Senior Advisor
Financial System & Services Division
The Treasury
Langton Crescent
Parkes ACT 2600

31 March 2015

Dear Sir/Madam,

Impact Investment and its significance for Australia's Financial System

We welcome recognition by the Financial System Inquiry that impact investment is a significant matter for our financial system. This submission focuses on immediate and concrete opportunities for the Government to implement the recommendations in the final report.

The timing is good as the Australian Government can leverage work of the Social Impact Investment Taskforce established under the UK Presidency of the G8 and Australia's unique leadership role in that global process. This work is being led by Impact Investing Australia and the Australian Advisory Board on Impact Investment we convene. There are over 50 senior leaders from across sectors engaged in the process of implementing the Australian Advisory Board's strategy.

This provides a unique, concrete and immediate opportunity for the Government to engage with and leverage existing momentum and activity locally, connected to global markets, and have a significant impact relatively quickly, including leveraging private capital for public good. We welcome opportunities to work with you to develop those opportunities and link the Australian Government with extensive networks through governments and leadership around the world.

Thank you for this opportunity as a first step to contribute to the important work of shaping the future of Australia's financial system and its place in global financial markets.

Yours sincerely

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Financial System Inquiry

Submission to the Treasury

March 2015

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IMPACT Investing AUSTRALIA

The Treasury
Financial System Inquiry

SUBMISSION TO THE TREASURY

MARCH 2015

Introduction

The purpose of this submission is to inform consideration by the Treasury of the Final Report (*FSI Report*) of the Financial System Inquiry (*the Inquiry*). This submission specifically relates to Recommendation 32 and Appendix 1: *Impact Investment.*

Impact Investing Australia and the Australian Advisory Board on Impact Investment welcome recognition of this developing field in the FSI Report and encourage the Treasury to adopt and build upon the relevant recommendations of the Inquiry. The FSI Report was also welcomed by the Social Impact Investment Taskforce established under the UK Presidency of the G8 (*Social Impact Investment Taskforce*), in which we participate.

At the centre of the contention that impact investment can and should grow as part of our financial system is the question: *to what ends do we seek the financial system to operate?*

Expanding the pool of economic and social value is a productivity issue and has important implications for supporting not only Australia's economic growth, but its future prosperity. Governments cannot pay for everything and philanthropy cannot fill all the gaps. Impact investment can mobilise more resources toward positive social impact, deliver better outcomes through improved efficacy, innovation and scale and promote cross sector collaboration to tackle the really difficult challenges. Impact investing can and should be encouraged as part of the financial system in Australia.

> *Finance matters. Its conduct can make a massive difference to economic development and to ordinary lives – for good or ill.*
>
> **Reserve Bank Governor, Glenn Stevens**

There are immediate and concrete opportunities for the Government to act on the FSI recommendations. Australia has a terrific opportunity to develop impact investing domestically while taking a regional and global leadership role, and be competitive in this growth market.

> *What's interesting about Australia is you've got a set of cultural values and institutional forces that make the country very ripe for tackling social issues. So I think Australia should become one of the leading countries in the impact investment space.*
>
> **Sir Ronald Cohen, Chair, Social Impact Investment Taskforce, May 2014**

Our role in the Social Impact Investment Taskforce and the opportunity it has provided to convene a cross-sector leadership group in an Australian Advisory Board on Impact Investment (*Australian Advisory Board*) provides a unique process with which to connect with work already underway locally and globally to leverage private capital for public good and promote more effective solutions to issues which are challenging government budgets.

Appropriately designed measures can make a clear and compelling contribution to meeting Australia's evolving needs and supporting economic growth.

Context

The financial system is an enabler of a range of activities and actors in society rather than an end in itself. In addition to being stable and prudentially sound, it has a role in catalysing new markets, enterprise and innovation, meeting the capital needs of organisations of different sizes and stages of development, and operating in different sectors.

> *The financial system is an enabler of a range of activities and actors in society rather than an end in itself. In addition to being stable and prudentially sound, it has a role in catalysing new markets, enterprise and innovation, meeting the capital needs of organisations of different sizes and stages of development, and operating in different sectors. Developments in impact investing are relevant not only because of the global nature of financial markets, but also because they point to opportunities for the financial system in Australia to maximise value creation and to meet the needs of society.*
>
> **Addis et al, Impact Investing Australia Submission to the Inquiry 2014**

What impact investing is, why it matters and the potential as part of Australia's financial system were addressed in earlier submissions to the Inquiry. We refer the Treasury to those Submissions.

Developments in impact investing are relevant not only because of the global nature of financial markets, but also because they point to opportunities for the financial system in Australia to meet a range of needs not currently being met in society or by the current market. Whether considered through a lens of market failure or market opportunity, the case for developing impact investment is compelling. We refer Treasury to the reports of the Social Impact Investment Taskforce and the Australian Advisory Board on Impact Investing delivered in September 2014 (provided at **Appendix 1**).

”Impact investing” describes investing that intentionally seeks to deliver a positive impact for society as well as financial return, and measures the achievement of both.

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

Impact investment is emerging from existing institutional contexts, including established capital markets and philanthropic traditions. There are limiting factors as to what can be achieved without a supportive enabling environment. It will require leadership and focus from a range of actors, including Governments and policy makers.

> *Fundamentally, this is about expanding the total pool of economic and social value, not redistributing what already exists. Impact investment is already having a positive effect globally in catalysing new markets and encouraging entrepreneurship and innovation for the benefit of society*
>
> **Addis et al, IMPACT-Australia, 2013**

Australia is playing an important role in developing the global market. Activity is growing from all sectors and leading Australian examples including Leapfrog Investments, Goodstart Early Learning and the NSW Social Benefit Bonds and the Social Enterprise Development & Investment Fund initiative are flagships of excellence. We have great talent available; thought leaders from Australia play significant global leadership roles and practitioners based here have been involved in significant global initiatives.

The Inquiry accepted that impact investment has potential to benefit government and taxpayers in addition to other sectors and market participants (FSI Report 2014, Appendix 1). They agreed that:

> *Government intervention can play a catalytic role both in facilitating the functioning of the ecosystem and targeting actions to trigger its further development. However, these actions should provide incentives for the engagement, not the replacement of the private sector and should be conducted in a manner conducive of the market.*
>
> **FSI Report 2014**

The focus of this submission is how the Australian Government take that role prudently and productively to the benefit of Australia and its financial system and not leave willing talent and capital on the sidelines.

The Opportunity

Development of impact investment is being influenced by trend lines evident in Australia and globally.

> *A confluence of factors – including reduced government expenditure, a greater emphasis on evidence-based interventions, growing consciousness among investors, and a new generation of talented social entrepreneurs who are pushing boundaries and developing disruptive solutions – all point to a window of opportunity that cannot and should not be missed.*
>
> **Schwab Foundation et al, 2013**

Economic commentators, including Harvard Professor Michael Porter are emphasising that *societal needs and not just conventional economic needs define markets* (Porter & Kramer, 2100; Beinhocker & Nanauer, 2014). While the link between social issues and economic growth has not yet been definitively settled, the connection has been explored in a range of fields from economics to development. Some themes from the literature are set out in **Appendix 5**.

As the Inquiry concluded:

> *Changing community expectations about the role of government and the financial sector in funding social service delivery highlight a need for this funding mechanism in Australia…Importantly, impact investing has the potential to benefit government and taxpayers by reducing costs and improving social policy outcomes. It can change the role of Government from paying for inputs to paying for outcomes. It can also benefit not-for-profits by diversifying their funding sources and helping them to develop technical expertise in benchmarking and measuring outcomes, as well as improving governance and accountability.*
>
> **FSI Report 2014**

The opportunity to develop this market has two key benefits:

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

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

Impact Investing can deliver benefits across multiple sectors of society and involves multiple actors.

> *Impact Investing is a multi-stakeholder issue. It engages governments as impact investments offer opportunities for more efficient delivery of public services. It engages civil society, from the non-profits that design and implement projects to individual recipients of social programmes. And it involves businesses, ranging from entrepreneurs and lawyers to consultants and investors. Clearly, for impact investing to reach its potential, it must be considered from the perspective of all stakeholders.*
>
> **World Economic Forum, 2013**

Different groups through society benefit in a range of ways from impact investment:

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

Australian Advisory Board Strategy: *Delivering on Impact* 2014

Impact investing, in effect, opens an expanded policy toolbox. This includes applying tools of economic policy across a broader range of situations, particularly in social policy. Also, new tools that can better align incentives for achieving social outcomes and being different resources and experience together and in new combinations (Addis in Nicholls et al, pending). Benefits include:

- More effective targeting of limited resources;
- Mobilisation of a broader range of actors and resources to tackle social issues and invest in public goods;
- Greater focus on efficacy and outcomes;

- New ways to incentivise better outcomes, innovation and prevention to tackle difficult and costly social issues;
- Expanded options to build local capacity and promote sustainable social and economic development in communities of high need domestically and internationally;
- Advancement of foreign policy goals including new opportunities for the private sector in growth markets; and
- Promotion of opportunities and trade connections in growth markets that have traditionally been donor countries in a shift from 'aid' to 'investment'.

The potential is significant and represents a material level of additional resources to what is currently available to tackle social issues.

The fourth annual survey of impact investors was published by JP Morgan and the Global Impact Investment Network in May 2014 (Saltuk et al, 2014). The survey recorded a 26% increase in participation. The 125 respondents collectively manage a total of US$46 billion in impact investments, 58% of which is proprietary capital and 42% managed on behalf of clients. Those respondents for which there was data last year reported a 10% growth in capital committed between 2012 and 2013 and a 20% growth in number of deals. Over 25% of respondents signalled intention to increase investments into Asia and South East Asia (though not Oceania).

The Social Impact Investment Taskforce concluded there is enormous potential for a global market for impact investment to reach US$1 trillion. JB Were modelling of potential market size prepared for IMPACT-Australia (2013; see Appendix 4 of that report for detailed analysis) set expectation for the domestic market for impact investment at $32 billion within a decade assuming a similar trajectory to the UK and US.

And the potential represents more than the money. It is about stimulating more and different activity and innovation to deliver better outcomes for people and break ongoing cycles of dependence. If taken up, this could fundamentally alter key aspects of the way in which the public sector operates and by which public goods are developed (Addis in Nicholls et al, pending; Shergold, 2013).

> *Many States are also experiencing significant resource constraint. This is increasing the scale and urgency of some social issues, for example youth unemployment, at the same time that resources for government action are scarce. It is also limiting available aid in when billions of people still live in poverty and lack services to meet basic needs ranging from clean water to education and health care, to day-to-day financial services. The reality of limits on public resources and the scale of need faced by many in society is a powerful rationale for examining the potential of different ways of working. In some cases, social challenges have lacked meaningful, practical solutions and, in some cases, have done so for generations. The alternative to exploring new ways of working is, in essence, to accept there are no better options.*
>
> **Addis in Nicholls et al, pending**

To realise the potential, all sectors need to move beyond what have been '*presumed trade-offs between economic efficiency and social progress'* (Porter & Kramer, 2011). Government can influence and accelerate the process by signalling interest, encouraging a focus on value creation and removing barriers to market development.

Impact investment can make a significant contribution and the time to act is now. Global momentum is building and Australia has already established a leadership position in the global effort through the efforts of pioneers in the market.

> *What is unique now is the rapid ascendance of financial innovations for social impact. There is enough capital and talent to make a significant difference to social issues; they need to be deployed differently to achieve a better result. We can use the best of our resources and resourcefulness to find new ways of working and increase the focus on improving quality and efficacy of services, encourage innovation to break cycles of need and dependence, and create capability and new opportunities.*
>
> **Australian Advisory Board Strategy: Delivering on Impact 2014**

Global Developments

The Social Impact Investment Taskforce was established by UK Prime Minister David Cameron under the UK Presidency of the G8.

> *I want to use our G8 presidency to push this agenda forward. We will work with other G8 nations to grow the social investment market and increase investment, allowing the best social innovations to spread and help tackle our shared social and economic challenges.*
>
> **David Cameron Prime Minister, UK World Economic Forum, Davos 2013**

Its Chairman, Sir Ronald Cohen, has been a pioneer of financial markets since the 1970s and of social impact investment since 2000. The Taskforce is made up of representatives from G7 countries, Australia and the European Union. Each has a government and sector representative, except Australia which has had sector representation only. The Taskforce has been supported by four expert working groups and National Advisory Boards in each participating country.

> *This Taskforce is becoming the international vanguard of the revolution...More than 200 able figures are engaged across the G8, Australia and the EU, focused on establishing impact investment as a powerful force in each country.*
>
> **Sir Ronald Cohen, Chair of the Social Impact Investment Taskforce**

The Social Impact Investment Taskforce reported publicly on 15 September 2014. Its ground breaking report: *Impact Investment: The Invisible Heart of Markets* calls on all sectors, including governments and the financial sector to take action that will unleash investment for tackling social problems.

> *The world is on the brink of a revolution in how we solve society's toughest problems. The force capable of driving this revolution is 'social impact investing', which harnesses entrepreneurship, innovation and capital to power social improvement.*
>
> **Social Impact Investment Taskforce Report 2014**

The report includes eight high level recommendations focused on stimulating a successful global market for impact investment, all of which have policy relevance (Appendix 2). The Taskforce, Working Groups and National Advisory Boards including in Australia, are turning their attention to implementation.

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

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

In a complementary initiative to the work of the Social Impact Investment Taskforce, the Organisation for Economic Co-Operation & Development (OECD) launched a report on definitions, data and frameworks: *Social Impact Investment: Developing the Evidence Base* in February 2015.

> *Social impact investment has become increasingly relevant in today's economic setting as social challenges have mounted while public funds in many countries are under pressure. New approaches are needed for addressing social and economic challenges, including new models of public and private partnership which can fund, deliver and scale innovative solutions from the ground up.*
>
> **OECD Report: Social Impact Investment: Building the Evidence Base, 2015**

The Social Impact Investment Taskforce is currently focussing on implementation of the recommendations. The Social Impact Investment Taskforce is continuing to meet through to July 2015 to oversee and drive this effort. The progress in each country is being monitored with regular updates provided.

After July, leadership to drive the global market is expected to transition to a voluntary multi-jurisdictional Global Steering Group or Council. Membership will be open to counties that participated in the Taskforce and is likely to be extended to additional countries developing leadership and momentum for impact investment.

The governance and other measures to take forward the original remit of the Social Impact Investment Taskforce to catalyse a global market for impact investment will also be considered. One area of focus will be extending the institutional foundations and government engagement for this work beyond the G8 to the G20, UN, ASEAN, APEC and other international leaders' forums.

Practitioners in countries from Brazil to Norway to India to South Africa have been mobilising local Taskforces, Advisory Boards or similar leadership initiatives while other countries including Portugal are considering social impact funds. The Global Learning Exchange launched at the G8 Forum on Social Impact Investment in June 2013 has attracted interest from over 25,000 people in over 145 countries.

Australian Developments

The state of the impact investment market in Australia was examined in IMPACT-Australia (2013, provided as Appendix 1 to our Submission to the Inquiry) and *Delivering on Impact* (2014, provided as **Appendix 1** to this Submission). Impact investment is happening here and is growing. An analysis of the strengths and challenges for the current market in and from Australia is set out in Delivering on Impact, included as **Appendix 1**.

Australia is among only nine initial jurisdictions to participate directly as part of the Social Impact Investment Taskforce. This has enabled best practice from Australia to be showcased in the Social Impact Investment Taskforce and related reports and be included in the OECD analysis.

An Australian Advisory Board on Impact Investing (the Australian Advisory Board) was established to inform our contribution to the Social Impact Investment Taskforce and develop strategy to build impact investment in and from Australia. This has provided a dedicated cross-sectoral leadership body to bring focus and strategic direction to the field, the need for which was reinforced through the inquiry conducted by the Senate Economics References Committee (2011).

The Australian Advisory Board's strategy: *Delivering on Impact* was also launched in September 2014. It sets out a vision for immediate & growing impact and an action oriented strategy that centres on:

- Leadership to bring focussed attention to the field, driving growth & scale
- Action to deliver breakthrough results in key domains of supply, demand & market infrastructure
- Policy to develop the ecosystem & encourage new participants & capital to enter

> *There is clear potential for a vibrant, dynamic and informed market at scale operating in and from Australia...The vision is ambitious, audacious – and achievable*
>
> ***Australian Advisory Board Strategy, 2014***

The strategy prioritises a small number of concrete headline goals designed to deliver significant market infrastructure that can quickly stimulate different parts of the market. These initiatives have been developed against the local and international evidence base; significant research, consultation and engagement has been involved, including in Australia. The priority measures focus on developing important parts of the infrastructure with a view to accelerating market development.

- Grow capital & encourage intermediaries: **Headline goal**: An ***Australian Social Impact Fund capitalised at $350million.*** This initiative to design and implement a flagship social impact investment institution is intended to provide a long term platform encouraging diverse investor participation, including from institutional investors over time and promoting intermediation, scale and efficiency. Analogues from which lessons will be drawn in the design include Big Society Capital (UK) and the European Structural Fund initiatives (EU).

- Enable & incentivise better outcomes & innovation through enterprises and commissioning. **Headline goals**: ***$10-$20 million to support social-purpose organisations; publish fiscal performance data on outcomes***.

  The first of these initiatives is to enable more organisations with social purpose to become ready to access finance from sources other than government. National Australia Bank has put forward an initial $1 million in grant funding for investment readiness and this became available in the market from 10 March 2015. The intention is to grow the amount available and bring other partners in to the initiative to broaden its reach and impact. Analogues include the UK Investment & Contract Readiness Initiative and Performance Enhancement initiative.

  The second initiative in this stream of work is to bring greater transparency to the fiscal costs of social issues and encourage a focus on outcomes. The intention is to provide clearer and more consistent data that shows where there is room to do better and what quality outcomes would look like. Analogues include the UK Unit Cost Database developed by the Cabinet Office and New Economics Foundation, Bug Society Capital Statement of Outcomes and NSW Government Statement of Opportunities and commitment to releasing more data on cost of social issues.

- Develop performance data & benchmarks, to facilitate participation for range of investors. **Headline goal: *Survey investors to benchmark field. Aggregated investment data***.

  These initiatives are intended to contribute benchmarks for interest and participation through an industry survey and frameworks for collecting and aggregating data that will enable performance of impact investments to be assessed against risk, return and impact. Analogues in the impact investment field include global survey led by JP Morgan and the Global Impact Investment Network, Gateways to Impact initiative in the US, the EngagedX initiative in the UK and there are a range of mechanisms utilised in mainstream financial markets to provide performance data.

These measures were developed as a result of extensive consultation with a wide range of practitioners in the Australian and international markets. This built upon contributions, insights and engagement demonstrated through previous enquiries including those conducted by the Productivity Commission (2010), Senate Economics References Committee (2011) and the consultation for IMPACT –Australia (2012-13). It was further informed by a growing body of international literature, thought leadership and research. The process is outlined in more detail in *Delivering on Impact* (Appendix 3 of that report).

Approximately fifty senior leaders from across sectors are taking an active part in the work to scope, design and deliver these initiatives. Impact Investing Australia is driving the delivery effort together with the Australian Advisory Board. We are delighted that a number of global leaders have agreed to collaborate and contribute in these initiatives, including Big Society Capital (UK), the UK Cabinet Office and OECD team.

The strategy provides a frame for governments to engage, support and collaborate in developing the potential of impact investment in and from Australia. This is a unique opportunity for cross sector collaboration genuinely targeting issues that are significant for government after government.

Beyond the work led by the Australian Advisory Board, a range of recent developments in Australia illustrate growing momentum. Significantly, the mobilisation is coming from across sectors:

- Building on early success of the Social Benefit Bond initiatives, NSW released its Social Impact Investment Policy in February 2015. That policy has the stated intention of enabling delivery of better services and results for people as a key priority and puts innovation, outcomes and collaboration at the centre. The central objectives are delivering more social impact investment transactions, growing the market and removing barriers and building capacity of market participants. The ten point strategy includes some very practical elements such as creation of the Office of Social Impact Investment with officials from both the Premier's Department and the Treasury. The NSW government has committed to working with the Australian Advisory Board and the working groups putting the Australian Advisory Board strategy into effect (NSW Policy p8).
- The South Australian Government has recently closed an expression of interest process for outcomes based initiatives including social impact bonds. Queensland and ACT Government also have policy initiatives which increase the focus on outcomes under active consideration.
- Existing intermediaries have increased their activity. Each of the social enterprise development and investment funds have been indicating increased business and is seeking new capital in the market. Social enterprise incubators such as The Difference Incubator have also expanded their offerings.

- Launch of more intermediaries focused on impact investment as a speciality such as Impact Investment Group (incubated by Small Giants), Australian Impact Investments (an initiative of EthInvest) and Benefit Capital (an initiative of Donkey Wheel and The Difference Incubator). Impact measurement specialist firm Net Balance was recently acquired by major accountancy and consulting firm, Ernst & Young. More incubators have also entered the market to develop social enterprise initiatives and the capacity of entrepreneurs driving them. This includes the entry of major institutions such as the University of Melbourne and University of Technology Sydney exploring the field.
- Increasing financial services sector interest is evident in initiatives such as the National Australia Bank's commitment of $1 million to enterprise investment readiness which has been designed and administered in collaboration with The Difference Incubator and Impact Investing Australia and opened for applications from 10 March 2015. Westpac and Commonwealth Bank of Australia were active participants in structuring and placing one of the NSW Social Benefit Bond transactions. Pioneers of philanthropic services (including Christopher Thorn, Evans & Partners) and responsible investment (Responsible Investment Association of Australasia and Regnen) are all contributing actively to market development as the next wave of value generation.
- Other parts of the financial system have also mobilised. A leading example is the $100 million commitment from QBE over three years to social impact investments, with an emphasis on social impact bonds.

> *At QBE we think there is enormous potential for this type of partnership between government, non-for-profit and institutional investors, and we intend investing $100 million over three years into suitable impact bond opportunities both here and overseas. We do not simply want to watch this happen; we want to help make this happen. We are currently working with a number of parties in a number of countries to help create deals involving impact bonds and we would very much like to be part of any conversation that the federal government has in relation to creating a pilot development impact bond in our region.*
>
> **Gary Brader, Chief Investment Officer, QBE, Hansard November 2014**

Other examples of this mobilisation include participation of a number of superannuation funds who see potential to build long term value in communities alongside returns for their members and increasing activity among philanthropic trusts and foundations, including Private Ancillary Funds.

This momentum from across the Australian corporate and social community, from the financial and philanthropy sectors reinforce that, the time for Government to act is now, maximising the potential benefits, removing barriers and accelerating development.

Role of Government

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

> *This is not about increasing or reducing public expenditure, but rather about helping government do more with the money it has... Most policies involve no additional government spending and those that do should generate benefits over time that far exceed cost.*
>
> **Social Impact Investment Taskforce Report 2014**

This is not a debate about government relinquishing responsibility or privatisation of public services. As explained by Sir Ronald Cohen in a speech at the Mansion House:

> *Contrary to the fears of some, impact investment is not about government relinquishing responsibility for social issues, it is about government encouraging innovation, paying for successful interventions and driving down the cost of achieving a successful outcome. Nor is it about privatisation. Philanthropic investors are funding non-profits to serve governments on the basis of payment for outcomes. If government can pay for success, hold onto more than half the savings from innovative interventions funded by outside investors, increase the number of successful outcomes and improve citizens' lives in the process, this is an attractive model. At a national level, government is increasing the social capital of our country. It is improving our productivity, competitiveness and strengthening the values that bind our society*
>
> **Sir Ronald Cohen, 2014**

Governments have a well-established role in market development. They operate in all financial markets as both a market participant and condition setter. The regulatory environment and fiscal policy can be important drivers, or disincentives, for development of markets (Thornely et al, 2011). Government has a role in addressing market failures and can also productively stimulate new market opportunities, including for impact investment.

To be most effective, targeted initiatives and a focus on the market must be twin priorities. The objective for impact investment, as for other aspects of market activity, should be to encourage:

- Confident and informed demand;
- Efficient matching of supply and demand;
- Variety in investment mechanisms
- Resilient supply of capital.

Goodall & Kingston, 2009

This translates into three key areas of focus (Thornley et al 2011; Social Impact Investment Taskforce Report 2014; Australian Advisory Board Strategy 2014, Addis in Nicholls et al (ed) pending):

- ***Building the Market***: leadership that signals interest and legitimacy, giving more actors confidence to participate and contribute to early infrastructure and de-risking to encourage market development and incentivise innovation and efficacy
- ***Participating in the Market***: to encourage and leverage private capital into appropriate priority policy areas, and collaborate to develop greater outcomes orientation.
- ***Market Stewardship:*** exercising the role of regulator and legislator with the suite of policy levers used to shape markets, remove unnecessary regulatory barriers, and create disincentives for harm and influence where capital is directed.

As accepted by the Inquiry, these roles have clear corollaries in existing policy settings in our financial system.

> *Government intervention can play a catalytic role both in facilitating the functioning of the ecosystem and targeting actions to trigger its further development. However, these actions should provide incentives for the engagement, not the replacement, of the private sector and should be conducted in a manner conducive of the market*
>
> **OECD Policies for Seed and Early Stage Finance: Summary of the 2012 OECD Financing Questionnaire, 2013**

A role for government in relation to impact investment that aligns with this approach has been supported by the work of the Productivity Commission (*Contribution of the Not for Profit Sector*, 2010), Senate Economics References Committee (*Investing for good: the development of a capital market for the not-for-profit sector in Australia*, 2011), the Australian Advisory Board (*Delivering on Impact*, 2014) and the FSI Report. It is also aligned with the conclusions reached for a global market by the Social Impact Investment Taskforce and the National Advisory Boards of other countries participating in that process.

We agree with Recommendation 32 of the FSI Report that the Australian Government:

> *Explore ways to facilitate development of the impact investment market and encourage innovation in funding social service delivery.*
>
> **FSI Report 2014, Recommendation 32**

There are two key elements to the recommendation which shape the role for the Australian Government: Facilitating development of the impact investment market and encouraging innovation in funding social service delivery. In each case government has a role as market builder, market participant and market steward. The policy objectives of those roles in relation to the two elements of the recommendation are set out in the table below.

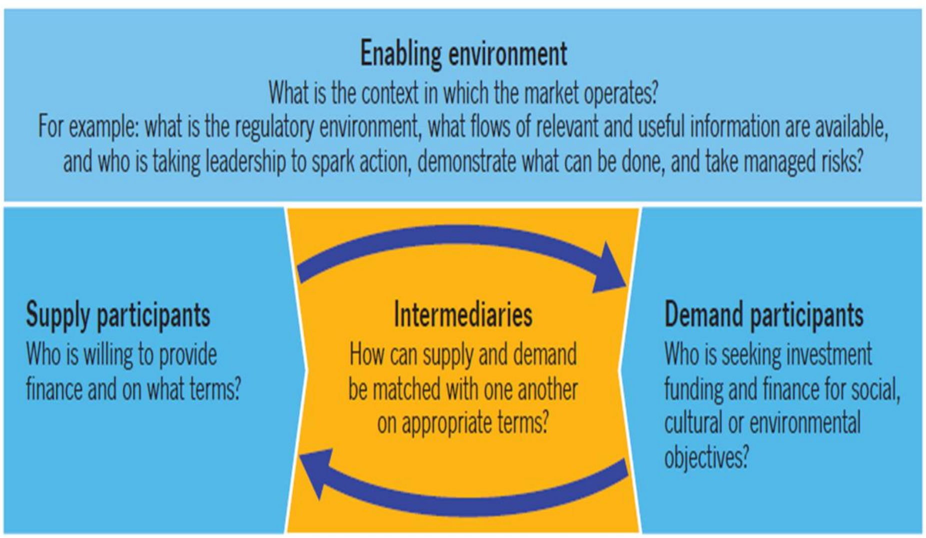
Facilitate Market Development			
Role	**Market Builder**	**Market Participant**	**Market Steward**
Policy Objective	▪ Increase resources to impact driven organisations ▪ Develop impact investment system with a range of participants ▪ Provide incentives to encourage greater participation and scale in early stages of market development	▪ Better targeted government spending and direct capital to policy priorities ▪ Increase flow of investment to social purpose organisations and social objectives	▪ Remove barriers to investment ▪ Reduce red tape preventing greater participation by investors
Encourage Innovation in Social Service Delivery			
Role	**Market Builder**	**Market Participant**	**Market Steward**
Policy Objective	▪ Increase resources to impact driven organisations ▪ Encourage willing talent to tackle issues affecting society and build and grow effective social purpose organisations	▪ Increase focus on efficacy and outcomes ▪ Orient funding to provide incentives for innovation and effective solutions	▪ Ensure regulatory frameworks enable a range of impact – driven organisations ▪ Remove red tape that impedes sustainable blended models of profit and purpose

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

A more active role for the Australian Government in expanding impact investment is critical. In the short to medium term, targeted policy and prudent investment can catalyse activity, reduce risks for new entrants, build track records and thus enhance investor confidence. Without that, progress in growing the market is likely to be slower and less impactful. Further, Government could miss the opportunity to use an expanded range of policy tools to combat budget pressures, expand the pool of available resources and generate more sustainable solutions to issues that create demand for services. Australia could miss the opportunity to be competitive in this growing global market.

Focal Areas for Government Action & Policy

A central lesson from the international experience is that government action to facilitate market development is most effective where there is balanced and strategic development across dimensions of demand, supply, intermediation and the enabling environment (London Principles, IIPC 2013). Increasing the flow of capital without attention to the role of intermediaries and the availability of investment ready enterprises and deals or the context within which they operate is likely to be less successful than an integrated strategy.



Addis et al IMPACT- Australia 2013

Impact investment provides an additional opportunity for governments. That is, it opens an opportunity to signal where there is particular societal need to direct and encourage private capital to those areas. For example, making relatively modest amounts of public capital available, which could be reoriented from within the existing system, in priority policy areas where demand is growing such as early childhood education and care or aged care could mobilise private capital on terms that improve reach across communities and build in accountability for outcomes. Similarly, restructuring areas of current grant funding for capital works in targeted areas such as education could reduce risk and enable more private capital to enter.

Beyond its role as standard setter and funder, government has more than money and regulation to contribute. The Senate Economics References Committee process recognised:

> *That Government can facilitate the development of the market through a number of means, such as providing a supportive environment; taking a longer term view of its development; convening and encouraging collaboration across sectors; and designing and implementing innovative policies to challenge both social economy organisations and investors to take up new financing options*
>
> **Response to the Senate Economics References Committee, 2012**

The Government also has a range of high value (often low cost) contributions to make such as experience, data, and research that are sometimes overlooked. The following table outlines key policy levers, the rationale and examples.

Levers for Government & Policy Action	***Rationale & Benefits***	***Examples***
Catalytic investment & incentives including Social Investment Banks & Funds	Social investment funds and banks are an important part of the infrastructure not only for impact investment but also for a financial system that encourages financial and social innovation and provides access to capital for social purpose organisations on appropriate terms. The particular initiative under the Australian Strategy is intended to provide a long-term committed platform that can: ➢ Efficiently consolidate and direct capital; ➢ Encourage diverse investor participation, including from institutional investors over time; ➢ Provide a broad suite of investment products; and ➢ Promote scale and efficiency. A number of organisations supported development of such a flagship as part of the Australian financial system in their submissions to the Inquiry.	Big Society Capital (UK) was capitalised with funds drawn from unclaimed assets and contributions from four Fleet St banks. It is an independent institution with a social mission that operates as a financial institution with a mission to promote and develop the social impact investment market in the UK. The principles by which it operates include independence, transparency, self-sufficiency and wholesaler. The Social Enterprise Development & Investment Funds were capitalised with $20 million of Australian Government funding and more than that in private investment putting ~$41 million in new capital into three new investment funds offering appropriate finance to social enterprises.

Levers for Government & Policy Action	*Rationale & Benefits*	*Examples*
	In general, catalytic funding de-risks investments, particularly in the early stages of market development where track record is building. Done well, this can also overcome issues of bridging silos and capability gaps within Government. Significant private capital can be leveraged on appropriate terms into areas of social need where it would not otherwise be directed, including communities in need of investment for jobs and economic activity, housing, health outcomes and education. Not all catalytic action by government will involve direct funding. Much can be achieved within existing budget envelopes. Appropriately designed and targeted mechanisms such as guarantees and tax incentives can also play a catalytic role. Some catalytic investment can be directed to stimulating demand and intermediaries. This can not only promote a robust pipeline but also help build the social capital of networks and other connections the OECD has identified as critical drivers of market development and dynamism. The extent of direct catalytic investment required to stimulate the market should be expected to reduce over time. Other catalytic action includes tax incentives and guarantees.	This finance enables organisations ranging from Eating Disorders Victoria to Artery Co-op, MiHaven property development and Myrtle Part retirement homes to expand their reach and impact in communities. Bridges Community Ventures was seed funded in 2003 with a subordinated loan from the UK Government and private investment to create a fund to invest in aspirational businesses in communities that ranked in the lowest 20% by social and economic indicators. Today Bridges Community Ventures have six funds and manage ~£500 million. They invest not only in underserved communities but also in health and wellbeing, education and skills and sustainable living, supporting impact to date including more than 3000 jobs, 1000 of them for people who were previously unemployed and over 7,400 qualifications gained. In 2014 a US business was opened.[1] Other international examples include the US Community Development Financial Institutions Fund and the European Commission Structural Funds, work underway through the Japanese National Advisory Board on Impact Investment.

[1] *For a literature review and design building blocks how 'place based impact investment' could work in Australian communities see Place Based Impact Investment in Australia*

Levers for Government & Policy Action	***Rationale & Benefits***	***Examples***
		Examples in development investment include the US Overseas Private Investment Corporation and the Global Innovation Fund, a collaboration between the US, UK and private investors to which Australia and Sweden recently contributed. Examples of tax incentives include the UK Social Investment tax concessions and the US New Markets Tax Credit. Examples of guarantees include the US Small Business Administration US$400m guarantee fund to direct capital to communities needing jobs and economic activity and the Multilateral Investment Guarantee Agency (part of the World Bank Group).
Clarification of duties for superannuation & philanthropic trustees	The objective is to go beyond what can be differing interpretations of the regulatory environment to put beyond doubt that impact can be considered in addition to risk and return by fiduciary decision makers. Done well, this would build confidence and encourage mobilisation of capital.	UK Charity Commission guidance note; US National Advisory Board recommendations on ERISA In France the 90/10 rule mandates that employees with access to a Plan d'Epargne Enterprise have opportunity to invest in funds that place 5015% of their capital in social purpose organisations growing capital in these funds for €404 million in 2006 to €2.6 billion in 2012.
Greater flexibility for how philanthropic Capital is directed	Well-designed policy could reduce constraints and help fill funding gaps between grants and commercial capital, encouraging flow of more capital overall.	The US Program & Mission related investment schemes (MRI and PRI, respectively) [2].

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

Levers for Government & Policy Action	*Rationale & Benefits*	*Examples*
	This type of investment capital could be a significant stimulus for social and financial innovation. There are several concrete areas of high potential, which if implemented would have the following effects. ➢ Enable a greater role for philanthropy in attracting more capital for social purpose and deploying its available capital for greater impact. ➢ Allow the foundation to work in close collaboration with the private sector to align the social goals financial tools and goals ➢ Enable more effective and creative utilisation of the corpus of philanthropic trusts and foundations for the purposes for which those pools are created and already receive favourable tax treatment. ➢ Promote the extension of the philanthropic investments, for example to provide risk capital for new investment funds and seed capital for purpose driven organisations. ➢ Facilitate access to capital by organisations to which they would otherwise be permitted to make grant funding available.	These are being utilised to powerful effect by foundations including the Gates Foundation and FB Heron Foundation. This can work by de-risking private sector investment by providing subordinated capital or writing off a portion of the investment or providing appropriate guarantees. For example, the Gates Foundation PRI approach adopted in 2009 involved allocation of more than $1.5 billion by 2012. Examples include the Global Health Investment Fund and Aspire Public Schools investing in quality schools for low-income communities and students in the US.
Support development of social purpose organisations & intermediaries	For a robust market to develop, there need to be incentives for a range of market participants.	UK Social Incubator Fund and Investment & Contract Readiness Fund provide structured support to build the pipeline of investable enterprises.

Levers for Government & Policy Action	***Rationale & Benefits***	***Examples***
	As with other markets, experience suggests that new entrants often need a measure of support and capacity development, particularly in early stages. ➢ This includes extending access support for the broader entrepreneurial ecosystem to social purpose initiatives and organisations and investment in them. ➢ This can also put an emphasis for government agencies on funding enterprises and capacity rather than programs. ➢ Intermediary support is a critical component of market development. Without it, those in need of finance and those with capital cannot find one another on appropriate terms.	The Investment Readiness Fund seed funded by National Australia Bank and managed by Impact Investing Australia opened on 10 March 2015 and invites applications for grant funding to secure advice needed by enterprises to attract investment, with a target of 2x – 10x the amount of grant funding in investment. The Australian Advisory Board's aim is to grow this to $10 – 20 million in funding available. The Case i3 Centre at Duke University develops, research, evidence and practical training for entrepreneurs and intermediaries. In Australia, social enterprise incubators and accelerators have entered the market in recent years including Social Traders, the Difference Incubator.
Reorient toward outcomes & efficacy	Increasing focus on outcomes and efficacy and aligning the availability of capital can incentivise those with solutions that work to develop scale and those with ideas to innovate to develop new solutions. ➢ Increased transparency of the fiscal cost of social issues show where there is room to do better ➢ Promotion and practice of effective outcomes measurement and providing incentives for innovation, efficacy and prevention.	A renewed focus on outcomes based contracting is being explored in a range of jurisdictions including Queensland, South Australia, ACT and NSW. Social Impact Bonds are a financial innovation that links financial performance to social performance. NSW was an early mover and has issued two bonds to improve outcomes for children in the out of home cares system and their families. Social Impact bonds are developing across jurisdictions from the UK, US and Australia to Ghana, Columbia, Israel and South Africa.

Levers for Government & Policy Action	*Rationale & Benefits*	*Examples*
	➢ Encourage more open engagement about the relationship between investment in prevention and true costs of dealing with the effects of social issues. ➢ Innovative mechanisms for service delivery such as social impact bonds should be considered. ➢ Re-orientates existing funds to create incentives for State and Local governments and the community sector to focus on outcomes, efficacy and innovation and encourage scale.	Initiatives around the world are putting greater focus on measurement of the efficacy of social initiatives. For example, Inspiring Impact (UK) is a collaborative initiative between the UK Cabinet Office and others to drive more effective measurement and evidence based decision making. Another development is making common data sets available, for example the UK unit cost database developed by that government with the New Economics Foundation publishes the unit cost of over 600 social services to incentivise effectiveness and innovation. Related work underway in NSW as part of its Social Impact Investment Policy will publish cost and performance data. A Statement of Opportunities including data on four areas of service delivery was published in February 2015. The US Federal Government proposed a $300 million Social Impact Fund to provide incentives for State and local governments. A Social Impact Bond Bill (US) is before Congress intended to promote more evidence based and innovative solutions. The US challenge.gov is open to all Departments to seek new thinking and solutions from the public. The challenges range from space apps for NASA to tracking systems for books destined for schools in low income communities to health solutions.

Levers for Government & Policy Action	***Rationale & Benefits***	***Examples***
Appoint champions and develop capability	Leadership from government has an important signalling effect in the market. Champions, including at Ministerial level serves two purposes: a clear contact point for stakeholders and, for government, a line of sight to the nature, range and volume of impact investment opportunities. ➢ This can encourage a more coherent approach among departments and tiers of government and collaboration across sectors. ➢ Champions should be linked with sector leadership to drive market development efforts collaboratively. ➢ Concentrating expertise and 'making it someone's job' has been recommended by the Social Impact Investment Taskforce for governments and for other sectors. The focus is on building familiarity and capability relating to the different aspects of impact investment, including design, structuring, measurement and cross-sector collaboration. ➢	The UK Government Minister for Civil Society has responsibility for social impact investment supported by a dedicated team in the UK Cabinet Office The White House Office for Social Innovation & Civic Participation leads on impact investment for the US Executive. They have convened a number of forums and worked with the Office of Management & Budget on the next steps in evidence and innovation for social policy outcomes. The NSW Premier and Treasurer sponsored the Social Impact Investment Policy released in February 2015. NSW has created an Office of Social Impact Investment with staff drawn from the NSW Treasury and Premier's Department, which reports through Associate or Deputy Secretaries in each Department to an intergovernmental steering committee with access to an independent Expert Advisory Group.
Use convening power to facilitate development of products and opportunities for investment	Government convening provides leadership and signals interest that Increase confidence of other actors in the market. ➢ In areas where significant change is underway (e.g. social sector) and/or government budgets are under particular pressure, more diverse tools are needed.	The White House Office for Social Innovation & Civic Participation have convened a number of forums at the White House to build awareness and participation in new ways of financing social outcomes. The US Secretary of State hosted a Global Impact Economy Forum with leaders from around the world in 2012.

Levers for Government & Policy Action	***Rationale & Benefits***	***Examples***
	➢ Provides opportunities to showcase good practice, encourage more of what is working and encourage contestability of ideas and approaches.	The UK Prime Minister convened the G8 Social Impact Investment forum in June 2013 where the Social Impact Investment Taskforce was launched. The NSW Government has hosted a number of forums to share learning from the Social Benefit Bonds. These have been attended by officials from across Australian governments and NZ as well as community and private sector leaders.

Policy Design

To give effect to the role of Government, and the Inquiry's primary recommendation will require effective policy design. A number of useful frameworks have already been developed (see **Appendix 4** for leading examples).

Not only do the frameworks exist, but significant work has already been done on how they can be applied to good effect. Lessons have been drawn from both local and international experiences in impact investing from the development of other parts of the financial system. The resulting analysis points consistently to key policy levers.

Many of the questions for policy makers are the same as in the economic policy and broader market development and design contexts:

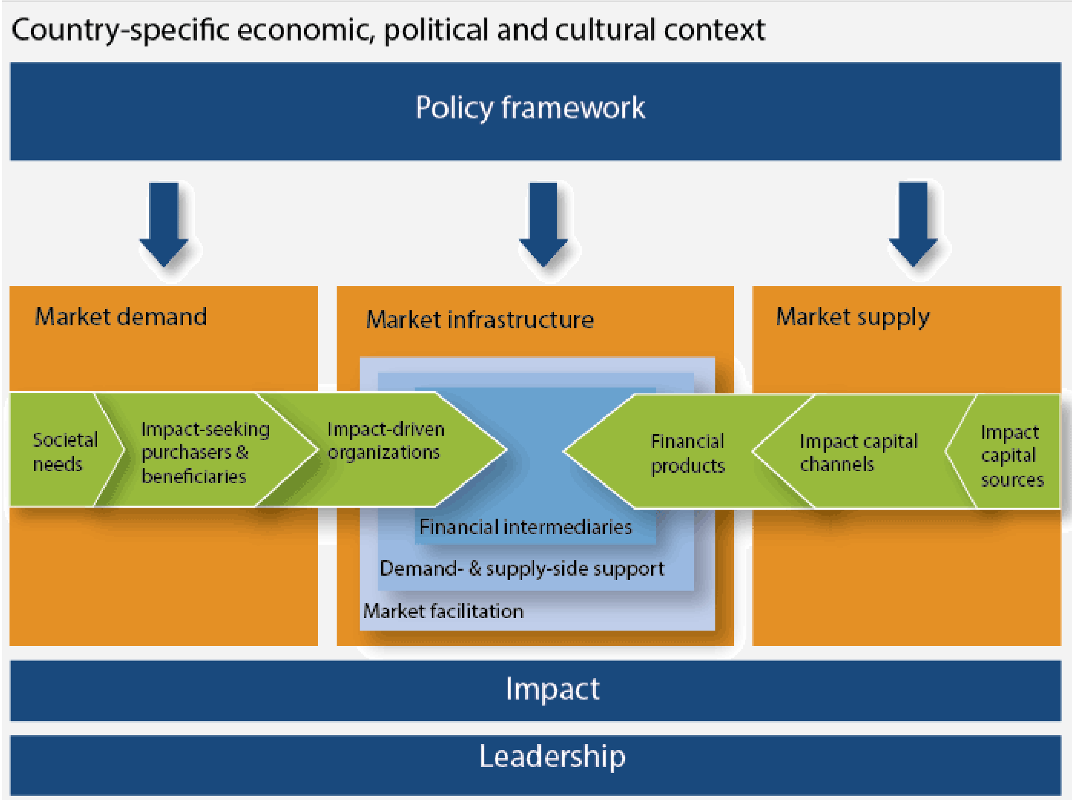
- ➢ Who are the key participants that can be mobilised?
- ➢ Are there structural barriers to investment?
- ➢ Are there regulatory barriers to investment?
- ➢ Is there information asymmetry and uncertainty constraining market development?
- ➢ Can government action assist in overcoming a short-term lack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

As the focus is broader, encompassing societal as well as economic considerations, some additional questions are relevant.

- ➢ Are private markets externalising negative effects on society?
- ➢ Is there scope to more effectively target public spending by leveraging private capital?
- ➢ Can private capital be encouraged into areas of public good on appropriate terms?

The elements of market activity that need to be developed can be represented as follows.

Figure 1: Social Impact Investment Markets



Koenig, A, *Market Analysis in Social Impact Investing* (2014)

More detailed background on effective policy analysis and design is provided in **Appendix 4**. This includes the Social Impact Investment Taskforce led synthesis of the ecosystem and policy levers landscape (Policy Levers & Objectives, 2014) and recent research on the role of government and policy in impact investment (Addis in Nicholls et al, pending).

The ‘London Principles’ published by the Impact Investing Policy Collaborative (2013). The key elements focus on clarity of purpose, stakeholder engagement, building institutional capacity for the market, consistency and transparency.

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

- Clarity about policy objectives including a focus on improved social outcomes as well as investment.
- Attention across market dimensions of demand, supply, intermediation and the enabling environment;
- Stimulating action and investment from sources other than government;
- Transparency

- Removing rather than adding to regulatory burden; and
- Additionally, so that policy action builds on market activity and ‘crowds in’ further activity and investment.

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

In addition to market impacts, implementation strategies need to take into account relevant capability. This can require skills that currently sit across boundaries within government as well as between government and other sectors. This can be addressed through targeted advice and clear governance as well as building areas of expertise within government. For example, NSW Government has established an Office for Social Impact Investment with staff from the Treasury and Department of Premier & Cabinet that reports through the inter-governmental Steering Committee and can access expert external advice from the NSW Government Social Investment Expert Advisory Group.

Design and capability challenges can be addressed, effectively and to deliver quality outcomes. Existing processes, used effectively, can be powerful tools in developing initiatives with confidence in probity and value for money. For example, the Social Enterprise Development & Investment Funds initiative was highlighted by the Australian Public Service Commission as an example of innovative policy executed well (State of the Service Report, 2010-11). A copy of the case study is included in **Appendix 4**.

Clear precedents exist in Australia and internationally from which to draw practical lessons for policy design and implementation. We would be happy to assist the Treasury to navigate particular examples and the available evidence on their efficacy and impact.

Call for Action

There is a clear and immediate policy opportunity for the Australian Governments to develop a strategic approach to building the market for impact investments in and from Australia. This builds on appetite in State Governments, financial institutions, super funds, corporations, and the community sector to engage in dialogue, and importantly, to find ways to act to develop more investment opportunities.

This call has come from a diverse range of leading organisations from across sectors that made submissions to the Inquiry encouraging Government action.

> *Government should take a leadership role in catalysing the Australian impact investment market because a larger and more robust market will realise savings and benefits to the community, Governments of all levels and taxpayers. An expanded market will result in increased capital flow to the community sector, encourage innovative social service delivery and improve data collection and reporting.*
>
> **Social Ventures Australia Submission on the FSI Interim Report 2014**

> *It is our view that impact investment offers significant potential to improve outcomes for a broad range of stakeholders. When thoughtfully established and supported through policy, these investments can produce strong outcomes for government through the efficient delivery of social or environmental services through the private sector. They can stimulate the private sector to innovation in the solving of social or environmental challenges through providing incentives for entrepreneurship. Furthermore, they can provide investors with new types of assets that, in certain circumstances, can offer an attractive risk-return trade-off in the context of overall portfolio diversification.*
>
> **Christian Super Submission on the FSI Interim Report 2014**

> *In our view, long term mega-trends of aging populations and climate change will, over time, adversely impact government revenues, while the social needs, society's expectations, and the costs of delivering social outcomes will all likely rise. To best meet these needs in the future within a more fiscally and resource-constrained environment, Australia might need to develop an even greater focus on measuring social impact and achieving social outcomes to determine how best to allocate those resources, and create pathways for increasing private sector participation in financing and delivering social outcomes.*
>
> *Providing support and encouraging the development of the nascent social impact investment sector today—including innovation and investment in measuring social impact more effectively across a broad range of current social programs—might potentially have wider benefits, in our view. Specifically, it could enable the more efficient reallocation of capital over time toward programs that provide the highest social returns (not only in relation to those financed by social impact bonds) and facilitate greater private sector participation in funding certain programs.*
>
> **Standard & Poors Submission on the FSI Interim Report 2014**

The Report also discusses how Government could take a more active role in expanding impact investment through the provision of risk capital. Such active participation in impact investment activities is another policy tool which Government may consider using where it can assist in meeting its particular policy objectives. Depending on the circumstances, it may enable Government to use public resources to leverage private investment in order to achieve particular policy outcomes more effectively and efficiently.

Philanthropy Australia Submission on the FSI Interim Report 2014

This is the kind of innovation that Australia's financial system should support and promote as part of its mainstream business…The Property Council recommends that Government undertake a more active role in expanding impact investment, such as providing risk capital and establishing social investment banks.

Property Council of Australia Submission on the FSI Interim Report 2014

Priority actions

We agree with Recommendation 32 of the FSI Report. In considering its policy response, we encourage the Australian Government to focus on areas that engage with, complement and build upon positive developments already occurring. Specifically, engaging with the Australian Advisory Board and Impact Investing Australia in the delivery of the Australian Strategy provides a unique opportunity to utilise cross-sector collaboration in which senior leaders are already involved to have immediate and growing impact.

Priorities for government action have been identified by the Australian Advisory Board (**Appendix 1 and 2**)[3] which align directly with the Social Impact Investment Taskforce recommendations (**Appendix 2**).

The Social Impact Investment Taskforce concluded across the board that most of the recommended actions involve no additional government spending, and those that do have potential to leverage additional private investment and generate benefits over time far in excess of the cost.

Acting on the following priority actions in the short term would accelerate delivery of the Australian Strategy and enhance its effect in the market and/or have a complementary effect in removing barriers to market development. Additional policy measures are identified in the **Appendix 2**.

[3] Note that for the purposes of the Australian Strategy, policy to further enable market development was organised with reference to the areas of market activity: supply of capital (capital growth), demand from capital (outcomes and innovation) and enabling environment (market building). Key recommendations in this Submission have been organised to relate more directly to the actions for government identified in Recommendation 32 of the FSI and the role of Government in the financial system.

Levers for Government & Policy Action	***Policy Measure(s)***
Catalytic investment & incentives ***Including Social Investment Banks &Funds***	▪ *Support Australian Advisory Board efforts to create an Australian Social Impact Fund* to act as market champion, stimulate intermediary market and crowd in private capital. Reference points for this initiative include Big Society Capital (UK) and the Access Foundation (UK), US CDFI Fund, European Commission Structural Funds. This opportunity to work directly with leaders in the global community to shape a significant innovation for the Australian financial system will reinforce Australia's leadership and competitiveness in the global market for impact investment. ▪ *Remove barriers inhibiting investment in social infrastructure*. This would enable willing capital in the system to be deployed to developing valuable social infrastructure. This could be enhanced into the medium term with first loss capital and/or guarantees to encourage social infrastructure investment. ▪ *Provision for unsolicited proposals* for infrastructure initiatives could be expressly expanded to social infrastructure. ▪ *Examine potential of incentives to encourage social impact investments* including tax credits, franking credits, specified deductions and top up coupons.
Clarification of duties for superannuation & philanthropic trustees	▪ *Clarify duties for trustees to allow consideration of risk, return and impact. For Superannuation trustees this could build on the APRA response to the Inquiry's interim report and the US initiatives underway to provide guidance under ERISA legislation. For philanthropic trustees guidance from the Australian Taxation Office could draw upon the work of the UK Law Commission.*

Greater flexibility for how philanthropic capital is directed	▪ *Increase flexibility for Private and Public Ancillary Funds (PAFs and PuAFs, respectively) to enhance their capacity to use investment capital to support and complement their grant making and areas of social policy priority. Measures include:*
	    ▪ *Permit PAFs to provide guarantees and other security*
	    ▪ *Allow PAFs to give to a broader range of entities, including those that do not have Deductible Gift Recipient status, subject to an appropriate purpose test. In particular, PAFs should be able to donate to market building organisations that are extending the availability of philanthropic and impact capital, social enterprise incubators and* accelerators,

Levers for Government & Policy Action	*Policy Measure(s)*
	loss capital to de-risk new impact funds and community development finance organisations. ▪ *Adapt mission and program related investment regimes* for philanthropic trusts and foundations adapted from learning from operation of such schemes in other jurisdictions.
Support development of social purpose Organisations & intermediaries	▪ *Extend eligibility for enterprise support to social entrepreneurs and enterprises.* This draw upon recommendations of the Productivity Commission (2010) and build on existing initiatives through the Department of Industry. ▪ *Match private funding for existing market initiatives* such as the investment and contract readiness initiatives in the Australian strategy, already in the market seed funded by NAB. Specific outcomes areas can be targeted (e.g. employment, aboriginal businesses or health). ▪ Additional measures could incorporate *support for social enterprise incubators and accelerators.*
Reorient toward outcomes & efficacy	▪ *Social Innovation & Impact Fund* of $200-300 million to encourage State Governments to re-orient to outcomes. Funding could target areas of priority reform where there are also benefits to the Australian Government, e.g. through increased participation. Funding could target feasibility, development and top up coupons to reflect shared benefits across levels of government. ▪ *Support development of data and metrics* on outcomes and impact. This should include developing government capability for outcomes measurement and outcomes based procurement and engaging with networks such as Social Impact Measurement Network Australia.
Appoint champions and develop capability	▪ *Appoint champions within Australian Government including a Minister* in the Treasury or Finance portfolios and an *Office for Social Investment* including representatives of Department of Prime Minister & Cabinet and the Treasury.
Use convening power to facilitate development of products and opportunities for investment	▪ *Engage with the* Australian Advisory Board to access expertise in the developing market. ▪ *Utilise convening power* to raise awareness and encourage development of the field.

Conclusion

In our view, well designed policy can make a significant contribution to unlocking significant capital that can increase the capacity, reach and effectiveness of organisations to address social issues. The Australian Advisory Board and Impact Investing Australia welcome opportunities to engage the Australian Government in this process, including to enable greater understanding of this initiative and its potential to be developed. We would be happy to assist the Treasury to assess the potential and likely impact of funding and policy initiatives for the Australian context.

There is increasing focus in Australia on the range of ways in which more capital can be directed to social issues and organisations seeking to address them more effectively, on appropriate terms. It is important this potential be developed as part of our financial system within a well-functioning and resilient market to promote growth and prosperity.

What we see emerging globally continues to reinforce the conclusion that impact investment is gaining significant momentum and the time for Australia to act is now. Impact investing can and should be encouraged as part of the financial system in Australia.

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Appendix 1: Delivering on Impact: The Australian Advisory Board Strategy for Catalysing Impact Investment

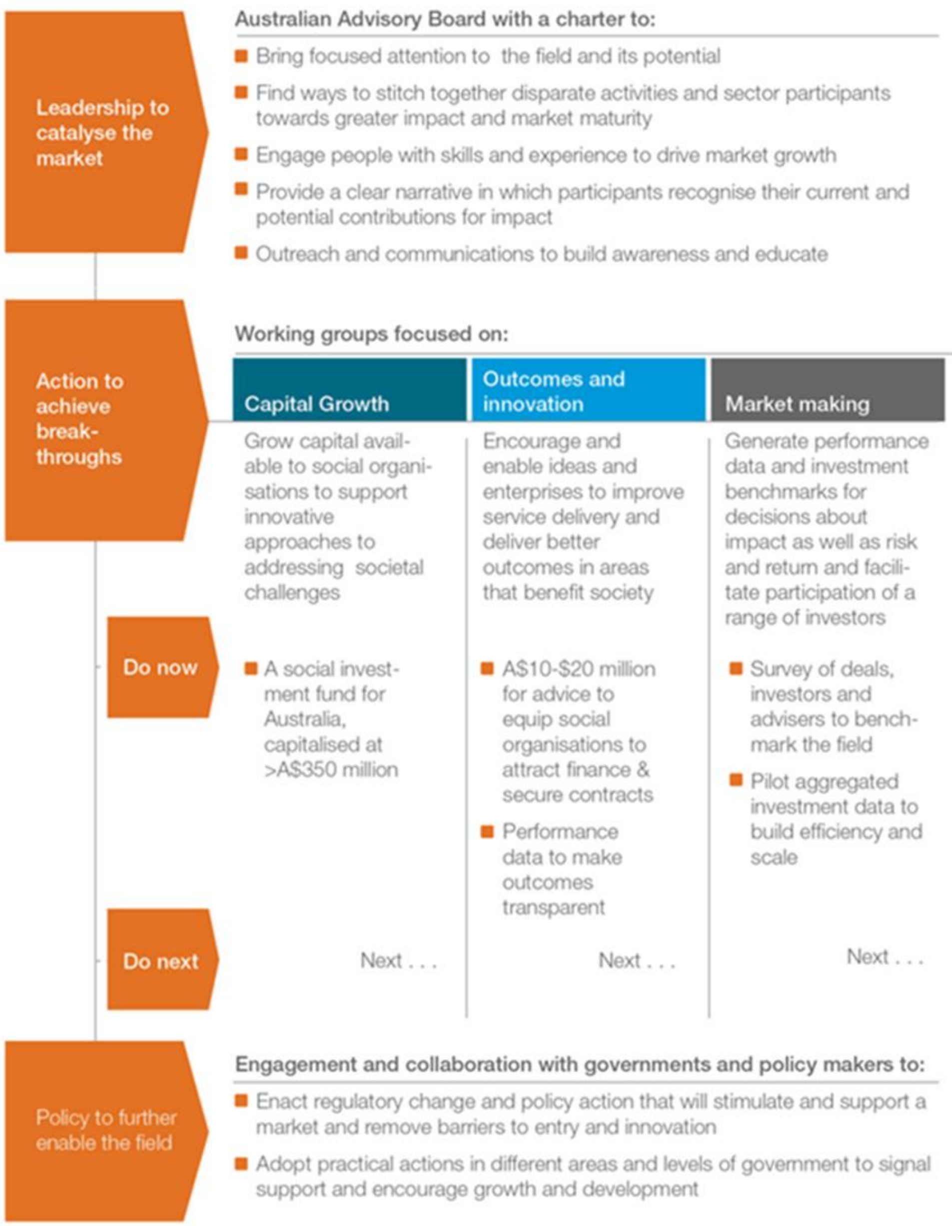
The Australian Advisory Board on Impact Investing.

Note: Michael Traill and Stephen Fitzgerald have retired from Australian Advisory Board. Carolyn Hewson re-joins the Australian Advisory Board in 2015 following completion of commitments to the Financial System Inquiry

Summary of the Australian Advisory Board Strategy

A copy of the strategy: *Delivering on Impact* has been provided separately as part of **Appendix 1** to this Submission.

Figure 7: Breakthrough strategy to catalyse impact investment



Australian Advisory Board Strategy: *Delivering on Impact* 2014

Appendix 2: Social Impact Investment Taskforce Recommendations

Social Impact Investment Taskforce: 8 High Level Recommendations

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

A number of additional recommendations are also included in the reports, including a number of policy recommendations.

Australian Advisory Board Policy Recommendations

Policy to further enable the field of impact investment

Capital Growth

- Reorient budget based funding to provide catalytic capital
- Initiate impact funds to attract additional private capital
- Regulate to expressly permit mission & program related investment
- Remove barriers to investment in community and social infrastructure
- Consider and design targeted tax incentives to promote impact investment
- Increase disclosure requirements for institutions to include positive screening

Outcomes & Innovation

- Improve commissioning with focus on outcomes & quality
- Develop procurement models to include consideration of social impact
- Extend entrepreneurship support to social entrepreneurs
- Develop international development investment strategy
- Support development of data and metrics on outcomes & impact
- Initiate outcomes and capacity fund to support capacity and coordination for payment by outcomes approaches

Market Making

- Develop whole of government policy for impact investment as part of toolkit at all levels of government
- Support and enable intermediaries, including Community Development Finance Institutions
- Support awareness raising and education of impact investment tools and approaches
- Develop budget rules to facilitate impact investment approaches including social impact bonds and impact funds

Practical steps for government engagement in impact investment

Capital Growth

- Share evidence and lessons where re-orientation of funding has attracted private capital
- Enable unsolicited proposals for social policy extending practice in areas such as infrastructure
- Develop tools that facilitate investment tools being used for social policy
- Refresh guidance for fiduciaries and trustees

Outcomes & Innovation

- Share evidence and lessons where outcomes based funding is utilised including through hub at each level of government
- Develop tools to facilitate outcomes based commissioning
- Support cross agency & intergovernmental secondments to share learning
- Publish cost to public of service provision in key service areas

Market Making

- Utilise governments' convening power to raise awareness and encourage the participation
- Reward & recognise policy and social entrepreneurs
- Create a central contact point in each government and connect them in a community of practice
- Enable platforms for expertise, excellence and evidence
- Encourage open data sharing and transparency

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Additional Medium Term Policy Measures

The following are additional short and medium term policy measures that would make a contribution to development of the impact investment market in and from Australia and give effect to the policy goals identified by the Australian Advisory Board.

Levers for Government & Policy Action	***Policy Measure(s)***
Catalytic investment & incentives including Social Investment Funds & Banks	▪ *Orient development funding to investment fund through Australian DFI.* Examples include Overseas Private Investment Corporation (US) and measures through UK and German Development agencies. See also report of the International Development Working Group to the Social Impact Investment Taskforce. ▪ *Seed new investment funds designed to create jobs and revitalise communities where there has been chronic under-investment.* The funds will provide finance for small to medium enterprises (SMEs) in communities at risk of spiralling under-investment and disadvantage. Reference points include Place Based Impact Investment in Australia (Aus), Bridges Community Ventures (UK), various community development funds (US), Triodos Bank (Netherlands) ▪ *Targeted support to encourage Community Development Finance Institutions (CDFIs) and other financial intermediaries*. Reference points include Productivity Commission (2010) and Senate Economics References Committee (2011)
Clarification of duties for superannuation & philanthropic trustees	▪ *Examine potential of disclosure regimes and encouragement for tax advantaged savings to offer impact investment options. The French '90/10' regime is an example.* ▪ *Conduct research on effects of universal ownership and barriers to fiduciary decision making for long term performance.*
Greater flexibility for how philanthropic capital is directed	▪ *Review operation and effectiveness of measures introduced to identify additional barriers and gaps.* ▪ *Examine potential of disclosure regimes to encourage tax advantaged philanthropic funds to invest for social purpose.* ▪ *Undertake survey of philanthropic activity for impact and attitudes toward investment.*

Levers for Government & Policy Action	***Policy Measure(s)***
Support development of social purpose organisations & intermediaries	▪ *Legal structures including feasibility of B Corporation or other "hybrid" organisational forms and certifications to provide legitimacy and visibility for social purpose organisations through certification and/or to promote new and innovative business models.* ▪ *Develop of a practical guide for social purpose enterprises on appropriate trading forms, legal and taxation issues, employing staff and other issues involved in establishing and operating a social enterprise.* ▪ *Provide support for social enterprise incubators and accelerators.*
Reorient toward outcomes & efficacy	▪ *Identify areas where social impact bonds could apply and provide guidance to market akin to NSW Government Statement of Opportunities. Areas of focus could include overcoming barriers to employment, excellence in preventative health and management of chronic health conditions. An EOI process would solicit the strongest proposals from market for people experiencing long term unemployment, youth, people with a disability, refugees and/or Aboriginal Australians.* ▪ *Encouraging greater flexibility within agencies subject to appropriate accountability for outcomes can also re-orient focus and incentives for efficacy. See for example the memo from the US Executive Office of the President, Office of Management & Budget 26 July 2013 titled 'Next Steps in the Evidence and Innovation Agenda'[4].*
Appoint champions and develop capability	▪ *Include social and community benefit in procurement requirements* ▪ *Use expression of interest processes to seek new solutions to social policy issues. Examples include challenge.gov initiative (US) and Grand Challenges (Canada).* ▪ *Collaborate with State Governments, particularly NSW on development of knowledge hubs and tools that can contribute to practice*

[4] Published at https://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-17.pdf

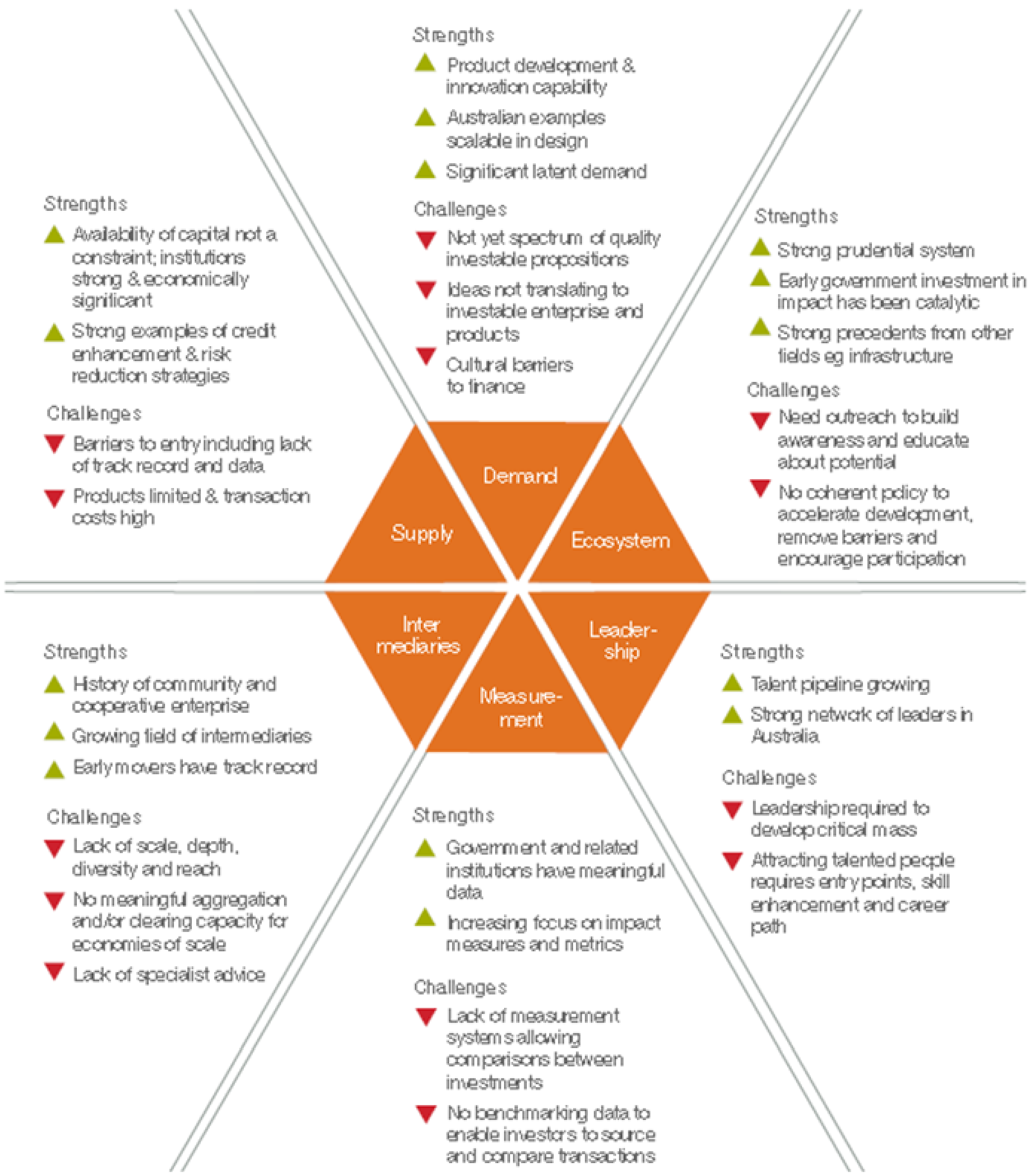
Levers for Government & Policy Action	***Policy Measure(s)***
Use convening power to facilitate development of products and opportunities for investment	*Promote* use and development of innovative impact finance including through rewards and awards for financial innovation with social impact. See for Example UK Government Social Investment Awards. *Collaborate with State Governments to develop government capability* and engagement in the impact investment market Convening to facilitate design process involving social sector and finance sector development of debt products appropriate to the needs of the not for profit sector, aggregation mechanisms for the non-profit sector, and social infrastructure development (where there is significant willing capital). NSW Government, for example, is conducting market soundings in areas of policy priority, having published information to the market.

Appendix 3: Strengths & Challenges in the Australian Market

The particular strengths and weaknesses of the Australian market were the subject of market soundings through development of the IMPACT-Australia report in 2012-13 and in the course of development of the Australian Advisory Board on Impact Investing strategy, which is intended to achieve breakthrough in key areas to deliver a step change in the market overall.

This picture for the Australian market has much in common with other countries. This is reflected in the national reports of the countries that participated in the Social Impact Investment Taskforce (see www.socialimpactinvestment.org) and in the OECD Report.

Strengths & Challenges in the Australian market for Social Impact Investment



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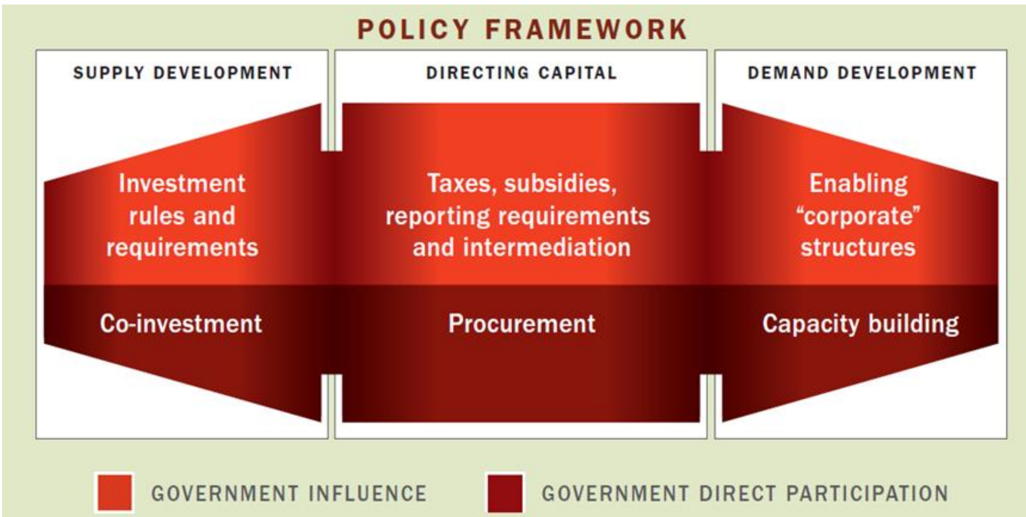
Appendix 4: Policy Design & Analysis for Impact Investment

Frameworks for Impact Investment Policy Design & Analysis

The first global framework for the role of government and policy to develop impact investment was developed by the Impact Investing Policy Collaborative in 2011 and focuses on the supply and demand dimensions of the market.

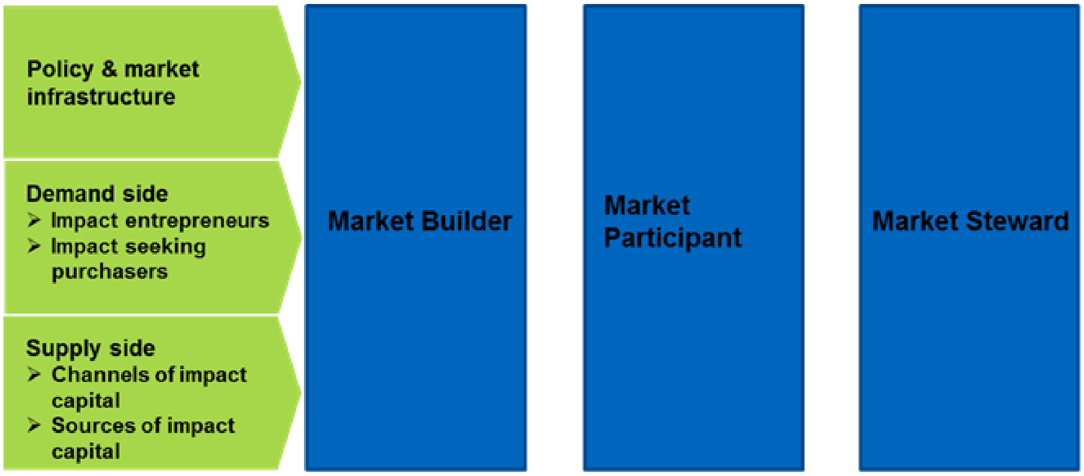


Thornley et al, 2011

The Social Impact Investment Taskforce adapted this to reflect with a slightly different emphasis that the role of government as a market builder, market participant and market steward could play. Policy as considered by the Social Impact Investment Taskforce is to be a central pillar of market development. A companion report to the Taskforce: *Impact Investment – Policy Levers & Objectives* was published to share the work done on policy through the Social Impact Investment Taskforce process with a broader audience.

These frameworks focus primarily on the role of governments in relation to the market dimensions of impact investment. Government has a dynamic, but also relatively well defined toolbox at its disposal. Not all elements of this toolbox require regulatory or policy change. Some are practical in their orientation.

Social Impact Investment Taskforce Overview Role of Governments



Adapted from Social Impact Investment Taskforce Report 2014 & Policy Levers & Objectives 2014

From Frameworks to Action

The Australian Advisory Board on Impact Investing (2014) recommendations for policy and practical government action (set out in **Appendix 1 and 2**) draw upon global precedents and local experience.

National Advisory Boards of other participating countries also put particular emphasis on policy. The US National Advisory Board focussed exclusively on federal policy to unlock private capital for public good.

In each case, these recommendations and strategies draw from stakeholder engagement and careful analysis of domestic conditions and align with the recommendations of the Social Impact Investment Taskforce (2014) made based on analysis of the experience across participating countries.

Roles for Government & Key Policy Objectives identified by Social Impact Investment Taskforce

Figure 3: Roles for Government & Key Policy Objectives

	Market Builder	Market Participant	Market Steward
Policy and market infrastructure	▪ Contribute to impact investment culture, development of intermediaries and professional advisory services	▪ Identify size and area in government is greatest need for innovation and funding	
Demand side ▪ Impact entrepreneurs ▪ Impact seeking purchasers	▪ Increase choice and access to financial resources and support to impact driven organisations ▪ Increase flow of talent to the sector to build and grow impact-driven organisations by celebrating success, rewarding innovation and offering tax incentives	▪ Increase effectiveness of role as purchaser of social outcomes; focus on outcomes and consider outcomes funds	▪ Ensure an appropriate regulatory framework for impact driven organizations; legal forms that protect social mission; relaxation of constraints on social sector revenue generation ▪ Clarify government accounting regime for the use of outcome payments
Supply side ▪ Channels of impact capital ▪ Sources of impact capital	▪ Consider social investment wholesale mechanism; early stage support to funds, intermediaries, access to stock exchange; labelling system for social finance products; innovative financial products ▪ Encourage new investors to enter market with regulatory and tax incentives for social impact investment	▪ Increase flow of investment from mainstream investors including by matching funds, guarantees, first loss guarantees and capitalisation of a social impact investment wholesaler	▪ Reduce regulatory barriers to participation including for philanthropic funds, pension funds and retain investors ▪ Clarify fiduciary duties for philanthropic and pension fund trustees

Addis & Koenig: *Catalyzing a Global Market: Why the Social Impact Investment Taskforce Matters & What Comes Next?* adapted from Social Impact Investment Taskforce 2014 & Policy Levers & Objectives 2014

The table below illustrates how examples of policies and strategies to develop impact investment drawn from around the world can be synthesised into a succinct catalogue of areas for government and policy action.

Levers for government and policy action to support market development.

	Mandate	Enable	Partner	Endorse
Supply development	❑ Procurement rules ❑ Regulatory of 'fiduciary' investments ❑ Mandate in underserved communities ❑ Mandatory disclosures	❑ Tax incentives ❑ Clarify fiduciary duty ❑ Aggregation of small scale investments ❑ Innovative contracting ❑ Guarantees & first loss positions	❑ Co-investment ❑ Initiate social impact bonds ❑ Highlight policy priorities where new solutions needed ❑ Cross-sector collaboration on product design ❑ Facilitate collaboration ❑ Risk assessment & due diligence tools	❑ Cluster institutions ❑ Demonstrate & disseminate case studies ❑ Showcase investor practice ❑ Showcase financial innovation
Demand development	❑ Outcomes focus as requirement for funding	❑ Social enterprise strategy & support ❑ Support for investment readiness & incubation capacity ❑ Funding for 'pioneer gap' ❑ Organisational forms that embed mission ❑ Publish fiscal data on cost of social issues ❑ Certification marks	❑ Cross-sector collaboration for new solutions	❑ Recognise diverse business models supporting impact ❑ Publish data ❑ Co-sponsor research on successful and scalable models
Intermediary development	❑ Dedicated social finance institutions	❑ Invest directly in intermediaries & their capacity ❑ Support hubs that connect investors and enterprises/other opportunities with one another	❑ Support & encourage professional education ❑ Support development of tools ❑ Utilise cross-sector partnership brokers	❑ Social stock exchanges ❑ Clearing house ❑ Case studies of good practice ❑ Model value of brokers & intermediaries through engagement
Infrastructure & enabling environment	❑ Market development policy, strategies & frameworks ❑ Regulators with expertise in social sector and social needs	❑ Review regulatory barriers to investment ❑ Establish dedicated "go to' office with capability to design policy & drive collaboration ❑ Support peak bodies & market building institutions ❑ Centres of Excellence to promote practice & accelerate development of what works ❑ Create new options matching risk/return profiles with investee businesses	❑ Appoint champions within government ❑ Encourage & practice outcome & impact measurement ❑ Participate in forums & organisations that build & harness expertise & set direction ❑ Support educational institutions to develop specialist programs	❑ Support leaders & champions ❑ Enable education ❑ Support market analysis & research

Adapted from Addis *The Role of Government & Policy in Social Finance*, Addis in Nicholls, Paton & Emerson (ed) (2015 pending) Oxford University Press

Australian Public Service Commission Case Study

THE SOCIAL ENTERPRISE DEVELOPMENT & INVESTMENT FUNDS

Department of Education, Employment, and Workplace Relations

The Social Enterprise Development and Investment Fund (SEDIF) improves access to finance and support for Australia's social enterprises to help them grow their business and, by doing so, increase the positive impact of their work in their communities. SEDIF also represents a new way for government to work with corporate and private investors to achieve social impact and represents a turning point in the establishment of the broader social impact investment market in Australia.

In July 2010, the Australian Government announced seed funding to establish two or more investment funds to support the social enterprise sector. Applications were invited from suitably qualified funds managers who could leverage the funding on a one-to-one basis, thereby significantly increasing the overall pool of capital to support social enterprises. The funds will operate at arms-length from government with fund managers setting their own eligibility requirements for social enterprises consistent with the principles of addressing unmet needs in the sector.

During 2010–11 the Department of Education, Employment and Workplace Relations conducted the consultations, assessments and negotiations for the selection of the successful SEDIF funds managers. Recently, the government announced that Foresters Community Finance had been awarded $6 million and Social Enterprise Finance Australia had been awarded $10 million in seed funding. This $16 million in funding has been fully matched by the two funds managers taking the total pool of funds to $32 million. The two funds managers will work with social enterprises to develop their investment readiness, provide tailored finance and support and help them to demonstrate social impact in their communities. The funds will become operational during the second half of 2011.

APSC: State of the Service Report 2010-11

Appendix 5: Exploring links between Social Issues & Economic Growth

While there is not a definitive empirical answer to the links between tackling social issues and economic growth, the following are useful themes pertinent to the domestic and global market.

Social issues are increasingly important for economic growth:

> *This is partly because some of the barriers to lasting growth (such as climate change, or ageing populations) can only be overcome with the help of social innovation…The key growth sectors of the 21st century economy look set to be health, education and care, accounting between them for around 20-30% of GDP, and more in some countries* (Mulgan 2007).[5]

For example, the recent Queensland Government *Social Services Investment Framework* (June 2014)[6] states that in addition to supporting Queensland citizens, investment in social services has "*significant impact on the economic landscape*" citing that 12% of the workforce in 2012-13 was in healthcare and social services, collectively the largest employer in the State and projected to account for 20% of total employment growth over the next five years.

Another thread of this argument is that failure to address social issues or factor in social dimensions can result in inequality which affects social cohesion, and this has a negative impact on growth. In a substantive review of literature addressing the link between inequality and economic growth, a study by the IMF published in April 2014 deduced the following conclusions:

- *Inequality can undermine progress in health and education, cause investment-reducing political and economic instability, and undercut the social consensus required to adjust in the face of shocks, and thus...it tends to reduce the pace and durability of growth.*
- *Lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution*
- *Redistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth.*
- *Inequality remains harmful for growth, even when controlling for redistribution* (IMF 2014).[7] *I*

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5 Mulgan, G., S. Tucker, R. Ali, B. Saunders, Social Innovation: What It Is, Why It Matters, and How it Can be Accelerated," Working Paper, Skoll Centre for Social Entrepreneurship and Oxford Said Business School, 2007.
[6] http://www.treasury.qld.gov.au/clients/community/social-services-reform/investment-framework.shtml

[7] Ostry, Jonathan D., Berg, A., Tsangarides, C.G, Redistribution, Inequality, and Growth, International Monetary Fund, Research Department, April 2014

The links are also implicitly acknowledged in policy debate such as the Business Council of Australia's 2013 *Action Plan for Enduring Prosperity*, emphasising three goals:

- *A strong, growing economy with full employment*
- *A strong society with improving living standards*
- *Growing our economy efficiently and sustainably*[8]

This links to endogenous growth theory', which posits that overall economic development growth rates and trajectories are increased by the level of innovation and skills applied to human capital. Some significant economic theorists (see Solow, Lucas, Romer) have argued the unique value of innovation, skills, and human capital to the economic growth curve. Some economists have estimated that as much as 50% - 80% of economic growth comes from innovation and new knowledge.[9] Others (including Mulgan, Adams & Hess) have extended this argument to innovation in social domains.[10]

For markets to thrive there needs to be a robust society, not the other way around:

To be sustainable, economic growth must be constantly nourished by the fruits of human development such as improvements in workers' knowledge and skills along with opportunities for their efficient use: more and better jobs, better conditions for new businesses to grow, and greater democracy at all levels of decision making… Slow human development can put an end to fast economic growth…. According to Human Development Report 1996, "during 1960-1992 not a single country succeeded in moving from lopsided development with slow human development and rapid growth to a virtuous circle in which human development and growth can become mutually reinforcing" (World Bank 2000)[11] *I*

The argument is that limiting the picture of growth and economic indicators is an incomplete picture, particularly for determining conditions for sustained and successful economic development. Michael Porter, has been leading work on a Social Progress Index to improve measurement, including the link between social issues and economic growth. In 2013 he remarked that leaving social aspects out of competition theory had been a "*huge mistake*" and at the launch of the 2014 Index noted that we really don't understand development and the "*connection between economic development and societies getting better*". [12]

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[8] Business Council of Australia, 'Action Plan for Enduring Prosperity', Summary Report, July 2013.

9 Mulgan, G., S. Tucker, R. Ali, B. Saunders, Social Innovation: What It Is, Why It Matters, and How it Can be Accelerated," Working Paper, Skoll Centre for Social Entrepreneurship and Oxford Said Business School, 2007

[10] Ibid, Adams, D and Hess, M Social Innovation and Why it has Policy Significance, The Economics and Labour Relations Review, vol. 21, no. 2, pp. 139 – 156, 2010

[11] Soubbotina, T. P. World Bank, 'Beyond Economic Growth', 2000

[12] Quoted in Skoll Foundation, 'Economic Growth Does Not Automatically Lead to Social Advancement: New Social Progress Index', April 2, 2014. Available from: http://www.skollfoundation.org/economic-growth-does-not-automatically-lead-to-social-advancement-new-social-progress-index/

Until now, the assumption has been that there is a direct relationship between economic growth and wellbeing. However, the Social Progress Index finds that all economic growth is not equal. While higher GDP per capital is correlated with social progress, the connection is far from automatic. For similar levels of GDP, we find that some countries achieve much higher level of social progress than others. [13]

Some of the literature connects the role of social safety nets and investment in communities to achieving economic growth. A 2013 World Bank study states that when well-designed, "*safety nets can both redistribute the gains from growth and, at the same time, contribute to higher economic growth*". The authors argue a number of ways in which social safety nets influence economic growth, including:

- Enabling households to make more efficient investments in their future; smoothing out income volatility created through market imperfections associated with obtaining credit, inputs, and insurance; and changing incentives to invest in human capital, including of children.
- Assisting households to manage risk
- Creating community assets[14]

Future of markets need to move away from redistribution to creating new value.

Michael Porter and Mark Kramer: "*…societal needs, not just conventional economic needs, define markets … it is about expanding the total pool of economic and social value."* [15]

The concept of shared value, in contrast recognises that societal needs, not just conventional economic needs, define markets. It also recognises that social harms or weaknesses frequently create internal costs for firms – such as wasted energy or raw materials, costly accidents, the need for remedial training to compensate for inadequacies in education. And addressing societal harms and constraints does not necessarily raise costs for firms…Shared value, then, is not about personal values. Nor is it about "sharing" the value already created by firms – a redistribution approach. Instead, it is about expanding the total pool of economic and social value… There is nothing soft about the concept of shared value … [It represents] the next stage in our understanding of markets, competition and business management … social harms or weaknesses frequently create internal costs for firms—such as wasted energy or raw materials; costly accidents and need for remedial training to compensate for inadequacies in education (Porter and Kramer 2011).[16]

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[13] See http://www.skollfoundation.org/economic-growth-does-not-automatically-lead-to-social-advancement-new-social-progress-index/

[14] Alderman, H. and R. Yemtsov, 'How Can Safety Nets Contribute to Economic Growth?', The World Bank, Development Economics Vice Presidency, Partnerships, Capacity Building Unit, Policy Research Working Paper 6437, May 2013.

[15] 'Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth', Harvard Business Review, Jan – Feb, 2011

[16] 'Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth', Harvard Business Review, Jan – Feb, 2011

Appendix 6: About Impact Investing Australia

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

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

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

Our work complements and amplifies existing local innovations and activities, as well as connecting with international initiatives to develop a global market for impact investment.

We lead Australia's participation in the Social Impact Investment Taskforce established under the UK Presidency of the G8. We established the Australian Advisory Board on Impact Investing, which has developed an ambitious strategy to grow the impact investing market in and from Australia. A significant part of our work is in driving the implementation of this bold strategy.

Impact Investing Australia is inviting individuals and organisations interested in being part of this promising market, growing new market opportunities for social and economic value, and establishing themselves as leaders in this growing field, to join with us.

We are grateful to our initial anchor sponsor National Australia Bank, anchor sponsor QBE and a consortium of leading not-for-profit organisations: Benevolent Society, Family Life, Good Beginnings Australia, Life Without Barriers, and UnitingCare Queensland.

For further information visit www.impactinvestingaustralia.com,

email: info@impactinvestingaustralia.com, or join the conversation on twitter @ImpactInvestAus