impact Investing Discussion Paper. Available at https://treasury.gov.au/sites/default/files/2019-03/c2017-183167-Social-Ventures-Australia.pdf.

that evidence should meet – randomised controlled trials are not realistic or feasible in most instances.[47]

The review of outcomes measurement practices by the seven countries examined in Project 1 revealed no national government leadership or facilitating approach on the topic.

Role and responsibilities of other partners

The literature review revealed the roles and responsibilities for the following partners in social outcomes measurement:

- Think tanks and expert collectives: this group can play a role in collecting, analysing and housing evidence on effective interventions. For example, the International Initiative for Impact Evaluation is a clearing house for evaluative evidence on social impact interventions.[48]
- Universities and academics: this group can play a role in designing outcome measurement frameworks. For example, the University of New South Wales Centre for Social Impact has developed the social outcome measurement tool – the Amplify Initiative. This is discussed in more detail at research question 3.
- Investors, service providers and beneficiaries: these market participants play an important role in determining the success measures for an intervention and investment. Collectively these participants can agree a common measurement system to use.[49]

Research question 3: What is the assessment of the identified reporting frameworks, including analysis of each frameworks' applicability to Australia and role for government?

Key insights

- Most approaches to measuring social impact have been developed by investors for investors therefore focus on investor requirements rather than the requirements of the whole market.
- None of the approaches reviewed provide a single, complete solution to social impact measurement and reporting for SII in Australia.
- Current approaches either (1) calculate economic or financial returns or (2) identify outcomes to be measured or provide a methodology for measurement.
- The international outcomes frameworks do not have application to Australia as they primarily focus on environmental measures or do not measure social outcomes relevant to Australia. As a result CSI Amplify Initiative based in Australia is the most applicable measurement approach, though it would require customisations (i.e. aligning to Commonwealth policy priorities and ability to measure economic and financial returns) to be fully relevant to the SII market.
- The approaches to monetising the economic and financial benefits of social outcomes that could apply to SII is Australia are SROI (for calculating economic benefit), Impact Multiple of Money (for forecasting impact before

[47] Ibid.
[48] International Initiative for Impact Evaluation. (2020). Global Leader in the Generation and Use of Evidence for Decision-Making. Available at https://www.3ieimpact.org/.
[49] So. I. and Capanyola, A. (2016). How Impact Investors Actually Measure Impact. Stanford Social Innovation Review. 16 May 2016.

making an investment) and Impact Weighted Accounts (for calculating financial returns during and after the intervention).
- The Global Value Exchange provides a useful analogue for how a framework could be structured to incorporate measurement of "pure" social outcome and economic benefits.
- The availability of robust data to inform social outcome and their economic and financial benefits is critical for an effective social impact measurement system.

The remainder of this section describes and analyses the following social impact measurement approaches and their applicability to Australia:

- Impact Reporting and Investment Standards
- Sustainable Development Goals
- CSI Amplify Initiative
- Global Value Exchange
- Big Society Capital Outcome Matrix
- Social Return on Investment (SROI) / Social Value Accounting
- Zurich Responsible Investing
- Impact Multiple of Money
- Impact Management Project
- Impact Weighted Accounts
- Sustainable Accounting Standards Board.

Impact Reporting and Investment Standards

Developed by the Global Impact Investment Network (the GIIN), the Impact Reporting and Investment Standards (IRIS) is an impact measurement and management system designed to allow investors to compare the social and environmental activities outputs and outcomes across investments.[50] IRIS is an open source system that has been designed for impact investors by impact investors.

IRIS offers a library of approximately 400 standardised metrics that can be used to measure and describe the social, environmental, and financial performance of organisations and businesses receiving impact investment capital.[51] [52] IRIS contains metrics for the following 16 discrete impact categories:

1. Agriculture
2. Air
3. Biodiversity and ecosystems
4. Climate
5. Diversity and inclusion
6. Education
7. Employment
8. Energy
9. Financial systems
10. Health
11. Real estate
12. Land
13. Oceans and coastal zones

[50] GIIN. (2020). IRIS+. Available at https://iris.thegiin.org/.
[51] GIIN. (2020). From IRIS to IRIS+. Available at https://iris.thegiin.org/history/.
[52] Klopper, S. (2019). Website review: Global Impact Investing Network (GIIN). Journal of Business & Finance Librarianship, pp.1-4.

14. Pollution
15. Waste
16. Water

IRIS is an outcomes framework and as such does not provide any benchmark for metrics that is informed by country-level population datasets nor does it offer methods for calculating economic or financial returns.

All the metrics included in IRIS go through a rigorous process that involves input and consultation from field leaders and a group of stakeholders. The full IRIS catalogue is maintained and updated with support from a formal advisory body comprising experts in impact measurement and other relevant specialties.[53]

While the literature describes IRIS as comprehensive, informed by best practices and relevant, it has not been formally evaluated as a measurement system.

A summary of what IRIS does by way of social impact measurement is below:

	Does this (Y/N):
Identifies evidence-informed outcomes / impact metrics	Yes
Easily accessible and open source	Yes
Identifies social impact metrics	Yes
Allows users to customise the impacts to be measured	Yes
Defines all metrics	Yes
Links metrics to Sustainable Development Goals	Yes
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	No
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	No

Applicability to Australia and the role of government

As an outcomes framework, the rigorous approach for identifying, developing and defining impact metrics is instructive for Australia. In particular, Australia could develop its own common language and metrics that are locally relevant using the GIIN's design and governance approach.

However, the direct application of IRIS to the Australian SII market in its current form is limited for the following reasons:

- Only three of the 16 impact categories focus on social impacts (i.e. education, health and employment), with the remainder focusing on environmental

[53] GIIN. (2020). Standards Development Process and Principles. Available at https://iris.thegiin.org/standards-development-process-and-principles/.

impacts. Key social outcome areas such as housing, children and families, disability services, aged care are not represented.

- The metrics related to education, health and employment are not directly applicable to the Australian context. For example, employment measures number of individuals in an organisation in receipt of employment benefits rather than labour force participation at a population level.
- Metrics are at the organisation level (i.e. the organisation that is receiving investment) rather than the population level (i.e. what change is occurring at the community or national levels).

Investment of time and expertise would be required to work with the GIIN to include impact metrics that are applicable to Australia. This could be informed by the Commonwealth and led by Australian impact investors.

Sustainable Development Goals

In 2015, the United Nations adopted the Sustainable Development Goals (SDGs) to solve complex social, economic and environmental issues.[54] The SDGs are a set of goals rather than sans value outcome measures.

They include 17 SDGs with 169 targets and a number of related indicators to address global challenges.[55] The 17 SDGs are:

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnerships for the goals.

The goals are used by nation-states, companies and investors. These goals have become a common language for impact investors and companies who report on their investments' contribution to the SDGs.

The framework itself has been evaluated by Deloitte[56], which found that companies using the SDGs:

[54] United Nations. (n.d.). Helping Governments and Stakeholders Make the SDGs a Reality. Available at https://sustainabledevelopment.un.org/.
[55] United Nations. (n.d). Divisions for Sustainable Development Goals. Available at https://sustainabledevelopment.un.org/about.
[56] World Business Council for Sustainable Development. (2002). Sustainable Development Reporting : Striking the Balance. Available at https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/dttl_crs_wbcsd_sustainabledevelopmentreport.pdf.

- can do better at using the framework to forecast their future sustainability plans in addition to providing historical data on past activities
- should look beyond short-term financial impacts and report on anticipated medium and long-term impacts
- should consider SDG reporting as part of an active dialogue between the company and its stakeholders.

A summary of what the SDGs do by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	Yes (goal focused)
Easily accessible and open source	Yes
Identifies social impact metrics	Yes
Allows users to customise the impacts to be measured	Yes
Defines all metrics	Yes
Links metrics to Sustainable Development Goals	NA
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	No
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	No

Applicability to Australia and the role of government

As some Australian companies report against the SDGs in their annual sustainability reporting, there is a precedent for use. The Department of Foreign Affairs and Trade (DFAT) has also conducted a voluntary national review of Australia's implementation of SDGs domestically and in international aid and development.[57] However, the goals themselves do not necessarily align to all Commonwealth domestic social policy priorities. Therefore, as a holistic framework the SDGs is unlikely to be the best approach to measuring progress towards the issues that are most important to the Commonwealth and state / territory governments.

On the other hand, individual indicators related to each SDG target could be useful in identifying the population-level change that should be sought by focusing on a particular outcome area. For example, SDG 8 (Employment) identifies an indicator of unemployment rate, by sex, age and persons with disabilities.

To achieve the above, time and effort would be required to identify the most relevant indicators and relate those indicators back to social outcome areas of most importance to the Australian context.

[57] Australian Government Department of Foreign Affairs and Trade. (2018). Report on the Implementation of the Sustainable Development Goals. Available at https://www.dfat.gov.au/sites/default/files/sdg-voluntary-national-review.pdf.

Centre for Social Impact Amplify Initiative

CSI combines ten years of its experience in social issue research and outcomes measurement, numerous publicly available datasets (i.e. ABS Census on Population and Housing) and reporting frameworks, to measure impact.[58]

Described as a "one-stop shop in evidence and evaluation"[59], the Amplify Initiative by the Centre for Social Impact (CSI) aims to incorporate a platform of online tools, a set of research reports, and a series of events across Australia that will help improve social outcomes.

Its areas of focus are:

1. Education
2. Employment
3. Health
4. Disability
5. Living standards
6. Housing and homelessness
7. Social cohesion
8. Life satisfaction.[60]

The Amplify Initiative includes:

- 'Social Progress Index' - a tool that models how Australian States and Territories are performing relative to one another on fundamental social and environmental outcomes, as aligned to the United Nations' Sustainable Development Goals. This online resource provides the first holistic measure of Australia's social performance that is independent of economic factors.
- 'The Indicator Engine' which houses a set of metrics to guide organisations on how to best measure outcomes and impact with validity and reliability.
- 'Yardstick' which reveals the programs, strategies, and initiatives across the country that are achieving outcomes and impacts and the opportunities for their replication and improvement.[61]

When discussing the Indicator Engine, CSI advised the following:The Amplify Initiative – and the Indicator Engine, in particular – are still in development and are yet to be made available to the public. The Social Progress Index was launched in February 2020.

A summary of what the Indicator Engine could do by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	Yes
Easily accessible and open source	Not yet[62]

[58] Ibid.
[59]Williams. W. (2018). New Initiative Set to Amplify Social Impact. Probono Australia. Available at https://probonoaustralia.com.au/news/2018/04/new-initiative-set-amplify-social-impact/.
[60] Amplify Social Impact. (n.d). Australia's Social Pulse. Available at https://amplify.csi.edu.au/pulse/.
[61] Amplify Social Impact. (2018) Info Pack: July 2018. Available at http://amplify.csi.edu.au/documents/30/Amplify_brochures5_v2.pdf.
[62] Not all elements are yet publicly available but are designed to be.

Identifies social impact metrics	Yes
Allows users to customise the impacts to be measured	Yes
Defines all metrics	Yes
Links metrics to Sustainable Development Goals	Yes
Provide access to datasets on outcome / impact metrics	Yes
Calculates the economic benefits of improvement in a particular outcome / impact area	No
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	No

Applicability to Australia and the role of government

As an outcomes framework, the rigorous approach for identifying, developing and defining impact metrics as well as providing benchmarks informed by robust Australian datasets is instructive for SII in Australia. The Indicator Engine is the most applicable framework for measuring outcomes for SII. Based on feedback provided by CSI, the Indicator Engine can be customised to the needs of the Commonwealth for the purposes of measuring SII. Algorithms to calculate economic and financial returns can also be built into the system.

Investment of time and expertise would be required to work with CSI to include impact metrics that are applicable to SII in Australia, in particular to build out outcomes in the missing areas. This could be informed by the Commonwealth and led by Australian impact investors.

Global Value Exchange

The Global Value Exchange is an online platform that allows users (both investors and service providers) to monitor and maximise the social value they are creating through their investment projects.[63] Global Value Exchange aims to be an open source, online platform for accessible, transparent metrics, that have a global common language.

The platform is home to over 30,000 crowd-sourced social impact measurement metrics.[64] Data sources include:

- Big Society Capital Outcome Matrix
- Global Goals for Sustainable Development, The Journey to Employment (JET) Framework, Global Reporting Initiative (GRI), IRIS 4.0
- New Economy Unit Cost Database
- HACT Value Bank
- NHS Outcomes Framework for 2016/17
- The TEEB Eco-System Services Valuation.

There are three parts to the platform:

[63] Global Value Exchange. (2016). About GVA. Available at http://www.globalvaluexchange.org/news/b07bcb501c.
[64] Social Value International. (n.d.) Global Value Exchange. Available at: https://socialvalueint.org/resources/gve/.

- browseGVE: a database with thousands of outcomes, indicators and valuations
- myGVE: an interactive project layer where you can enter and collect social value data for your own activity or project
- myGVEportfolio: which manages the social value of multiple projects by creating a portfolio with a shared outcome framework.[65] [66]

A summary of what the Global Value Exchange does by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	Yes
Easily accessible and open source	Yes
Identifies social impact metrics	Yes
Allows users to customise the impacts to be measured	Yes
Defines all metrics	Yes
Links metrics to Sustainable Development Goals	No
Provide access to datasets on outcome / impact metrics	Yes
Calculates the economic benefits of improvement in a particular outcome / impact area	Yes
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	Yes

Applicability to Australia and the role of government

As an outcomes and measurement framework, the rigorous approach for identifying, developing and defining impact metrics is instructive for Australia. In particular, Australia could develop its own common language and metrics that are locally relevant using Global Value Exchange's governance approach.

However, the direct application of the Global Value Exchange to the Australian SII market in its current form is limited for the following reasons:

- There is no Australian specific data. All outcome measures and calculations of economic benefit are based on international datasets.
- The economic benefits related to each outcome are not specific to Australia including the costs and savings to government in the Australian context.

Investment of time and expertise would be required to work with the Global Value Exchange to include impact metrics, datasets and costing that are applicable to Australia. This could be informed by the Commonwealth and led by Australian impact investors.

[65] Social Value International. (n.d.) DataStorm: Global Value Exchange. Available at https://socialvalueint.org/datastorm-global-value-exchange/.
[66] Social Value UK. (2020). Social Value Tools. Available at http://www.socialvalueuk.org/social-value-tools/.

Big Society Capital Outcome Matrix

The Outcome Matrix was created in 2013, with the purpose of being a collaborative project to map and define social outcomes in the UK in a consistent way. As such it aims to develop common ground and language for social investment and impact assessment in the social sector.[67] [68] It is a tool to help social investment financial intermediaries (SIFI's) and social sector organisations to plan, measure and learn about their social impact.[69] As such it focuses on having a robust data set to assist with strategic planning, the setting of organisational targets, and evaluation of the extent to which targets are met as well as addressing issues such as unintended consequences.

All the metrics were developed by Big Society Capital in partnership with social investment financial intermediaries, front line organisations and impact experts including the Good Analyst, New Philanthropy Capital, Social Value International and Triangle Consulting.[70]

A summary of what the Outcomes Matrix does by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	Yes
Easily accessible and open source	Yes
Identifies social impact metrics	Yes
Allows users to customise the impacts to be measured	Yes
Defines all metrics	Yes
Links metrics to Sustainable Development Goals	No
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	No
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	No

Applicability to Australia and the role of government

As a reporting framework, the Outcomes Matrix has similar infrastructure to the Australian context. The architecture of the Outcomes Matrix could be replicated by an Australian SII wholesaler fund. However, the actual outcomes contained within the matrix are not applicable to Australia – these would need to be developed specifically

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67 Big Society Capital. (2020). Uniting Capital, Expertise and Ideas for Better Lives. Available at https://bigsocietycapital.com/.
68 Big Society Capital. (2018). 2018 Annual Report: Improving People's Lives in the UK. Available at https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/Big_Society_Capital_2018_Annual_Review.pdf
69 Good Finance. (n.d.) The Outcomes Matrix. Available at https://www.goodfinance.org.uk/impact-matrix.
70 Basu. D. (2017). Social Impact and Big Society Capital in the UK. Available at https://www.centreforpublicimpact.org/case-study/social-impact-big-society-capital-uk/.

for SII in Australia. If an Australian wholesaler fund were to adopt a similar architecture, for comparability with SIIs outside of the wholesaler fund, the fund should adopt the same measures as the broader SII market.

Social Return on Investment/Social Value Accounting

Social Return on Investment (SROI) is an organisational method of accounting for value creation, primarily social or environmental value. Similar to a cost benefit analysis but monetary value will be assigned to outcomes as the return. For example if the SROI ratio is 5:1 it means that every dollar invested will generate $5 of social value.[71]

These can be done as a forecast before investment or as an evaluation tool for outcomes that have already taken place.

While the approach varies depending on the program that is being evaluated, there are four main elements that are needed to measure SROI:

- Inputs, or resources investments in your activity (such as the costs of running, say, a job-readiness program)
- Outputs, or the direct and tangible products from the activity (for example, the number of people trained by the program)
- Outcomes, or the changes to people resulting from the activity (i.e., new jobs, better income, improved quality of life for the individuals; increased taxes for, and reduced support from, the government)
- Impact, or the outcome less an estimate of what would have happened anyway (For example, if 20 people got new jobs but five of them would have been hired in any event, the impact is based on the 15 people who got jobs directly as a result of the job-readiness program.)[72]

Governments and investors most commonly use SROI.

To be effective, SROI needs a counterfactual as well as baseline and delivery / performance data to evaluate change and value, often compared to an alternative or a control case.

The potential limitations of SROI include:

- some benefits cannot be monetised
- there is a large focus on monetisation
- it is resource intensive
- sometimes results are exaggerated.[73]

A summary of what SROI does by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	No

[71] Pierce, A. (2018). How to calculate social return on investment (SROI). Available at https://www.sopact.com/perspectives/social-return-on-investment-calculation.
[72] Folger, J. (2019). What factors go into calculating social return on investment (SROI)?, Investopedia. Available at https://www.investopedia.com/ask/answers/070314/what-factors-go-calculating-social-return-investment-sroi.asp [accessed 7 Feb 2020].
[73] Graham, B. and Anderson, E. (2015). Impact Measurement: Exploring its role in Impact Investing, National Australia Bank, The Difference Incubator and Benefit Capital. Available at https://www.aph.gov.au/DocumentStore.ashx?id=05084254-843f-4929-a68c-ffe03653a8a6&subId=301630.

Easily accessible and open source	Yes
Identifies social impact metrics	No
Allows users to customise the impacts to be measured	Yes
Defines all metrics	No
Links metrics to Sustainable Development Goals	No
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	Yes
Calculates the financial return to investors	Yes
Suggests a method of calculating either economic benefit or financial return	Yes

Applicability to Australia and the role of government

As a measurement method, SROI has been adopted and applied in Australia and can be most useful for governments assessing the economic benefits of an intervention.

The report by SVA titled 'SROI lessons learned in Australia' suggests that training and mentoring of practitioners as well as increasing quality assurance and public availability of the reports are needed to grow the field.[74]

Zurich Responsible Investing

Zurich Responsible Investing (ZRI) is Zurich company's framework for actioning its responsible investing principles. ZRI focuses on the principles of intentionality, measurability and profitability for impact investment decisions.

This framework measures whether an investment increases community resilience. It does this by looking at the number of people benefitted and only counting those individuals who are part of a specific targeted audience for benefits that previously was unable to access benefits via other products or services.

The framework is a compliment to their socially responsible investing goals, and provides a way for them to understand and showcase how their investments have benefitted the community. Zurich Insurance Group then reports on impact numbers including emissions of greenhouse gasses and the number of people directly benefiting from Zurich's investments.

Data is drawn from project reports delivered by project managers who have access to actual raw data or best positioned to make reasonable and adequate assumptions – far better placed than we as an investor not involved in the actual project. Other data collected is gathered from various external sources and reports. Zurich Insurance Group analyse the data.

[74] Social Ventures Australia Consulting. (2012). Social Return on Investment Lessons learned in Australia. Available at https://socialventures.com.au/assets/SROI-Lessons-learned-in-Australia.pdf.

ZRI is applied to all individual investments as well as aggregates to the portfolio and cross-portfolio levels. Reports produced on Zurich's impacts are used by shareholders and customers.

No independent evaluations have been found and the sources of information on the program exclusively come from Zurich themselves. Zurich's own methodology notes it limitations saying, "By no means do we believe this is the 'one and only' approach to calculating the impact of a multi-asset portfolio."[75] Noting reliance on self-reporting and the time it takes to generate impact reports shortcomings arise. The process itself is also labour intensive but are working to improve the process.

A summary of what the ZRI approach does by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	No
Easily accessible and open source	No
Identifies social impact metrics	No
Allows users to customise the impacts to be measured	No
Defines all metrics	No
Links metrics to Sustainable Development Goals	Yes
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	Yes
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	Yes

Applicability to Australia and the role of government

Zurich already operates in Australia and as such their responsible investment practices and by extension their reporting on their responsible investment practices would already be in place within Australia.

As this is a measurement and reporting tool specifically designed for Zurich companies it is difficult to find direct application to the broader SII market in Australia. If seen as the architecture for SII measurement and reporting, SII investors could be encouraged to adopt the openness to measurement and reporting, similar to Zurich.

Impact Multiple of Money

The Impact Multiple of Money is a forward-looking methodology that forecasts—before any money is committed—the financial value of the social and environmental good that is likely to result from each dollar invested. The Impact Multiple of Money is investor focus and monetises the financial value of a social impact from an investor's

[75] Zurich. (2019). Zurich impact measurement framework, Methodology Paper [PDF]. Available at https://www.zurich.com/-/media/project/zurich/dotcom/sustainability/docs/zurich-impact-measurement-framework.pdf.

perspective. It targets impact investment into enterprises that are likely to grow and scale.

The Impact Multiple of Money provides results as a monetary metric based on amount invested. The metric examines third party research to go beyond what a normal investor may think of in terms of return and risk.

This metric is used by the Rise Fund, where they will only invest if it is calculated a minimum social return on investment of $2.50 for every $1 invested. This metric helps Rise Fund to better understand the best places to invest its fund and evaluate social enterprises they were looking to invest in.

The methodology was created by the Rise Fund, a philanthropic impact investment fund with over $2Bn in management. in terms of practical expertise this methodology was created in conjunction with Y analytics (a 'mechanism building consultant') and Bridgespan (a 'management consultant').

The Rise Fund at present is the sole administering body for the purpose of evaluating their own investment opportunities.

The methodology was used to assist the rise fund to calculate the monetary value of the social impact it would create in proportion to its investment.

Theoretically could be used by any investor or fund. Again, this is to evaluate the social impact/return of possible investments.

The metric requires access to data about the detail of an intervention and assumptions placed on the social / public value of impact delivered at scale. Data sources include reports from the possible investment, social science reports, research/study results and government statistics/figures/valuations. All of this will be dependent on the impact being investigated and as such is somewhat labour/research intensive and may be limited by the amount of information out there on specific topics or impacts.

For the most part this will be sourced from the organisations, government or whoever has the relevant data. This data will then be used throughout the stages of the methodology outlined above.

Social impact journals have noted the potential use of the methodology as well as its limitations. It is noted that this sort of research can be intensive to carry out but does provide better insights into possible investments rather than just pure economic valuation or impact assessment; it's a blend of the two.[76]

A summary of what the Impact Multiple of Money does by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	No
Easily accessible and open source	Yes
Identifies social impact metrics	No
Allows users to customise the impacts to be measured	Yes

[76] Brown, M. (2019). Cultivating, Not Just Calculating, Social Impact, Stanford Social Innovation Review. Available at https://ssir.org/articles/entry/cultivating_not_just_calculating_social_impact#.

Defines all metrics	NA
Links metrics to Sustainable Development Goals	NA
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	No
Calculates the financial return to investors	Yes
Suggests a method of calculating either economic benefit or financial return	Yes

Applicability to Australia and the role of government

The IMM seems to have most applicability for Australian SII investors at the point of undertaking due diligence on specific deals. The IMM would assist investors to calculate the potential monetised return of the social outcome generated by the investment. In order for the IMM to be effectively implemented, cost data on the intervention and social outcome to be achieve would need to be readily available.

Impact Management Project

The Impact Management Project (IMP) is a large international forum where "more than 2,000 practitioners have come together to build global consensus on how we talk about, measure and manage impact". The IMP is facilitated by Bridges Insights and participation is open to any government, organisation or individual.

Initially the IMP focused on defining what impact is and finding a common method or metric for reporting. IMP is a standard setting approach rather than a measurement method or outcomes framework.

Also facilitated by the IMP is their structured network which includes the United Nations Development Programme, the International Finance Corporation, the OECD, Social Value International, the Global Reporting Initiative, the Global Impact Investing Network, the Principles for Responsible Investment, the World Benchmarking Alliance and the Global Steering Group for Impact Investment.

For measurement bodies or standard setters the IMP this provides both a platform for input on how to define impact measurement globally as well as for learning from other bodies.

For companies looking to report impact it provides a deeper understanding of what impact is and provides insights from thousands of other practitioners who have worked in reporting impact.

Importantly this is a tool that can be used by government as well. A global understanding impact measurement could improve local knowledge, allow for knowledge sharing and provide baseline understandings to allow for more educated international investments.

IMP relies on project and investment level data and encourages reporting against:

- What outcome occurs?
- How important is the outcome to the people experiencing it?
- Who experiences the outcome?
- How otherwise underserved are the people experiencing it?

- How much of the outcome occurs - scale, depth, duration? Contribution, attribution?
- What is the risk to people and planet of impact not occurring as expected?[77]

All practitioners provided data and a select group of strategic partners, advisory groups and the structured network worked to distil these down. It seems if an organisation wanted to use the project's template to define their own impact they would have to source and analyse their own data.

A summary of what the IMP does by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	No
Easily accessible and open source	Yes
Identifies social impact metrics	No
Allows users to customise the impacts to be measured	NA
Defines all metrics	No
Links metrics to Sustainable Development Goals	No
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	No
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	No

Applicability to Australia and the role of government

IMP provides principles for impact measurement and reporting rather than the measures or calculation methods themselves. As a principles-based framework IMP can be a useful guide for how impact should be measured, reported on and governed in the SII Australian context. Though IMP does not provide guidance for service providers, government or investors on how to best calculate the benefits or impacts achieved.[78]

Impact Weighted Accounts

Impact-Weighted Accounts (IWAs) are line items on financial statements, that monetise changes in important positive and negative outcomes for employees, community and planet.[79] It is a holistic framework[80] that provides a database of 593 valuation coefficients standardised into USD. These aim to structurally shift the

[77] Impact Management Project. (n.d.) About. Available at https://impactmanagementproject.com/about/.
[78] Impact Investing Australia. (2018). A new partnership with government to scale impact. Available at https://impactinvestingaustralia.com/media-releases/a-new-partnership-with-government-to-scale-impact/.
[79] Serafeim, G., Trinh, K. and Zochowski, R. (2020). A Preliminary Framework for Product Impact-Weighted Accounts. Harvard Business School Accounting & Management Unit. Working Paper No. 20-076. February 11, 2020. Available at https://ssrn.com/abstract=3532472or http://dx.doi.org/10.2139/ssrn.3532472
[80] Maze. (2017). Impact-Weighed Accounts: Can Accounting Shift the Paradigm. Available at https://maze-impact.com/impact-weighted-accounts-by-afonso-fontoura/.

current economic paradigm re-directing decision-making dynamics towards risk-return-impact optimisation.

IWA aim to bring into decision-making the integration of value created for non-equity stakeholders. This monetisation gives managers and investors a better image of the true value being created for society and could signify a major change in all spheres of the capital markets, and the structures that sustain them.

Harvard researchers are attempting to design a methodology that integrates the right balance between accuracy and generalizability, resting upon the work of several other organisations and standards such as the OECD, the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI) and the Principles for Responsible Investment (PRI).

IWA is intended to be used by companies and investors.

A summary of what IWA do by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	No
Easily accessible and open source	Yes
Identifies social impact metrics	No
Allows users to customise the impacts to be measured	Yes
Defines all metrics	No
Links metrics to Sustainable Development Goals	No
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	Yes
Calculates the financial return to investors	Yes
Suggests a method of calculating either economic benefit or financial return	Yes

Applicability to Australia and the role of government

It is still too early to outline what the future holds, but this early research looks very promising given the robustness of the approach adopted by Harvard in conjunction with impact investors. In Australia, the IWA could be applied by investors to monetise the impacts of a given SII. For this to occur, the IWA would need to be converted to AUD.

The next set of working papers will examine applications of the framework across each Global Industry Classification Standard (GICS)[81] sector with the first in the series focused on automobile manufacturers for consumer discretionary, food

[81] GICS codes are used by stock exchanges to classify listed companies to particular sectors. Sectors are: Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, Communication Services, and Utilities.

products for consumer staples, water utilities for utilities, oil and gas for energy and pharmaceuticals for healthcare.

Sustainability Accounting Standards Board

SASB is a non-profit which sets financial reporting standards. The idea is that this helps to bring sustainability reporting into financial terms so that it is easier to consumer for investors. Standards are industry specific with 77 specific disclosure standards.

The standards are intended to capture sustainability matters that are financially material or are reasonably likely to have a material impact on financial performance or condition.

Standard-setting is accomplished through a rigorous process that includes evidence-based research and broad, balanced stakeholder participation.

Primarily designed to assist companies report on their sustainability efforts as part of their public disclosure and reporting requirements as listed companies.

A summary of what the standards do by way of social impact measurement is below:

	Does this:
Identifies evidence-informed outcomes / impact metrics	Yes
Easily accessible and open source	Yes
Identifies social impact metrics	No
Allows users to customise the impacts to be measured	Yes
Defines all metrics	Yes
Links metrics to Sustainable Development Goals	Yes
Provide access to datasets on outcome / impact metrics	No
Calculates the economic benefits of improvement in a particular outcome / impact area	No
Calculates the financial return to investors	No
Suggests a method of calculating either economic benefit or financial return	No

Applicability to Australia and the role of government

While Australian companies (e.g. Westpac) have adopted this framework for their sustainability reporting, as they currently stand the SASB standards do not have direct application to SII in Australia. The reason is the standards focus on:

- assisting publicly listed companies to report to shareholders
- environmental, diversity and ethical standards rather than social outcomes.

Assessment of each approach against key criteria

The table below assesses the 11 social impact measurement approaches against five criteria. These criteria were derived from the findings from research question 2 – the needs and preferences of SII market participants.

	Criteria:				
Approach:	Criteria 1: Measures "pure" social outcome	Criteria 2: Measures economic benefit to government & community	Criteria 3: Measures financial return (or monetises social outcome)	Criteria 4: Type of measurement approach	Criteria 5: Designed for / used by
Impact Reporting and Investing Standards	Yes – but social outcomes measured is limited to the organisational level in the areas of education, employment and health	No	No	Outcomes framework	Investors
Sustainable Development Goals	Yes – but more of a goal framework. Underlying indicators for each SDG are of most use.	No	No	Outcomes / goal framework	Investors
CSI Amplify Initiative	Yes	No	No	Outcomes framework	Service providers
Global Value Exchange	Yes – though none applicable to Australia	Yes – though none applicable to Australia	No	Measurement system (sans financial benefit to investors)	Service providers and investors
Big Society Capital Outcome Matrix	Yes	No	No	Outcomes framework	Service providers
SROI / Social Value Accounting	No	Yes	No	Method of measurement	Investors & government
Zurich Responsible Investing	No	Yes	No	Method of measurement	Zurich (company)
Impact Multiple of Money	No	Yes – though from an investor's perspective	Yes	Method of measurement	Investors
Impact Management Project	No	No	No	Principles framework	Investors
Impact Weighted Accounts	No	No	Yes	Method of measurement	Investors

Approach:	Criteria: Criteria 1: Measures “pure” social outcome	Criteria 2: Measures economic benefit to government & community	Criteria 3: Measures financial return (or monetises social outcome)	Criteria 4: Type of measurement approach	Criteria 5: Designed for / used by
Sustainability Accounting Standards Board	No	No	Yes	Method of measurement	Investors

The review of the above approaches, highlights the lack of measurement of the SII ecosystem itself. In particular the connection between a national government’s efforts and the maturation of the SII ecosystem. None of the approaches examined in this research, measure the change in the SII ecosystem as defined by the number of social enterprises, value of impact investment, number of impact investors etc. This reflection is supported by the insights gained from the research in Project 1, which identified the lack of measurement of government policy efforts to catalyse and mature SII ecosystems.

Implications

This section discusses the characteristics of effective social impact reporting frameworks as well as the role that the Commonwealth and other partners can play in facilitating their widespread use.

Characteristics of effective social impact reporting frameworks.

Based on a synthesis of the needs of SII market participants and the current measurement approaches, effective social impact reporting frameworks are those that:

- are used widely by SII market participants including investors, social enterprise and government
- are easy to use and accessible
- can be customised to a specific investment
- are underpinned by robust evidence and data sources
- are informed by publicly available and reputable datasets
- have transparent methods of calculating benefit where social benefit is converted into a monetary value
- measure outcomes that a relevant to all SII market participants i.e. pure social outcome, economic benefit of the social outcome and the financial return to investors.

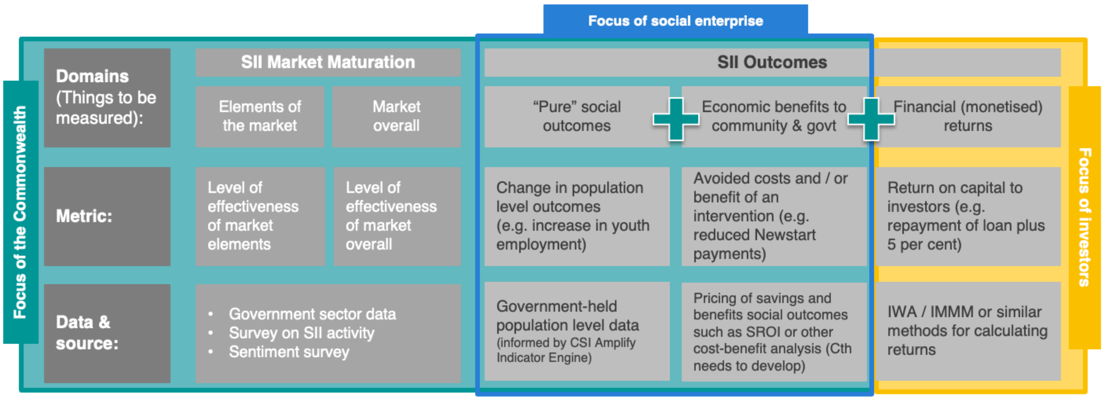
To be effective, social impact measurement and reporting therefore must be guided by the following principles[82]:

1. Cost Effective – The framework should be relatively inexpensive to implement and maintain.
2. Well Recognised – The framework should be approved by impact investors, social enterprises and other stakeholders.
3. Clear and Concise – A framework should endeavour to be as user-friendly as possible.
4. Relevant – Refers to the frameworks ability to meet both external and internal user's needs.
5. Comparable – This is the ability of the framework to facilitate comparisons between similar organisations and across time periods.
6. Easily Implemented – This addresses non-monetary costs of implementing a framework.

A potential measurement approach for SII in Australia.

Informed by the findings of this research, presented below is the proposed system of measurement for SII in Australia. This approach brings together measurement of SII market maturation as well as the social, economic and financial impacts of the investments themselves.

[82] Based on the characteristics identified by the Group of Experts of the Commission on Social Enterprise captured on page 7 of this report: https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/impact-measurement.pdf



The above figure identifies the three important domains for measuring SII outcomes. These are:

- Pure social outcomes – this refers to the positive change in a given outcome area. For example, an increase youth employment. Achieving the pure social outcome is of most interest to the Commonwealth and social enterprise.
- Economic benefits of the social outcomes – this refers to the savings, avoided costs and increased revenue as a result of the social outcome. For example, reduced welfare payments and increased tax receipts. Achieving the benefits to community and government is of most interest to the Commonwealth and social enterprise.
- Financial (monetised) returns – this refers to the financial dividend that investors can expect or receive as a result of their investment. For example, repayment of loan plus 5 per cent. Achieving financial return is of most interest to investors.

In terms of measuring the maturation of the SII market, this is of most interest to the Commonwealth. Maturation of the SII market can be measured through the effectiveness of market elements (i.e. number of social enterprises, value of investment, number and size of SII deals) as well as the effectiveness of the market overall (i.e. the contribution of the market to achievement of social outcomes, economic benefits and financial returns).

With this framework (and the above principles) in mind, the research proposes certain measurement approaches with specific adaptations to achieve the desired outcome:

Desired outcome	Most useful approach	Adaptations required
Identify and measure "pure" social outcome	CSI Amplify Initiative – Indicator Engine	Rename existing domains to align to government priorities e.g. child and family services. Incorporate tools for analysing economic and financial return.
Identify and measure economic benefits (of a social outcome) including avoided costs and benefits to government community	Conventional cost-benefit analysis plus SROI	Based on the intervention and investment being analysed

Forecast the financial return on the social outcome (for due diligence)	Impact Multiple of Money	Based on the intervention and investment being analysed. Conversion of financial metrics into AUD.
Monetise the social outcome in a financial return for investors (during or after the intervention)	Impact Weighted Accounting	Based on the intervention and investment being analysed. Conversion of financial metrics into AUD.
Mature the SII market	Commonwealth developed tools and datasets including: • Investor and social enterprise sentiment survey • SII activity survey • Government sector data including number of social enterprises, number of PBRs, value of investment deployed by government-backed funds.	The surveys would be developed by government.

The above framework could be applied to the following SII initiatives in the following ways:

- Wholesaler Fund: could use the framework to identify the common social outcomes and their related economic and financial returns to be achieved at the investment and portfolio levels. A wholesaler fund could also capture data on value of investment, number of social enterprises and investors, size and number of deals for the purposes of measuring the maturation of the market.
- Outcomes Fund: could use the framework to identify the common social outcomes and their related economic and financial returns to be achieved within a particular outcomes investment.
- Payment-by-Results (PBR): could use the framework to identify the common social outcomes and their related economic and financial returns to be achieved within a particular PBR initiative.
- Intermediation (including Capability Building): intermediaries could use the framework to assist social enterprises and investors to identify the right social outcome and economic / financial return measures for their investments.
- SII Policy Settings: The Commonwealth in particular should measure the effectiveness of its SII policy settings in maturing the SII market.

Facilitating widespread use of a standardised reporting framework: the role of the Commonwealth and other partners.

To facilitate the widespread use of a standardised reporting framework, ideally the Commonwealth's role in conjunction with partners is, to:

- identify the social policy priorities and the outcomes to be achieved
- signal to the SII market the preferred measurement methods, especially for government enabled investments

- as an outcomes commissioners – through payment-by-results (PBRs) arrangements:
  - set robust and transparent pricing for units of services
  - link social outcomes and metrics to program design and contract KPIs (funding agreements and PBRs arrangements)
- open up and freely provide its relevant data to inform assessment of progress towards the identified social outcomes
- calculate and develop mechanisms to make freely available cost information on interventions and programs funded by the Commonwealth
- work with partners like CSI Amplify Initiative to adapt and customise existing solutions.

The above actions will benefit direct government investments in SII as well as the broader SII market.

Appendix A: References

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Appendix B: List of key informants interviewed

1. Elizabeth-Rose Ahearn, Senior Research Officer - Outcomes Measurement, University of New South Wales, Centre for Social Impact, Amplify Initiative.
2. Indu Balachandaran, Chief Operating Officer, National Centre for Indigenous Excellence.
3. Rachel Etherington, Ethical Investment Advisor, Crestone.
4. Sonal Dalal, Director of Civil Society and NGO Outreach, Sustainability Accounting Standards Board.

Developing a Social Impact Investment Strategy

Report on Project 3: How the Commonwealth might enable large-scale social impact investment in particular sectors.

8 April 2020

Prepared by Inside Policy for
the Department of the Prime Minister and Cabinet
on behalf of the Social Impact Investing Taskforce

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Executive summary

In October 2019, the Social Impact Investment (SII) Taskforce engaged Inside Policy to undertake a sector-specific analysis of how the Commonwealth can facilitate large scale social impact investment (LSSII) opportunities in Australia.

There is currently no universally accepted definition of social impact investing (SII).[1] This issue was explored by the Commonwealth Government in 2016, and the working definition adopted by Treasury to provide context for its Social Impact Investing Principles is:

> "Social impact investments are investments made with the intention of generating measurable social and/or environmental outcomes in addition to a financial return. Social impact investing is an innovative method of financing interventions to address intractable social or environmental problems."[2]

For the purposes of this report, LSSII is defined this as projects where the total transaction value is $100m or above.

The sectors focused on for the purposes of this report include:

- social and affordable housing
- disability housing
- residential aged care
- NDIS services
- disability employment
- early childhood education.

This report details the findings of our research including, the:

- the sectors most ready for LSSII in Australia
- design characteristics of potential vehicles to facilitate LSSII
- role for government and other partners in LSSII.

This research project developed an opportunity analysis framework to assess sector-specific LSSII opportunities in Australia. At a high level, the framework is:

1. What is the opportunity for developing LSSII deals in the identified sectors?
2. What is the applicability of specific LSSII interventions in the identified sectors?
3. What are the potential design characteristics of LSSII hero deals?

The framework was assessed through a mixed method approach of reviewing industry reports, grey[3] and academic literature and undertaking interviews with key industry experts.[4]

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[1] McKinsey and Company. (2017). The changing landscape of social impact investing. Available at: https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/the-changing-landscape-of-social-impact-investing.

[2] Australian Government The Treasury. (2017). Australian Government principles for social impact investing. Available at: https://treasury.gov.au/programs-initiatives-consumers-community/social-impact-investing/australian-government-principles-for-social-impact-investing.

[3] Grey literature refers to sources not formally published in journals or books.

[4] See summary of interviews at Appendix E.

Findings

Overall, the sectors most ready for LSSII are social and affordable housing (SAH), specialist disability accommodation (SDA) and residential aged care (RAC). These sectors are assessed as having a large disparity between the demand and supply of the services provided in the sector; a large housing infrastructure capital need to meet that disparity in the short and long term; and sufficient experience in terms of deliverers who, with support, can grow and deliver SII opportunities at scale. LSSII provides focus for the Commonwealth, intermediaries, deliverers and investors on where to target energy and investment to achieve large scale social impact in the short to medium term.[5]

NDIS services, early childhood education and disability employment are assessed as having limited or no opportunity for LSSII at this time. While there is disparity between the demand and supply of servies particularly within the NDIS services and disability employment sectors, there is a longer time horizon to prepare social enterprises and deliverers in these sectors for LSSII. These preparations include consolidation and achieving efficiencies of scale to improve profit margins.

NDIS services, early childhood education and disability employment can play an important role in supporting successful SAH tenancies. Increasing the suppy of SAH, particualry for tenants with these additional support needs may increase the demand for NDIS services, early childhood education and disability employment services, catalysing the ability of the sectors to achieve scale.

Key barriers to LSSII in the housing sectors

Addressing barriers faced by deliveres of SAH through government effort is key to driving scale in the three housing sectors. A key barrier experienced by deliveres, who are primarily Community Housing Providers (CHPs) is the lack of equity to sufficiently leverage for scale. Developing an equity or equity-like solution will calayse growth in housing in CHPs, and ultimately enable CHPs to scale and attract private sector investment over time, independently of Government.

Additionally, subsidies for the housing sectors targeted in this analysis need to adequately reflect the true cost of providing SAH to older Australians, lower income earners and people living with a disability who do not qualify for SDA payments administered through the NDIS. This will address a further operational cost barrier for CHPs in the operational phase of new SAH developments.

The design characteristics of potential vehicles to facilitate LSSII

Encouraging more LSSII in SAH can be achieved in Australia. Potential deal concepts to assist this are:

Concept 1 – expanding the remit of NHFIC to include social housing, and adding equity or equity-like investments with risk mitigation to enable private sector investment and CHPs to achieve better leverage, and build and own more SAH dwellings. The long term benefits of this model can be powerful if NHFIC and investors maintain equity positions, as it could allow leverage at greater scale, over time.

Concept 2a – complements Concept 1 and focuses on providing support to build the capacity of housing intermediaries and CHPs to take on LSSII, through technical support, and patient capital.

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[5] See worked example at Appendix F.

Concept 2b – takes on all of the equity functions in concept 1 and the capability focus in concept 2a if expanding the NHFIC option is not.

Concept 3 – focuses on affordable housing only, and builds on the SDA subsidy model already operating in the marketplace and attracting private sector investment. We recommend extending subsidies to older Australians, low income earners and people living with a disability who do not qualify for SDA payments. This concept requires the least amount of intervention from government, builds on what is already working in a sector and uses usual investment vehicles like investment trusts.

Implications

There are strong opportunities for LSSII in the housing sectors analysed and this provides focus for the Commonwealth, intermediaries, deliverers and investors on where to target focus and capital.

The concepts presented in this report represent a continuation of the Commonwealth's move towards supporting private sector investment into these sectors, by addressing capital barriers, rather than just focusing on the direct delivery of SAH. The introduction of the AHBA has been successful in reducing the cost of debt finance for deliverers. The concepts detailed in this paper make further inroads in addressing the equity challenge also faced by deliverers, to achieve scale in SAH.

The Commonwealth will have a role in supporting risk mitigation for these equity options. When government supports private sector capital with risk supports like guarantees and first loss reserves, it achieves value for money as these actions are more cost effective than the direct provision of SAH.

In the affordable housing market, the concept detailed in this report involves less Government intervention, draws on recent improvements in the delivery of SDA and suggests an extension of appropriate subsidies for older Australians, low income earners and people living with a disability who do not qualify for SDA payments. The provision of direct assistance to tenants is a key part in the SAH ecosystem that will continue to be required for ongoing service delivery.

Introduction

Project overview

As part of the 2019–20 Budget, the Morrison Government announced $5 million to establish an SII Taskforce (the Taskforce). This Taskforce comprises an Expert Panel appointed by the Prime Minister, and is supported by a team within the Department of the Prime Minister and Cabinet (the Department). The Expert Panel – led by its Chair, Mr Michael Traill AM – is engaging with state and territory governments, the private and not-for-profit sectors, philanthropic bodies and relevant Commonwealth agencies to identify an SII Strategy (the Strategy) for Commonwealth investments. This Strategy will advise how SII can help address entrenched disadvantage, achieve measurable social impacts and facilitate private capital investment in the SII market.[6] The Taskforce will report to the Prime Minister by mid-2020.

[6] Australian Government Department of Prime Minister and Cabinet. (2020). Available at https://www.pmc.gov.au/domestic-policy/social-impact-investing-taskforce.

In October 2019, the Taskforce engaged Inside Policy to undertake a sector-specific analysis of how the Commonwealth can facilitate large scale social impact investment (LSSII) in opportunities in the Australian market.

Structure of this report

The remainder of this report is structured as follows:

Research methodology	This section defines social impact investment measurement and details the objective and scope of the research, including its limitations.
Findings	This section captures the key insights and findings against the four research questions. The first 3 questions were addressed by developing an opportunities analysis framework. These questions are: 1. What is the opportunity for developing LSSII deals in the identified sectors? 2. What is the applicability of specific LSSII interventions in the identified sectors? 3. What are the potential design characteristics of LSSII hero deals? The final question is: 4. What is the role for government, and other players in achieving scalability of LSSII deals in each sector?
Implications	This section discusses the role that the Commonwealth and other partners can play in facilitating LSSII
Appendices	A. References B. Research methodology C. Gateway one analysis for industry sectors D. Framework for LSSII opportunities E. Summary of interviews with key industry experts F. Social and affordable housing as infastructure G. Equity and equity like investnment in CHPs via NHFIC – a worked example H. Case studies.

Research methodology

This project analysed key social services sectors to assess if the Commonwealth can facilitate LSSII opportunities in Australia. To undertake the sector analysis, the project also delivered a framework that can be used to assess the opportunity for LSSII within sectors.

The research methodology can be found at Appendix B.

Findings

This section details the key insights and findings for the following three research questions:

1. What is the opportunity for developing LSSII deals in the identified sectors?

2. What is the applicability of specific LSSII interventions in the identified sectors?
3. What are the potential design characteristics of LSSII hero deals?
4. What is the role for government, and other players in achieving scalability of LSSII deals in each sector?

The report has adopted the Treasury principles for guiding the Commonwealth's role in the SII market:
Government is seen as an enabler and a developer of the market

- there must be value for money
- investments must be co-designed with stakeholders
- there must be a fair sharing of risk and return
- there must be a robust outcomes measurement and evaluation process
- the outcomes must align with Australian Government policy priorities.[7]

In order to assess the opportunity for LSSII in all sectors a framework has been developed. Three sectors do not pass gateway 1 – NDIS services, disability employment and early childhood education. The Framework incorporates research questions 1-4. A full description is at Appendix D.

Key actors

Key actors comprise individuals, groups of people, organisations and institutions that create and participate in LSSII to generate social outcomes and deliver returns to investors. Each actor is defined below.

Table 1: Key actor definitions

	Definition
Government	Within Australia this refers to Commonwealth, state and territory, and/or local governments.
Investors	Institutional and non-institutional investors that provide capital for SII initiatives. Institutional investors include super funds, insurance company and savings institutions. Non-institutional investors include trusts and foundations, family offices, high-net-worth individuals, corporate foundation, aggregators and impact funds like wholesalers.
Intermediaries	Individuals, organisations and institutions that enable and support SII, but do not directly deliver SII initiatives to a cohort of beneficiaries.
Deliverers	Organisations and institutions that deliver a SII initiative to a cohort of beneficiaries to achieve a social outcome. Delivers can include social enterprises and charities.
Beneficiary	Citizen that achieves an improved social outcome as results of an SII initiative.

Opportunities Analysis Framework

Inside Policy developed an opportunities analysis framework to assess how the Commonwealth might enable large-scale social impact investment in the following sectors:

- Early childhood education
- Disability employment
- NDIS services
- Residential aged care (RAC)
- Specialist disability accommodation (SDA)
- Social and affordable housing (SAH).

The framework uses three gateways to assess each sector. Each gateway is binary, in that a positive response is required to proceed to the next gateway.

The framework is summarised below. The detailed framework is included in Appendix D.

Table 2: Opportunity analysis framework summary

Gateway	Key criteria
Is there opportunity for LSSII?	For each sector assess: • the need exists (the difference between supply and demand) • policy and regulatory conditions are favourable • SWOT shows potential in the market for growth or improvement.
Can LSSII be achieved?	For each sector consider the applicability of: • the types of investment vehicles should be considered • the sectorial specific considerations to be taken into account.
What are the potential design characteristics for LSSII?	For each sector assess the likelihood for LSSII opportunity, by defining: • general nature of investment • potential outcomes for the investment • investor and deliver requirements • government roles • roles of other key actors.

Gateway 1 – Is there opportunity for LSSII?[8]

Key insights

Opportunities for LSSII exist in sectors that have unmet demand, have a need for large scale investment, have stable policy and regulatory conditions and have potential in the immediate to short term. Need for large scale investment most commonly emerged in capital-intensive sectors compared to labour-intensive sectors. In the capital-intensive sectors, the high cost of infrastructure provides a mechanism to engage investors on a large scale, while meeting a gap in deliver's capacity to take on debt and in some cases government funding.

SAH, RAC and SDA have unmet demands. As these three sectors require housing infrastructure to deliver services to vulnerable client groups, they are capital-intensive, requiring large scale capital to deliver, maintain and operate new housing infrastructure. Overall, these sectors' policy and regulatory contexts align with LSSII, although the RAC sector's policy context is likely to change as a result of the Royal Commissioning into Aged Care Quality and Safety. These three sectors proceeded to the second gateway.

Despite having unmet demand, disability employment and NDIS support services have less potential for LSSII. There are limited opportunities to invest significant rates of capital, as both sectors primarily rely on labour to deliver services to clients. There are minimal opportunities for LSSII in the early childhood education as the sector is already meeting demand. Similarly, while NDIS support services are not currently meeting demand, this is expected to change once the scheme is fully utilised. The main types of SII opportunities in these sectors include capability building and working with intermediaries to achieve operational efficiencies or small capital investments for the refurbishment of premises. Consolidation is an improvement that would require capital to buy existing providers, but this would be in the longer term.

Inside Policy researched the current need according to supply and demand, policy and regulatory conditions, and analysed the Strengths, Weaknesses, Opportunities and Threats (SWOT) for each sector to determine the opportunity for LSSII, during the period December 2019 to February 2020[9]. The full SWOT, consideration of the policy and regulatory environment and need analysis can be found at Appendix C.

Through the SWOT analysis it became clear the best opportunities for LSSII in the short to medium term are in capital-intensive sectors compared to labour-intensive sectors. In the capital-intensive sectors, the high cost of infrastructure provides a mechanism to engage investors on a large scale, while meeting a gap in deliver's capacity to take on debt and in some cases government funding.

SAH, RAC and SDA are capital-intensive sectors that depend on housing infrastructure to deliver services to vulnerable client groups. Deliverers typically do not have the financial capacity to take on debt to scale their service delivery, and the high upfront and maintenance costs of housing can make it difficult for governments' to fully fund delivery. These conditions drive both a need, and an opportunity for

[8] This section answers research questions 1 and 2.
[9] We note conditions will have changed in some markets post the advent of COVID-19 and may require an updated analysis.

investors to engage in LSSII to deliver housing infrastructure. The opportunity to respond to LSSII in the immediate to short term is also strong.

Labour-intensive sectors on the other hand have limited opportunities to engage investors on a large scale, as there are less up-front capital barriers to delivering services, and wages have a high impact on profitability. Disability employment services, early childhood education and NDIS services are labour-intensive sectors. In addition, these sectors have firm government regulation that require high staff to client ratios, which prohibits opportunity to achieve profitability through developing labour efficiencies. There are opportunities for consolidation in each of the sectors to improve efficiencies overall; however, this will occur over a longer time frame, therefore the opportunity to respond to LSSII is in the medium term.

The summary of this research and analysis for each sector is provided below. When LSSII is assessed as not appropriate, alternative SII initiatives are identified to assist future decision making. Further detail is available in Appendix C.

Disability employment

Summary

This sector was assessed as not having opportunity for LSSII in the immediate to short term. Disability employment currently has a small share in the broader employment placement and recruitment market, limiting opportunities for achieving profit.[10] The sector is labour-intensive, and wages are a high proportional cost for deliverers. There are minimal cost barriers to entering the market, and scaling service occurs primarily through additional labour or consolidation, minimising opportunities for investors to invest in high value assets.

However, there is evidence there is unmet demand for disability services. The ABS estimates there were around 112,700 persons with disability who were unemployed but looking for work.[11] A strategy to use SII to better meet this demand is to consolidate providers to reduce administrating and operating costs across the sector overall. This approach would focus on capability building, with a likely development path involving deliverers working with an intermediary, accessing technical support to create appropriate business structures, management teams and operations to consolidate.

Early childhood education

Summary

This sector was assessed as not being suitable for further LSSII opportunities currently or in the medium term. This assessment is partly because Goodstart, which is a key example of a LSSII, and a number of other not-for-profit and for-profit providers are currently meeting the demand for large scale early childhood education providers. The remaining demand is serviced by small scale but mature operators.[12] In addition, the market conditions that led to Goodstart are no longer prevalent,[13]

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[10] Disability employment is a subset of Job Active. Job Active is 9% of the broader employment placement and recruitment industry.

[11] Australian Bureau of Statistics. (2016). 4430.0 - Disability, Ageing and Carers, Australia: Summary of Findings, 2015. Available at https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4430.0Glossary12015.

[12] Figures are for June 2017 and total number of children aged 0-3 is 1.248 million. See Australian Bureau of Statistics. (2018). 4402.0 – Childhood Education and Care, Australia, June 2017. Available at: https://www.abs.gov.au/ausstats/abs@.nsf/PrimaryMainFeatures/4402.0?OpenDocument.

[13] This sector analysis was completed in January 2020, prior to the unanticipated emergence of COVID-19. The impact of COVID-19 may have changed some of these conditions, particularly as parents continue to remove

childcare centres are leased which limits the opportunity for capital investment and regulated high carer to child ratio drives significant labour costs.[14]

Opportunities for LSSII would likely emerge if Commonwealth or state policy positions changed to create universal access to early childhood education, or the cost of childcare to families was reduced either through increase Commonwealth subsidy for childcare fees or state funding. However, these reforms are not anticipated, especially as the Commonwealth introduced the Child Care Subsidy (CCS) in 2018[15] and universal access to early childhood is currently limited to preschool.

Given demand is currently being met by the supply of early childhood education centres, broader SII opportunities are likely to be limited to capital improvements in centre refurbishments or projects that seek to improve practice or efficiencies in service delivery. As there are a dispersed number of small operators, it is unlikely capital improvements would exceed the LSSII threshold of $100m. Similar to disability employment, practice and efficiency improvements are more likely to be delivered through capacity building and partnerships with intermediaries.

NDIS support services

Summary

This sector was assessed as not being suitable for LSSII opportunities in the short to medium term, despite current growing demand and some favorable market conditions. The NDIS anticipates it will increase the number of funded plans, estimating it will provide $22 billion in funding over the next five years to around 500,000 Australians aged under 65 who have a permanent and significant disability.[16] However, once the scheme is fully engaged, profitability is forecast to decline with low long-term market growth.[17] The market is also dispersed and consists of small scale deliverers, and labour shortages particularly for qualified and regional staff is likely to hinder growth and scalability.[18] These conditions make it difficult to engage investors on a large scale in the immediate to short term.

To achieve greater social impacts, work can be done with the sector to consolidate providers through other SII initiatives, such as capability building through small scale grants and loans alongside access to intermediaries such as technical support. Over time, consolidation is likely to achieve efficiencies of scale in administration, operating costs and profit margins. In addition, there is currently opportunities to develop assistive technology that provides support for people with disability. Assistive technologies could be delivered through small scale partnerships with investors who can provide capital for research and development. Given the variety of disability needs, these technologies would need be specialised and are unlikely to be of a large scale.

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children from care, substantially reducing the income early childhood centres receive. There may be opportunities for LSSII in early childhood education sectors, and this requires new market analysis when the threat of COVID-19 passes.

[14] Richardson, A. (2019). *Child Care Services in Australia Industry*. IBISWorld.

[15] Klapdor, M. (2019). Impact of the new Child Care Subsidy. Parliament of Australia. Available at: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2019/April/New_Child_Care_Subsidy.

[16] NDIS. (2020). What is the NDIS?. Available at: https://www.ndis.gov.au/understanding/what-ndis.

[17] Munro-Smith, H., (2019). *Personal Welfare Services in Australia*. IBISWorld.

[18] Ibid.

Residential aged care

Summary

The RAC sector assessed as suitable for LSSII in the medium term, subject to the recommendations and subsequent policy and funding changes arising from the Royal Commission into Aged Care[19] (Royal Commission), currently underway. This assessment is largely due to Australia's increasingly ageing Australian population, which the Productivity Commission anticipates will translate to any ever-increasing need for aged-care services over time. While aged care currently involves significant labour costs, anticipated changes to service provision will also require building capital-intensive housing infrastructure, which provides a mechanism to engage investors. In addition, the Aged Care Financing Authority estimates over the next decade around $55 billion will be required to rebuild or repurpose existing facilities.[20]

The Royal Commission interim report has already flagged the aged care system will require fundamental reform and redesign, as it is failing to meet the needs of older, vulnerable Australians. It recommends a move towards ageing in place and increasing the number of home care packages available to older Australians. [21] This is an anticipated shift away from providing institutional care to ageing in place, requiring more SAH for older Australians, paired with home-based services. This would support LSSII opportunities in SAH.[22]

Social and affordable housing

Summary

This sector is assessed as suitable for LSSII in the short to medium term. Delivering SAH services is dependent on capital intensive housing assets. There is currently significant demand and gaps in government funding for SAH. AHURI estimates Australia requires an additional 727,300 new social dwellings over the period 2016 to 2036 to cover the shortfall in difference between demand and supply; as well as the growing population and the number of houses predicted to fall into housing stress over that period of time.[23]

Community Housing Providers (CHPs) now manage a considerable portion of government owned social housing, and affordable housing in Australia. CHPs have increasing appetite to deliver new SAH assets but have limited equity to leverage debt financing for new development and construction (D&C); and low profit margins, given the limited ability to grow revenue from low income tenants.[24] The National Housing Finance and Investment Corporation (NHFIC) seeks to provide some cost relief for CHPs to deliver SAH through lower cost debt financing, through its bond aggregator.[25] LSSII could further support CHP-led D&C through the provision of affordable equity or equity-like investment vehicles to overcome the leveraging

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19 Commonwealth of Australia. 2018. Royal Commission into Aged Care Quality and Safety. Available at https://agedcare.royalcommission.gov.au/Pages/default.aspx. See Australian Government Department of Health. (2019). Seventh Report on the Funding and Financing of the Aged Care Industry.

20 ACFA report Aged Care Financing Authority. (2019). Seventh Report on the Funding and Financing of the Aged Care Industry. Available at https://www.health.gov.au/resources/publications/seventh-report-on-the-funding-and-financing-of-the-aged-care-industry-july-2019.

21 Royal Commission into Aged Care Quality and Safety. (2019). Interim Report. Available at https://agedcare.royalcommission.gov.au/publications/Pages/interim-report.aspx.

22 Inside Policy interview with Claerwyn Little, Uniting Care, February 2020.

23 Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Australian Housing and Urban Research Institute: Social housing as infrastructure - an investment pathway. Available at https://www.ahuri.edu.au/research/final-reports/306.

24 Powerhouse Australia. (2018). Submission to the National Housing Finance and Investment Corporation Bill.

25 NHFIC. (2020). Affordable Housing Bond Aggregator (AHBA) loans. Available at: https://www.nhfic.gov.au/what-we-do/ahba/#.

constraint to growth. Institutional investors are a potential source of capital, as SAH developments may provide lower levels of risk and certainty of returns, similar to an infrastructure asset class.

While there is evidence to progress SAH to the second gateway of the framework, it is likely a government policy response will also be required to address the considerable gap between supply and demand within the sector. For example, as social housing tenants pay low rental rates increasing supply may require support through government subsidies or grants[26]. Affordable housing, on the other hand, has greater potential to be delivered with less government involvement, provided the subsidy levels are set at the right level (see the example of SDA in Appendix H).

Specialist Disability Accommodation

Summary

SDA is assessed has having potential for LSSII. SDA is accommodation for people who require specialist housing tailored to their very high support needs or extreme functional impairment, and is delivered through the NDIS.[27] While data is not freely available to draw strong inferences about unmet demand for SAH for people with a disability, in 2018 the Summer Foundation, Australian Housing and Urban Research Institute (AHURI) and SGS Economics and Planning, estimated that there are 50,700 people likely to be found eligible for SDA,[28] suggesting a significant shortfall in SDA allocation of around 22,700 places.

The introduction of the SDA payment has created an opportunity to partner with private sector investors to deliver disability housing. The SDA subsidy, added to a development deal, can support overall sufficient return on investment in disability housing, that are in line with investor expectations. While this sector progresses to the second gateway of the framework, challenges for LSSII include the capped number of SDA payments, and the place-based approach of the policy which could see housing delivered across a range of geographies. Working with a large-scale intermediary, such as Social Ventures Australia (SVA) may address part of these challenges, as it can pool demand and investors to deliver housing over a range of areas.

Conclusion

Across all three sectors assessed as suitable for LSSII in the short to medium term – SAH, RAC and SDA – have a common underlying need for the increased provision SAH to underpin social outcomes.

While all three markets assessed as suitable in this gateway, there is a need for government intervention.

In SAH, deliverers are constrained by limited equity, which in turn constrains growth. Operating subsidies in SAH are also insufficient and require government

[26] AHURI Brief AHURI. (2019). Understanding the Funding Gap for Social Housing and Different Ways to Fund it. Available at: https://www.ahuri.edu.au/policy/ahuri-briefs/understanding-the-funding-gap-for-social-housing-and-different-ways-to-fund-it.
[27] National Disability Insurance Scheme. (2020). Housing and the NDIS. Available at www.ndis.gov.au/housing)
[28] This estimate was based on Australian Institute of Health and Welfare data and was sourced from Parliament of Australia. (2018). Joint Standing Committee on the National Disability Insurance Scheme. Chapter 6. Available at: https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/National_Disability_Insurance_Scheme/MarketReadiness/Report/c06.

consideration to reflect actual operating costs.[29] There are no SDA-like equivalent subsidies for Australians with a disability below the extreme functional impairment threshold, other than normal CRA payments for low incomes earners in this cohort, which are deemed insufficient to meet the actual costs of living with a disability. And finally, as the Australian population ages, there is an increasing need for more SAH for older Australians moving away from institutional care, with an appropriate subsidy and an increase in the number of home-based care packages available.

Gateway 2 – Can LSSII be achieved?[30]

Key insights

A clear opportunity for LSSII investment in SAH could exist subject to the following opportunity conditions:

- delivering investment via CHPs as the developers of new SAH dwellings
- providing the right kind of capital required by CHPs, which is cheaper equity or equity-like finance to support the D&C phase of SAH developments
- requiring an appropriate risk profile, which could be achieved via a mix of clear policy and subsidy settings, credit enhancement, intermediary support and asset reclassification
- achieving rates of return comparable to longer term investment vehicles such as infrastructure funds.

The objective of Gateway 2 is to consider how LSSII could be achieved in the RAC, SDA and SAH sectors. There is a large and growing demand for more housing to support better social outcomes in all three sectors. The provision of new housing for people with these needs is capital intensive and the supply of capital to housing providers is currently constrained.

This leads to a clear opportunity for LSSII to help provide more capital for housing delivery in these sectors, but there are some barriers to investment that would need to be first overcome.

Table 3: Summary of barriers, solutions and benefits

Key actor	Barriers	Solution	Benefits
Government	Growing gap between SAH demand and SAH supply, and the increasing scale of capital investment needed to address this gap	Create new models for large scale capital investment that can attract private investment, including LSSII	Using more private capital to help address the gap reduces pressure for public capital investment Enabling the provision of more SAH for low income, aged and disabled people reinforces other public investments in improving social outcomes for these people

[29] AHURI Brief AHURI (2019). Understanding the Funding Gap for Social housing and Different Ways to Fund it. Available at https://www.ahuri.edu.au/policy/ahuri-briefs/understanding-the-funding-gap-for-social-housing-and-different-ways-to-fund-it.
[30] This answers research question 4.

CHPs	Low profitability and the high cost of funding and financing housing development limits the ability to build balance sheets Smaller balance sheets limit the scale of housing development and delivery via CHPs	Create the opportunity for cheaper equity and equity-like investment in CHPs, particularly to support the D&C phase of developments	Cheaper equity and equity-like investment helps CHPs to build their balance sheets, which over time allows them to increasingly scale their contribution to SAH supply Complements and works with other forms of support such as NHFIC's bond aggregator for cheaper debt
Intermediaries	Insufficient number of intermediaries to support SAH, at scale Capability needs to support CHPs to design, construct and operate developments, at scale	Patient and seed capital, made available through a wholesaler, for intermediaries to grow and scale Capability support to develop larger CHPs	Risk mitigation for Government and private sector investment Reduced financing and development costs as projects are designed at scale, bringing efficiencies Reduced construction risk as counterparties can be larger construction companies
Investors	An unattractive risk-return profile for investment in SAH compared to other large scale investments in real estate	Provide stable public policy and funding settings for LSSII in SAH Provide some form of direct credit enhancement supports (like limited guarantees) for CHP investments Provide further investment management and capability support via intermediaries Reclassify SAH as infrastructure for the purpose of setting more appropriate risk-return expectations for this kind of investment	Enables investors to provide longer term equity investment for an appropriate risk-return profile, delivering long term stable income for modest rates of return

Barriers faced by Government – the policy challenge

There is a large shortage of SAH in Australia.[31] There is a growing shortfall of available and affordable private rental dwellings for households with low incomes. Private rents are becoming increasingly unaffordable. At the same time, Australia's population continues to grow while the amount of social housing supply remains static, and is increasingly only targeted at those with the highest need. Most social housing stock is ageing, and tenant vulnerability has increased, pushing up

[31] For an overview of Australia's social and affordable housing policy challenge, see AHURI. (2017). Ready for growth? Inquiry into Australia's affordable housing industry capacity. Available at https://www.ahuri.edu.au/__data/assets/pdf_file/0016/12832/Ready-for-growth-Inquiry-into-Australias-affordable-housing-industry-capacity-Visual-Report.pdf.

management and maintenance costs. There has been insufficient government investment to compensate for these increasing pressures.[32]

The compounding nature of this challenge becomes clear when we look at estimates of the unmet need for SAH. AHURI has estimated[33] that housing need[34] in Australia was at 1.3 million households in 2016, projected to rise to around 1.7 million households by 2025. These results show the scale of SAH required to meet demand and point to the continually increasing pressure on public investment in SAH. Because the provision of housing is capital intensive, the results also suggest the scale of capital investment required. One estimate suggests that capital investment of between $5.3B and $6B per year will be required to fully address the projected need to 2036.[35]

New models for large scale capital investment in SAH are required. In the absence of a massive increase in the amount of upfront capital grant funding from government, these models will need to include those that can attract private investment. Given the effectiveness of other public investments in social outcomes for people on low incomes who may also be ageing and / or living with a disability depend upon secure access to SAH, it seems the highest and best use of LSSII would be to help government to overcome the SAH supply challenge.

Barriers faced by CHPs – delivering at scale

More mature CHPs[36] have been identified as the cohort of housing providers that have the most established commercial models for delivering government-subsidised SAH.[37] There are some important limits to these commercial models, however, which inhibit the ability of mature CHPs to deliver housing at a much larger scale.

Firstly although mature CHPs can operate commercially, they remain at least partly reliant upon various kinds of financing and funding support from governments.[38] AHURI's research shows some form of continuing government subsidy is required to cover the funding gap between what it costs to supply, build, maintain and manage affordable rental housing and the amount low income tenants can afford to pay as rent.[39] Without subsidies and other forms of support, CHPs would quickly become

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[32] Forty years ago Australian governments invested to produce 8,000 to 14,000 new public housing units per year. Construction rates are now minimal. Australian governments have been recently funding only around 3,000 new social housing units per year, when about 15,000 is needed to stop existing shortfalls from getting even bigger. See AHURI. (2018). Social Housing needs to treble over the next 20 years through direct investnment. Available at https://www.ahuri.edu.au/__data/assets/pdf_file/0019/29053/AHURI-MEDIA-RELEASE-Social-housing-needs-to-treble-over-the-next-20-year-through-direct-investment-15-November-2018.pdf.

[33] Rowley, S., Leishman, C., Baker, E., Bentley, R., and Lester, L. (2017). Modelling housing need in Australia to 2025. AHURI. Available at: https://www.ahuri.edu.au/research/final-reports/287.

[34] The aggregate of households unable to access market provided housing or requiring some form of housing assistance in the private rental market to avoid a position of rental stress.

[35] Community Housing Industry Associaltion. (2019). Can CHPs deliver our social housing future?. AHURI National Housing Conference Darwin. Available at: https://www.ahuri.edu.au/__data/assets/pdf_file/0020/45605/Can-CHPs-deliver-our-social-affordable-housing-future-Wendy-Hayhurst-National-Housing-Conference-2019-Darwin.pdf.

[36] CHPs registered as Tier 1 organisations under the National Regulatory System for Community Housing (NRSCH) or its equivalent in Victoria and Western Australia. Tier 2 and (or equivalent) 3 registered CHPs are generally smaller organisations that have more specialised roles in tenancy management, supported housing services, innovative housing models or service provision in single localities.

[37] See Milligan, V., Pawson, H., Phillips, R., Martin, C., and Elton Consulting. (2017). Developing the scale and capacity of Australia's affordable housing industry. AHURI. Available at https://www.ahuri.edu.au/__data/assets/pdf_file/0017/12833/AHURI_Final_Report_No278_Developing-the-scale-and-capacity-of-Australias-affordable-housing-industry.pdf.

[38] Lawson, J., Pawson,H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Social housing as infrastructure - an investment pathway. AHURI. Available at https://www.ahuri.edu.au/research/final-reports/306.

[39] AHURI. (2019). Understanding the Funding Gap for Social Housing and Different Ways to Fund It. Available at https://www.ahuri.edu.au/policy/ahuri-briefs/understanding-the-funding-gap-for-social-housing-and-different-ways-to-fund-it.

uncommercial. In recent decades, the Commonwealth has become a key provider of subsidies paid to support low income tenants (for example, Commonwealth Rental Assistance (CRA)), and CHP business models factor ongoing access to these subsidies into their operations.

Secondly, even with financing and funding support from governments, CHPs operate on low rates of profit, which limits their ability to build their own equity, which in turn limits their ability to raise more capital for larger scale housing development projects. Building the balance sheets of CHPs and their capacity to leverage these for investment in larger scale developments is the key to unlocking more private finance and funding to support their provision of more SAH.[40] Another way CHPs have been endeavouring to improve their returns on development and build their balance sheets is by delivering multi-tenure housing projects.[41]

To support increased housing delivery, industry leaders[42] identify the most critical current capital need for CHPs is equity or equity-like finance to support the D&C phase of new housing stock.[43] NHFIC's bond aggregator loans enable access to cheaper debt financing to support this phase[44], but industry leaders report the current 45% leveraging limit means the balance of funds for new housing development projects still must come through other loans or equity investments. The costs of these loans and of equity can be high. This keeps returns to CHPs marginal, which perpetuates their inability to grow their balance sheets.[45] The big opportunity for LSSII could, therefore, be to support CHPs to deliver more SAH by providing cheaper equity or equity-like finance, particularly during the D&C phase of development. Figure 1 shows the role that LSSII equity and equity-like funding could play in financing and funding SAH development projects.

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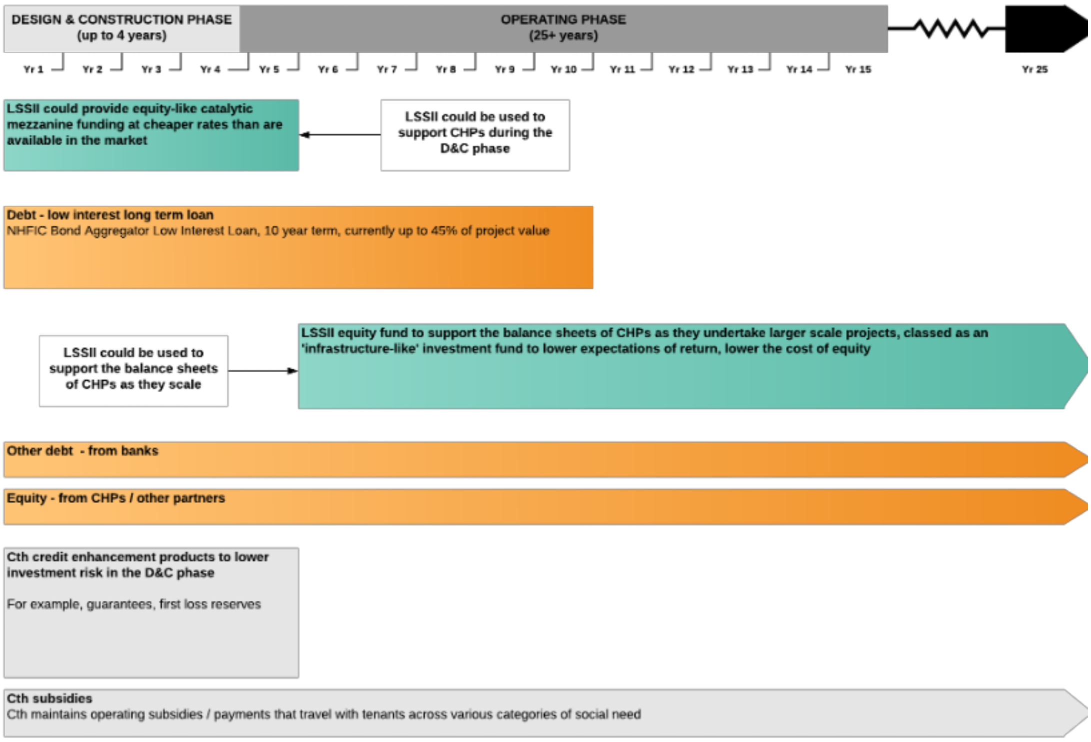
[40] See Milligan, V., Pawson, H., Phillips, R., Martin, C., and Elton Consulting. (2017). Developing the scale and capacity of Australia's affordable housing industry. AHURI. Available at https://www.ahuri.edu.au/__data/assets/pdf_file/0017/12833/AHURI_Final_Report_No278_Developing-the-scale-and-capacity-of-Australias-affordable-housing-industry.pdf.
[41] For a detailed exploration of domestic and international models, see Stubbs, J. and associates. (2018). *Multi-Tenure Developments Best Practice Approaches To Design, Development & Management*. NSW Federation of Housing Associations Inc. Available at http://communityhousing.org.au/wp-content/uploads/2018/06/MultiTenureDev-Singles-lowres.pdf.
[42] Inside Policy interviews with Phil Frost, Evolve Housing and Scott Langford, St George Housing, February 2020
[43] Savills. (2019). Private Money and Affordable Housing, Available at https://pdf.euro.savills.co.uk/uk/residential---other/private-money-and-affordable-housing---december-2019.pdf;
[44] National Housing Finance and Investment Corporation. (2019). Social Bond Report: 2018-2019. Available at https://www.nhfic.gov.au/media/1147/nhfic-social-bond-report-2018-19.pdf NHFIC guidelines, accessed 16 March 2020
[45] Inside Policy interviews with Phil Frost, Evolve Housing and Scott Langford, St George Housing, February 2020

Figure 1: The potential role of equity and equity-like investment in the funding mix



Barriers facing investors – risk and return

The major barrier to large scale investment in SAH is the risk-return profile of this kind of investment compared to the other investment choices available, particularly in the real estate sector. The risk-return profile of investment in private real estate is far more attractive to private investors.[46] The perceived higher risk for lower return profile of investment in SAH also means the costs of mainstream funding and financing for development are higher, creating a barrier that CHPs face as discussed above. Enabling LSSII would require improving the risk-return profile of SAH.

Perceptions of higher risk in the delivery of affordable housing are driven by factors like uncertainty or instability around the public policy environment, the viability of CHPs, the complexity of delivering feasible development projects and heavy reliance upon rent subsidies and other forms of public funding and financing support. There are several ways through which it might be possible to moderate the level of investment risk for LSSII.

Setting out clear long term policy and funding settings to support LSSII in affordable housing

The Commonwealth can help to moderate risk and underpin investment by establishing long term policy settings that provide a platform for mobilising LSSII.

In particular, the Commonwealth would need to continue and expand its current supports that help to address cost challenges for CHPs. This includes maintaining and expanding subsidies, and other forms of low cost finance (for example NHFIC bond aggregator) that currently underpin the viability of CHPs. When doing this, the

[46] Australian Government The Treasury. (2016). Council on Federal Financial Relations Affordable Housing Working Group. Available at https://treasury.gov.au/sites/default/files/2019-03/C2016-050_Issues_Paper.pdf; Lawson, J., Pawson,H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Social housing as infrastructure - an investment pathway. AHURI. Available at https://www.ahuri.edu.au/research/final-reports/306.

Commonwealth can also recognise the spill over effects that flow from the provision of stable housing for people in need to the provision of other social services.

Credit enhancement for CHPs or the vehicles through which they are funded
Government can provide partial guarantees or a first loss reserve which can enhance the credit worthiness of CHPs or the vehicles through which they are funded, bringing down the risk to investors. Government involvement of this kind catalyses other investment.

Investment and capability support via intermediaries
The involvement of experienced intermediaries in the management of investments and the delivery of development projects protects LSSII from transaction costs and other risks associated with engaging one by one with providers and projects. It can also provide support for CHPs in the design, funding and delivery of development projects.[47]

To attract and sustain large scale private investment in the SII market, our research also shows it will be important that there is a visible pipeline of investable projects at threshold scale. Another risk-related role intermediaries can play is assembling this pipeline and making it visible to investors.

Reclassifying social and affordable housing as infrastructure
Treating SAH as an infrastructure asset class could help to improve its risk-return profile by encouraging investors to reconceptualise risk. Infrastructure investments are attractive to large investors looking for long term investments with lower returns but stable income streams and modest capital appreciation. SAH investment performs in a similar way: a stock of long-lived fixed assets with low but stable rental incomes driven by high demand and low vacancy rates underpinned by rent subsidies. Institutional investors have already viewed investment in SDA as investment in social infrastructure.[48] However, as has been noted elsewhere, the mere classification of SAH as infrastructure does not overcome funding shortfalls.[49] The purpose of reclassification in this case would be to more clearly signal to investors that investment in SAH housing is infrastructure-like, making the comparison of the nature and possible returns on investment more favourable.[50]

In terms of benchmark rates of return for affordable housing investment, there are emerging models that use investment in CHPs to develop mixed tenure build-to-rent projects, where the mix of product and tenures provides an adequate cross-subsidy to low income affordable housing provision. Modelling commissioned by Landcom estimates a minimum 4.5% return on investment for affordable housing projects of this kind.[51] In disability housing, modelling by Spring Financial Group suggests investors in SDA dwellings can achieve gross rental income yields of up to 16% per

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[47] NHFIC's Investment Mandate already recognises the need for and benefits of capability and capacity support for CHPs.
[48] For example, see Lenaghan. N. (2018). Insitutional Inverstors Head into $5b Disability Housing Sector. Financial Review. Available at https://www.afr.com/property/institutional-investors-head-into-5b-disability-housing-sector-20181120-h183mr.
[49] Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Social housing as infrastructure - an investment pathway. AHURI. Available at https://www.ahuri.edu.au/research/final-reports/306.
[50] International Housing Partnership and Paxton Group. (2019). Creation of a Global Asset Class for Affordable Housing. Available at http://www.powerhousingaustralia.com.au/wp-content/uploads/2019/12/Creation-of-Global-Asset-Class-for-Affordable-Housing-v2.0_compressed.pdf.

[51] Pawson, H., Martin, C., van den Nouwelant, R., Milligan, V., Ruming, K., and Melo, M. (2019). Build-to-Rent in Australia: Product feasibility and potential affordable housing contribution.Landcom. Available at https://www.landcom.com.au/assets/Downloads/Research-and-Learning/2a44b36004/build-to-rent-report.pdf.

year, with a pre-tax net average annual cash return of 7.5%-8.5%. There are also longer range (10+ years) returns available from capital appreciation and asset recycling.[52] These forecasted SDA rates of return are similar to those achieved via infrastructure funds. For example, the AMP Capital Core Infrastructure fund has returned about 8% since inception.[53] The Host Plus Australian Infrastructure Fund targets a return of CPI plus 3-3.5% over 20 years. Acceptable rates of return for LSSII investment in SAH would need to be close to these benchmarks.

Can investors see a clear opportunity for LSSII?

A clear opportunity for LSSII in SAH could exist subject to certain conditions:

- it should deliver investment via CHPs as developers of new dwellings that can be delivered as SAH
- it should provide the right kind of capital required by CHPs, which is cheaper equity or equity-like finance to support the D&C phase of SAH housing development
- it requires an appropriate risk profile, which could be achieved via a mix of clear policy and subsidy settings, credit enhancement, intermediary support and investment / asset reclassification
- it can achieve rates of return comparable to longer term investment vehicles such as infrastructure funds.

[52] Wealth Adviser. (2016). SDA Investnment Insights: Specialist Disabikity Accomodation Explained. Available at http://www.springfg.com/wp-content/uploads/2018/11/SDA-investment-insights-specialist-disability-accommodation-explained.pdf.
[53] AMP Capital. (2019) AMP Capital Core Infrastructure Fund. Available at https://www.ampcapital.com/au/en/investments/funds/infrastructure/amp-capital-core-infrastructure-fund.

Gateway 3 – What are the potential design characteristics?[54]

Key insights

- SAH is able to attract private sector investment, at scale, if the right subsidies are in place to address the underlying service costs, tailored to meet the needs of the beneficiary.
- Housing strategies released by governments internationally recognise the need for up front grant funding in lieu of decades of underinvestment in the social housing end of the SAH spectrum.
- In the absence of a large upfront grant investment into SAH, the Commonwealth has a number of levers it can employ to attract private sector capital for LSSII in SAH.

What are the potential design characteristics of a LSSII hero deal?

As identified in Gateway 1, SAH, SDA and RAC are sectors most suitable for LSSII.[55] Increasing access to appropriately designed and managed housing is an essential platform for delivering better social outcomes across all three sectors. For the purposes of simplicity, we are focusing our exploration of potential deal design characteristics for LSSII on the provision of more SAH for these sectors as it is the common underlying need that requires large scale investment.

The analysis in Gateway 2 identified there could be a clear opportunity for LSSII in the provision of more SAH subject to certain conditions. Addressing these conditions, the goal of a LSSII hero deal should be to enable large scale investment in the growth of CHPs through the provision of equity and equity-like funding and setting the right risk-return profile. Doing this will help CHPs to deliver more SAH at scale through a pipeline of larger development projects. Institutional and other large investors have investment profiles that require this scale. Clear policy, regulatory and subsidy settings will continue to be important to underpin investment.

In the following discussion we outline three concepts that explore some different pathways through which the above goal might be achieved:

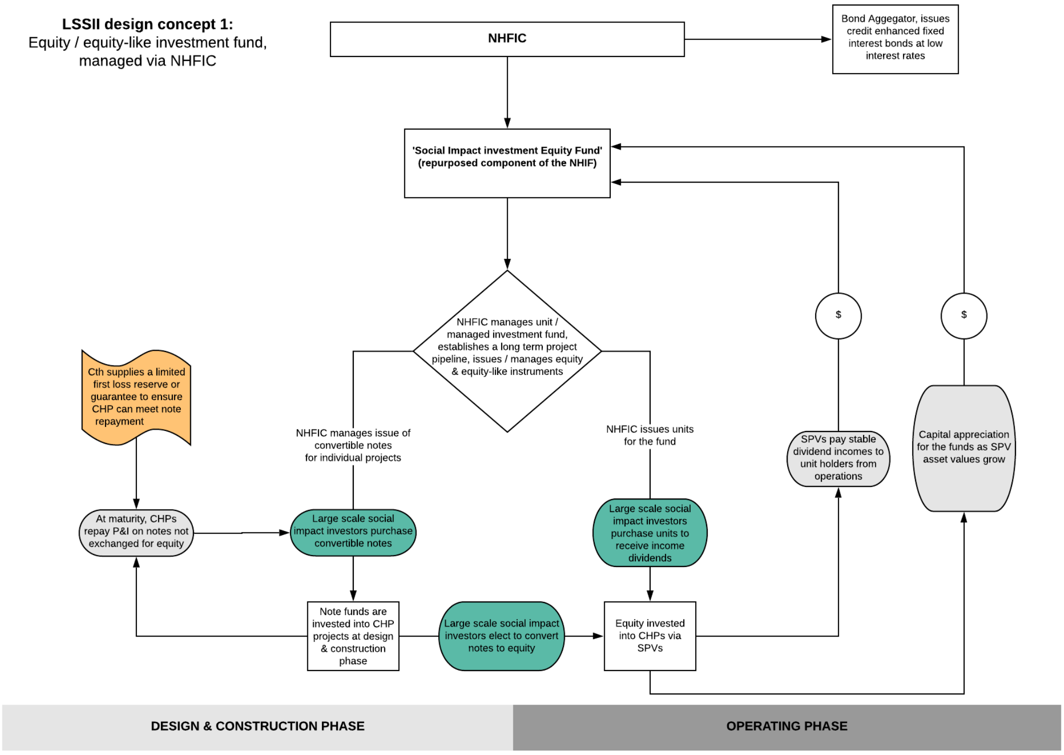
- Concept 1 involves a NHFIC-managed equity / equity-like co-investment fund for CHPs to deliver both SAH
- Concept 2a involves wholesaler support for equity / equity-like investment via intermediaries to deliver both SAH, and complements Concept 1
- Concept 2b provides an alternative to Concepts 1 and 2a if the Govenrment is not inclined to expand NHFIC's remit
- Concept 3 involves an intermediary-managed equity / equity-like private investment fund for affordable housing only.

[54] This gateway answers research question 3.
[55] Residential aged care is included because there is a shift away from institutional care to home based care, and low income ageing Australians need homes to which care can be delivered. Inside Policy interview with Claerwyn Little, Uniting Care, February 2020.

Concept 1: NHFIC-managed equity / equity-like investment fund

This deal design concept (see figure 2) adds equity / equity-like investment functions to NHFIC, taking advantage of the sector relationships it has already established. As discussed in Gateway 2, government-supported investment of equity is necessary because CHPs cannot meet the cost of equity in the mainstream market and build their balance sheets. NHFIC is best placed to manage this because they are already engaged in the market and understand what investors and CHPs both require to make investments work.

Figure 2: Concept 1 - NHFIC-managed equity / equity-like investment fund



Key design characteristics:

- This concept supplies cheaper equity and equity like funding to mature CHPs via NHFIC, assisting them to grow their balance sheets overtime and increasingly deliver larger scale SAH developments, complementing the Affordable Housing Bond Aggregator (AHBA).
- To support investment in affordable housing, NHFIC's current investment mandate includes the establishment and operation of the National Housing Infrastructure Facility (NHIF). This is a $1 billion fund over five years to provide finance in the form of loans, equity investments and grants to eligible infrastructure projects which support housing development. The mandate also allows NHFIC to use the fund to engage in capability building services to support CHPs.
- Concept 1 imagines creating and trialling a 'Social Impact Investment Unit Fund' (the Fund) by adjusting NHFIC's current mandate by allowing it to use a repurposed portion of unutilised NHIF funds (say $200 million over five years) to provide equity investment for housing projects delivered by CHPs. No additional government funding would be required during this trial stage.

- As a quarantined component of the NHIF, the Fund would have its own set of operating requirements. As the manager of the Fund, NHFIC's role would include:
  - Working work with CHPs to aggregate development needs in particular locations and provide advice during development project design to ensure a project would attract equity investment from the Fund. This could include engaging larger construction companies to reduce risk, drive economies of scale and improve profit margins.[56]
  - The provision of equity into CHPs by working with CHPs to design deal structures based around individual housing development projects, in accordance with normal equity investment practice including determining exit strategies and timelines.
  - The management of the Fund using a portfolio approach, which would include establishing a visible pipeline of housing development projects of sufficient scale to support investment, portfolio performance tracking and risk management to inform future expansion.

- Large scale private investors would contribute by purchasing units in the Fund, enabling co-investment and unlocking LSSII. To set an appropriate risk-return profile for private investors, the Fund would be classified as an infrastructure fund.
- Investments would be channelled into SPVs established for each development project supported by the Fund. SPV ownership would be shared between the Fund and the CHP.
- To provide funding for the design and construction (D&C) phase of a development project, NHFIC would manage the issue of an equity-like instrument from the Fund. For example, a convertible note could be issued for individual development projects.[57] The notes would have interest rates that account for D&C risk but be lower than mainstream mezzanine financing. To enable an appropriate risk rating, Government could provide some credit enhancement such as a first loss reserve or guarantee. This element of the conceptual model is about NHFIC having sufficient levers to improve the risk profile of a particular deal.
- To further bring down D&C costs, and to improve project profit margins, NHFIC could also consider bringing the AHBA leverage ratio up to say 55%, once it is comfortable with the performance of the current bonds. Industry experts consider current leverage ratios to be conservative.[58] They also suggest NHFIC on-costs added to the cost of bond aggregator finance for the provision of bonds could also be reduced slightly.[59]
- Convertible notes would mature at the conclusion of the D&C phase (or longer if required to support a particular project). At maturity, notes would ordinarily convert to an equity holding in the project SPV, though there may be circumstances when the Fund elects to instead receive repayment of principal and interest[60]. Note conversion would have a powerful equity building effect. Equity would build within the SPV, growing the Fund and the

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[56] Inside Policy interview with Phil Frost, Evolve Housing, February 2020.
[57] See the *Equity like investment* case study in Appendix H for an example of how convertible note investment has been used elsewhere. Providing a convertible note on a low interest rate that does not have to be met until after projects are completed and when assets are operating supplies cash to new projects without added cost pressure.
[58] Inside Policy interviews with Phil Frost, Evolve Housing and Scott Langford, St George Housing, February 2020.
[59] Inside Policy interviews with Phil Frost, Evolve Housing and Scott Langford, St George Housing, February 2020.
[60] For example, if a project becomes financially impaired and requires restructuring or some other kind of intervention (such as the exercise of a first loss reserve).

balance sheet of the CHP, which would in turn allow more leverage for subsequent development projects. A worked example of this at Appendix G illustrates at a high level how this can build momentum to achieve scale.

- SPVs would pay income dividends to the Fund (and to private investor unit holders) and to CHPs. The value of equity in the SPV would appreciate as housing asset values grow. Capital appreciation could also be realised when the private housing component of a mixed tenure development is sold.
- Once housing assets are operating, the Fund could exit from an SPV at any stage by selling its equity holding to the CHP or to another private large scale investor.
- The concept reflects the reality that managing the risk-return profile of investments in SAH will require some kind of direct or indirect ongoing government investment and support. Investments and supports like capital grants, the NHFIC bond aggregator, an equity fund, guarantees, tax policy and subsidies all serve to underpin the viability of the sector, and are all levers that can be utilised to strike the right risk and return structure. LSSII will not displace the need for these supports, and the attraction of any kind of large scale private investment into the sector will rely upon them continuing[61].

[61] Lawson, J., Pawson,H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Australian Housing and Urban Research Institute: Social housing as infrastructure - an investment pathway. Available at https://www.ahuri.edu.au/research/final-reports/306.

The main advantages of this design include:

- It builds upon NHFIC's established role in the market and its relationships with investors and deliverers. It creates a 'one stop shop' debt and equity investment in SAH provision across the design and construction; and operating phases.
- It continues to build more mature CHPs who will soon exceed their capacity to leverage concessional finance through the bond aggregator once they reach 45% leverage. This model can bring in scale to SAH new developments and will continue to provide a pipeline of new bond recipients for NHFIC.
- Commonwealth risk enhancement brings down the overall risk to investors and therefore their expected yield (infrastructure-like returns). Risk enhancement can be adjusted as the fund scales overtime, based on portfolio performance.
- Once new housing assets are constructed, operational costs are met in part by payments derived from subsidies that travel with tenants who qualify for welfare, CRA, SDA and other forms of ongoing government support. Low vacancy rates combined with professional management delivery practices help to produce a stable revenue stream over time,[62] so long as the subsidies available at the commencement of an investment remain in place.
- Direct investment into individual CHPs would be administratively too costly for institutional investors. Pooling investment into an intermediary-managed fund makes investment more efficient.
- This concept could work alongside a wholesaler fund (see Concept 3 below), which builds a pipeline of smaller but growing CHPs that achieve a maturity that enables them to access equity funding via this model.

Main risks:

- Although internationally governments are more recently trialling how they can bring more equity into SAH developments,[63] evidence of the *long term* effectiveness of these is not yet available. The above model uses investment structures familiar to large investors (such as convertible notes and credit enhancements) but would be a relatively novel concept in SAH.
- The risk profile of these projects is being underwritten by the Commonwealth through the use of a first loss reserve or guarantee. Potential risk events will be determined at the commencement of the development and agreed between parties. If a risk event occurs, the first loss reserve and / or guarantee would be called upon, in accordance with the agreed terms. We suggest trialling the approach and monitoring portfolio performance before any expansion of this model occurs.
- This will require an expanded role for the NHFIC and will be more resource intensive, creating an increased administrative cost to government.

A high level worked example of how this model could translate to greater equity and accelerate scale is at Appendix G.

A case study of equity investment models in the UK is at Appendix H.

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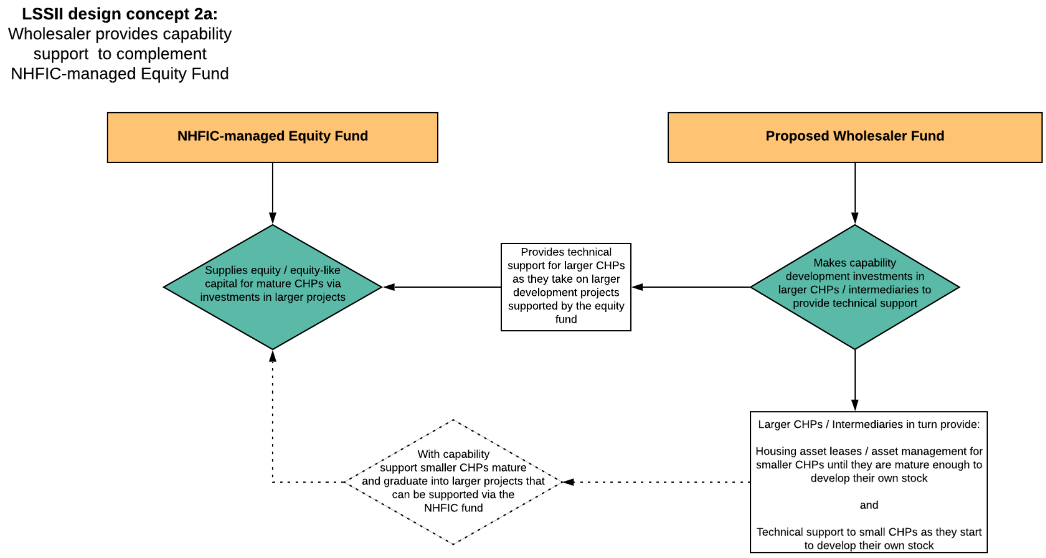
[62] Powerhouse Australia. (2018). Submission to the National Housing Finance and Investment Corporation Bill.
[63] Savills. (2019). Private Money and Affordable Housing. Available at https://pdf.euro.savills.co.uk/uk/residential---other/private-money-and-affordable-housing---december-2019.pdf.

Concept 2: Wholesaler-supported social and affordable housing investment

There are two versions of this concept:

- Concept 2a, which users a wholesaler to complement the NHFIC-managed Equity Fund via investing in intermediaries that provide capability and technical support to CHPs (see Figure 3).
- Concept 2b, which uses a wholesaler as an alternative to the NHFIC-managed Equity Fund. In this version of the concept, the wholesaler could support the development of private equity funds targeting capital provision to CHPs (see Figure 4).

Figure 3: Concept 2a - Wholesaler complements the NHFIC-managed Equity Fund by providing capability support to CHPs



Key design characteristics for Concept 2a:

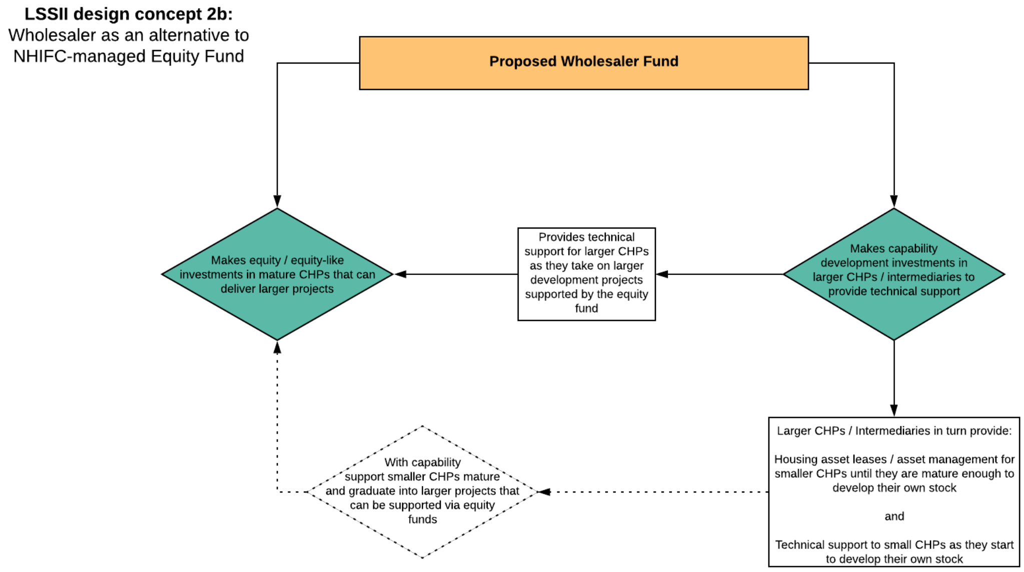
- It complements the NHFIC-managed Fund by working through the wholesaler currently under development by the taskforce to focus on supporting the capacity of mature CHPs to take on and manage LSSII delivered via the Fund, by providing technical support. Roundtables on the intermediary sector revealed there are capacity constraints faced by intermediaries, and this would be a barrier to achieving SAH at scale.[64]
- It could also support intermediaries to provide housing asset leases, asset management functions and technical support for smaller CHPs until they are mature enough to commence their own developments. This helps to build the pipeline of mature CHPs for participation in the NHFIC-managed Fund and the larger development projects it supports.

The main advantages of this concept include:

[64] Inside Policy, roundtable consultations, November-December 2019.

- By operating alongside the NHFIC-managed Fund, it provides a way to develop and increase the capacity of mature CHPs to manage larger investments, and develop the capability of smaller CHPs so they can mature to become larger scale providers with the ability to absorb larger investments via the Fund.
- Supports and develops the capacity of the sector to deliver social outcomes that are closely connected with access to housing.

Figure 4: Concept 2b - Wholesaler as an alternative to the NHFIC-managed Equity Fund



Key design characteristics for Concept 2b:

- Instead of a NHFIC-managed Fund, the wholesaler would both provide equity and equity-like investments to support the larger scale projects of mature CHPs (along the lines of Concept 1), and technical assistance to CHPs to improve their capability and capacity and help them scale.

The main advantages of this concept include:

- It provides an avenue through which funding to provide equity or equity-like investment support for SAH could still be delivered (in the absence of the NHFIC-managed Fund).
- Unlike some housing development models supported by the UK wholesaler BSC (see Appendix H) this would be focused on providing the equity and equity-like support, rather than cornerstone investment.

Main risks:

- Likely to be driven more by wholesaler investment strategies (and the limits to these) and less by the market (that is, CHP demand) potentially meaning less scale.

- Being one step removed from government, the value of guarantees and/or first loss reserve may need to be higher (Australian Government is currently rated AAA).[65]
- The wholesaler currently under development will be a new organisation to the investors and deliverers, and will require time to develop relationships, and for the market to understand the risk profiles of new housing development investments.

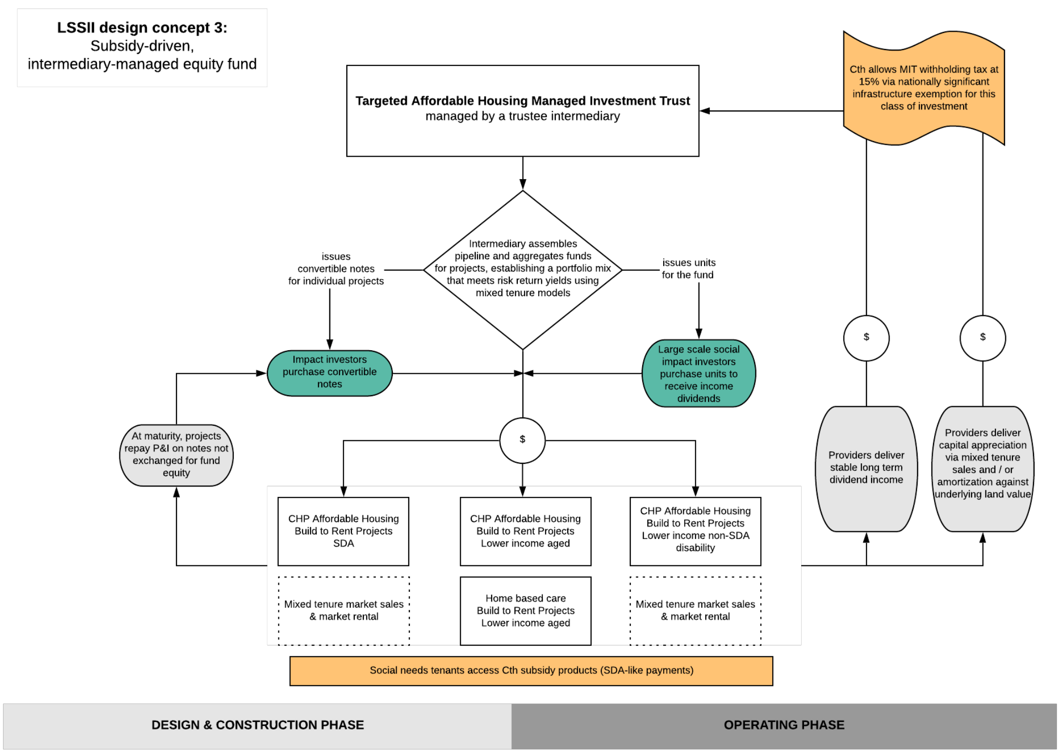
See the Cheyne and BSC partnership case study in Appendix H. This case study highlights that while BCS did not provide concessional capital, it provided cornerstone investment which increased investor confidence and capital flows.

[65] ASX. (2020). Credit Ratings. Available at https://www.asx.com.au/products/credit-ratings.htm.

Concept 3: Subsidy-driven, intermediary-managed equity fund

This concept operates through an intermediary-managed equity / equity like investment fund. The concept is broadly based on investment activity already taking place in the disability housing sector in Australia, by leveraging NDIS SDA payments. This concept imagines this kind of investment could be extended to mixed tenure affordable housing development for low income earners, older Australians and people living with a disability who don't qualify for SDA payments. The role of government in this model would be to provide the right operating subsidy products for these cohorts.

Figure 5: Concept 3 - Subsidy-driven, intermediary-managed equity fund



Key design characteristics:

- An Affordable Housing Managed Investment Trust (MIT) fund is established and managed by an intermediary trustee (fund manager). The MIT is classed as an infrastructure-like fund, and the Commonwealth could consider applying a nationally significant infrastructure exemption to the fund setting the withholding tax rate for all investors at 15%.
- The intermediary would issue equity units for the infrastructure fund and impact investors would purchase these units.
- The intermediary would work with CHPs to determine in aggregate, development need in particular locations and provide advice during the D&C phase to ensure the project would attract private sector investment. The intermediary assembles a project investment pipeline, aggregates equity and equity-like funding for projects, and establishes a portfolio of mixed tenure affordable housing projects to meet an appropriate risk-return profile, including mixed tenure projects.

- The Commonwealth would need to create additional SDA-like subsidies and it can do this by following the same path already used to determine the subsidy settings for SDA payments.
- In the absence of these subsidies, of the international models studied (UK, US and Canada) governments provided stimulus via large upfront grants in recognition of the absence of adequate investment in previous decades.[66]

The main advantages of this concept include:

- It is largely market-driven: it is based on emerging large scale property investment models using mixed tenure developments that can cross-subsidise mixed tenure affordable housing provision via build-to-rent schemes. These developments are supported by access to subsidies like SDA and other housing support payments that travel with tenants, for older Australians and those living with a disability that do not meet the extreme functional impairment test.
- It maximises the efficiency of investment by enabling the aggregation of subsidies paid by the Commonwealth across multiple cohorts of social need in one development. For example, SDA and any new payments arising from model recommendations of the Royal Commission could be pooled to cross-subsidise development costs.
- Classification as infrastructure-like investment and effective tax policy settings would greatly improve the risk-return profile of the fund,[67] and strong performance by the fund could reduce the role of the Commonwealth over time.

Main risks:

- The participation of investors depends upon clear and certain policy settings that can be maintained over the longer term (that is, can survive changes of government).
- Without adjustments to subsidies for low income earners and older Australians, this model is likely to be limited to SDA.

There are emerging examples of this type of concept in the Australian market, in disability housing. SVA are raising a $1 billion dollar fund, based on SDA payments.[68] Developers of these projects strongly suggest the key ingredient in achieving more affordable housing is to make sure the government subsidy element is right for the intended beneficiary.[69] In the case of people with severe functional and physical impairment, industry experts say that current SDA subsidies are at the right level to attract private sector involvement.[70] Aged care experts are calling for demand side subsidies targeting place-based solutions for older Australians wanting to age in place.[71]

For further detail see SVA case study at Appendix H.

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[66] Canada's National Housing Strategy announced in 2017 provides for $55B over 10 years to address chronic housing need, and includes a mix of funding grants and loans. A key vehicle is the National Housing Co-investment Fund in Canada provides low cost loans and non-repayable financial contributions (grants) for new construction and revitalisation of community and affordable housing. For more detail, see National Housing Strategy. (n.d.) What Is the National Housing Strategy?. Available at https://www.placetocallhome.ca/what-is-the-strategy.
[67] See, for example, emerging trends in the UK that see larger funds participating in social infrastructure investments for average expected returns of between 5-8% per year.
[68] Inside Policy interview with Michael Lynch, Social Ventures Australia, February 2020
[69] Ibid.
[70] Inside Policy interview with Michael Lynch, Social Ventures Australia, February 2020
[71] Inside Policy with Claerwyn Little, Uniting Care, February 2020.

What do these conceptual designs aim to achieve regarding government policy? [72]

Government is already seeing the benefits of expanding its role in the SAH sector, with success. The recent introduction of NHFIC and the bond aggregator is helping to solve the issue of the cost of debt capital, which is reducing operating costs and enabling community housing providers (CHPs) to increase the number of SAH dwellings they construct or own, to the extent they can leverage their own balance sheets. The emerging capital need for CHPs is equity – and there are early concepts developing in the sector on how this can be addressed.[73]

The primary aim is the address balance sheet constraints preventing CHPs to address the undersupply of housing across the RAC, SAH and disability sectors.

What does the deal aim to achieve regarding community benefit?

By directing LSSII into SAH investment, all three concepts are designed to support social outcomes in all three sectors. Overall, it's well established that housing is important to Australians for social and economic reasons. On a social level, it underpins education, employment and health outcomes. In terms of economic outcomes, housing contributes to productivity, investment, consumption and asset accumulation/savings.[74]

In terms of the sectors in focus, longitudinal, quantitative research shows SAH stability provides a range of community benefits to residents, including improvements in psychological well-being, and breaking the cycle of homelessness when coupled with regular social support programs.[75]

What is the role of government(s) as a market enabler/developer?[76]

The role of the Commonwealth has been discussed extensively above, and includes clear roles as market enabler, investor, policy maker, regulator and in reducing risk to investors and deliverers.

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[72] This question answers research question 3.
[73] Inside Policy interviews with Phil Frost, Evolve Housing, Scott Langford St George Community Housing and Dr Michael Fotheringham, AHURI, February 2020; Community Housing Industry Association. (2020). The Case for a Housing Aggregator. Available at https://theconstellationproject.com.au/wp-content/uploads/2020/02/Housing-Capital_Redesign_WEB.pdf.
[74] Australian Government The Treasury. (2016). Council on Federal Financial Relations Affordable Housing Working Group. Available at https://treasury.gov.au/sites/default/files/2019-03/C2016-050_Issues_Paper.pdf.
[75] Johnstone, M., Parsell, C., Jetten, J., Dingle, G., and Walter, Z. (2016). Breaking the cycle of homelessness: Housing stability and social support as predictors of long-term well-being. Housing Studies, 31(4), 410-426.
As life circumstances change, the above AHURI report[75] found elderly Australians living in the private rental sector can benefit from communal-self-contained living spaces with some level of support and assistance of daily living and care needs, as an alternative to institutionalised care. This means making sure there is longer term access to affordable housing for older Australians with low incomes. LSSII can be used to support mixed tenure developments that enable older Australians with low incomes to age in place and transition when necessary into care accommodation provided within the same development. AHURI has demonstrated there is also an economic benefit to Government by keeping older Australians in their homes and avoiding residential aged care – the most expensive form of care for older Australians - for as long as possible.[75]

Housing choice and tailoring are critical to the well-being needs of Australians with a disability. The NDIS is set up to maximise participant choice and is based on this principle. Researchers have found the crisis-driven allocation of social housing for Australians with a disability is not meeting the living and support needs of each person tailored to their individual needs. This kind of unplanned allocation of social housing can even exclude people with a disability given the unsuitability of available housing to meet their needs, forcing this cohort to continue to live in unacceptable living arrangements, like residential aged care.

Fit for purpose housing supported by appropriate services will maximise individual wellbeing. Further, people living with a disability who do not qualify for SDA payments are often on low incomes and also need access to affordable housing. Again, LSSII-supported mixed tenure developments could enable this in a way that allows people living with a disability to live independently within integrated communities.
[76] This answers research question 4.

Additionally, state and territory governments could continue to support the market outside this concept, by continuing to transfer the remainder of public housing stock to CHPs, and by increasing the number of public private partnerships with CHPs or affordable housing providers to support the development of a significant pipeline of works, sufficient for institutional investors to maintain their interest and involvement.

At the local government level, less restrictive planning, zoning regulations and land release will increase the supply of development opportunities and reduce costs to developers. [77]

- Amend income tax laws to support the provision of affordable housing via MITs, for example, by exempting MITs that invest in SAH from differential withholding tax settings.[78]
- Consideration of the requirements of trustees to maintain a superannuation fund for the sole purpose of providing benefits to members and how this can be nuanced to encourage LSSII.[79] This has been achieved internationally.[80]
- Providing support to reclassify SAH as infrastructure asset class, including working with institutional investors and nuancing Concepts 1 and 2 to achieve the appropriate level of risk and return for institutional investors. This includes also working with institutional investors to build the business case of SAH as infrastructure, as outlined in Appendix F.
- Providing an appropriate outcomes measurement framework, to benchmark, track and report on outcomes for government, beneficiaries and investors.[81]
- Building the pipeline of investible deals. Treasury and others[82] have noted there is a role for government to support the creation and maintenance of an ongoing SAH development / redevelopment pipeline to meet the needs of investors for large, patient tranches of equity capital to be deployed. All three concepts identify a role for NHFIC (Concept 1) or an intermediary (Concepts 2 and 3) to assemble a pipeline of SAH projects and manage aggregated capital into this.

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[77] Australian Government The Treasury. (2016). Council on Federal Financial Relations Affordable Housing Working Group. Available at https://treasury.gov.au/sites/default/files/2019-03/C2016-050_Issues_Paper.pdf.

[78] See *Treasury Laws Amendment (Reducing 4 Pressure on Housing Affordability 5 Measures No. 2) Bill 2017* which addresses amendments to income tax law to support the provision of affordable housing through MITs. For a discussion of how MIT withholding and other tax settings may be impeding affordable housing delivery, see also https://realassets.ipe.com/housing-affordability/housing-affordability-is-australia-missing-a-trick/10043398.article\

[79] Paxon Group, International Housing Partnership. (2019). Creation of a global asset class for affordable housing.

[80] For examples see - Cross, L. (2019). First Abu Dhabi Bank enters UK Social Housing. Available at https://www.socialhousing.co.uk/news/news/first-abu-dhabi-bank-enters-uk-social-housing-62658; IPE Staff (2019). PGIM Real Estate and UNITI Team Up to Develop French Social Housing. Available at https://realassets.ipe.com/pgim-real-estate-and-uniti-team-up-to-develop-french-social-housing/10032297.article; Phillips, M. K. And Lowe, R. (2019). CBRE Global Investors Secures £250m for UK Affordable Housing Fund. Available at https://realassets.ipe.com/news/cbre-global-investors-secures-250m-for-uk-affordable-housing-fund/10028940.article. There are reports of Australian institutional investors investing in social housing in the US because they are able to put together a deal structure that provides appropriate risk/reward but cannot achieve this yet in Australia (prior to SDA).

[81] Australian Government The Treasury.(2017). Australian Government principles for social impact investing. Available at: https://treasury.gov.au/programs-initiatives-consumers-community/social-impact-investing/australian-government-principles-for-social-impact-investing.

[82] Australian Government The Treasury. (2016). Council on Federal Financial Relations Affordable Housing Working Group. Available at https://treasury.gov.au/sites/default/files/2019-03/C2016-050_Issues_Paper.pdf; Lawson, J., Pawson,H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Social housing as infrastructure - an investment pathway. AHURI. Available at https://www.ahuri.edu.au/research/final-reports/306.

All of these options for Government need to be considered in terms of whether they provide value for money, juxtaposed with traditional or other modes of SAH delivery, and whether they enable a fair sharing of risk and return.

What are the requirements of investors?[83]

For Concepts 1 and 2, the main role of investors is as a source of capital through two suggested avenues:

- *Shorter term equity-like investments* to support the D&C phase of housing development projects. The example given is a convertible note could mature after 5 years (allowing for a 4 year design and construction timeframe plus 1 year of operations). At maturity the note could be converted into equity in the investment fund or be paid out. Projects receiving convertible notes would be backed by a first loss reserve or limited guarantee (supplied by government) to cover the risk of a project not being able to meet the convertible note at maturity. NHFIC or the intermediary would design and issue these convertible notes on a project by project basis.
- *Longer term equity investment* to support the scaling of the sector during the operating phase. An investment fund would be established and managed by NHFIC (Concept 1) or an intermediary (Concept 3). Investors would purchase units in this fund gaining access to longer term, low yield but stable dividend incomes and capital appreciation.

Recognising the asset class as infrastructure

To lower the risk-return profile for investors, they would need to recognise investment in SAH as an infrastructure or infrastructure-like asset class. They would do this if the investment fund is managed like an infrastructure fund, that is, involves an aggregated pipeline of project investments that produce assets that provide long term income opportunities.

What are the requirements of deliverers?

CHPs

Concepts 1 and 3 are designed for more mature CHPs ready to scale. They are required to work with NHFIC or the managed trust in the design and negotiation of project investments, bonds and equity issues, and adhere to the terms, conditions and requirements of investments. CHPs would also need to adhere to the terms and conditions of any additional capability and capacity funding supports.

Concept 2 is designed so that CHPs receive support via wholesaler-backed intermediaries and the specific requirements of CHPs would depend on the nature of that support. This concept allows for more ‘hands on’ involvement between intermediaries and CHPs, so smaller providers that are not wanting to scale can be supported.

Intermediaries

In Concept 1 NHFIC acts as an intermediary and works with CHPs to establish a pipeline of project investments, supports the design and negotiation of investments, designs and issues convertible notes for the design and construction phases of projects and manages the equity investment fund.

[83] This answers research question 4.

In Concept 3, the strength and depth of the intermediary market is supported via patient and seed capital, to enable growth.

Other social services

Service sector roles are an important consideration to sustain long term social housing outcomes. For example, organisations delivering wrap around social services support vulnerable cohorts accessing SAH, particularly those discussed in our SWOT analysis in research question 1.

St George Community Housing, a large SAH provider, described SAH without services as only solving one of many social factors causing vulnerability. For example, a person with a disability in accommodation supported through SDA may also be receiving support for NDIS services and may be seeking employment through a disability employment service provider.[84]

How will the elements of the deal be structured with the users of the service? Will there be a co-design process?

It is envisaged that once a Gateway 1 and 2 have been satisfied, Government would conduct a market soundings process, to enable early engagement with providers, investors and beneficiaries to structure an appropriate product or service, and to encourage innovation. The NSW Office of Social Impact investment does this on a frequent basis in relation to the development of strategies, social impact bonds, and rate cards. These processes are supported by Government information on what they are hoping to achieve, as well as detailed information available to participants on the outcomes of these processes.[85]

[84] Inside Policy interview with Scott Langford, St George Community Housing, February 2020.
[85] NSW Government. (2020). Office of Social Impact Investment. Available at https://www.osii.nsw.gov.au.

Implications and potential next steps

There are strong opportunities for LSSII in the housing sectors analysed and this provides focus for the Commonwealth, intermediaries, deliverers and investors on where to target energy and investment to achieve large scale social impact in the short to medium term.

In the three housing sectors chosen for deeper analysis, we have concluded through gateway 1 of the framework there is sufficient demand and policy clarity in SAH and SDA. Housing for Australians with a disability who do not meet the extreme functional impairment test could be increased. In the RAC sector, there is a lack of policy clarity given the Royal Commission is yet to deliver its final report although early indications suggest a move to home based care with support. In aggregate, this creates a need for more SAH, as a common underlying need across all three sectors.

All three sectors also share a significant housing supply problem: considerably more SAH is required for all Australians on low incomes, older Australians and people with a disability who do not quality for SDA payments. A lack of access to adequate and appropriate SAH is, therefore, a major impediment to improved social outcomes in these sectors.

The key to driving scale in these housing sectors is to support the growth of SAH deliverers, primarily CHPs. The barriers constraining growth are:

- A lack of affordable equity or equity-like finance which is constraining access to capital to develop more SAH, at scale;
- A lack of sufficient operating subsidies to cover the true cost of developing SAH to marginalised Australians, like older Australians, those on low incomes, and Australians with a disability who do not meet SDA requirements;
- An insufficient number of intermediaries who can help grow and scale CHPs to create a pipeline of developments, and a pipeline of investible opportunities for large scale institutional investors.

To drive LSSII in these housing sectors, there is a clear need to support the development of deliverers particularly CHPs to deliver SAH at scale. The provision of affordable equity will address balance sheet constraints faced by CHPs, attract private sector investment at scale and catalyse the growth of housing supply in mixed tenure developments in Australia. This will help to address the difference between demand and supply of SAH in Australia.

The role of Government can be directed to providing affordable equity and equity-like capital to CHPs to overcome their balance sheet constraints. This can be achieved through two models:

1. Concept 1, where NHFIC's remit is expanded to including social housing and a fund is set up repurposing NHIF funds to trial the provision of equity and equity-like finance to CHPs to support mixed tenure housing development projects. Credit enhancement may also be required to ensure adequate risk mitigation, from an investor perspective.
2. Concept 2a supports the provision of this equity, by supporting intermediaries and CHPs to be able to aggregate demand, grow capability and reduce construction risk. It can also support smaller CHPs by providing lease-back

arrangements for those CHPs who are not yet ready to scale. This option also supports growth of the limited number of intermediaries.[86] The Commonwealth can provide support to intermediaries to grow in number and size, to support smaller scale CHPs, and aggregate demand for development projects will help achieve efficiencies of scale in new mixed tenure affordable housing developments.

3. Additionally to overcome operational cost challenges, the Commonwealth can provide ongoing operating susbsidies, similar to SDA payments, that reflect the true ongoing cost of providing tailored SAH to Australians experiencing entrenched social disadvantage.

We recommend this combination of models as the most efficient way of providing affordable equity into the sector, and supporting scale. Concept 2b provides an alternative to the above two models, if expanded NHFIC's remit is unpalatable.

Finally, in the affordable housing end of the housing spectrum, the Commonwealth could play a role in supporting LSSII by providing appropriate levels of operational subsidies for low income earners, older Australians and those with a disability who do not meet the SDA requirements, in mixed tenure developments.

The three conceptual designs have been developed building on what the market already knows and invests in.

The remaining industry sectors – NDIS services, disability employment and early childhood education are not rated as suitable for LSSII where the investment starting point is $100m or above, in the short to medium term. However, these services can play a vital role in maintaining housing tenancies and improving social outcomes.[87]

Further work required

Further financial modelling and risk profile work is required to understanding the likely impact of increasing equity in CHPs to understand the impact of equity in achieving scale. This work would be done in concert with investors to understand appetite, and would have to founded in market conditions, at the time of undertaking modelling.

Detailed policy work would also be required with deliverers and developers to understand the real cost of the subsidy for lower income earners and older Australians, to create the right incentives for private sector investment into models like Concept 2.

[86] Inside Policy, Wholesaler roundtable consultations, February 2020.
[87] For example see, Social Ventures Australia. (2016). SVA Perspectives Housing. Available at: https://www.socialventures.com.au/assets/Housing-Perspective-web.pdf.

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Stubbs, J. And associates. (2018). Multi-Tenure Developments Best Practice Approaches To Design, Development & Management. NSW Federation of Housing Associations Inc. Available at http://communityhousing.org.au/wp-content/uploads/2018/06/multitenuredev-Singles-lowres.pdf.

Synergis Fund. (2020). Available at: https://www.synergisfund.com.au/model

Wealth Adviser. (2016). SDA Investnment Insights: Specialist Disabikity Accomodation Explained. Available at http://www.springfg.com/wp-content/uploads/2018/11/SDA-investment-insights-specialist-disability-accommodation-explained.pdf.

Appendix B – Research Methodology

This project analysed key social services sectors to assess if the Commonwealth can facilitate large scale social impact investment (LSSII) opportunities in Australia. To undertake the sector analysis, the project also delivered a Framework that can been used to assess the opportunity for large-scale social investment within sectors

Scope

In-scope

The sector analysis was limited to SAH, disability housing, resident aged care, NDIS support services, disability employment and early childhood education.

The project informed drew on the research from the other Component 4 research projects when relevant. In particular, findings from research project 1, which examined the SII ecosystems in the UK, Canada, New Zealand, France, Israel, South Korea and India, was used to develop the design of a SII wholesaler. In particular, the project considered Big Society Capital in the UK and the Social Finance Fund in Canada.

LSSII was defined as deals of $100 million.

Out of scope

The project did not consider the specific implementation details for LSSII hero deals, business cases for hero deals, or how to scale individual hero deals.

The project did not consider sectors, outside those listed in scope.

Research questions

The project considered the following questions

1. What is the opportunity for developing large scale SII deals in the identified sectors? *
2. What is the applicability of specific LSSII interventions in the identified sectors? *
3. What are the potential design characteristics of a large scale social impact investing hero deal? *
4. What is the role for government, and other players in achieving scalability of SII deals in each sector?

*Research questions 1-3 will also be developed into a Framework for Assessing Sectors and Deals for Large Scale Social Impact Investing.

Methodology

The project commenced with demand, supply and opportunity analysis of the six sectors to respond to question 1. Demand and supply analysis were completed through research and modelling using ABS data, other governmental data sources, and data from relevant industry bodies. Opportunity was assessed by reviewing the policy context through desktop research, industry reports and conducting a Strengths, Weakness, Opportunity and Threats (SWOT) analysis. The demand, supply and opportunity analysis were tested with key industry actors through interviews and research from the other SII Taskforce Component 4 projects, when relevant.

To complete question 2 and 3, the project developed a Framework for Assessing Sectors and Deals for LSSII (Framework). The Framework was developed in consultation with PM&C to meet the conditions of LSSII. The Framework was then used to shape analysis for applicability of specific large-scale social impact investing interventions in the identified sectors, and the potential design characteristics of large-scale social impact investing hero deals. Analysis was supplemented with desktop research, interviews with key industry actors, and research from the other SII Taskforce Component 4 projects when relevant.

Finally, the project analysed each sectors SWOT, industry reports and findings from the other SII Taskforce Component 4 projects, to assess the role for government, and other players in achieving scalability of SII deals.

Limitations

The project has the following limitations:

- The demand modelling for each sector was limited by the available data sets. As a result, demand modelling is more high level than originally intended.
- As individual business cases for LSSII and modelling was out of scope for this project, the quantum of investment is high level and would warrant further investigation prior to making policy and funding decisions
- Industry data on the childcare sector data includes early childhood education and afterschool care. This limits the ability to be able to able to segregate data to just 0-3 year old early childhood education cohort.

Appendix C: Gateway one analysis for industry sectors

Disability employment

Table 4: Disability gateway one analysis

Area of analysis	Summary results	Assessment (Yes/No/ Partially met)
Demand Supply	• ABS estimates (2018) there were around 112,700 persons with a reported disability who were unemployed, but looking for work (about 17% of all those in the labour force). • The Productivity Commission estimated in 2016-17 of the population with the potential to require NDA services, around half of all persons actually used NDA services nationally[88]. This data suggests Australians with a disability are not accessing the disability employment services they need.	Yes
Policy Regulation	• The overarching policy statement is the Commonwealth National Disability Strategy 2010-2020, which commits to increasing employment opportunities for people with disability. • The *Disability Discrimination Act* (DDA) 1992 (Clth) and *Fair Work Act* 2009 (Clth) prohibit discrimination against people with disability in the context of employment. • The Disability Employment Systems (DES) is regulated by a competitive performance framework and the National Standards for Disability Services apply to all disability service providers[89].	Yes

[88] Productivity Commission. Report on Government Services 2018. (2018). Available at https://www.pc.gov.au/research/ongoing/report-on-government-services/2018/community-services/services-for-people-with-disability.
[89] Australian Government Department of Social Services. Disability Employment Services. Available at https://www.dss.gov.au/our-responsibilities/disability-and-carers/programmes-services/disability-employment-services.

SWOT	• Disability employment is a subset of the employment placement and recruitment market.
	• The market share for disability employment service providers is small. The total employment placement and recruitment industry revenue is projected to be $15.9bn in 2020, of which Job Active is only 9% (and disability employment a subset of this)[90].
	• Government support for disability employment is complex, as it relates to the level of disability and the associated supports required. This can be a disincentive to investors.[91]
	• The broader market:
	  ◦ has low capital intensity and low barriers to entry:[92] and
	  ◦ is experiencing higher competition, lower profit margins, low labour efficiency. [93] Wages are a high proportion of costs for service deliverers and this can affect profitability.[94]
	• General unemployment in Australia is slowly rising, creating more difficult labour market conditions. Business confidence will continue to decline in 2020, which directly impacts labour markets[95].
	• Government spending seems to be reducing in disability employment[96].

Types of investment required	• Capability investments, like business, legal and accounting support to improve efficiencies, and seek out consolidation opportunities. • Small scale grants and/or concessional finance to achieve enhanced operations, or acquisitions, delivered potentially through an intermediary. • Small scale R&D and an innovation fund (potentially non-repayable) to support innovation in the sector[97].
Maturity of deliverers	• The industry comprises a large number of mainly small- and medium-size organisations, mostly operating within narrow geographic regions or service niche markets[98].
Barriers to LSSII	• The current reported low profit margins, low capital intensity and anticipated reduction in government spending in the future limits the opportunity to absorb LSSII and achieve social outcomes at scale.

90 Allday, A. (2019). Employment Placement and Recruitment Services in Australia. Available at https://www.ibisworld.com.au/industry-trends/market-research-reports/administrative-support-services/employment-placement-recruitment-services.html.
91 Commonwealth of Australia Department of Social Services. (2016). New Disability Employment Services from 2018. Available at https://engage.dss.gov.au/wp-content/uploads/2016/11/DES-Reform-Discussion-Paper-November-2016.pdf.
92 Allday, A. (2019) Employment Placement and Recruitment Services in Australia.
93 Ibid.
94 Ibid.
95 Ibid.
96 Ibid.
97 Inside Policy interview with Harriet Dwyer, February 2020.
98 Allday, A. (2019) Employment Placement and Recruitment Services in Australia.

Early childhood education

Table 5: Early childhood education gateway one analysis

Area of analysis	Summary results	Assessment (Yes/No/ Partially met)
Demand Supply	• Is driven by the workforce participation of parents, and a desire to support childhood early development. The ABS estimate for children aged 0-3, 43% usually attend formal care, 32% usually attended informal care, and 41% did not usually attend care[99]. • The Commonwealth introduced the Child Care Subsidy (CCS) in 2018 to reform the past payment process to better support low- and middle-income families. Early data indicates the CCS has increased the number of children and families accessing early childhood education.[100] • Market research indicates that the current demand for early childhood education is being met, or in some cases supply outnumbers demand[101].	No
Policy clarity Regulation	• The Commonwealth is responsible for facilitating workforce participation through subsidising childcare fees, and the state and territory governments are responsible for supporting early education through additional funding and regulation.[102] • The National Quality Framework NQF, introduced in 2012 provides a consistent approach to the regulation and quality assessment of education and childcare services. State and territory regulatory authorities administer the NQF.[103]	Yes

[99] Figures are for June 2017 and total number of children aged 0-3 is 1.248 million. See Australian Bureau of Statistics. (2018). 4402.0 – Childhood Education and Care, Australia, June 2017. Available at: https://www.abs.gov.au/ausstats/abs@.nsf/PrimaryMainFeatures/4402.0?OpenDocument.

[100] Klapdor, M. (2019). Impact of the new Child Care Subsidy. Parliament of Australia. Available at: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2019/April/New_Child_Care_Subsidy.

[101] Richardson, A. (2019). Child Care Services in Australia. Available at https://www.ibisworld.com.au/industry-trends/market-research-reports/health-care-social-assistance/child-care-services.html.

[102] Productivity Commission. Report on Government Services 2018. (2018). Available at https://www.pc.gov.au/research/ongoing/report-on-government-services/2018/child-care-education-and-training/early-childhood-education-and-care/rogs-2018-partb-chapter3.pdf.

[103] Richardson, A. (2019) Child Care Services in Australia.

SWOT	• Government subsidies has attracted a sufficient number of providers in the early childhood education sector.[104] • The sector experiences high labour costs driven by regulated high carer to child ratios • Low capital investment is required as most childcare centres are leased.[105]
Types of investment required	• Capability investments, like business, legal and accounting support to improve efficiencies, and seek out consolidation opportunities. • Small scale grants and/or concessional finance to achieve enhanced operations, or acquisitions, delivered potentially through an intermediary.
Maturity of deliverers	• Small scale, mature operators dominate the market which places limits on profitability and scalability
Barriers to LSSII	• Low profit margins, low capital requirements and increasing competition as demand is met limits the opportunity to utilise LSSII to achieve social impact outcomes at scale.

Notes:

In terms of overall demand, the ABS estimate at June 2017, of the 1.248 million children aged between 0-3 years, 43% usually attended formal care.

The industry usually features high profits but is constrained by wages growth. Industry revenue is estimated at $14.5 bn for 2020. 26% goes to children aged 0-2 ($3.77bn).

The market enjoys a broad customer base, however it has low capital intensity (depends on carer to child ratios rather than capital) and high labour to capital ratios (30:1) which may not lend itself to large scale social impact investing.[106] Stockholders of centres are private commercial owners and trusts as most properties are leased.

NDIS support services

Table 6: NDIS support services gateway one analysis

Area of analysis	Summary results	Assessment (Yes/No/ Partially met)
Demand	• There is an under-utilisation of NDIS support services. A 2018 ABS estimate there were around 714,400 persons with 'profound' or 'core' activity	Yes

[104] Richardson, A., (2019). Child Care Services in Australia.
[105] Ibid.
[106] Ibid.

Supply	limitations.[107] September 2019 NDIS reports there were 311,754 participants in the NDIS.[108] • The NDIS anticipates it will increase its number of funded plans, estimating it will provide around $22 billion in funding over the next five years to around 500,000 Australians aged under 65 who have a permanent and significant disability.	
Policy Regulation	• The NDIS is administered by the Commonwealth, jointly governed and funded by the Commonwealth Government and all state and territory governments except WA. • A demand-driven scheme that provides support to people with disability, their families and carers,[109] it has been rolled out progressively since 2013. • The NDIS is heavily regulated. The *NDIS Act 2013* (Clth) and rules set out how people access services, and how operators register as providers.[110]	Yes
SWOT	• Revenue opportunities forecasted at $17.4 billion in 2020[111] • Some favourable market conditions, including moderate market competition, and low entry barriers for new providers depending on the type of services delivered.[112] • Revenue volatility is high and once the scheme is fully utilised, profitability is forecast to decline with low long-term market growth.[113] • Labour shortages are also likely to emerge and have the potential to hinder growth, particularly for qualified and regional staff.[114] • Opportunities include growth in assistive technology and capital services (such as home modification) may also provide small scale opportunities.[115]	
Types of investment required	• Capability investments, like business, legal and accounting support to improve efficiencies, and seek out consolidation opportunities. • Small scale grants and/or concessional finance to achieve enhanced operations, or acquisitions, delivered potentially through an intermediary. There is an alliance of the top 20 providers that may provide some basis to engage in consolidation talks.	

[107] The following definitions apply - 'Core activities' means communication, mobility and self-care. A 'profound' limitation means the person is unable to do, or always needs help with, a core activity task. A 'severe' limitation means the person sometimes needs help with a core activity tasks, and/or has difficulty understanding or being understood by family or friends or can communicate more easily using sign language or other non-spoken forms of communication.
Australian Bureau of Statistics. (2016). 4430.0 - Disability, Ageing and Carers, Australia: Summary of Findings, 2015. Available at: https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4430.0Glossary12015.
[108] COAG Disability Report Council. (2019). COAG Disability Reform Council Quarterly Report. Appendices E to M. Available at: https://www.ndis.gov.au/about-us/publications/quarterly-reports.
[109] Buckmaster. L. (2017). The National Disability Insurance: A Quick Guide. Parliament of Australia. Available at: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1617/Quick_Guides/NDIS.
[110] NDIS Quality and Safeguards Commission. Legislation, Rules and Policies. Available at: https://www.ndiscommission.gov.au/about/legislation-rules-policies.
[111] While revenue is significant, profitability is likely to be low in the future. This is discussed in weaknesses and threats.
[112] Munro-Smith, H., (2019). *Personal Welfare Services in Australia*. IBISWorld.
[113] Ibid.
[114] Ibid.
[115] Ibid.

	• Small scale R&D funds to promote innovation like assistive technologies to support better service delivery
Maturity of deliverers	• Deliverers are small in scale and dispersed, although operating predominantly in NSW, QLD and Vic.[116]
Barriers to LSSII	• It may be difficult to engage investors in LSSII as disability services typically have low capital intensity, high labour needs[117] and heavy regulation.

Notes:
This data suggests only around 40% of total potential demand for NDIS services is being met, and points to a large imbalance between demand and supply. This under-utilisation is more profound for some cohorts. For example, females are more under-represented as a cohort of participants then males, with the NDIS only meeting 35% of potential demand for females compared to 48% of potential demand for males.[118] Older persons who are also likely to be eligible for NDIS services but are less likely to be participants than younger persons.[119]

The NDIS is only available to people with a profound disability, which is estimated to be about 10% of the total population of people with disability. As a result, there is likely demand for disability support services outside of NDIS support services. Opportunities for Outcomes Measurement: The NDIS has increased interest and needs for outcomes measurement in disability services that demonstrate social impacts. In NSW, the NSW Ageing, Disability and Home Care and National Disability Service partnered to commission Net Balance to deliver the Social Impact Measurement (SIM) Toolkit. The SIM Toolkit consisted of an Outcomes Framework and tools to help NGOs develop 'a deep and consistent understanding of client outcomes they achieve and how these outcomes generate social impact.

Residential aged care

Table 7: Residential aged care gateway one analysis

Area of analysis	Summary results	Assessment (Yes/No/ Partially met)
Demand Supply	• Demand for RAC services is forecast to increase as the Australian population ages[120]. • The Aged Care Financing Authority estimates over the next decade around $55bn will be	Yes

[116] Harrison, L. (2019). National Disability Insurance Scheme Providers in Australia. Available at https://www.ibisworld.com.au/industry-trends/market-research-reports/thematic-reports/national-disability-insurance-scheme-providers.html.
[117] Currently 74.3% of services provided in the industry are labour based, like personal care, cleaning, professional health services, transportation and social activities. The industry also experiences labour shortages.
[118] Note that this excludes around 3,511 participants whose gender is recorded as 'indeterminate'.
[119] See Australian Bureau of Statistics. (2019). 4430.0 – Disability, Ageing and Carers, Australia: Summary of Findings, 2018. Available at: https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4430.0Main+Features152018?OpenDocument.
[120] See Australian Government Department of Health. (2019). Seventh Report on the Funding and Financing of the Aged Care Industry. Available at https://www.health.gov.au/resources/publications/seventh-report-on-the-funding-and-financing-of-the-aged-care-industry-july-2019.

	required to rebuild or repurpose existing facilities, and as 2018 there was a wait list for home care packages.[121]	
Policy clarity Regulation	• The Royal Commission[122] and the gravity of potential changes impacts policy clarity. • The sector is governed by the *Aged Care Act 1997* (Clth) and the Commonwealth provides funding. • RAC is heavily regulated by the Commonwealth Government, who is responsible for regulation and funding.[123] • The Aged Care Quality and Safety Commission is the end to end regulator of aged care services.	Partially
SWOT	• The RAC sector is mature, with strong forecast revenues of $22.9 bn for 2020; but providers are small, dispersed in nature and are experiencing low profit margins.[124] • The current institutional service provision model requires low capital intensity, high product concentration, low profit margins, and high labour costs and with limited opportunities to deliver labour efficiencies.[125] • Ageing in place with home-based support is a growing area of demand and supply which may open up new market and capital investment opportunities. This requires an investment in SAH for elderly Australians.	
Types of investment required	• The Royal Commission is flagging a move away from institutional care and move towards ageing in place with home-based support services. • Industry experts report older Australians are currently in residential facilities because they cannot afford to age in place. • Subject the final recommendations of the report, we recommend a focused LSSII in SAH for elderly Australians, with an increase in homebased support.	
Maturity of deliverers	• Deliverers of RAC are small, dispersed but mature[126]. • If focus shifted to community housing providers, they are also small but mature.[127]	
Barriers to LSSII	• The main barrier to LSSII is policy and funding uncertainty emanating from the Royal Commission. Early findings indicate a move towards home based care which provides opportunities for SAH for older Australians.	

Notes:

[121] Ibid.
[122] Commonwealth of Australia. 2018. Royal Commission into Aged Care Quality and Safety. Available at https://agedcare.royalcommission.gov.au/Pages/default.aspx, due to report in November 2020.
[123] Richardson, A., (2019). Aged Care Residential Services in Australia Industry Report. IBISWorld.
[124] Ibid.
[125] Ibid.
[126] Ibid.
[127] Munro-Smith, H. (2019). Crisis and Care Accommodation in Australia. Available at https://www.ibisworld.com.au/industry-trends/market-research-reports/health-care-social-assistance/crisis-care-accommodation.html.

The demand for RAC services is high and anticipated to continue to grow as the Australian population ages.[128] The number of people receiving RAC services in 2017-2018 is shown in the table below.[129]

Table 8: Number of people receiving residential aged care services 2017-2018

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Permanent	81,625	63,987	44,892	20,045	21,600	6,216	3,176	605	241,723
Respite	25,169	15,329	8,892	3,083	7,290	1,527	637	274	61,993

The sector is also growing, and between 2009 and 2018 there was an 18% increase in the number of operational places of RAC services, suggesting operators are responding to Australia's ageing population.

Outcomes measurement: RAC is already moving towards measuring client outcomes, and its likely findings from the Royal Commission will strengthen the requirement for outcomes measurement. Since 1 July 2019, government subsidised RAC services are required to report on three quality indicators – pressure injuries, use of physical restraint and unplanned weight loss. The indicators aim to support service delivers to improve the quality of their care, and help older people make more informed choices about their care.[130]

Outcome measurement have also been used in age care services more broadly and may provide base tools to develop outcomes measurement for RAC. The National Aged Care Quality Indicator Program – Home Care Pilot tested four outcome measurement tools.[131] KPMG assessed the Adult Social Care Outcomes Tool SCT4 (ASCOT SCT4) as the most suitable outcomes tools. It incorporated measurement on quality of life; functional measures on capability and care needs; and data on basic demographics and living conditions.[132]

Social and affordable housing

Table 9: Social and affordable housing gateway one analysis

Area of analysis	Summary results	Assessment (Yes/No/ Partially met)
Demand	• SAH covers both social housing and affordable rental housing. • While wait list data can be difficult to reconcile, in 2017-18 the ABS estimate approximately 2.5 million people in approximately 1 million	Yes

[128] See Australian Government Department of Health. (2019). Seventh Report on the Funding and Financing of the Aged Care Industry. Available at https://www.health.gov.au/resources/publications/seventh-report-on-the-funding-and-financing-of-the-aged-care-industry-july-2019.
[129]. Australian Government Productivity Commission. (2019). Report on Government Services 2019.
[130] Department of Health. (2020). National Aged Care Mandatory Quality Indicator Program. Available at: https://www.health.gov.au/initiatives-and-programs/national-aged-care-mandatory-quality-indicator-program.
[131] The tools were Goal Attainment Scaling (GAS) tool, the Adult Social Care Outcomes Tool SCT4 (ASCOT SCT4) which measures consumer experience and quality of life, Your Experience of Service (YES) Survey, which measures consumer experience, and a combined tool based on two World Health Organisation Quality of Life questionnaires (WHOQOL-BREF (OLD)) which measures quality of life.
[132]Cardona. B. (2018). Measuring Outcomes of Community Aged Care Programs: Challenges, Opportunities and the Australian Community Outcomes Measurement ACCOM tool. *Health and Quality Life Outcomes*, 16:104. Available at: https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5975537/.

Supply	households are in some form of housing stress.[133] • AHURI estimates Australia requires an additional 727,300 new social dwellings over the period 2016 to 2036 to cover the shortfall in difference between demand and supply; as well as the growing population and the number of houses predicted to fall into housing stress over that period of time.[134]	
Policy clarity Regulation	• SAH operates within Commonwealth-State Housing agreements, like the National Housing and Homelessness agreement[135] which directs funding to state and territory housing providers. • The Commonwealth established the National Housing Finance and Investment Corporation (NHFIC) in 2018 to improve housing outcomes in Australia by providing finance, grants or investments to boost Commonwealth or state/territory activities for social housing. • The Commonwealth also provides Commonwealth Rent Assistance (CRA) to households receiving welfare benefits. • The Commonwealth Government has responsibility for the policy levers impacting on housing demand, such as welfare payments, income taxation, negative gearing and capital gains tax. • Housing is primarily delivered by community housing providers (CHPs) who are regulated by the National Regulatory System for Community Housing (NRSCH).[136]	Yes

[133] Rowley, S., Leishman, C., Baker, E., Bentley, R. and Lester, L. (2017). Australian Housing and Urban Research Institute: Modelling housing need in Australia to 2025. Available at https://www.ahuri.edu.au/__data/assets/pdf_file/0023/14297/AHURI_Final_Report_287-Modelling-housing-need-in-Australia-to-2025v2.pdf.

[134] Lawson, J., Pawson,H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Social housing as infrastructure - an investment pathway. AHURI. Available at https://www.ahuri.edu.au/research/final-reports/306,

[135] Australian Government Department of Social Services. National Housing and Homelessness Agreement. Available at https://www.dss.gov.au/housing-support-programs-services-homelessness/national-housing-and-homelessness-agreement.

[136] National Regulatory System. (2014). National Regulatory Code. Available at: https://www.nrsch.gov.au/__data/assets/file/0007/284650/National_Regulatory_Code.pdf.

SWOT	• The sector is generally considered mature[137] and the Commonwealth invested $6 billion alone in 2019. • Assets are generally considered to have a long asset life (housing) although the asset based is dispersed throughout Australia and can lead to higher administration and maintenance costs and a lack of economies of scale. • Rental returns are capped because of housing affordability issues, therefore can limit investor returns. • High up-front costs to enter the market and high risks in the development phase for new stock. Rising house prices across Australia mean more individuals are experiencing housing stress and cannot afford private rental or purchase, leaving the continued shortfall between available SAH and demand.
Types of investment required	• Equity like capital to support CHPs to leverage more debt finance for new development and construction • Higher leverage ratios via NHFIC to leverage existing assets and equity • Grants to overcome the financing gap between expected investors returns and profitability achievable in a social housing context[138]
Maturity of deliverers	• CHPs are dispersed and small but mature. • Efficiencies can be achieved by aggregating development and finance needs for new developments. NHFIC is providing opportunities for new financing models between government and investors to create more affordable housing stock, or social housing.[139]
Barriers to LSSII	• Low levels of equity to leverage for debt finance • A lack of scale to attract larger construction counterparties to developments, increasing risk during the design and construction phase, as well as reduce opportunities for economics of scale • Low revenue streams during operating phases given low incomes of tenants.

Notes:

The demand for SAH is dependent on government policy settings that define eligibility requirements. Social housing is rental housing that government or non-government organisations provide to people on low incomes who need housing, particularly if they have experienced homelessness, domestic violence or have other

[137] Munro-Smith, H. (2019). Crisis and Care Accommodation in Australia. Available at https://www.ibisworld.com.au/industry-trends/market-research-reports/health-care-social-assistance/crisis-care-accommodation.html.
[138] The Treasury. (2016). Council on Federal Financial Relations Affordable Housing Working Group. Available at https://treasury.gov.au/sites/default/files/2019-03/C2016-050_Issues_Paper.pdf.
[139] Ibid.

needs.[140] Social housing includes public rental housing, mainstream community housing, state owned and management Indigenous housing (SOMIH) and Indigenous community housing.[141] Rental settings vary across states and income levels, but are typically 25% of income.[142]

Affordable housing is typically rental housing that is appropriately priced so low to moderate income earners can afford rent and meet other basic living costs. Affordable housing typically costs 30% of gross household income.[143] As affordable housing is not centrally managed, there is not a clear figure to assess demand. However, data on housing affordability stress may indicate demand for affordable housing, and housing more broadly.

Australian Housing and Urban Research Institute (AHURI) define housing affordability stress as the bottom 40% of Australia's income distribution paying more than 30 per cent of their income in rent.[144] ABS estimate there are 2.5 million people in approximately 1.0 million households experiencing housing stress.

Modelling completed by AHURI[145] in 2017 on the housing need in Australia to 2025 estimates the number of households predicted to form, but unable to access market housing or experience housing stress, is increasing significantly. This cohort may require some form of housing assistance to avoid housing stress.

Table 10: Housing need 2017 and projected for 2026

Housing need	2017	2026
Households unable to enter market housing	527,400	678,300
Households requiring rent assistance to avoid rental stress	806,100	1,070,100
Total housing need estimates	**1,333,500**	**1,748,400**

Further demand is building within the older Australian cohort. Around a quarter of households where the ABS Census reference person is 65 years and over are in housing stress, including

- around 18% in moderate housing stress (spending >30% to 50% of household income on housing)
- around 9% in sever housing stress (spending >50% of household income on housing) (Table 1).

[140] Housing Victoria. (2019). Social Housing. Available at: https://www.housing.vic.gov.au/social-housing.
[141] Australian Institute of Health and Welfare. (2016). Housing assistance in Australia 2016. Available at: https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia-2016/contents/social-housing-dwellings.
[142] Government of Western Australia Department of Communities. (2017). Public Housing. Available at: http://www.housing.wa.gov.au/housingoptions/rentaloptions/publichousing/Pages/default.aspx.
[143] Communities and Justice. (2019). About Affordable Rental Housing. Available at: https://www.facs.nsw.gov.au/providers/housing/affordable/about/chapters/what-is-affordable-housing.
[144] AHURI. (2019). Understanding the 30:40 Indicator of Housing Affordability Stress. Available at: https://www.facs.nsw.gov.au/providers/housing/affordable/about/chapters/what-is-affordable-housing.
[145] Rowley, S., Leishman, C., Baker, E., Bentley, R. and Lester, L. (2017). Australian Housing and Urban Research Institute: Modelling housing need in Australia to 2025. Available at https://www.ahuri.edu.au/__data/assets/pdf_file/0023/14297/AHURI_Final_Report_287-Modelling-housing-need-in-Australia-to-2025v2.pdf.

The proportion of Australians aged 75 years and over who are receiving Commonwealth Rental Assistance and are also in rental stress in 2018 was 27.4% (Table 2).

In June 2018 there were around 89,000 people receiving the aged pension who were paying over 30% of their income on rent, including around 22,500 people who were paying more than 50% of their income on

Outcomes measurement: There is potential for outcomes measurement to occur, based on a solid reporting framework already in place. Community Housing providers report outcomes to both the Register of Community Housing as part of the registration process, and the state housing agencies or departments as part of contract management.

To achieve consistency nationally, registration is aligned to the National Regulatory System for Community Housing but operates in each state and territory. The registration process is risk based and focuses on achievement of outcomes in tenant and housing services, housing assets, community engagement, governance, probity, management and financial viability.[146]

Specialist disability accommodation

Table 11: Social and affordable housing gateway one analysis

Area of analysis	Summary results	Assessment (Yes/No/Partially met)
Demand Supply	• The broader housing category, disability housing includes those Australians living with a disability. The ABS estimate in 2018 there were around 4.4 million Australians living with a disability, or approximately 18% of the population. • AIHW estimated that 151,509 "ongoing[147]" households in public, state owned and managed Indigenous housing and community housing in 2018 were occupied by a person with a disability, which represents 38% of those dwelling types[148]. • Data is not freely available to draw strong inferences about unmet demand for SAH for people with a disability. A 2019 report[149] estimated there are approximately 50,700 people likely to be found eligible for SDA, suggesting a significant shortfall in SDA	Yes

[146] National Regulatory System Community Housing. (2014). National Regulatory Code. Available at https://www.nrsch.gov.au/__data/assets/file/0007/284650/National_Regulatory_Code.pdf.
[147] "Ongoing" is defined by the AIHW as households where the "tenancy has not concluded". Source: https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/summary.
[148] Ibid.
[149] Australian Institute of Health and Welfare. (2019). People with disability in Australia. Available at https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/summary.

	allocation of 22,700 places. Further they estimated there were 6000 Australians with disability housing needs living in RAC under the age of 64[150]. • Australians living with a disability who do not qualify for SDA or are not in a RAC facility are captured within the shortfall of SAH. Over 2 in 5 (42% or about 152,000) social housing households include a person with disability (at June 2018)[151].	
Policy Regulation	• The introduction of the NDIS transferred responsibility for people with a disability from state and territory to the Commonwealth. • The NDIS provides SDA payments for 28,000 participants with the most significant functional impairments. • Providers must register with the NDIS Quality and Safeguards Commission. SDA dwellings must also be registered, and meet design requirements.[152]	Yes
SWOT	• The principal market segment in crises and care accommodation in Australia receives strong ongoing government funding for accommodation and is mature. • SDA holds a 38% share of the $2.6 billion revenue dedicated to crisis and care accommodation, and changes to the NDIS are expected to increase that share over time[153]. • SDA payments available to participants are providing more market choice for participants who previously were required to accept housing stock from SAH providers. • The outlook for long term growth is low, which may deter investors.	
Types of investment required	• The current levels of SDA payments are adequate to attract private sector investment.[154] • For those Australians living with a disability who cannot access SDA, the investment needs are the same as SAH.	

[150] Australian Institute of Health and Welfare. (2019). People with disability in Australia. Available at https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/summary.
[151] Ibid.
[152] NDIS. (2020). SDA Registration and Dwelling Enrolment. Available at: https://www.ndis.gov.au/providers/housing-and-living-supports-and-services/housing/specialist-disability-accommodation/sda-registration-and-dwelling-enrolment.
[153] Munro-Smith, H. (2019). Crisis and Care Accommodation in Australia. Available at https://www.ibisworld.com.au/industry-trends/market-research-reports/health-care-social-assistance/crisis-care-accommodation.html.
[154] Social Ventures Australia. (2019). SVA Invests in a Unique Shared Equity Housing Model for People with Disability. Available at: https://www.socialventures.com.au/news/sva-invests-in-a-unique-shared-equity-housing-model-for-people-with-disability/.

Maturity of deliverers	• Deliverers of traditional disability housing, along with CHPs who deliver social housing are small in nature, dispersed and mature[155]
Barriers to LSSII	• There are no major barriers to LSSII in SDA-type developments. The use of intermediaries like Social Ventures Australia (SVA) helps pool demand and crowd in investors. There are limited numbers of intermediaries in Australia that can do this, so insufficient numbers and capacity of intermediaries may become an issue at scale. • For SAH for Australians with a disability, the barriers to LSSII are the as above.

Notes:

Outcomes measurement: The NDIS has increased interest and needs for outcomes measurement in disability services that demonstrate social impacts. In NSW, the NSW Ageing, Disability and Home Care and National Disability Service partnered to commission Net Balance to deliver the Social Impact Measurement (SIM) Toolkit. The SIM Toolkit consisted of an Outcomes Framework and tools to help NGOs develop 'a deep and consistent understanding of client outcomes they achieve and how these outcomes generate social impact.[156]

[155] Munro-Smith, H. (2019). Crisis and Care Accommodation in Australia. Available at https://www.ibisworld.com.au/industry-trends/market-research-reports/health-care-social-assistance/crisis-care-accommodation.html.

[156] NSW Industry Development Fund, NSW Ageing Disability and Home Care and National Disability Services NSW. (2014). Measuring, Demonstrating and Communicating Social Impact in the Disability Services Market. Available at: https://www.nds.org.au/images/resources/resource-files/NDS_SIM_PROJECT_Final_Report_v20.pdf.

Appendix D: Framework for assessing LSSII opportunities

Framework for Assessing Sectors and Opportunities for Large Scale Social Impact Investment

The purpose of this framework is to provide a set of guiding principles for Government to use when considering opportunities for large scale social impact investing (LSSII) opportunities.

Government can use these principles to balance social need and alternative models for delivering large social outcomes with their legislative, financial and performance obligations under the Australian Constitution, the *Public Governance, Performance and Accountability Act 2013* (Clth), procurement and grant rules, and budgetary processes.

This framework will inform recommendations provided to Government by the Social Impact Investing Taskforce and Expert Panel and will send a strong signal to the market of the types of social outcomes and investment opportunities the Government will consider supporting into the future.

The framework comprises three gateways to determine the opportunity for LSSII in each sector. We have modified the framework as we've applied it to the three industry sectors to improve the flow of logic to recognise the appropriate order in which to consider Commonwealth-supported LSSII. The framework leads with the policy and social outcome as the main priorities, and secondly whether investment can be structured in a way to improve the desired social outcome before finally considering the investor perspective.

Gateway 1: Does the social outcome opportunity exist?

The objective of this gateway focuses on the Commonwealth's policy responsibilities and priorities, whether an area of social outcome aligns with these and whether there is an unmet need for further intervention at scale to improve this area of social outcome. This gateway requires an analysis of a set of conditions that address sufficient policy clarity, clear need, whether outcomes can be tracked and measured, whether regulatory arrangements can support further Commonwealth intervention at scale, the current functioning of service delivery, particularly whether service delivery arrangements are clear and there is the capability and capacity to respond to further intervention at scale.

Each condition in this gateway is assessed according to the degree to whether it is broadly met (yes), is partly met (partially), or broadly unmet (no). The output of the above assessment is to favour further LSSII investigation for those social outcome opportunities that broadly or mostly meet gateway 1 conditions.

Gateway 2: What are the potential characteristics of a LSSII in this sector for this outcome?

If gateway 1 is clear, gateway 2 explores the potential characteristics of LSSII in this sector for the desired social outcome. The gateway begins by confirming the likelihood (high, medium, low) that there is a clear *prima facie* opportunity for LSSII. If this can't be confirmed, the opportunity does not progress any further. If this can be confirmed, a range of potential investment vehicles and supports are explored at a high level. This includes defining the general nature of the investment, the outcomes the investment aims to achieve, the potential requirements of investors and deliverers, the possible roles for different levels of government in supporting the LSSII, and the possible roles for others in supporting the LSSII.

Potential capital models that could be deployed to deliver the LSSII can be explored during this gateway assessment. Potential capital options could be:

- Retail or commercial debt finance
- Equity, including passive or venture capital, and other equity-like options
- Government direct funding models such as grants and subsidies
- Other government indirect financing models such as guarantees or first loss capital, bonds, convertible notes or equity aggregators
- Public private partnerships
- Philanthropic investments
- Blended finance or convergence capital

Ideally, the considerations for this gateway are explored in concert with industry sector leaders, deliverers and investors, who are able to identify the most up to date analysis of the sector and market conditions, the kinds of large scale investment needed, innovative models for the delivery of investment and general market conditions regarding risk and yield. Government commissioners have used market soundings[157] during this period to help evolve the design of any potential social impact bonds and this would be an appropriate course of action at Gateway 2 to determine if an LSSII should proceed. Market soundings can include an approach to deliverers, investors and intermediaries, and can provide a medium through which innovation can be encouraged.

The output of this gateway is confirmation there is a clear prima facie opportunity for LSSII, and a setting out of the potential characteristics of an LSSII, which helps to determine whether on the whole, the LSSII warrants further exploration/due diligence.

Gateway 3: Can large scale social impact investment be achieved?

The objective of gateway 3 is to give consideration to whether LSSII can actually be achieved. The considerations taken here are from the investor perspective and address three high level factors that are consistently raised by large scale social impact investors and those who engage with them as being pivotal to investment decisions. These factors are:

1. Is there a clear opportunity for LSSII?
2. Can the investment be structured or designed in a way that minimises or reduces complexity for investors?
3. Is there likely to be an acceptable rate of return on investment for investors?
4. Is there likely to be an acceptable level of risk for investor

[157] Inside Policy (2019). Social Impact Investment Taskforce: User Experience Report. Sydney: Inside Policy.

Gateway 1: Does the opportunity exist?

Gateway objective: to determine which sectors provide an opportunity for large scale social impact investment. All the factors to be considered:

Table 12: Gateway one analysis

Principle	What is it	Who assess/measures	How will it be measured/assessed	Met? Yes/No/Partially
Policy clarity	This includes determining the federal government's legislative and constitutional remit, and the Government's policy position on the issue as well as the role of state/territory and local governments. If there is a clear, constitutional responsibility, and a stable policy in place with clarity over responsibilities of different levels of government, together with a clear public interest and an appropriate level of fiscal discipline, the evidence of policy clarity is met.	Government	• Constitutional assessment • Central agencies • Delivering agency • Government of the day	
Need exists	This includes unmet demand i.e. the market failure, current outcomes and performance of the sector, other non-outcome related challenges facing the sector. If the delta between current capacity and current and future demand is materially significant, the evidence of need is met.	Government	Demographic/need analysis Any policy/performance reviews (Royal commissions, ANAO, Productivity Commission, independent evaluations)	Yes/No

How the market (within the sector) operates	This includes: 1. The industry regulatory regime that governs the sector. If the sector regulatory arrangements can enable and support growth, this requirement is met. If the regulatory regime requires Cth amendments, this requirement is partially met. 2. Service delivery arrangements - the role of different levels of government, are clear and working well, and if significant funding exists outside of a direct grant arrangement i.e. uncapped subsidy or outcomes payments, the evidence of market readiness is met. 3. Service delivery capacity, including vital market statistics (i.e. number of deliverers, market share of the deliverers including their size, total funding, total number of clients served, workforce expansion capacity etc). If performance indicators of service deliverers are strong and shows aptitude for growth, then this requirement is met.	Government	Industry reports Performance reports from delivery agencies	
Outcomes	This includes understanding what evidence and data exists for measuring performance in this sector within Australia and internationally. If robust data and measurement approaches exist, the evidence of outcomes is met.	Government	Funding agreements Performance frameworks ABS data sources	

Scale	Is the opportunity for LSSII above the market investment threshold of $100m?	Government (Treasury?)	Market performance and forecasts High level assessment of infrastructure/assets required for expansion	

Output of considering the above is binary i.e. either "yes, an opportunity does exist" or "no, an opportunity does not exist". If the answer is "yes", proceed to Gateway 2. If the answer is "no", do not proceed to Gateway 2. If answer is "unknown" gather and assess more information in order to make a binary decision.

Gateway 2: Can large scale investment be achieved?

Gateway objective: to determine which LSSII models if any could be applied to the sectors which have passed Gateway 2.

Considerations for each large-scale investment type:

Table 13: Gateway 2

	Type 1: EG Public-Private Partnership	Type 2: EG blended finance models	Type 3: EG Social purpose deliverer
Characteristics:	PPP to build and deliver hard and soft assets. KPIs related to the project as well as the outcome to be achieved.	Catalytic capital is required to crowd in private sector investment. Can be grants, concessional debt, or equity models.	For example, Goodstart, a mix of debt and equity investment underwritten by govt to establish a large scale for-purpose organisation to achieve outcomes in a particular sector.

Considerations for applicability to sector:	• Hard and soft assets to be developed and managed • Can be delivered through a PPP framework • Reasonable KPIs for the hard and soft assets can be developed • Soft assets can be appropriately priced	• What is the risk profile of the deal? • Can deliverers manage risk? • What is government's appetite for risk and loss? • How does this sit alongside the SII principles developed for government by Treasury?	• Market consolidation required • Distressed assets in the market • Infrastructure and services already exist (i.e. not building from scratch) • High level of public interest or dependency (i.e. if the LSSII fails and services cannot be delivered there is a significant cost to the community • Management capability • Organisation's ability to manage investment

Output of considering the above is to determine which models of LSSII best apply to a particular sector if any.

Gateway 3: What are the potential deal characteristics?

Gateway objective: based on the eligible sectors and the most relevant LSSII models, identify the potential "hero deals" and their characteristics for further design. The below considerations will assist in assessing the viability of a specific transaction / deal.

Considerations for each hero deal - what is the business case for each deal, including:

- What is the nature of the deal?
- What does the deal aim to achieve re government policy? And community benefit?
- How will the elements of the deal be structured with the users the service? Will there be a co-design process.?
- What is the role of government(s) as a market enabler/developer?
- What are the requirements of investors?

- What are the requirements of deliverers?
- What will be the measurement/evaluation framework?
- Is there a high level of capital intensity or obvious capital investment opportunities
- Is it and industry or market segment poised or going through significant transformation and or transition.

In designing the “hero deal”, what are the particular considerations that need to be taken into account?

For Inside Policy to assess:

- Regulatory?
- Benefit to government?
- Risk to government and deliverers?
- Source of capital?
- Different levels of government?
- Capacity and capability of deliverers?
- Role of Government especially re workforce issues

Appendix E: Summary interviews with industry experts

Scott Langford, St George Community Housing

Scott Langford documented Large-Scale Social Impact Investing (LSSII) initiatives St George is already conducting:

- A two phase SAH fund in NSW, with $150 million in capital expenditure in phase 1 and again in phase 2. Across the portfolio, St George has attracted $400 million of senior debt into the business.
- Supporting SVA's $10 million SIB with Uniting Care. St George has contributed through enhancing the real estate proposition worth $40 million.
- Supplying senior debt and equity with concessional equity from Government. From this the balance sheet was $800 million, "but once the full $400 million is drawn down – they gear out".

Scott saw there were opportunities to take a mixed cohort approach to housing provision, suggesting in social housing you can have a range of ages being cared for with a hierarchy of care options available. Scott noted that when creating housing social impact investments, the biggest efficiency is on the service delivery side, not the construction side.

Scott also saw there was 'enormous' opportunity available in SAH due to its capital intensive nature. Scott saw the opportunity was to consider how the services can be provided to occupants as a cost-saving to Government. Scott advocated for wrap-around supports to engage vulnerable people. Scott warned without a wrap-around support, vulnerable people are grouped together and can fall through the cracks.

Scott suggested there were a couple of catalytic roles that Government could play to support the sector and the work being undertaken by St George. Firstly, provision of seed funding through an infrastructure fund, similar to NHFIC. He suggested seed funding into equity investments would start to build the pipeline. Secondly, it was perceived the appetite from institutional investor was stronger in the operational phase of investments than in the D&C phase. It was proposed the Government's role could be to help with the D&C phase, thereby supporting institutional investors into the operational phase.

Finally, Scott provided information on a group he chaired on classifying SAH as infrastructure, to show it is reduced risk, and therefore should command a lower yield.

Claerwyn Little, Uniting Care

Claerwyn Little from Uniting Care suggested RAC would be an opportunity for LSSII. In the context of the royal commission, Claerwyn saw LSSII as a way to innovate and test different models of aged care, such as learning from SDA, and allied health or community integration models. She noted fixed funding models would be helpful in allowing different service delivery models.

Another opportunity Claerwyn identified was there is a need and great demand for SAH that is 'light touch' for older women and other older people struggling to find accommodation. Claerwyn also felt greater consideration could be given to aged care in remote Australia. She saw remote Australia has to be treated differently with alternate funding arrangements and facilities.

Claerwyn identified a number of barriers to LSSII. Firstly, the high cost of capital is stopping opportunities from scaling. Claerwyn noted this is further undermined by uncertainty in the system. Secondly, the time it takes to build RAC is very slow and does not keep up with need as when it opens "it's already out of date". Thirdly, she identified many of the existing aged care providers have low profitability.

Trevor Danos, NSW SII Expert Advisory Group

Trevor Danos from the NSW SII Expert Advisory Group identified a number of barriers to social impact bonds (SIBs) as LSSII in Australia. Firstly, Trevor saw the current terms that SIBs are described in, namely of the amount raise such as being in the $5-10 million ballpark, do not reflect the significant underlying cash flows that are needed to establish these deals. Trevor noted the cash flows can be about $50 million in order to raise $5-10 million. Secondly, SIBs to date have been pilots without the potential to scale nationally. Thirdly, size has also been constrained by the intensive nature of the interventions, the geographic limitations, and the number of people referred into the program.

Trevor saw a couple of areas for LSSII. Firstly, the health sector would be one opportunity area for LSSII, as investments can be scaled up and interventions 'cookie-cut' to fit other locations. Secondly, there is potential in SAH, compared to disability housing, as there is greater need. Trevor saw NSW has demonstrated SAH deals are bankable and the finance community has shown its willingness to take risks on CHPs.

In order to support opportunities, Trevor saw that having established service providers is important to secure funding and the ability to put forward a viable model for investors. It was perceived that investors appreciated the opportunity to invest in social impact as it diversified their portfolio into an emerging asset class.

John Nicolades, Bridge Housing

John Nicolades advocated for the role of NHFIC to be extended, rather than a new bond aggregator be introduced. John saw that NHFIC played an important role in the market as it provided community housing providers (CHPs) better rates than banks could provide and on longer terms. NHFIC was seen as more flexible, open, and easier to work with than banks. John suggested the NHFIC model be extended to finance infrastructure more broadly to facilitate LSSII. John noted a big advantage of the NHFIC model is it can provide big investors like super funds the ability to invest through bonds which is much easier than direct investment in affordable housing.

John remarked the SAH sector has grown dramatically over the last 10 years. Anecdotally, John stated Bridge Housing has grown from 650 properties and 8 staff to 3500 properties and 88 staff over the period. To support this growth and to ensure its sustainability, John identified the key ingredients as company structure, ability to manage financial risk, appropriate governance structures, skills-based boards, good management teams that can manage risk and the ability to undertake appropriate processes eg feasibility studies.

However, John noted that in social housing a barrier can be the 'subsidy gap'. The 'subsidy gap' was identified as the gap between financing housing for people on very low incomes (who are paying below-market rent) and needing to deliver market return to bond buyers.

Chris Chippendale, Life Without Barriers

Chris Chippendale from Life Without Barriers saw the social and disability housing model in Australia as a positive example of LSSII in Australia. Chris gave the following example:

> If 100 properties need to be replaced, then $700 million available through the NDIS, Life Without Barriers (or another investor) could be borrowed. Once built, there is a guaranteed rental income and an SDA payment anywhere between $50,000 – $80, 000 per year for a three person accommodation service. The provider is paid a premium to establish and maintain services for at least 20 years.

One opportunity Chris identified for the sector was better measurement models and methods for the quality of life improvement. While there are quality of life measures for people with disability, measures should extend to their families and indirect benefits that flow to society from improved wellbeing.

Chris saw the role of Government as continuing to support the sector to adjust to the new NDIS marketplace by providing supports around capacity, delivery, standards, and, to a smaller extent, infrastructure. Chris saw one of the biggest issues for the social and disability housing sector was the workforce development and support around service delivery. Chris suggested there was a potential role for the Government to support or subsidise workforce development.

Michael Fotheringham, AHURI

Michael Fotheringham from AHURI identified that provision of specialist disability housing to NDIS recipients is an issue as there is an inability to meet the need. To support the sector, Michael advocated for an equity / bond aggregator for NHFIC, and to use social impact investment to draw equity into the sector.

Michael referred us to AHURI's established work in social housing as infrastructure and other AHURI papers on financing models, including guarantees. AHURI's research strongly advocates for appropriate upfront grants for funding SAH, followed by private sector investment; or the use of appropriate subsidies that reflect the actual cost of the provision of SAH.

Michael identified there could be a role for the Commonwealth to trial and test different housing models, specifically the cooperative housing model. Michael suggested learning from Canada's cooperative model which has community lands trusts.

Andrew Macnulty, Link Housing

Andrew Macnulty from Link Housing stated a key lesson from the UK is the policy settings have remained largely unchanged since the Housing Act 1988 which saw government choose community housing authorities (CHAs) as the preferred route to grow SAH. Successive governments have tweaked the model but continued investment in the sector and maintained CHPs as the conduit between private sector and government. A good example in Australia is the stimulus package in which the

Rudd Government put $6 billion into social housing. This led to a massive transfer of assets onto CHP balance sheets which put them in a position to bring in bond finance through NHFIC.

Andrew saw the desirable model for Australia is characterised by a "program and pipeline" mentality in which there is certainty of program funding and a pipeline of opportunities. Building on NHFIC, the "holy grail" is for the Federal Government to commit to a modest program of $1-2 billion per year in capital funding. States should be incentivised to compete for funding based on their willingness to contribute land.

Learning from the UK, Andrew proposed NHFIC could play a similar role to the UK Housing Corporation as both regulator and funder of the sector. Andrew suggested the Federal Government could issue tenders offering bond finance at 2-3% for which CHPs could compete based on the amount of grant needed.

Andrew noted there is great opportunity in the sector as there are 6-7 CHPs in Sydney and 6-7 in regional NSW that are ready for LSSII, suggesting each build 500 homes per year if the policy settings were right. However, Andrew suggested the main challenge to scaling is the lack of policy and political will. Notably, the sector will respond to signals from Government when they perceive Federal Government policy commitment and leadership.

Wendy Hayhurst, CHIA

Wendy Hayhurst from CHIA noted for the SAH sector, scale depends on the ability to attract and combine the different forms of capital that can fund development. Wendy saw getting the right settings in place for capital to flow was paramount. Wendy saw that scale could be 'unlocked' through diverse / mixed tenure models centred around community. For example, social / affordable plus aged care plus disability housing. However, Wendy saw at present individual providers do not have sufficient funds to do large-scale work. Anecdotally, Wendy felt getting construction of accommodation funded (which enables scale) is harder than delivering the wrap-around services.

As an opportunity to enable larger-scale investment, Wendy advocated for a simple and targeted approach. One possible mechanism was a housing equity/capital aggregator which would support blended capital, and institutional investors can invest equity capital into CHPs or projects via the aggregator.

Further, Wendy saw the role of the Government as two-fold in helping to support the growth of the sector into LSSII. Firstly, directly granting land (with return coming back to Government via outcomes bonds) and recognising savings to other areas of public expenditure as social outcomes improve. This could also be done by incentivising states and territories to grant land. Secondly, structure a social impact investment fund so it can meet gap funding, or allocate patient capital upfront to CHPs, with NHFIC supporting the management of this.

Kerry Stubbs, Northcott

Kerry Stubbs from Northcott raised the need for a conducive policy setting to support disability housing opportunities for LSSII. Kerry raised access to funds is not really an issue for the disability housing sector, rather there are barriers caused by the policy settings that guide / control the use of the funds. Kerry noted current prescriptions around how disability money can be used can determine the limits for how providers can respond. Kerry proposed changing the policy and regulatory settings around funding would enable further flexibility. The example was given there is a growing need for non-Supported Disability Accommodation (non-SDA) housing but there is no income stream that supports investment in this. Kerry saw the solution to this would be to provide Supported Independent Living investment to access accommodation out of home. However, this is expressly forbidden at the moment because of budgetary settings.

Further, Kerry advocated for funding supports to be able to enable and build capacity of the sector. Firstly, she proposed a competitive fund for researching new delivery models to delivery greater impact and proof of concepts. Secondly, funding to build the capacity of service providers to roll out those models and be ready to deliver services.

Janet Anderson & Christina Bolger, ACQS Commissioner

ACQS Commissioners Janet Anderson and Christina Bolger discussed the opportunities in RAC for LSSII. These were to upgrade accommodation and service infrastructure standards, and to redesign financing models to attract new investment to the sector. Janet and Christina suggested there was a need to reinvest back into existing facilities to create community / ageing-in-place / human centred design models thereby making them more attractive to consumers and helping them to become better performing assets. Community models were proposed as core to increasing the social impact of RAC as this approach was seen to improve the quality of care, reduce loneliness, take pressure off emergency admissions / acute care in hospitals, and create operating efficiencies.

Janet and Christina did not think LSSII would be achieved through one provider scaling up, rather having an industry approach by enabling investment into the RAC sector generally. They noted that attracting large scale investment is a current challenge, but international models – such as New Zealand – have proved that it can be done. Janet and Christina suggested that the risk profile needs to be transformed by recovering distressed assets and the negative investor perceptions of RAC need to be changed, as these issues are limiting the capital flow into the sector.

Janet and Christina saw there was a role for Government to enable more capital to flow into the sector to transform it and to support innovative / transformative RAC delivery models.

Michael Lynch, SVA

Michael Lynch from SVA saw the greatest opportunity for LSSII was to create simple well-designed investment products that deliver on impact and return to attract large-scale and institutional investors into social sectors. By 'products" Michael referred to the right subsidy settings and policies set by Government, that would crowd in private sector and intermediary investment.

Michael noted it was important to get the design of investments right from the perspective of investors so that the risk / return rate is acceptable to their requirements, and that the product design looks 'normal' i.e. similar to other investments. Michael noted a role Government could play is to provide certainty around Government policy and regulatory risk to improve confidence of investors.

In terms of the areas where LSSII is possible in the housing sector, Michael saw:

- Social housing is a potential area but will always need public funding and subsidies.
- Affordable housing is scalable with the right investment model.

- Disability housing is already scaling and scalable because of the consumer-led marketplace.
- Aged care housing is harder for LSSII because of regulations and caps.

Michael recognised that there is a lack of large-scale social enterprise in Australia. Michael suggested there is a need to invest in the capability and capacity of the social enterprise sector to enable at-scale delivery. Michael noted SVA has been playing a role in helping social enterprises to scale and build capacity across a range of sectors.

To support LSSII, Michael saw that there was a role for the Government to invest in building the evidence base and data through evaluations and outcomes contracting (or similar models). Michael suggested there should be more guidance by the Government as to what good investment looks like to the Government in terms of its impact, savings generated, and benefits to the broader public.

Michael observed some retail and commercial lenders are being crowded out by the NHFIC bond aggregator.

David Moody, NDS

David Moody from NDS noted the SDA-back infrastructure and accommodation will be a growth area for LSSII, driven by NDIS funding policies and processes. However, David suggested other parts of the sector, such as disability employment services, need support and changes to their business models to scale.

One shift that is taking place in the sector is the transition of measurements from outputs to outcomes to align with SII principle. David advocated for a systemic, holistic approach to pivoting the sector into measuring wellbeing / quality of life outcomes that flow to individuals, suggesting all players in the sector should be organised around the same set of outcomes with a really clear pathway for achieving impact.

David suggested the Government could play a role in increasing and supporting LSSII through:

- Tax policy changes that incentivise and reward outcomes-focussed delivery via for profit providers.
- Defining and measuring outcomes and supporting the business case for investment in the early years.
- A social impact procurement policy to help build up the market by supporting providers to further build their capability and capacity.

Phil Frost, Evolve Housing

Phil Frost from Evolve Housing discussed the possibility of LSSII in the SAH sector. Phil raised a model that is currently in operation in NSW is the ‘mixed communities plus’ which are either providing private rental or private sale possibilities to cross subsidise the SAH.

Phil commented a major problem with the sector is, while there is plenty of available debt with favourable interest rates and long tenor, the debt equity ratios to comply with to get the debt are a barrier unless there is the cashflow to support it. However, the cashflows from rentals is insufficient without a top-up subsidy. Phil noted to have LSSII in the sector, it will always need a subsidy which has no yield or return – this may take the form of an operating subsidy over time or be paid upfront.

Phil provided a suggestion to improve the access to credit in the sector, namely, to look at the credit covenants that sit around the NHFIC bond structure. He noted their leverage ratios and interest cover ratios from 1.5% to close to 1.2-1.3%. By 'squeezing' them, it will reduce the cost of credit slightly, to help the profitability of SAH projects.

Phil noted the SAH sector is performing well, from an investor perspective. It has low bad debts and low risk, commenting the Commonwealth Government payments are 1.5% for bad debts and vacancy, and the loss history is low. Further, Phil mentioned the credit quality and cashflow are very secure.

Phil suggested that the Government needs to play a role in investing in social housing. He noted there has been a net decrease in social housing and investment in terms of percentage of GDP since the 1970s. Further, Government could play a role in providing implicit or explicit guarantees, especially for private sector investing in bonds or an instrument with a lower expectation of return. Phil noted NHFIC could extend its functions to manage these guarantees. A Government guarantee would help SAH to be classified as a low risk asset class. Phil suggested this guarantee could be used in conjunction with a mezzanine in the capital stack. Phil noted a mezzanine slice could sit there for a while and be refinanced. He mentioned the trick will be working out how much risk the investors will wear and what will be the cost. Finally, Phil suggested the government could provide competitive funding, such as for 5000 homes a year for a decade. Phil saw that they sector had the available senior debt and mezzanine equity to be able to fulfil this example if they were contracted to.

Harriet Dwyer, Hire Up.

Harriet queried the need for LSSII and for investors to earn market returns. Her view was that investors should receive a lower return for the social outcomes they achieve.

Harriet felt while they might not meet the $100m threshold for LSSII, useful investments in the sector would be in systems and processes of managing a mobile workforce, and assistive technology for people with a disability.

Finally, Harriet viewed an important role for government in SI more generally is to help social impact deliverers and enterprises to develop ways of measuring their impact and balancing those requirements with their financial obligations.

Margaret Bowen, CEO, The Disability Trust

Margaret recalled that SII was something the Trust considered a decade ago to support disability services – it was a bridge too far then, and it may still be now. One of the dangers can be well-intentioned by poorly informed developments, and not up to meeting the real needs of people. Margaret suggested that the Trust may continue to prefer to make its own smaller scale investments in accommodation and services, given the SDA model, but more focussed on needs and outcomes for people rather than investors. Even with the SDA model, margins are tight and returns on investment small.

There are smaller capital needs for Australian Disability Enterprises (ADEs) when setting up businesses that can employ people with a disability, and also in assistive technology start-ups – Margaret thinks that investment in Australian-based assistive tech design and manufacturing would be very effective at affordably improving outcomes around independence.

Margaret suggested that a major additional need in the sector is to solve challenges around tracking the wellbeing and quality of life outcomes for people using data. There was a period where the Trust could invest in doing this itself but the transactional nature of the NDIS and how it is funded means there are less resources available to do this at the provider level. Government could assist with this either through investing in the systems and processes itself or paying providers to do it.

Suzanne Colbert, CEO, Australian Network on Disability

Suzanne suggested that, in disability employment services, there is a role for investment in helping ADE start-ups, particularly around capability and capacity development. A long term, patient capital approach is required for this because it can take 15 years for start-ups to fully mature to a point where they can stand on their own. Demand for disability employment could also be increased by adopting a genuine, compulsory supplier diversity / accessible procurement commitment in public and private procurement markets. Without enabling larger markets for disability employment or higher value goods and services produced by ADEs, it is hard to see a role for LSSII.

Suzanne also suggested the starting point for evolving how new kinds of investment can support the disability services sector could be by commencing a national conversation between people living with a disability, service providers, investors and government, to come up with a national strategy and determine who plays which role in delivering on it. This would anchor and direct investment in a way that supports the sector, as opposed to the other way around where the sector shifts to support investment.

Appendix F: Social and affordable housing as infrastructure

SAH covers two forms of housing: social housing, traditionally funded by governments; and affordable housing which is used to provide lower than market rent to lower income families on low to moderate incomes, usually via private landlords.

Social housing

There is an opportunity to reclassify social housing as infrastructure on a policy level, similar to the provision of other forms of social infrastructure, such as schools and hospitals, which are considered on a spatial distribution of need over time. Historically, social housing has not been considered in policy terms in this way. AHURI have identified there is still a significant funding gap to meet the anticipated social housing need of 727,300 homes in the next 20 years[158].

Reconceptualising the role of social housing from a policy perspective as ongoing capital expenditure based on spatial distribution and need, will bring in the base level of capital required to attract private sector investment through vehicles like NHFIC and reduce costs to Government over a 20 year period[159].

Classifying social housing as infrastructure will have some limited but important policy benefits when considering the investment pathway overall, in satisfying the shortfall in public housing. Internationally, the UK, US and Canadian Governments have recognised this shortfall in historical spend in social housing; and have announced significant up front government grants in recent housing strategies to rectify this.

Affordable housing

Reconceptualising affordable housing as infrastructure asset class (rather than real estate) can have application in the private financial sector as well. It lowers the risk profile of the asset class and therefore investor expectations of returns, and be used as part of a multifaceted approach to crowd in more investors into affordable housing.

Australian CHPs are part of an international research piece to redefine affordable housing as an infrastructure asset class[160].

Asset classes are a methodology designed to group investments with similar risk and return characteristics, who also share the regulatory environment and respond to market conditions in a similar way. Asset classes are used by investors to assess investor risk - the high the risk, the greater the expected return - and determine the appropriate type of capital to be invested.

The benefits of reclassifying affordable as infrastructure provides the following benefits:

1. The level of rigour required to be reclassified with a lower risk rating will provide greater access to capital markets and a larger pool of investors. This

[158] Lawson, J., Pawson,H., Troy, L., van den Nouwelant, R. and Hamilton,C. (2018). Social housing as infrastructure - an investment pathway. AHURI. Available at https://www.ahuri.edu.au/research/final-reports/306
[159] Ibid
[160] Paxon Group. International Housing Partnership. (2019). Creation of a global asset class for affordable housing.

is important in the SAH market given the large gap between demand and supply.
2. Given the lower risk ratings, the cost of capital will be reduced as investor expectations of return will be lower. It also provides a greater opportunity to pool more assets into a single vehicle as the credit risk coverage will be less.

In order for affordable housing to be reclassified as an infrastructure asset class, the Paxon Group[161] have identified the following process:

1. Conceptualising the asset class including a cost benefit analysis
2. Product development, in order to turn the asset class into a financial product that can be taken to market, and receives a credit rating from a rating agency
3. Seeking legal advice, the new asset class complies with any regulatory and legal requirements
4. Product offerings, including a prospectus are created
5. Marketing of the new product is required to raise awareness in the investor community
6. Distribution and launch of the asset class which involves creating a sales team to work with institutional investors
7. Compliance processes are well established to assure investors
8. There is a product and profitability review to ensure confidence in the market. These results will need to be communicated to investors and the market more broadly.

Figure 6: Stages of finance required in SAH developments

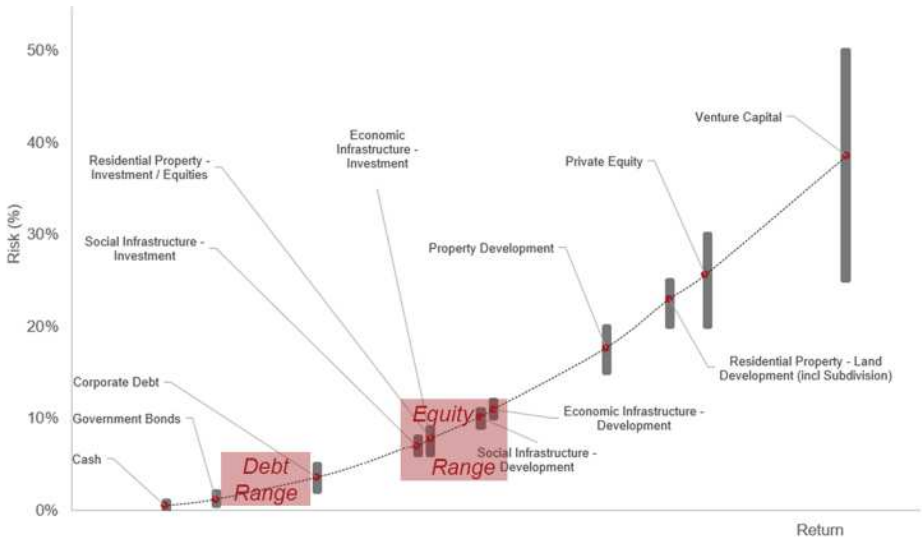

Figure 6 prepared by the Paxon Group[162] shows where debt and equity can play a role in the capital spectrum required for affordable housing where affordable housing is treated as an infrastructure asset class.

There is work underway internationally to reclassify SAH as infrastructure, or public fixed works which lowers the risk profile for institutional investors and encourages the

161 Paxon Group. International Housing Partnership. (2019). Creation of a global asset class for affordable housing.
162 Paxon Group. International Housing Partnership. (2019). Creation of a global asset class for affordable housing.

flow of capital for a lower rate of return – typically around 4%[163]. This starts to accord with the rate of return SAH providers can deliver on when building, constructing and managing developments.

163 Lawson, J., Pawson,H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018). Social housing as infrastructure - an investment pathway. AHURI. Available at https://www.ahuri.edu.au/research/final-reports/306.

Appendix G: Equity and equity like investment in CHPs via NHFIC - a worked example

The goal of this worked example is to show how an equity-like investment at the design and construction phase supported by an equity fund during the operations phase helps CHPs to build their balance sheets and in turn leverage increasing amounts of capital into larger scale housing development. It also demonstrates how this type of investment represents value for money for government.

Note that all of the numbers are highly provisional and based on basic assumptions that demonstrate how the model would work at a high level. PM&C would need to run a detailed accounting model to provide a more sophisticated example.

NHFIC's recent construction loan to BlueCHP provides us with a baseline we can compare with.[164] BlueCHP borrowed $45.7 million for 2 years at an interest rate of less than 4% per annum (let's use 3.95% fixed as the rate) to build at least 93 affordable housing dwellings. If the loan requires the paying back of a single lump sum at maturity with interest compounding annually, the amount of interest paid is $3,826,611. BlueCHP estimates this amounts to a saving on non-discounted finance of $600,000 per year, or $1.2 million (implying a non-discounted interest rate of around 5.15%). The savings could enable BlueCHP to build an extra 4 dwellings at an average construction cost of $300,000 per dwelling, which adds an extra $1.2 million of value to BlueCHP's balance sheet.

Let's now consider that, instead of a construction loan, the $45.7 million was issued as a convertible note (CN), with NHFIC funding the CN for the option to convert the CN into an equity holding in a project SPV jointly owned with BlueCHP.

Let's say the CN matures at the end of the D&C phase, and that when it matures the face value of the CN is around $50 million ($45.7 million principal plus, say for the sake of simplicity, $4.3 million in earned interest). If the CN converts to an equity holding in the SPV, and let's say the market value of the assets once completed and operating is $75 million, then the investment fund's equity holding in the SPV would be 66%, and secures access to dividend income.[165]

Once the housing assets are operating, the investment fund could realise some or all of the value of its equity holding by selling units in the fund to large scale social impact investors (in effect swapping public for private investment at this point). Alternatively, the fund might hold 100% of its equity investment for a period of time before selling it. Let's say that after 5 years the market value of the assets held by the SPV increases to around $95 million (based on a growth rate of around 5% per annum). The investment fund's 66% holding would now be worth around $63 million, a return on the original investment of around 26%.

[164] Actual terms of this loan are unknown, assumptions have been made to populate the example.
[165] Requires more detailed modelling to estimate a general dividend income. This also requires an understanding of where / how equity sits within the SPV structure, but the idea is that, wherever the equity sits, the holding produces a dividend income stream for the investment fund.

Upon completion, BlueCHP's holding in the SPV for this project is worth $25 million, increasing BlueCHP's balance sheet by the same amount - BlueCHP's net asset (equity) value would now be around $237 million.[166]

Let's say that, for its next project, BlueCHP raises $50 million in funding against its own balance sheet and accesses another convertible note via NHFIC for $50 million face value at maturity to help cover construction costs. A new SPV is established and this $100 million project delivers 200 dwellings (at an average land plus construction cost of $500,000 per dwelling). At the completion of this project, if the market value of the development is $150 million, BlueCHP's 50% holding in the SPV is worth around $75 million. Allowing for the deduction of the $50 million originally raised against its own balance sheet, BlueCHP's net asset (equity) value increases to $260 million.

BlueCHP then commences a third project. It raises $100 million against its own balance sheet and accesses another convertible note for $100 million face value at maturity. This $200 milllion project delivers 400 dwellings (at an average land plus construction cost of $500,000 per dwelling), with a market value upon completion of $300 million. BlueCHP's 50% holding is worth $150 million, adding another $50 million to its net asset (equity) value, once the $100 million raised against its own balance sheet is deducted.

Across these three projects, for a total investment of $200 million and after holding 100% of its equity in each development for 5 years, the value of the NHFIC fund's equity would be around $255 million (based on an asset value growth rate of around 5% per annum). If this value is realised by selling units in the fund to LSSII, the return on the government's original investment is 27.5% (not including the value of dividends received).

In terms of a value for money assessment, this compares to the provision of SAH through direct capital grants and subsidies alone, which does not provide any direct return to government.

[166] Using BlueCHP's 2019 annual report figure as the baseline.

Appendix H: Case studies

Concept 1 Emerging Private Equity Investment
Research released by Savills in December 2019[167] identifies the growing momentum in the UK of professional, large scale private equity investment into operational real estate classes like SAH.

The research notes private capital has long played a role in this sector through bank debt and bond issues, with the latter financed by private capital pursuing longer term financial return through investment in Private Registered Providers (PRPs, formerly known as registered social landlords).

Private equity investment has been increasing via a class of entity called For Profit Registered Providers (FPRPs), directing an increasing amount of capital into below market rental housing and housing for older people. Key drivers for new money of this kind include increasing demand for more affordable housing, difficult housing market conditions, and increasing costs, all of which are stretching the current financial capacity of the sector. There are three ways through which private equity investment is being made:

- Direct investment via shared ownership of new affordable housing developments with PRPs[168] for average net initial yields between 3.50% and 4.50%, or by acquiring retained equity in established portfolios for average net initial yields between 2.75% and 3.50%.

- Direct investment via the purchase of social and affordable rent dwellings[169] for net initial yields between 3.50% and 4.50% (social rent) or 3.50% and 5.0% (affordable rent at no more than 80% of market rent). Both forms of housing investment are underpinned by government subsidies and benefits for tenants, affordable rent less so).

- Lease-based investments where private equity investors build and own a mix of SAH dwellings, leasing them to local authorities and housing associations on long term leases in exchange for low risk, long term income, with management, repairs and maintenance resting with the provider[170]. Net initial yields vary with the nature of the lease terms conditions. 20 to 25 year CPI-linked operating leases on new developments return 4.25% to 4.75%. 30 to 50 year CPI-linked leases based on income strip or sale and leaseback models return 2.50% to 3.0%.

Another example of emerging private equity investment into affordable housing in the UK is the Housing Growth Partnership (HGP). HGP partners with proven smaller housing developers who are ready and capable for growth and can deliver mixed tenure developments.

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167 Savills. (2019). Private Money and Affordable Housing, Available at https://pdf.euro.savills.co.uk/uk/residential---other/private-money-and-affordable-housing---december-2019.pdf.
168 Also known as Section 106 development, via s106 planning agreements specifically for affordable housing provision.
169 By also purchasing the social and affordable rent components of Section 106 developments.
170 The most significant deal to date was L&G's £252m income strip deal with Places for People (PfP). L&G acquired a 50 year lease on 4,000 sub-market properties, with the management retained by PfP.

The private fund invests up to £5 million in equity in projects with a gross development value of up to £35 million, using an SPV structure. Developers must make a minimum contribution of 10% of total development costs (in the form of capital or land) and retain all responsibility for managing projects (for which they are paid a management fee). HGP works with the developer to raise debt to provide an appropriate finance structure and enhance equity return. Returns on equity are via profit share, negotiated on a case by case base with a focus on risk. HGP's and the developer's investment are ranked equally to support risk and return sharing. This model has been used to deliver mixed tenure developments that includes affordable housing, for example:

- A £2.5 million investment that delivered 56 new family homes including 17 units of affordable housing (Durkan Estates)
- A £2.3 million investment that delivered 50 homes including 15 units of affordable housing (Rectory Homes).

Finally, Homes England is exploring the possibility of developing new approaches to investment, including equity, as part of establishing a blended finance approach to delivering more affordable and social rent housing, through strategic partnerships with Housing Associations [171]. Homes England is a non-departmental public body with the overarching aim to accelerate the delivery of affordable housing across England.

Equity-like investment

The example given in Concept 1 of an equity-like instrument for supporting the D&C phase is a convertible note. This is a form of short-term debt that converts into equity, typically in conjunction with a future funding round based around the issuing of equity in the company supported by the note. In effect, an investor would loan money to a CHP development via an SPV company and instead of taking its return in the form of returned principal plus interest at maturity, the investor would receive equity to the value of principal and interest in the SPV company once housing assets have been built and are operating. The equity-like investment and future issuing of equity are intrinsically linked. The use of an instrument like this could displace the need for mezzanine debt financing. Social impact investors are familiar with the use of convertible notes and in far riskier areas of investment (like a software start up, for example, where realty assets do not feature).

Precinct Properties New Zealand Limited, a New Zealand (NZ) based listed real estate property investment fund, invests in the development, ownership and management of a portfolio of central city buildings and mixed-use precincts. To support development project activities, in 2017 Precinct issued subordinate convertible notes to raise up to $150 million. The note structure included a priority offer open to NZ retail shareholders and a general offer open to all NZ-based investors and certain overseas institutional investors. The term for the notes is 4 years with a 4.80% interest rate, maturing in 2021. At maturity, the notes are convertible to equity at a conversion price of the lesser of $1.40 and a 2% discount to volume weighted average price of shares.

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[171] Homes England, Strategic Plan 2018-19 – 2022-23, p20. Available at: https://www.gov.uk/government/publications/homes-england-strategic-plan-201819-to-202223.

Concept 2 Case Study – Wholesaler funding for social and affordable housing

Big Society Capital (BSC) is the leading wholesale fund dedicated to social impact investment in the UK.

BSC's portfolio includes investment in SAH. To date it has invested £78.8 million in housing, which has leveraged a total investment of £644.3 million when teamed with other investment partners. This investment has delivered 4,600 homes. BSC's investment strategy for housing is to make cornerstone investments that unlock greater amounts of impact-led capital from institutional investors. It also helps to scale or replicate business models that creating better social outcomes associated with access to housing.

BSC will either invest in buying or developing homes for vulnerable and disadvantaged people or invest in social property funds to increase the supply and quality of affordable and social housing in the private rented sector. When setting up housing investments, it works with partners that understand the needs of the people for whom the housing is to be provided. It then collaborates and invests with fund managers and impact partners that act as intermediaries for the investment.

An example is BSC's collaboration with the Cheyne Capital Social Impact Fund.[172] This is a £100 million equity fund that develops and leases homes to social enterprises, charities and local authorities. BSC's catalytic role was to seed the social property fund with a £12 million commitment in 2014 over a 7-year term. This cornerstone investment commitment attracted new institutional and other large-scale investors into the fund.

The fund is managed by Cheyne Capital, which is a mature fund manager with expertise in areas like social property impact, real estate debt, equities and convertible bonds. Cheyne Capital works with provider organisations to aggregate and assembles a diversified housing development pipeline and portfolio. It partners with New Philanthropy capital (NPC), which is an NFP organisation that supports the capability and capacity of housing providers to deliver social impact. NPC focuses on building effective organisations and creating a supportive environment for impact investment and performance.

As well as BSC's cornerstone investment, the fund involves a mix of other investors that includes institutional investors, high net worth investors, trusts and foundations, fund of funds, and pension funds. Returns to the fund are provided via long-term lease payments and potential asset appreciation via increasing land valuations. Vacancy rates are very low, and rents are CPI-linked. These settings reduce income volatility and align with investor preferences. The target return to the fund is 10-12% per year. So far, the fund as delivered 1,000 plus new social and affordable homes. Key areas of social outcome focus are housing affordability and availability, particularly for people at risk of homelessness, people with learning disabilities and vulnerable older people.

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[172] Big Society Capital. Cheyne Capital Social Impact Fund. Available at: https://bigsocietycapital.com/portfolio/cheyne-capital-social-impact-fund/.

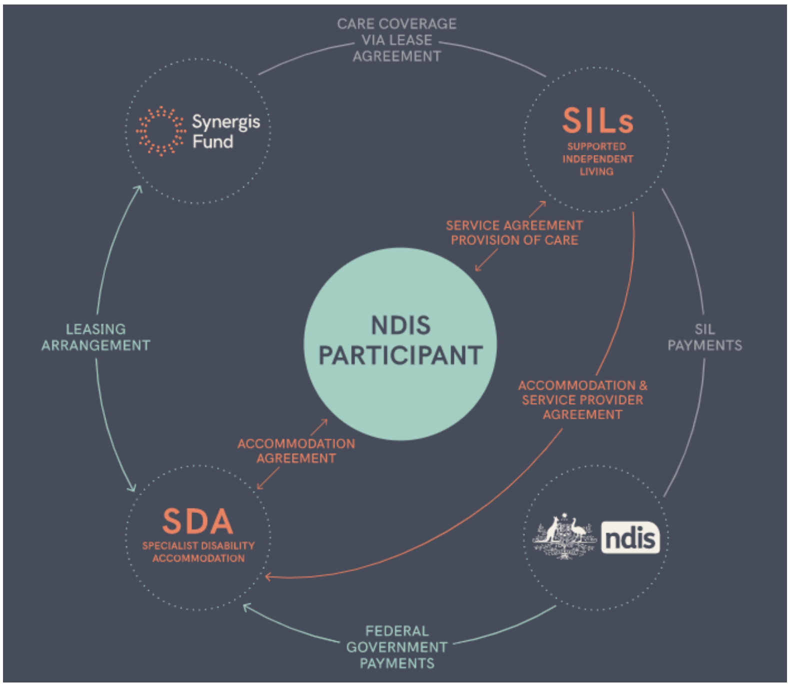
Concept 3 Case Study – Emerging equity investment models in disability housing

The Synergis Fund is a disability housing fund, supported by Social Ventures Australia acting as an intermediary. The fund has been mobilised by the opportunities created by the NDIS for investment in disability housing, particularly through SDA and Supported Independent Living (SIL) payments.

The fund is an unlisted wholesale managed investment unit trust that targets long-term, risk-adjusted financial returns supported by subsidies / rental payments that travel with tenants, funded by the Commonwealth. The fund recognises and promotes investment in disability housing as an emerging social infrastructure asset class. It targets an investment portfolio focused on delivering new housing stock, diversified by location, SDA developer and SIL provider.

The model is designed around a strategic collaboration at scale between the fund, SVA as intermediary, SDA developers and operators, SIL providers and tenants (NDIS participants with whom the NDIS subsidies travel):

Figure 7: Synergis fund model



Source: https://www.synergisfund.com.au/model

The fund provides equity capital to SDA developers to fund the building of disability housing. The fund may exclusively own assets or co-own them with developers, and then lease them to SDA operators. Returns to the fund come via leasing incomes and asset dividends. Estimated yield is targeted at 10%+ per annum.[173]

Fund activities supported and managed by SVA include capital raising, forming partnerships, portfolio management, SIL relationships, market enabling and social outcome measurement.

[173] Synergis Fund. (2020). Available at: https://www.synergisfund.com.au/model.