



# IMPACT—Australia

Investment for social *and* economic benefit



Written by:  
Rosemary Addis, John McLeod, Alan Raine

March 2013

Cover art is *Melatonin Shift #3* by Robert Owen, a member of Artery Cooperative Ltd, an artists' initiative in Melbourne. Artery received loan finance through Foresters Community Finance Fund to purchase one of the premises from which the cooperative operates. Owen's interest is *'in the idea of abstraction as a concrete experiment anchored in metaphysical concerns—in the sense of examining the properties and possibilities of ideas or objects ... a desire to access and materialise sensation beyond the reach of language; an interrelatedness; an enfolding in the world through materials and the work'*.

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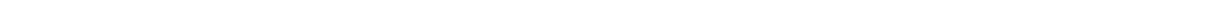
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# Foreword



This initiative focuses on harnessing investment to contribute to building strong communities and a prosperous society. It highlights both the need and possibility in Australia to drive more investment into communities and the issues we care about as a society, harnessing the potential of the emerging field of impact investing.

This report draws on activity already happening here and highlights the diversity and dynamism of the impact investing field. The Australian experience is echoing widespread international developments that actively seek to create positive benefits for society as well as financial return. It builds on the momentum of responsible investment and other areas focusing on positive social and economic outcomes.

I recognise the leadership, passion and creativity of 'first movers' from a range of sectors and organisations in Australia whose pioneering efforts provide examples that others can follow. Thanks to all who contributed their insights and experience in development of this report and provided lessons from the Australian experience of the field. This will help us all to meet the challenge of innovation and collaboration to deliver greater social, cultural and environmental benefits than either traditional grant making or traditional capital markets can achieve alone.

I congratulate JBWere, Mr Jed Emerson and my Department for their work to develop this report. I encourage you to read it and take up the range of opportunities to grow this exciting field in Australia.

A handwritten signature in black ink that reads "Bill Shorten". The signature is fluid and cursive, with a long horizontal stroke at the end.

**The Hon Bill Shorten MP**  
Minister for Employment and Workplace Relations



**Australian Government**  
**Department of Education, Employment  
and Workplace Relations**

**March 2013**

The stories featured in this report showcase examples in Australia and internationally of people harnessing capital markets to support community prosperity, encourage vibrant culture and contribute new solutions for issues of exclusion and sustainability.

This focus on strong social and economic outcomes goes directly to the prosperity and wellbeing of people and communities, and so links to the heart of the Department's mission: working towards a productive and inclusive Australia.

This report is the latest initiative to come from our work to catalyse, encourage and support development of impact investing as a field in Australia. We invest in this work because it is an important part of the productivity story to grow the pool of social and economic value. This is important because we recognise that no sector has all the answers, and we can achieve outcomes in combination and collaboration with others that none of us could do on our own. And because in increasingly resource constrained times, it is more important than ever that we find ways to drive more investment into communities that need it, and resolve issues we care about as a society.

This report has been informed by significant research based on a review of the Australian and international literature and insights and experience from the field in Australia. The vision reflected here for what impact investing could, and perhaps should, be in Australia particularly reflects the contributions of people and organisations already active in, and experimenting with, ideas and practice in impact investing.

We are grateful for the trust that the report's contributors placed in the Department's team that led this work, and for their generosity in time and ideas. Thanks also to collaborating partners in the report development JBWere and Mr Jed Emerson, and to members of the advisory panel, whose contributions have enlivened a number of dimensions of the work.

We look forward to being part of the next stages of growing the field of impact investing in Australia.

**Lisa Paul AO PSM**  
Secretary

**Rosemary Addis**  
Social Innovation Strategist

# JBWere

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## March 2013

Impact investing is designed to deliver both a social and financial return. As such, it offers charitable, not-for-profit and philanthropic investors an opportunity to achieve their goals. However, until recently, neither these organisations nor the traditional investor groups they depend on were ready to fully and confidently embrace the idea. Here in Australia, the concept's potential has not been well explored and is therefore not widely appreciated. Our involvement in this report stems from a desire to help investors recognise its potential.

Since the release of last year's *Place-Based Impact Investment in Australia* report we have been inspired by the efforts of many to build on the success achieved by Australia's impact investment pioneers, whose stories are told here. We are also inspired by growth and development overseas, particularly in the US and the UK. Australia needs new and innovative ways to finance efficient and effective social remedies. Government and philanthropy, the traditional funders, can only achieve so much on their own. Lack of access to capital is a chronic problem in the not-for-profit sector yet alternative sources of capital remain largely untapped, often due to the inability of not-for-profit groups to build a sufficiently clear and attractive proposition. The concept of impact investing offers exciting and real solutions to this problem. By delivering social as well as financial returns, it attracts investors who understand their money has the potential to be not just capital, but social capital.

While impact investing is not a cure all—many investors still fail to consider their investments on the basis of their potential social impact—the potential to harness Australia's huge and growing pool of capital (think Superannuation funds) for the betterment of Australia is beginning to gain real traction. Australia is ready. The GFC experience has been an emotional and moral awakening as well as a financial shock. We now have a greater awareness that, regardless of our place, we are all part of a single ecosystem, in which the impact of one affects the life of another. This realisation, born of painful experience, may mean we are at the perfect point to embrace impact investing.

Business, government and community are inextricably linked and they co-exist in the same economic and social environment. So why should they not invest together? This is the question we must further explore and this report is a starting point to greater understanding. But beyond this exploration, how can we make impact investment happen in Australia? I believe it is by convincing the owners and managers of capital that it makes sense, for them, and for Australia. May this report be an important step in that process.

### **David Knowles**

Executive Director  
Philanthropic Services


## Acknowledgements

This report would not have been possible but for the perspectives and experiences offered by practitioners in the field. In interviews and roundtables, people engaged on the issues and made suggestions as to pathways forward. Thank you all.

### Advisory Panel






	<b>Rosemary Addis.</b> Social Innovation Strategist, Department of Education, Employment and Workplace Relations	<i>Impact Investing is about value creation; it focuses us on opportunities to deliver value that look at the whole of society – economic, social, cultural and environmental.</i>
	<b>Helga Birgden.</b> Partner, Head of Responsible Investment, Asia Pacific, Mercer Investments (Australia) Limited	<i>Environmental, community and societal development are fundamental to sustainable growth and need to be part of the investment thesis. This report is an important marker of the significance of impact investing nationally and globally, showcasing the developments and opportunities that reside in the field.</i>
	<b>Richard Brandweiner.</b> President, CFA Society of Sydney	<i>I am very pleased to see this report released and am hopeful that it will move us forward on our journey to make impact investing a feature of our financial system. I am optimistic that it will promote the right debate and inspire fiduciaries to re-examine their roles as architects of our collective future.</i>
	<b>Greg Hutchinson.</b> Director, Goodstart Early Learning; Senior Adviser, Bain & Company	<i>Impact Investment is a key to unlocking 'game-changing' solutions to society's challenges. However, the constraint is not just the supply of capital but also the limited range of well-designed options for investment and skilled intermediation to build and educate both in parallel.</i>
	<b>David Knowles.</b> Executive Director, Philanthropic Services, JBWere	<i>Impact investing allows social entrepreneurs to take a new proposition to their existing funders and, significantly, to a much larger group of mainstream investors who would otherwise be unable to allocate their capital in a manner so beneficial to the community.</i>
	<b>Karen Mahlab.</b> Founder and CEO, Pro Bono Australia	<i>Impact investing takes the power of capital and applies it to solving intractable social issues. It leverages financial resources and redirects them to do public good.</i>
	<b>Robert McLean AM.</b> Council Member, Philanthropy Australia	<i>Social investing holds the potential to reframe the non-profit landscape with its demands for accountability and performance.</i>
	<b>Clive Ringler.</b> Senior VP, Financial Adviser, Morgan Stanley Wealth Management	<i>Social Impact Investing can significantly change the way Australian investors consider their asset allocation. It is a unique opportunity for investment in not-for-profit organisations which will deliver competitive returns on capital and, at the same time, measurable and sustainable social and environmental outcomes.</i>

Thanks to Jed Emerson for collaborating on this initiative and sharing his experience and perspectives on impact investing practice, where it is going and where it should go to deliver its potential.

	<b>Jed Emerson.</b> Chief Impact Strategist at Impact Assets, a senior advisor to a number of family offices and co-author (with Antony Bugg-Levine) of <i>Impact Investing: Transforming How We Make Money While Making A Difference.</i>	<i>The focus needs to be on providing a broad inclusive vision that seeks to weave the potential parts into new possibilities for the whole and the benefit for communities and markets in Australia.</i>
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## Project Team

	<b>Rosemary Addis.</b> Social Innovation Strategist, Department of Education, Employment and Workplace Relations	<i>We undertook this work to provide a foundation for understanding and practice for impact investing in Australia. What happens next will be up to all of us.</i>
	<b>Libby Dummett.</b> Senior Advisor, Social Innovation, Department of Education, Employment and Workplace Relations	<i>Impact investment opens up real possibility of harnessing the social innovators and capital markets to drive social improvement in a more efficient and just way.</i>
	<b>John McLeod.</b> Philanthropy consultant, former partner and executive director, Philanthropic Services, JBWere	<i>Impact investment provides the catalyst for combining two major forces. The ingenuity of social entrepreneurs joining the wealth of capital markets to create a powerful formula for self-sustaining, good growth.</i>
	<b>Alan Raine.</b> Project manager, IMPACT—Australia, seconded to Department of Education, Employment and Workplace Relations from the Productivity Commission	<i>It has been a pleasure to work with this team and the broader impact investment community. Given the enthusiasm and commitment displayed by all participants in this process, there looks to be a bright future ahead for impact investing in Australia.</i>
	<b>Donald Simpson.</b> Project consultant	<i>This is a rare and worthy topic—a field that has yet to be fully explained and explored. The Australian and international experience points to a growing body of practice that will make us all more aware of the impact equation alongside the financial equation when we allocate our investments. This is, quite simply, a good thing.</i>

Other members of the teams at the Australian Government Department of Education, Employment and Workplace Relations (DEEWR) and JBWere lent their time and their efforts are greatly appreciated, especially the Social Innovation and Design teams at DEEWR and those coordinating logistics and events.

Particular thanks to those who shared their own work and provided thoughtful feedback on drafts, including the members of the Advisory Panel, Kylie Charlton, Tim Macready and David Rickards. Also, to thought leaders internationally who shared their ideas, methodology and learning, directly for this report or in shaping thinking of team members and their work, in particular Yasmin Saltuk, Ted Jackson, Karim Harji, Ming Wong and Philo Alto. Many others have inspired and informed this work in conversations and exchange of ideas and experience, including Michael Traill, Ian Learmonth, Belinda Drew, Ingrid Burkett, Ben Gales, Peter Murphy, Beth Sirull, Ben Thornley, Filippo Addarii, Al Etmanski, Tim Draimin, Karl Richter, Katherine Milligan, Pamela Hartigan, Alex Nicholls, Margot Brandenburg, Luther Ragin Jr., Paul Steele, Steve Hawkins, Brent Cubis, David Carrington, Richard Seymour, Christopher Thorn, Danny Almagor, Louise Sylvan and Cathy Hunt.

Those who participated in workshops and consultations are listed below; their practical ideas and insights were valuable in shaping the report. Charles Duff, Aurecon Group; Steven Lynch, Bankmecu; Helen Sullivan, Centre for Public Policy; Tim Macready, Christian Super; Greg Peel, Community Sector Bank; Bessie Graham, Donkey Wheel; Andrew Brough, Foundation for Young Australians; Shamal Dass, JBWere; Catherine Brown, Lord Mayor's Charitable Foundation; Elena Mogilevski, Myer Foundation; David Ward, Philanthropy Australia; Cathy Hunt, Positive Solutions; Elisabeth Ozanne, School of Social & Political Sciences, University of Melbourne; Mele-Ane Havea, Small Giants; David Brookes, Social Traders; Malcolm Foad; Toni Morton, Vic DPCD; Nick Minogue; Kylie Charlton, Unitus Capital; Lindley Edwards, AFG Venture Group; Atat Li-Kum-Mui, ARPOS Consulting; Greg Hutchinson, Bain; Andrew Young, Centre for Social Impact; Trevor Danos, Corrs; Trevor Thomas, Ethinvest; Catriona Wallace, Fifth Quadrant; Andrew Tyndale, Grace Mutual; David Knowles, JBWere; Timothy Dugan, Lifehouse; Robin Crawford, Goodstart Early Learning; John McKinnon, McKinnon Family Foundation; James Toomey, Mission Australia; David Rickards, SEFA; Jonathan Wolfe, Social Finance; Emily Martin, Social Ventures Australia; Sandy Blackburn-Wright, Westpac; David Curtis, World Vision.

DEEWR appreciates the Productivity Commission and JBWere agreeing to make Alan Raine and John McLeod, respectively, available to work on this initiative.



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## Overview

This report provides a foundation for understanding impact investing in the Australian context: what it is, why it matters, what is happening here and what could or should happen.

It has been informed by insights and experience from the field in Australia that acknowledge the challenges and opportunities ahead and enliven a vision for the future.

What if the growing interest, energy, and passion are not harnessed around clear and common purpose? What if there is not sufficient focus and leadership to create the structures to support a coherent body of practice, prioritise activity to demonstrate efficacy and build critical mass?

Realising the potential for impact investing is not a given. It is a strategic challenge requiring leadership, collective action and development of practice across sectoral boundaries. A concerted, energetic response to the call to action could deliver significant benefit for Australia and the region; a failure to answer could be a significant opportunity missed.

### Pursuing innovations for social *and* economic benefit

The distinguishing feature of impact investing is the intention to achieve both a positive social, cultural and/or environmental benefit *and* some measure of financial return.

Financial return distinguishes impact investing from grant funding; intentional design for positive benefit to society distinguishes it from traditional investments.

Impact investing has emerged against a backdrop of longer term global trends. Interest and activity are evident and growing across the world.

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

### Impact Investing in Australia

Impact investing is happening in Australia today, although the term is not yet in mainstream use. Case studies showcasing what impact investing deals in Australia look like and who is participating are included in the report.

Even more significant than the innovation and impact evident in the early Australian transactions are indicators of activity from different actors in the market place and across a range of sectors which echo the international developments.

Australia has not yet seen a concerted focus on developing the field, yet foundations for increasing the scale and scope of impact investment are in place. International commentators visiting Australia have remarked on the signposts.

The potential extends beyond the domestic market, to what can be done from Australia, particularly in the Asian region.

The imperative now is to translate interest into action, and fragmented activity into a more coherent practice for impact investing in the Australian context.

## **Growing Impact Investing in Australia**

Realising the potential for impact investing in Australia is not a soft proposition. It demands innovative thinking and focused action to build practice and create viable investment vehicles that best suit the local context and opportunities.

There is no clear map yet for the way forward but there are signposts. These point to the need to develop all dimensions of the marketplace. Without supply of capital, investments cannot occur; without robust impact driven propositions and organisations, capital will not enter or remain in the field; and without people and structures that facilitate supply and demand coming together, many impact investments simply will not happen.

Lessons for impact investing can be drawn from fields such as infrastructure, venture capital, private equity, microfinance, corporate social responsibility and responsible investment. Impact investing in Australia is echoing development of the field in markets internationally, which suggests potential to learn from their experience in shaping the way forward.

## **A Call to Action**

To realise the potential, leaders will need to step forward and—beyond deals—start to shape frameworks and practice.

The call from the field to ‘get on and do’ goes beyond individual action to field building.

In addition to the call to action, the report captures a concrete agenda for action proposed by those already interested and active in the field.

There are foundations to build on in Australia with potential for growth in scale and understanding. It is up to people and organisations that share the vision for what impact investing could be in Australia to communicate it to others and create the pathways to practice that will see the field achieve the critical mass necessary for that potential to be realised.

**In Melbourne, a young woman who had been sleeping rough is working in a café purchased with equity invested in STREAT, a small social enterprise with big ambitions.**

STREAT provides support, industry training and jobs designed to change the long term outcomes for this young woman and other young people like her —‘one meal at a time’. STREAT has a clear business model and is targeting growth to reach 100 young people and provide over 90,000 hours of training per year by 2015. Its most recent expansion was financed by a capital raising of \$300,000; one of the first share issues by a social enterprise in Australia.

**In rural India, a small child is one of millions to receive vaccination against preventable diseases being financed through bonds issued by the GAVI Alliance.**

Set up in 2000, the alliance is dedicated to increasing access to immunisation in developing countries. The program is partly financed through the International Finance Facility for Immunisation (IFFIm). The IFFIm ‘vaccine bonds’ have raised over US\$3.7 billion, and are supported by long term government pledges. They have helped prevent more than 5.5 million future deaths, and protect 288 million more children. They are cited by institutions like EuroWeek as among the most influential transactions—‘helping set a trend for ethically themed bonds’.

**In the rural Australian town of Yackandandah, locals buy petrol and other goods at the local service station, which was purchased by the community development company with \$400,000 raised from local residents.**

The Yackandandah Community Development Company was formed in 2002 by local residents concerned at the impact proposed closure of the local service station would have on the economy and wellbeing of their town. The initial investment has enabled the services to not only remain open, but to expand; the business employs 12 local residents and has generated total revenues of over \$26 million and provided \$100,000 in grants to community initiatives. The business has operated profitably in all but one year and paid dividends to investors in 4 years.

**A young couple in Wollongong are seeing a movie, but what they are really excited about is the 1728/29 Stradivarius providing the live soundtrack, on loan from the Australian Chamber Orchestra Instrument Fund.**

The Fund, launched in 2011, purchased the violin for \$1.75 million. Investors in the fund have provided the means for world class instruments to be purchased; instruments such as the violin are lent to the Australian Chamber Orchestra. This orchestra maintains its world class reputation and attracts best-of-class musicians. Unit holders in the fund have potential to generate long-term capital gains.

**In Uganda, a child reads by a solar powered light provided by an Australian-based company that raised \$5.8 million from investors in 2012.**

Barefoot Power manufactures and distributes solar phone charging and lighting products to people in countries where incomes are low and there is little or no electricity. Customers gauge prices against the cost of kerosene, so affordability is critical. In 2012, Barefoot Power featured in the Global Cleantech 100 and its recent capital raising will help finance work to reach its target to bring affordable renewable energy and efficient lighting to 10 million people by 2015.



# 1 Investment for social and economic benefit

The stories on the facing page showcase some examples in Australia and internationally which seek to harness capital markets to support community prosperity, encourage vibrant arts and culture, and contribute new solutions for issues of poverty, exclusion and environmental sustainability. In each case, investment has made possible services or community benefit that would not have otherwise occurred. Each of these examples reflects a more intentional approach to how investments can create tangible benefits for people, communities and the environment, and deliver an appropriate return to investors. They illustrate an emerging field of practice; this field is *impact investing*.

This report provides a foundation for understanding impact investing in the Australian context: what it is, why it matters, what is happening here and what could or should happen.

It has been informed by insights and experience from Australian leaders and practitioners already working in the field, and contributions from a broader range of people and organisations seeking to understand impact investing and what it means for them.

The influences shaping impact investing globally include diminishing trust in institutions underscored by the recent global financial crisis, and a growing call for approaches authentically reflecting:

*... that societal needs, not just conventional economic needs, define markets ... it is about expanding the total pool of economic and social value.*

*Michael Porter and Mark Kramer<sup>1</sup>*

Fields of practice which have taken up this call already include the Fair Trade movement, microfinance and micro insurance, corporate social responsibility, 'shared value' approaches to innovation and growth, 'social enterprise' and responsible investing. Impact investing is another field actively shaping ways in which capital markets can make a positive difference for society as well as provide a financial return.

Pioneers in impact investing are demonstrating that it is possible to design initiatives that deliver a financial return *and* have a positive impact. They are expanding ways of working that intentionally benefit society in ways that neither grant making nor capital markets can achieve alone. Examples go well beyond the vignettes highlighted. They range from the arts to aged care, community development, education, employment, health, environmental management, sustainable agriculture, renewable energy, justice, social housing and international development.

*This report describes the Australian landscape of impact investing and possible pathways forward*

<sup>1</sup> 'Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth', *Harvard Business Review*, Jan – Feb, 2011, p. 5

Realising the potential for impact investing is not a given. It is a strategic challenge requiring leadership, collective action and development of practice across sectoral boundaries. This report considers what is in place in Australia, articulates the potential of the field, and acknowledges the strategic challenges ahead. A concerted, energetic response to the call to action could deliver significant benefit for Australia and the region; a failure to answer could be a significant opportunity missed.

## 1.1 What is impact investing?

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.

The financial return distinguishes impact investing from grant funding. The intentional design for positive benefit to society distinguishes it from other, more traditional, investments through capital markets.

The stories highlight and bring this to life in a range of settings: from small scale investment in community enterprise and local businesses that create jobs and economic health for communities; to large scale delivery of vaccines to children in developing countries. Impact investments are demonstrating ways to achieve substantial benefit for society that would not otherwise occur.

Investors of all types—including individuals, trustees of foundations and superannuation funds—are asking, and being asked, whether it is possible to manage assets and capital for more than financial performance alone. Impact investing rejects the notion that it is always a choice between ‘doing good’ and ‘doing well’ and focuses on areas where it is possible to achieve financial return *and* generate positive outcomes for society.

*Investors are increasingly rejecting the notion that they face a binary choice between investing for maximum risk-adjusted financial return or donating money to social and environmental causes. These impact investors are proactively using their investments to generate a tangible social or environmental impact, while also having the potential for some financial return.*

Robert Ruttman, Credit Suisse<sup>2</sup>

Some impact investments are delivering financial returns that meet or exceed other investment alternatives. Others require a measure of subsidy from philanthropy or government, which, by attracting more private capital, enable additional impact to be achieved. Increasingly, commentators are rejecting that notion that there must be a trade-off between positive outcomes for society and financial return; some even point to examples of a positive correlation.

*Impact investment is the crossover point where investors should expect a financial return, a market-like financial return, and a social return as well.*

David Rickards, Managing Director, Social Enterprise Finance Australia<sup>3</sup>

*Impact investing intentionally seeks to achieve a positive social, cultural or environmental benefit as well as a measure of financial return*

<sup>2</sup> *Investing for impact: How social entrepreneurship is redefining the meaning of return*, Credit Suisse and the Schwab Foundation, January 2012, p. 4

<sup>3</sup> *Social Investment: Social Enterprise Development and Investment Funds (SEDIF) – December 2012*, video recording, Australian Government Department of Education, Employment and Workplace Relations, Canberra, 2012

There is still some debate about where the precise boundaries of impact investing should be, and whether definitive boundaries matter. This debate focuses on four areas.

- The extent of overlap and relation to responsible investment and related disciplines.
- The extent to which investment in poor communities is, by definition, impact investing.
- The extent to which impact investing should be defined around the type of organisation in which the investment occurs; that is, whether or not investees need to be social sector organisations.
- Whether impact investing is or should be considered a separate class of assets or an approach which can be applied across a broad range of investment opportunities and asset types.

*Impact investing is heterogeneous; it crosses sectors, asset classes and geographies*

The view taken in this report is that there is a broad universe of ways in which impact investing can occur. Impact investing can span asset classes, types of organisations, sectors and locations, and deliver a range of financial returns and societal benefits. The key feature is the *intention* to create positive impact and financial return.

## 1.2 The global context

Impact investing has emerged against the backdrop of longer-term global trends, identified in leading Australian research<sup>4</sup> as:

- **More from less.** The simultaneous depletion of natural resources and the increasing demand for these resources, spurred by economic and population growth, will drive a focus on resource use efficiency—getting more from less.
- **Going, going, ... gone?** Many of the world's natural habitats, plant species and animal species are in decline or at risk of extinction. The actions taken by human beings in the coming decades will set the scene for global bio-diversity over coming millennia.
- **Forever young.** The ageing populations of Australia and other OECD countries will present both opportunities and challenges that will change people's lifestyles, the services they demand and the structure and function of the labour market.
- **Great expectations.** People expect more personalised, better and faster services. This has implications for the human service delivery agencies of government and private sector organisations. Conversely, for the billions of poor people in the world, expectations are still for the necessities of life.

At the same time, people and organisations across the world have been grappling with the questions of how the actions of individual actors, even large companies and financial institutions, can inform and influence markets to meet society's needs. The questioning of large institutions and the effectiveness of capital markets has sparked pockets of activism and protest such as Greenpeace, 'Occupy Wall Street' and related movements. Unprecedented technology development and connectivity makes it easier than ever to work locally and connect globally with others who share similar interests and values.

The global financial crisis has also renewed focus on encouraging more sustainable practice and long term value creation in capital markets, taking into account a range of risks and impacts which are not just financial.

Corporate social responsibility and sustainability practice have been redefining the 'licence to operate' for companies doing business. That focus on transparency and accountability has been magnified by initiatives such as the Global Reporting Initiative and standard setting including the United Nations Global Compact.

4 S Hajkowicz, H Cook and A Littleboy, *Our Future World: Global megatrends that will change the way we live*, CSIRO, 2012

Thought leaders and practitioners argue that failure to manage social, cultural and environmental factors is a risk that hits the bottom line.

*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.*

*Michael Porter and Mark Kramer<sup>5</sup>*

These factors also translate into investment risk which has resonance across capital markets.

*[The] generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems ... effective research, analysis and evaluation of ESG [environmental, social and corporate governance] issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and ... should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting.*

*United Nations, Principles of Responsible Investment<sup>6</sup>*

Growing recognition of the risks, combined with increased transparency, has resulted in more focus on social, cultural and environmental factors. The clearest example is responsible investment and the momentum achieved by the United Nations Principles for Responsible Investment (Box 1).

### **Box 1: United Nations Principles for Responsible Investment**

The Principles for Responsible Investment is a United Nations backed network of investors working to six voluntary, aspirational principles. These were developed by an international group of investors and are designed to be appropriate to the investment practices of large institutional investors.

*As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:*

- 1. We will incorporate ESG issues into investment analysis and decision-making processes*
- 2. We will be active owners and incorporate ESG issues into our ownership policies and practices*
- 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest*
- 4. We will promote acceptance and implementation of the Principles within the investment industry*
- 5. We will work together to enhance our effectiveness in implementing the Principles*
- 6. We will each report on our activities and progress towards implementing the Principles.*

*Principles for Responsible Investment, Signatory Declaration*

Formed in 2006 with 65 signatories, the network has experienced huge growth and momentum. As at 2012, there were 1071 network members across 50 countries. The membership is made up of Investment Managers (60 per cent), Asset Owners (24 per cent) and Service Providers (16 per cent). Collectively they represent US\$32 trillion in assets under management or 15 to 20 per cent of the investable assets in the world.

<sup>5</sup> 'Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth', *Harvard Business Review*, Jan – Feb, 2011, p. 5

<sup>6</sup> UN PRI, *What is responsible investment?*, viewed 27 February 2013 <[www.unpri.org/viewer/?file=wp-content/uploads/1\\_WhatIsResponsibleInvestment.pdf](http://www.unpri.org/viewer/?file=wp-content/uploads/1_WhatIsResponsibleInvestment.pdf)>

The increasing attention to responsible investing extends beyond committed individuals and niche funds to superannuation funds and other institutional investors. That is, more actors across capital markets are considering how environmental, social, governance and other factors are playing out in the context of the risk analysis they do when making investment decisions. At the forefront of practice, integrated approaches are being developed which place considerations of environmental, social and corporate governance issues as part of the investment and decision making process rather than as an ‘add on’ or screen.<sup>7</sup>

Similarly, leaders in the corporate sector are employing responsible practice as a driver of new value creation. Examples include GE’s Ecoimagination initiative and Vodafone’s M-PESA system of money transfer. These strategies are delivering value to shareholders and benefit to the environment and to communities. For example, GE’s ZeeWeed has contributed to saving 40 billion litres of water per year and M-PESA delivers money transfer services to millions who have no access to bank accounts.

These tandem developments of corporate social responsibility and responsible investment have encouraged development of investment opportunities such as fair trade, independent media, green buildings, microfinance, clean tech, organic food production and affordable housing. Some of these have matured from a peak of attention to some level of market acceptance and even tradability on open markets.

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

*Rockefeller Foundation and InSight at Pacific Community Ventures<sup>8</sup>*

Impact investing has emerged as a term—and a field of practice—in this context.

### 1.3 The emergence of impact investing

The term ‘impact investing’ first came into use following a gathering of leaders at the Rockefeller Foundation’s Bellagio Centre in 2008. This gathering was the catalyst for the seminal report—*Investing for Social and Environmental Impact*—by the Monitor Institute in 2009.<sup>9</sup> Since then, the body of activity and examples has grown, as has the body of literature and early industry analysis starting to survey the activity and potential of the field.

The recent *Accelerating Impact* report provides an overview of the developments since 2008.<sup>10</sup> The Monitor Institute put marketplace building as the priority focus. Leaders took up that challenge and a number of significant experiments and initiatives have helped shape the field for a growing number of participants. These include the establishment of organisations like the Global Impact Investment Network (GIIN) and Big Society Capital. The *Accelerating Impact* research found activity had grown in volume and scope since 2009, providing a basis to ‘accelerate development’ and move to an ‘era of execution’.

*Impact investors recognise that social, cultural and environmental factors can affect financial performance*

<sup>7</sup> Mercer, *The ABC of ESG: An Introduction to Responsible Investment*, 2012

<sup>8</sup> *Capital Markets for Impact at Scale: Showcasing Institutional Impact and Community Investing*, 2012, p. 9

<sup>9</sup> J Freireich and K Fulton, *Investing for Social and Environmental Impact: A design for catalysing an emerging industry*, Monitor Institute, 2009—referred to here as the Monitor Institute report

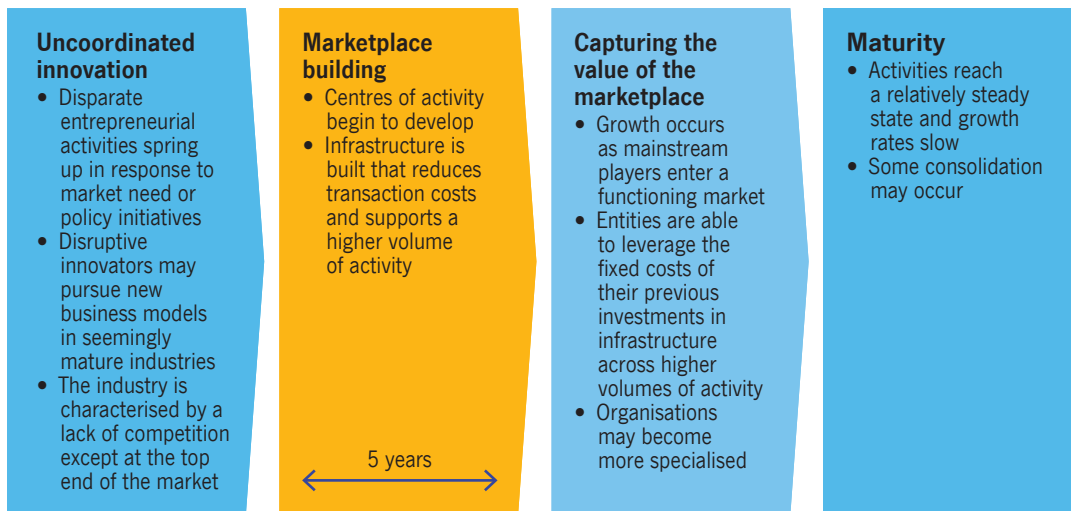
<sup>10</sup> ET Jackson and Associates, *Accelerating Impact: achievements, challenges, and what’s next building the impact investing industry*, prepared for the Rockefeller Foundation, 2012

*We are still at the experimental stage in funding aid and development through impact investing. But we are making progress – especially as more impact investment opportunities become available to a wider range of investors. For instance, vaccination bonds or windmill construction bonds have much the same return horizons and liquidity as regular fixed income instruments. Looking ahead, as government budgets remain constrained and private capital is increasingly concerned with achieving good results and good returns, I think impact investment is likely to play an increasingly important role in global development.*

Mark Kramer<sup>11</sup>

The Monitor Institute report posited a process of evolution for an impact investing ‘market’ (Figure 1).

**Figure 1: Evolution of an impact investing market**



Source: Freireich, J and K Fulton, *Investing for Social and Environmental Impact: a design for catalysing an emerging industry*, Monitor Institute, 2009, p. 12

*The evolution of the impact investing market can be characterised into four stages, each with distinctive characteristics.*

Other commentators place more emphasis on non-linear evolution from individual transactions, to boutique offerings to funds, funds of funds and ultimately fully ‘liquid’, or tradeable, capital markets where investors have a range of choices to buy and sell investments.<sup>12</sup>

*Capital markets do not occur because a set of actors simply decide to be rational in their allocation of capital. Global, national, and regional capital markets have all evolved through complex interplay between governmental policy, private enterprise, individual entrepreneurship, and chance.*

Jed Emerson and Joshua Spitzer<sup>13</sup>

<sup>11</sup> Credit Suisse and the Schwab Foundation, *Investing for impact: How social entrepreneurship is redefining the meaning of return*, January 2012, p. 11

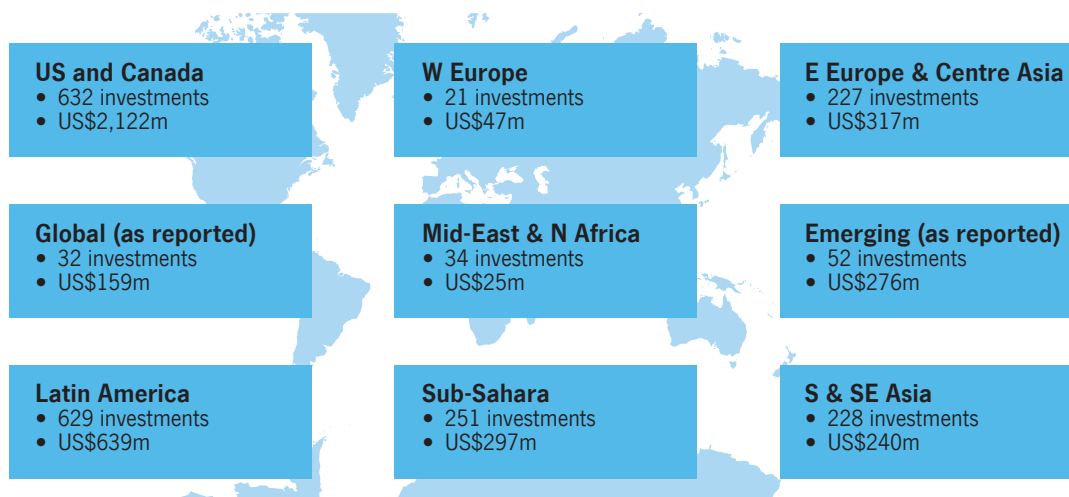
<sup>12</sup> A Bugg-Levine and J Emerson, *Impact Investing: Transforming how we make money while making a difference*, Jossey-Bass, 2011

<sup>13</sup> From *Fragmentation to Function: Critical concepts and writings on social capital markets' structure, operation and innovation*, Skoll Centre for Social Entrepreneurship, 2007, p. 6

Overall, the literature characterises the field internationally as one where there has been ‘impressive gains’ but which still faces ‘obstacles and fragmentation’.<sup>14</sup>

Impact investments are occurring around the globe (Figure 2).

**Figure 2: Impact investing funds invested by destination during 2011**



Source: Y Saltuk, A Bouri and G Leung, *Insight into the Impact Investment Market*, JP Morgan and the Global Impact Investing Network, 2011

*There is a broad spread of investment destinations reflecting world need and opportunities.*

There is not yet a definitive index to provide data on the size of the field, amount of capital and financial and social performance. JP Morgan and the GIIN estimate that there were at least US\$36 billion of impact investment assets under management in 2012 with US\$8 billion worth of transactions occurring in that year and an expectation of at least US\$9 billion in 2013. Research collated by the Global Sustainable Investment Alliance indicates that impact and community investing (a broader categorisation) represented at least US\$89 billion in assets under management in 2012. The available research and analysis highlights steady growth in both number of impact investment funds and cumulative capital under management (Appendix 4).

Commentators have also posited calculations for the potential size of the market into the future. In 2009, JP Morgan considered the potential amount of total capital managed by 2020 could be between US\$400 billion and US\$1 trillion. Calculations in the Monitor Institute report suggest that if impact investing could attract 1 per cent of capital in 5 to 10 years, given market share gains seen for screened investments, it would be equivalent to US\$500 billion based on 2008 market size.

While the size of the field is important, what is more important is the emergence of elements that suggest transition of impact investing globally from an uncoordinated series of transactions towards a more coherent practice.

<sup>14</sup> ET Jackson and Associates, *Accelerating Impact: achievements, challenges, and what's next building the impact investing industry*, prepared for the Rockefeller Foundation, 2012

## 1.4 Why is impact investing important?

At the heart of the answer is that impact investing enables more capital to achieve positive outcomes for society and investors. Beyond a philosophy of responsibility, impact investing provides positive opportunities to create impact and influence practice for a more effective capital market.

Impact investing is having a positive effect internationally in catalysing new markets and encouraging entrepreneurship and innovation. It is aimed at resourcing communities, enabling dynamic cultural practices, solving entrenched social issues and creating sustainable solutions. Entrepreneurs and organisations that find it difficult to access appropriate finance and support in the mainstream financial market can benefit from access to funding that helps them create positive impact in the community.

Impact investing benefits communities by providing new opportunities to develop services, infrastructure, and generate jobs. It does so, for example, by directing capital to affordable housing or clean energy or investing in businesses where the community needs sustainable, quality jobs and regeneration.

Impact investing helps investors by providing new opportunities to put their capital to use in ways that make a financial return and align with their values. It helps governments target their spending and encourages more capital into areas where there is need for new solutions. It also helps philanthropists generate greater impact through the combined effect of their investment and grant making activities.

A powerful illustration of the need to do this is the Bill & Melinda Gates Foundation. It is the world's largest foundation with around US\$40 billion in capital. If that money was used to provide financial support to the world's poor, without corruption or transaction costs, it could provide US\$10 per person—or 5 days of support at US\$2 per day—before completely exhausting its capital reserves.<sup>15</sup>

*During the past century, governments and charitable organizations have mounted massive efforts to address social problems such as poverty, lack of education, and disease. Governments around the world are straining to fund their commitments to solve these problems and are limited by old ways of doing things. Social entrepreneurs are stultified by traditional forms of financing. Donations and grants don't allow them to innovate and grow. They have virtually no access to capital markets and little flexibility to experiment at various stages of growth. The biggest obstacle to scale for the social sector is this lack of effective funding models.*

*Sir Ronald Cohen and William A. Sahlman<sup>16</sup>*

*Impact investing is about expanding the total pool of economic and social value, not redistributing what already exists*

This can also be seen another way; as society's needs are growing, unmet need represents market failure—and opportunity. Today's 'underserved markets' and unmet needs are tomorrow's growth and value creation opportunities. Examples like microfinance, micro insurance, M-PESA and community development finance illustrate how this can work.

<sup>15</sup> A Kuper, *Profit with Purpose: the impact investing revolution*, video recording, TEDxSydney, 22 May 2010

<sup>16</sup> *Social Impact Investing Will Be the New Venture Capital*, 17 January 2013, HBR Blog Network, viewed 24 February 2013 <blogs.hbr.org/cs/2013/01/social\_impact\_investing\_will\_b.html>



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

*Leapfrog Investments<sup>17</sup>*

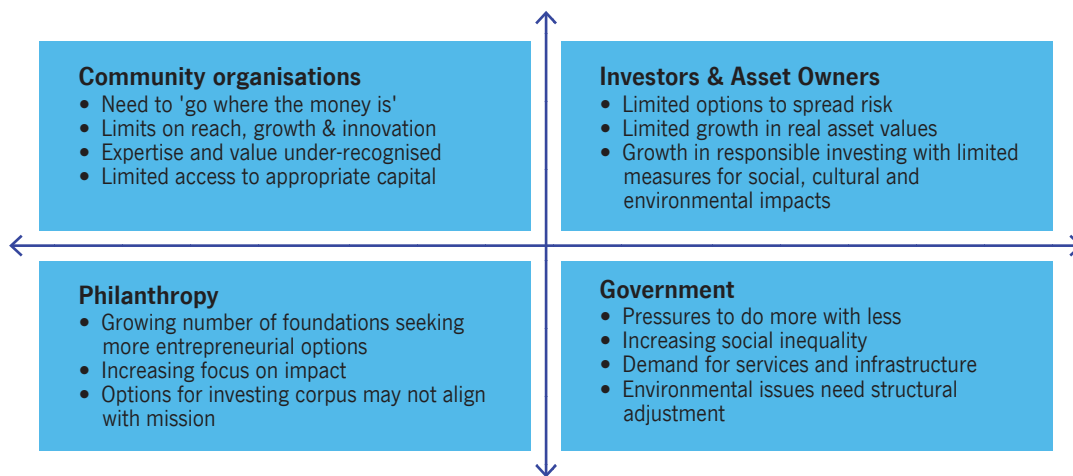
Further, the challenge for investors and the corporate sector is to come to terms with, and deal with, the risks that ensue from a failure to understand and integrate social, cultural and environmental factors into risk analysis and decision making. The capacity for impact investments to generate stable returns, which do not correlate to the return volatility of other investments through the economic cycle, is a feature that is being watched with interest by investors. That is, if the investing maxim is ‘don’t put all your eggs in one basket’; impact investing may add a new basket.

*Impact investments offer returns that are expected to be largely uncoordinated with other investment markets.*

*Christian Super<sup>18</sup>*

The needs of (Figure 3) and opportunities for (Figure 4) different actors in the impact investing field vary with their motivations.

**Figure 3: Needs of different participants**



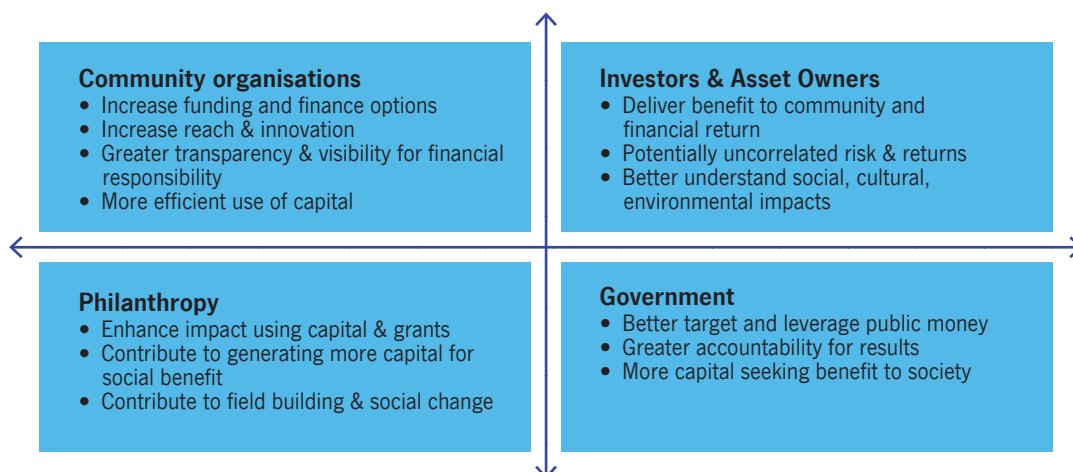
Source: IMPACT—Australia research

*A variety of needs and motives are informing development of impact investing.*

<sup>17</sup> Profit with a purpose, Leapfrog Investments website, viewed 27 February 2013 <[www.leapfroginvest.com/lf/about/profit-with-purpose](http://www.leapfroginvest.com/lf/about/profit-with-purpose)>

<sup>18</sup> Tim Macready, IMPACT—Australia research, November 2013

**Figure 4: Opportunities for different participants**



Source: IMPACT—Australia research

*Outcomes achieved through impact investing can satisfy many of the needs of participants.*

This diversity of motivations is also reflected in the way in which different actors engage with impact investing. The point being, actors from all sectors are engaging.

- A philanthropic trust can use some or all of its corpus to invest in financial products that support its cause, in addition to its regular grant distribution.
- Non-profit organisations and social enterprises can tap capital markets to expand the size, scope and sustainability of their services.
- Fund managers and wealth advisors can offer impact investing options to their clients or use impact investing as a portfolio diversification tool.
- Individuals can bank with financial institutions which lend their money to beneficial projects or use their profits to make impact investments.

Impact investing is not a silver bullet for all of society's challenges, but it does have a contribution to make in thoughtfully selected areas. Some commentators have remarked it is more like 'silver buckshot', expanding the toolkit and providing new opportunities to leverage public money with private capital. This approach highlights the development of impact investing as a field where the:

*... combination of policies, practices, investment innovations, and more all come together, learn from past failures, and see future opportunities to create a capital market.*

*Jed Emerson and Joshua Spitzer<sup>19</sup>*

<sup>19</sup> *From Fragmentation to Function Critical Concepts and Writings on Social Capital Markets' Structure, Operation, and Innovation*, Skoll Centre For Social Entrepreneurship, 2007, p. 6

## 2 Impact investing in Australia

Impact investing is emerging on the Australian landscape, although the term is not yet in mainstream use. There are not yet indices or registers which capture the range and scale of this activity.

Anecdotally, practitioners report that there is more activity that meets the definition of impact investing than is currently captured. That is, they cite deals which have been intentionally designed to achieve positive social, cultural and environmental impacts as well as financial return, but have not been categorised as impact investing—or not yet. Indeed, one of the challenges is that there is no well-developed measure of how much impact investing is represented in responsible investment or other fields.

There is relatively wide scale commitment in Australia to responsible investment through the United Nations Principles for Responsible Investment and related initiatives. This is significant because the institutional investment market in Australia is large relative to the economy. Analysis and reporting to support responsible investment practice is quite well developed here. Some managers are starting to report investments ‘positively screened’ for social, environmental and governance factors separately from those which are ‘negatively screened’ for risk and other ethical considerations, such as tobacco (Appendix 4).

Australia’s finance sector is relatively strong. It weathered the global financial crisis better than institutions in many other countries. And yet, the global trends outlined are affecting attitudes and markets here too. The need to better understand risk and value relating to social, cultural and environmental factors applies equally to all countries and reflects the global nature of capital markets.

The relatively large scale of Australia’s superannuation sector raises the stakes of not having a dynamic approach to managing all dimensions of risk. The size of these funds also creates a focus on how they can contribute to vital infrastructure development as well as providing returns to support members’ retirement.

Echoes of other global trends are also recognisable in the Australian landscape. Communities are looking to local enterprise solutions to enhance sustainability and create jobs. Community organisations are recognising the need to diversify their sources of funding and finance, and explore ways to finance their work of social change that go well beyond grants. A body of entrepreneurial activity is starting to coalesce and identify around social, cultural and environmental mission. Family offices and philanthropists are experimenting with ways in which they can actively manage their assets for more than financial performance alone.

The picture presented here of the Australian landscape of impact investing is drawn from practitioner experience as captured through consultations and roundtable workshops and a review of available literature in Australia. The picture is one of great diversity across a range of sectors. And although the overall scale of activity is small at this stage, relative to established capital markets and international impact investment activity, there are deals of various sizes and characteristics, and some funds and intermediaries are progressively appearing.

## 2.1 The current landscape of impact investing

In the last 3 to 5 years, disparate innovations have begun to coalesce into a field of impact investing activity. In Australia, patterns are emerging that suggest an outlook of growth and potential for the field.

*Individuals and institutions in Australia are slowly beginning to follow the global trend and beginning to look for something that provides more than traditional investment and philanthropy.*

*Kylie Charlton, Co-founder and Managing Director, Unitus Capital<sup>20</sup>*

The deals clearly identified as impact investments have arisen where circumstances, need, energy and opportunity have come together. They have not been driven by any single person, group or sector, although there have been some influential leaders. Participants in the field are characterised by enthusiasm, commitment and a desire to create positive change; often coupled with pragmatism about the limitations of current systems and of what it takes to get things done. They often bring genuine cross-sector experience to the strategic challenges.

A number of the initiatives in Australia have drawn from the international experience and been contextualised to our circumstances. They are beginning to demonstrate what is possible in Australia and even inform practice elsewhere in the world.

The enabling environment for impact investing has also received considerable attention in Australia in the last few years. An Inquiry by the Senate Economics References Committee in 2011 built on the Productivity Commission's earlier work on the needs and contribution of the not-for-profit sector. The report of the Senate Committee considered the broader policy and regulatory environment and areas that may inhibit or support impact investing in Australia. Both processes elicited significant input from various actors across sectors in Australia, and these have been drawn on for this report.

*There is a mix of home-grown and internationally informed practice evident in Australia*

### 2.1.1 Who is doing what in impact investing in Australia?

There is representation in the impact investing field in Australia from across the range of possible investors: individuals; family offices; philanthropic foundations; corporations; banks; community finance intermediaries; institutional investors, including superannuation funds; and governments. Activity is limited to a small number of 'first movers' in each group; however, the range is significant as it reflects engagement from different parts of the whole system.

An overview of who is providing finance and the types of activity, initiatives and organisations they are financing is set out in Box 2.

<sup>20</sup> Does profit belong in the social investment landscape?, Centre for Social Impact Issues Paper No. 3, 2009, p. 7

**Box 2: Who is providing finance and what are they investing in?**

Investors	Examples
Private companies and individuals  (e.g.Small Giants, Family Offices)	Social enterprises <ul style="list-style-type: none"> <li>• STREAT</li> <li>• TOM organic</li> <li>• Beehive</li> </ul> <ul style="list-style-type: none"> <li>• Dumbo Feather</li> <li>• Pots 'n Pans (Vietnam)</li> </ul>
	Clean energy and sustainable living <ul style="list-style-type: none"> <li>• The Commons</li> </ul> <ul style="list-style-type: none"> <li>• Hepburn Community Wind</li> </ul>
	Early childhood education <ul style="list-style-type: none"> <li>• QuickstART loans</li> </ul> <ul style="list-style-type: none"> <li>• Goodstart Early Learning</li> </ul>
	Cultural <ul style="list-style-type: none"> <li>• Calvert Community Investment Notes (US)</li> </ul> <ul style="list-style-type: none"> <li>• Australian Chamber Orchestra Instrument Fund</li> </ul>
	International microfinance & community investment <ul style="list-style-type: none"> <li>• Calvert Community Investment Notes (US)</li> </ul> <ul style="list-style-type: none"> <li>• Good return</li> <li>• Kiva (US)</li> </ul>
Superannuation funds  (e.g.Christian Super)	International microfinance <ul style="list-style-type: none"> <li>• JP Morgan MicroInvest II Fund</li> </ul> <ul style="list-style-type: none"> <li>• Triodos Fairshare Fund</li> </ul>
	Social enterprises in Australia <ul style="list-style-type: none"> <li>• Sustainable Agriculture Fund</li> </ul>
	Sustainable farming <ul style="list-style-type: none"> <li>• Macquarie Clean Technology Fund</li> </ul>
	Clean Technology <ul style="list-style-type: none"> <li>• STREAT</li> </ul>
Private foundations and Private Ancillary Funds  (e.g.Donkey Wheel, Trawalla Foundation, McKinnon Family Foundation, The Grace Foundation)	Social enterprises in Australia <ul style="list-style-type: none"> <li>• Social Ventures Australia (SVA)</li> <li>• Social Enterprise Finance Australia</li> </ul> <ul style="list-style-type: none"> <li>• Foresters Community Finance Fund NonProfit</li> </ul>
	Social enterprises internationally <ul style="list-style-type: none"> <li>• Queensland Women's Legal Service (through Foresters Community Finance Fund Non-Profit)</li> </ul> <ul style="list-style-type: none"> <li>• Rebbi Tea (US)</li> <li>• Barefoot Power</li> </ul>
	International development <ul style="list-style-type: none"> <li>• Lismore Soup Kitchen</li> <li>• Chris O'Brien's Lifehouse at RPA</li> <li>• Donkey wheel house building</li> </ul>
	Community organisations <ul style="list-style-type: none"> <li>• Many Rivers</li> </ul> <ul style="list-style-type: none"> <li>• Good Shepherd Microfinance</li> </ul>
	Addressing financial exclusion in Australia <ul style="list-style-type: none"> <li>• Family Life</li> </ul> <ul style="list-style-type: none"> <li>• Sunshine Coast Independent Living</li> </ul>
Banking institutions  (e.g.Bankmecu, Community Sector Banking, Westpac, NAB)	Property for community organisations <ul style="list-style-type: none"> <li>• Goodstart Early Learning</li> </ul>
	Affordable housing <ul style="list-style-type: none"> <li>• Hepburn Community Wind</li> </ul>
	Early childhood education <ul style="list-style-type: none"> <li>• Yackandandah Community Development Company</li> </ul>
	Employee buy-out of small and medium enterprises <ul style="list-style-type: none"> <li>• C-Mac Industries</li> </ul>
Local communities	Clean Energy <ul style="list-style-type: none"> <li>• Hepburn Community Wind</li> </ul>
	Community infrastructure <ul style="list-style-type: none"> <li>• Yackandandah Community Development Company</li> </ul>
	Employee buy-out of small and medium enterprises <ul style="list-style-type: none"> <li>• C-Mac Industries</li> </ul>
	Grant to seed-fund the Social Enterprise and Development Innovation Funds (SEDIF) – Foresters Community Finance, SVA, Social Enterprise Finance Australia
Governments	Social enterprises <ul style="list-style-type: none"> <li>• Indigneous Business Australia</li> </ul> <ul style="list-style-type: none"> <li>• Grant to seed-fund the Social Enterprise and Development Innovation Funds (SEDIF) – Foresters Community Finance, SVA, Social Enterprise Finance Australia</li> </ul>
	Clean energy <ul style="list-style-type: none"> <li>• Renewable Energy Equity Fund</li> </ul> <ul style="list-style-type: none"> <li>• Renewable Energy Venture Capital</li> </ul>
	Enterprises providing services that create jobs and boost productivity <ul style="list-style-type: none"> <li>• Loan to Goodstart Early Learning</li> </ul> <ul style="list-style-type: none"> <li>• Tax incentives through National Rental Affordability Scheme</li> </ul>
	Financial exclusion <ul style="list-style-type: none"> <li>• Community Development Finance Institutions (CDFIs) Pilot</li> </ul>

Examples show activity in a broad range of impact areas, from health and housing, early childhood, environmental sustainability and clean energy to more financing options at the right time for the cultural sector and social enterprise.

There is also a spectrum of scale, from 'micro' or 'crowdfunded' investments through web based platforms and relatively small investment in individual enterprises (for example, the STREAT equity raising was \$300,000), through to transactions which are much larger (for example, the proposed Government Rental Affordability Index-Linked (GRAIL) Income Fund for affordable housing).

So far, with a few notable exceptions, most Australian impact investment has been domestically focused. Local examples of international impact investing interests include Barefoot Power (Case 6, Section 2.2) and microfinance fund investments by Christian Super and The Grace Foundation. In addition, Australians are contributing impact loans through crowdfunding microfinance sites, like Good Return.

Beyond these examples, there is other investment activity in Australia that has a long history and has not come under the impact investing definition. There is a range of community enterprise grounded in a long and rich tradition which could now be categorised as impact investing. This includes cooperatives and mutuals, some of which are large: for example, Co-operative Bulk Handling Group (WA), the Murray Goulburn Cooperative Ltd (Vic), Australian Unity and Dairy Farmers' Milk Cooperative. Another example of impact investments in local enterprises can be seen in employee ownership arrangements, such as at C-Mac Industries.

There are also community-owned businesses, such as Yackandandah Community Development Corporation (Case 5, Section 2.2) and sustainability projects, such as Hepburn Community Wind (Case 7, Section 2.2). There are a range of Indigenous businesses and enterprises supporting local communities and land and sea management.

Australia has also seen developments in some areas that could now be categorised, in whole or part, as impact investing, ahead of the term gaining currency here. For example, there are a number of sustainability and environmentally-themed funds within the responsible investment landscape. Housing Associations and, more recently, the incentives provided by the National Rental Affordability Scheme have sparked interest and activity in finance to increase the stock of social and affordable housing. An Indigenous 'stock exchange' initiated a decade ago has been assisting indigenous owned and run businesses to access capital and develop a marketplace for investment.

Many non-profit organisations provide support for new enterprise ideas, or use their own capital to finance investment opportunities. They do this within their own organisations or as partners in other vehicles, such as Goodstart Early Learning (Case 2, Section 2.2), the Benevolent Society's Apartments for Life, STREAT and Chris O'Brien's Lifehouse (Box 3). Other such organisations access mainstream finance; and while the source and quantum is unclear, the amount could be material in the context of impact investing.

### Box 3: Examples of impact investment driven from the not-for-profit sector

**Apartments for Life bonds.** In 2011, The Benevolent Society proposed a \$10 million bond offering to help finance 128 dwellings to house older people in a community setting. The bonds carried a 5 per cent return over 8 years. For a range of reasons this bond issue did not proceed. It was an innovative experiment that enlivened the imagination of others and sparked dialogue about the level of financial return required to attract investors and how policy can support capital raising for the community sector.

**STREAT equity raising.** STREAT is a social enterprise providing homeless youth with a supported pathway into long-term careers in the hospitality industry. In 2012, STREAT financed the purchase of the Social Roasting Company through an equity raising. STREAT aims to double the number of young people it reaches and return at least 7 per cent to investors over the first three years.

**Chris O'Brien's Lifehouse at RPA bonds.** Lifehouse created a 'social bond' to partially finance development of a cancer centre in Sydney providing care outside of a hospital setting. The bonds have a term of 6 or 8 years, and the \$14 million raised will allow the centre to be completed and available sooner. Returns are targeted at between 5 and 8 per cent depending on whether investors accept a 6 or 8 year term.

Initiatives offering social enterprise early stage seed funding (Box 4) have begun appearing in the landscape and attracted considerable interest. While many enterprises are not ready to take up that finance yet, the interest generated points to a pipeline of investment potential if appropriate development and capability support is available. A growing number of crowdfunding platforms, such as *pozible*, *startsomegood* and *iPledg*, are emerging to provide small amounts of early stage capital.

### Box 4: Examples of early stage investment and support for social enterprise

**The Australian Centre for Social Innovation (TACSI)** brings cross-sectoral expertise together to address social issues. TACSI's Bold Ideas Better Lives Challenge provided a pool of \$1 million in seed funding for selected innovative community-led social projects.

**Indigenous Business Australia (IBA)** promotes and encourages economic independence for Indigenous Australians. IBA's business ownership program includes tailored loans that are contingent on participation in a mentoring program. IBA recently launched a \$1 million fund to develop investment readiness for indigenous enterprises.

**Small Giants** invests actively in small businesses delivering value for society and the environment using sustainable business models. It is also involved in supporting and mentoring entrepreneurs to combine business discipline and strong social and environmental outcomes.

**Social Traders** supports the establishment of commercially viable social enterprises throughout Australia. The *Crunch* program selects a small number of social enterprises to receive business planning and mentoring support and contributes \$10,000 to the enterprise to resource their participation. At the end of the program, enterprises have the opportunity to pitch to a panel of potential investors.

**Social Ventures Australia (SVA)** provides funding and strategic support to high potential social enterprises. Activities include social enterprise hubs, bespoke social finance deal origination, and access to finance through the SVA Social Impact Fund.

Individuals, organisations and the wider community are also increasingly seeking information and engagement that connects them to options that help make a difference as part of, not separate from, their work. This is driving offerings such as RMIT University Seeds and the School for Social Entrepreneurs. Approximately 400 people attended a two day *Global Shifts* conference, hosted by RMIT University in December 2012, showcasing leadership in social innovation, enterprise and investment, which attracted international leaders to Australia.

There is also emerging a body of research interest and activity that focuses on impact investing in Australia. Institutions known to be engaged in some way with the issues include Queensland University of Technology, The Centre for Social Impact at the University of New South Wales, University of Western Australia, University of Melbourne, RMIT University and University of Sydney.

### **2.1.2 What do Australian impact investments look like?**

Most of the activity in Australia so far has been through individual transactions, ‘deal by deal’. Some funds and more complex structures have started to emerge.

The most common form of impact investments in Australia so far involves debt financing. That is, organisations borrow money to acquire property or equipment, or to provide working capital to expand the scale of their activities. Equity investments are less common at this stage, although there are some examples, including STREAT. Community and employee ownership models can also be equity (for example, the Yackandandah Community Development Company, Case 5, Section 2.2).

Australia is starting to move to transactions where a combination, or layering, of finance from different investors with different motivations and types of capital available has been structured to make a transaction possible. Examples include Hepburn Community Wind (Case 7, Section 2.2), Goodstart Early Learning (Case 2, Section 2.2) and the Social Enterprise Development and Investment Funds (Case 4, Section 2.2). In each of these examples, some capital was provided on terms that absorbed a greater degree of real or perceived risk and this encouraged and enabled other investors to participate on terms that met their more mainstream investment criteria.

Almost all of the deals that identified as impact investing in Australia are bespoke—designed specifically to achieve a structure that will facilitate non-traditional partners to finance the particular social, cultural or environmental need in a way that also meets the needs of investors to deliver a financial return. This can make them difficult to replicate and poses issues for translating some of the existing experience to broader practice.

Policy initiatives have contributed to early development of the field across the social, cultural and environmental domains. They have been initiated by different levels and portfolios within government and have taken a range of forms (Box 5).



### Box 5: Examples of government support for impact investment

**Southern Cross Renewable Energy Fund** is a \$200 million renewable energy fund in which the Australian Government co-invested \$100 million with a private sector investment from an Asian venture capital firm. The term is 13 years. It provides capital and assistance with management skills for early stage Australian renewable energy companies to support commercialisation of technologies for domestic and overseas markets.

**National Rental Affordability Scheme (NRAS)** is a \$1 billion commitment over 4 years to provide incentives for additional investment in affordable rental housing for low and moderate income earners. The aim is to encourage construction of up to 50,000 new dwellings that will be rented at 20 per cent below market rental rates over 10 years.

**Community Development Investment Funds Pilot** was a \$7.5 million project providing business development funding to community finance organisations which offer small loans and financial counselling to individuals who lack access to affordable credit.

**Other Australian Government initiatives** include a loan made as part of the Goodstart transaction (Case 2); cornerstone funding for the SEDIF funds (Case 4).

**Social Enterprise Fund—Grants Program (WA)** is a \$10 million fund to increase the number, effectiveness and efficiency of social enterprises in Western Australia. It supports not-for-profit community sector organisations by providing grants to establish new or strengthen existing social enterprises.

**Social Enterprise Facilitation Pilot Project (Tas)** is designed to enhance the emergence, growth and of social enterprises in Tasmania.

**The ACT Hub (ACT)** provides pro bono business development support to community organisations and social entrepreneurs focusing on employment outcomes for people who face barriers to finding work. It is arranged in partnership with Social Ventures Australia and other community and private sector organisations.

**Renewables (SA)** is a \$20 million fund to support renewable energy investment in South Australia.

**Community Asset Development Initiative (Vic)** is a partnership between bankmecu, Foresters and the Victorian Government. It focuses on advice and access to capital for community organisations to purchase property and improve financial sustainability.

**Arts Queensland Creative Business Toolkit (Qld)** is a resource for arts businesses to inform business planning and development and related funding and financing options.

**Social Benefit Bonds (NSW)** are one of the first social impact bond pilots globally (Case 1).

New South Wales has been among the first movers—trailing social impact bonds, or social benefit bonds, as new financial products to finance delivery of improved social outcomes (Case 1). These mechanisms have stimulated significant interest from the community sector and policy makers alike. Forums convened in Australia with international leaders in social impact bond development, such as David Hutchinson of Social Finance UK, were oversubscribed in 2012.

### Case 1: NSW Social Benefit Bonds

**NSW Social Benefit Bonds.** The New South Wales Government is developing three pilots for social benefit bonds. These are sold to service providers who receive government payments for delivering outcomes that save public expenses. The pilots build on the UK HMP Peterborough recidivism trial. If successful, this will be a first in Australia.

**Lessons for the field.** Significant interest has been generated but delivery takes time. The process has delivered new collaborations between the community sector and banks, and a greater focus for all parties on areas of definition, measurement and accountability for results.

**Investors.** Expected to include a range of philanthropic and mainstream investors in the Australian market

**Investment.** Each of the three bond issues is expected to be less than \$10 million; final structures still in development

**Impact.** Delivering improved outcomes in child protection and reducing recidivism

### 2.1.3 What funds and intermediaries are emerging in Australia

The Australian market is also beginning to see the emergence of funds, bringing different investors together through a single structure to invest in a range of opportunities. At this stage, they are relatively few in number and small in scale. Research for this report highlights how critical such structures can be in growing and developing the field.

Some funds are targeting a broad range of impact by pooling capital to offer appropriate finance at the right time for organisations that find it difficult to access capital in mainstream markets (for example, the Social Enterprise Development and Investment Funds, Case 4, Section 2.2).

Sector specific funds have also been emerging. For example, in the cultural sector, the QuickstART program provides no-interest loans to artists and creative practitioners for project and professional development. The Australian Chamber Orchestra Instrument Fund invests in rare and valuable stringed instruments that are played by professionals of the Australian Chamber Orchestra (Case 3, Section 2.2). Renewable and clean energy are the focus of a number of funds already operating in the market.

The majority of funds in Australia so far offer debt finance. There are only a very small number of equity or venture capital funds that identify themselves as financing impact investments. A prominent example is Small Giants; their work providing early stage capital to social and environmental enterprises was recognised in the United Nations Principles for Social Investment Pioneer Awards in 2012. Others include energy funds, some funds supporting Indigenous business development, the QUT Creative Arts Fund due to commence operation in mid-2013 and the SVA Social Impact Fund. Some venture capital firms, like One Ventures, have expressed interest in better capturing and facilitating the social and environmental impact of investments made through their funds. Their portfolios can include enterprises developing high potential innovations in areas such as health care and education.

Other funds active in the market, but not clearly identified by practitioners as part of the impact investing field in Australia, could provide a model if designed and managed with the intention of positive benefit. Examples include green building funds and other ‘social infrastructure’ funds.

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

*Samba Marekera, Christian Super<sup>21</sup>*

Impact investing funds are one form of intermediary bridging the needs and capability of organisations looking for finance and investors who want to make impact investments.

Other intermediaries can also be identified as working in impact investing in Australia (Box 6). Some focus more on preparing organisations to take on finance, with others focused more on sourcing capital and structuring finance. Some of these intermediaries specialise in providing community development finance. They are relatively few in number at this stage compared with the international landscape but, on recent indications, are growing in assets.<sup>22</sup>

#### Box 6: Examples of intermediaries active in impact investing in Australia

Type	Examples
Investment readiness intermediary	<ul style="list-style-type: none"> <li>• Social Traders</li> <li>• Social Firms Australia</li> <li>• Social Ventures Australia Hubs</li> <li>• Social Enterprises Sydney</li> <li>• Social innovation in Western Australia (SiiWA)</li> </ul>
Specialist financial intermediary	<ul style="list-style-type: none"> <li>• Foresters Community Finance</li> <li>• Social Enterprise Finance Australia</li> <li>• Social Ventures Australia Social Finance</li> <li>• Community Sector Banking</li> <li>• Indigenous Business Australia</li> <li>• Unitus Capital</li> <li>• Indigenous Stock Exchange</li> <li>• Fair Loans Foundation</li> <li>• Many Rivers Microfinance</li> <li>• Maleny Credit Union</li> <li>• Small Giants</li> <li>• Donkey Wheel</li> <li>• Ethinvest</li> <li>• Australian Ethical Investment</li> <li>• Grace Mutual</li> <li>• Net Balance</li> <li>• Australian Small Scale Offerings Board</li> <li>• Landcare Revolving Loan Fund</li> <li>• Fitzroy and Carlton Community Co-operative</li> </ul>
Mainstream financial intermediary	<ul style="list-style-type: none"> <li>• JBWere</li> <li>• Evans and Partners</li> <li>• Ethinvest</li> <li>• Colonial First State Investments</li> <li>• AMP Capital</li> <li>• Perpetual Investments</li> <li>• Mercer Investments</li> <li>• Bankmecu</li> </ul>

Some industry and membership bodies are playing a role in developing the marketplace for impact investing. For example, Philanthropy Australia has recently included a stream of work relating to developing impact investing in its strategic plan for 2012–14.

The research for this report indicates that more intermediation is needed for impact investing to thrive in Australia. Other recent Australian research suggests that a range of specialist ‘bridging’ functions are required. All facets of intermediation services and a variety of investment vehicles will be vital to unlock capital, direct it to impact investments and generate a pipeline of quality deals that will grow the field in and from Australia.

<sup>21</sup> ‘Impact investing for super funds’, *Superfunds*, May, 2012

<sup>22</sup> A summary was provided by the Productivity Commission and Senate Economics References Committee. See also Responsible Investment Association Australasia, *Responsible Investment Annual 2011, 2012*

## 2.2 The potential for growth

There is not yet comprehensive data on the size of impact investing in Australia. At this early stage, there is also no agreed methodology for capturing and reporting that data.

Research for this report supports the proposition that there is potential for growth. To the extent that there are calculations to draw on, two key reference points are the available material on size of the field internationally, and the international and Australian data on size and growth in related fields from which impact investing has evolved, principally responsible investing and microfinance. An analysis of these factors is set out in Appendix 4.

### 2.2.1 Indicators of potential

While no bottom-up data is yet available for the Australian impact investment market, estimates based on the proportion of investment capital that impact investment has gained in the US and UK compared to their capital markets and charity sectors can be used to suggest a potential annual size if Australia were *at the same stage* of market development (Appendix 4). The research suggests significant potential for growth in these sectors internationally at annual rates of up to 38 per cent. However, there has not yet been any rigorous testing of the market here.

Although it is difficult to say accurately how long it might take to catch up with the field globally, recent interest and activity in Australia, as well as the speed of early sector growth experienced in the US and UK, suggest the next 2 years could substantially close the gap (Appendix 4).

Like any emerging field, growth in impact investing is unlikely to be linear. More probably it will be characterised by pockets of innovation and waves which enable evolution and integration from the existing systems and activity.

Assessments of potential are informed by the available information, but are necessarily imprecise. A range of approaches are being trialled by different actors and the extent of activity, or where it will come from next is not yet clear.

*Unanticipated successes and seemingly inexplicable failure have characterised [impact investing] as much as they have mainstream investing over the past few years. Whatever we predict will be the next subsectors to watch, we will probably look back a bit sheepishly when we see what was missing from our list.*

*Antony Bugg-Levine and Jed Emerson<sup>23</sup>*

Other indicators are even more important than the dollar figures, given that Australia has not yet seen a concerted focus on developing the field. As activity in Australia increases, there is significant potential to reach scale from current levels due to the activity being driven from different actors in the marketplace and across a range of sectors. The extent of that potential will also be increased if opportunities beyond the domestic market, particularly across the Asian region, are realised.

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<sup>23</sup> A Bugg-Levine and J Emerson, *Impact Investing: Transforming how we make money while making a difference*, Jossey-Bass, 2011, p. 85

There are indications of potential. Participants in the consultation for this report relate their own experience of shifts in attitude and action.

*Three to four years ago ... we were exposed to the growing work of impact investing and social finance in Australia ... we sought to keep our executives up to date with this innovation and hosted a few meetings with innovators in the field. The content of these meetings were received with considerable caution, convinced that these concepts would never become anything more than extremely marginal at best. Just a few years later, the bank is working on the Social Benefit Bond pilot, both as a structurer and an investor, has senior people speaking at social finance conferences and workshops, and has a virtual team working on a number of social finance deals. The momentum that has been achieved in a few short years is nothing short of breath taking.*

*Sandy Blackburn-Wright, Head of Social Innovation, Westpac Banking Corporation<sup>24</sup>*

### 2.2.2 Potential to attract more investment capital

The Productivity Commission and Senate Economics References Committee both identified the corpus held by philanthropic trusts, including Private Ancillary Funds (PAFs), as a potential source of capital for impact investing that had not yet been tapped to any significant extent. The Productivity Commission also pointed to ways in which current regulatory frameworks for these trusts and foundations could facilitate approaches that combine investment with grant making.

*Public and private ancillary funds can enter into uncommercial transactions (for example, subsidised loans) with DGRs [Deductible Gift Recipients] that are in furtherance of the PAF's purpose. The difference between the interest on the actual loan and the interest that would have accrued if it were provided on a commercial basis is considered to be a charitable DGR distribution by the ATO [Australian Taxation Office].*

*Productivity Commission<sup>25</sup>*

Some entrepreneurial philanthropists and family offices have been pursuing impact strategies for the corpus of their funds for some time.

*Our family's private ancillary fund, the Trawalla Foundation, has pursued a social impact investment strategy for our corpus for many years. We believe these investments are a good way to double our social impact: we provide capital for social enterprises to operate and grow, distributing the returns earned from these investments as grants to Australia's not-for-profit organisations.*

*Carol Schwartz, Trawalla Foundation<sup>26</sup>*

They point to the opportunity not only for greater coherence across their investment and grant making strategies, but also the opportunity to enhance the impact of their grants and provide a catalytic example of how investments can achieve more than financial return.

*The McKinnon Family Foundation exists to bring about social change. It does this via grants but it seems it can get more bang for its buck if social change is also the aim of its investments. It is also about coherence, many mainstream investments create the social problems the grants are aiming to overcome (for example, mining or polluting industries). We want our foundation to be coherent, not being complicit with organisations and structures that cause problems with its investments and then trying to solve these problems via its grants. We also want to be catalytic in transforming investing. Investing should not be about profit maximisation but about using capital to promote the common good.*

*John McKinnon, McKinnon Family Foundation<sup>27</sup>*

<sup>24</sup> S Blackburn-Wright, IMPACT—Australia research, 11 February 2013

<sup>25</sup> Productivity Commission, *Contribution of the Not-for-Profit Sector*, 2010, p. 191

<sup>26</sup> C Schwartz, IMPACT—Australia research, 20 February 2013

<sup>27</sup> J McKinnon, IMPACT—Australia research, 18 February 2013

If others follow their lead this could direct significant additional capital to impact investing. The Productivity Commission estimated that even 5 per cent of the billions of dollars currently held by these organisations would be sufficient order of magnitude to greatly increase flow of capital. To achieve this, both the Productivity Commission and Senate Economics References Committee highlighted the importance of developing appropriate investment vehicles and achieving some clarification of fiduciary duties.

A significant number of Australian superannuation funds and investment managers have signed up to the United Nations Principles for Responsible Investment and made corresponding commitments (of varying degrees) to transparency and responsible investment. However, relatively few have yet engaged actively in impact investing. There is the potential to achieve scale, and contribute more broadly to Australia's economic health, if more of this capital can be unlocked for impact investing without compromising the security of savings and returns for members.

The scale of the capital managed by these institutions magnifies the challenges of introducing new approaches and products into the mix, and doing it efficiently. Fund managers, trustees and advisors are presented with a variety of options and it is difficult to 'pause' the momentum of the system to pursue alternatives, even if they may have value. Gaining traction is even more difficult when fund managers, trustees and advisors are generally unfamiliar with impact investing.

The industry relies upon a significant body of standardised policies and approaches to risk and return based on investment types that are better understood. In this context, impact investing opportunities may be perceived as 'too small' to warrant the due diligence and design involved. They are likely to be perceived as 'too risky', whether or not the underlying merits of the transaction in fact pose inappropriate risk for the return. These factors help explain why there has been relatively little engagement in impact investing from Australian superannuation funds so far, despite an expressed desire from senior figures within and outside the industry to use these large capital reserves to support activity that not only provides good returns to members but is also 'nation building'.

Some creative individuals and organisations are taking up the challenge of bringing focus, experience and intellectual firepower to the challenge. If they are successful, they could unlock significant additional capital for impact investing in and from Australia, even if it were only a very small proportion of the \$2 trillion in funds under management.

At the other end of the spectrum, initiatives to tap the retail investment market have not yet been a focus.

### 2.2.3 Potential from latent demand

Recent Australian research also points to latent demand for impact investment in Australia.

*In Australia there are people, groups and organisations who are currently excluded in significant ways from accessing and using mainstream financial services and products. They represent 'underserved' markets, lacking access to capital, particularly affordable credit.*

*Ingrid Burkett<sup>28</sup>*

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<sup>28</sup> *Reaching Underserved Markets: The role of specialist financial intermediaries in Australia*, Commissioned by Social Traders and Foresters Community Finance, 2013, p. 5

Some of this potential demand relates to capital for the not-for-profit sector (see, for example, the submissions and analysis provided to the Senate Economics References Committee and research on financing the Australian not-for-profit sector).<sup>29</sup> There is a large diverse and dynamic not-for-profit sector of approximately 600,000 organisations, and successive reports have identified a need to strengthen the capacity for some of those organisations to access finance and diversify from grant funding to a broader mix of funding and investment.

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

*Mr David Crosbie, Chief Executive Officer, Community Council for Australia*<sup>30</sup>

The *Place-Based Impact Investment in Australia* reports suggest considerable potential to direct additional capital to aspirational businesses and other asset development in a range of communities, and thereby promote quality sustainable jobs and local economic activity. A recent Parliamentary Joint Committee Inquiry into the needs of small and medium enterprises also concluded there was latent demand for finance to stimulate small and medium enterprises. This group represents the largest collective source of employment and new jobs in Australia.<sup>31</sup>

The financial needs of cultural organisations have also been explored in *New Models, New Money* and *Creative Australia: National Cultural Policy*.<sup>32</sup> Other as yet unmet potential is focused on particular areas of social need, as reflected in some of the ideas and proposals at various stages of development in the market. This includes housing supply bonds proposed by the Australian Housing and Urban Research Institute, and long-term housing solutions for young people in need of full-time care.

New sources of potential demand are also developing; in particular, the recent, some would say renewed, focus on social enterprise in Australia. Australian research from 2010 suggests over 20,000 such ventures operate across the country.<sup>33</sup> Reports from the field indicate that many of these are not yet investment ready. However with appropriate support and development the pipeline could develop.

There is more work to do to unlock and develop the potential for impact investing in Australia. But there is potential and there are already sound foundations from which to build.

29 I Burkett, *Finance and the Australian Not-for-Profit Sector*, Foresters Community Finance, 2011

30 Senate Economics References Committee, Committee Hansard, 1 August 2011, p. 26

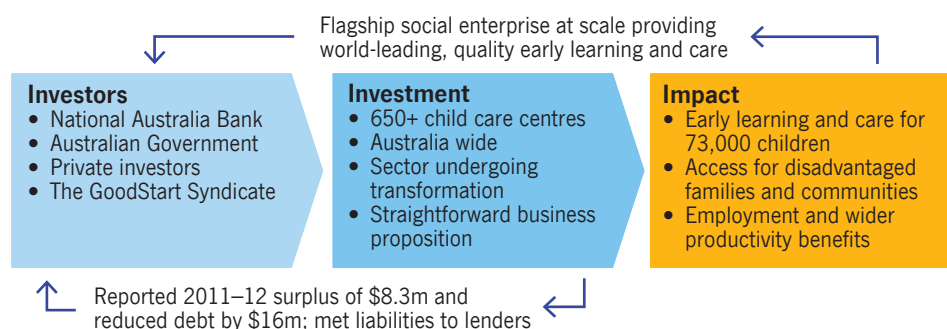
31 Parliamentary Joint Committee on Corporations and Financial Services, 2011, *Access for Small and Medium Business to Finance*

32 J Schulz (ed), *New Models, New Money*, viewed 24 February 2013 <[www.newmodelsnewmoney.com.au](http://www.newmodelsnewmoney.com.au)>; Australian Government.

*Creative Australia: National Cultural Policy*, 2013

33 J Barraket, N Collyer, M O'Connor and H Anderson, *Finding Australia's Social Enterprise Sector: Final Report*, Australian Centre for Philanthropy and Nonprofit Studies, 2010

## Case 2: Goodstart Early Learning



MISSION	
Mission	Provide long-day care and early learning services for children
Sector	Early childhood education
Location	Australia wide
Legal	Public company, limited by guarantee, tax concession charity
Scale	650+ centres, 73,000 children, 15,000 employees

INVESTMENT	
Description	An opportunity arose out of the financial difficulties of the ABC Group, representing 15 per cent of childcare in Australia. The financial viability of the distressed ABC assets meant that a proposition presented itself to create a social enterprise at scale. Social Ventures Australia, the Benevolent Society, the Brotherhood of St Laurence and Mission Australia led a consortium that put together a competitive tender to create a flagship for early childhood development across Australia. Early childhood development is important for the wellbeing of families, is a driver of productivity, and is a public policy priority. Goodstart was announced preferred bidder for the business in December 2009, purchasing 678 centres for \$95 million.
Instrument	Layered investment combining senior and subordinated debt
Deal structure	<ul style="list-style-type: none"> <li>• Secured senior debt: \$50 million over 5 years at 10 per cent (NAB)</li> <li>• Secured debt: \$15 million over 7 years at market yield for treasury fixed coupon bonds (Australian Government)</li> <li>• Unsecured social capital notes: \$22.5 million over 8 years at 12 per cent (41 private investors)</li> <li>• Unsecured subordinated notes: \$7.5 million over 20 years at 15 per cent (Benevolent Society, Brotherhood of St Laurence, Mission Australia)</li> <li>• Non-cash deeply subordinated notes: \$10 million at 15 per cent for advisory services (Benevolent Society, Brotherhood of St Laurence, Mission Australia, Social Ventures Australia)</li> <li>• Operational capital: \$70 million in various forms (NAB)</li> </ul>
Investors	National Australia Bank; Australian Government; Private investors, including family offices and Private Ancillary Funds; the Goodstart Syndicate: the Benevolent Society, Brotherhood of St Laurence, Mission Australia, Social Ventures Australia

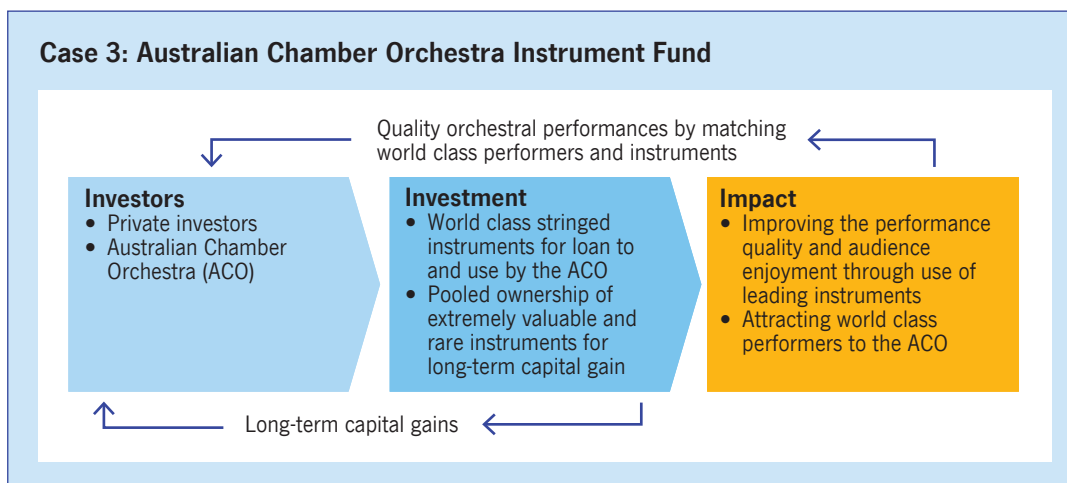
FINANCIAL RETURN	
Reported returns	In 2011-12, Goodstart achieved a surplus \$8.3 million and reduced debt by \$16 million; all financial liabilities to lenders were met.

IMPACT	
Impact objective	Create world-leading, evidence-based model of early learning and care; new models of accessibility for disadvantaged families and communities; quality educational outcomes; productivity and jobs within and beyond Goodstart.
Reported impact	Quality childcare for 73,000 children in over 650 childcare centres; employment for 15,000, reduced staff turnover by 3 per cent in 2011-12

*While Goodstart can be distinguished from other social investments due to its origins, scale and reach, observations on future practice are: the value of networks and professional trust to mobilise support and action; the need to consider social impact and financial return in tandem and to keep evident in the ultimate design; the value of layered investment to accommodate different risk appetites and investment tolerances of parties involved; the need for attention to market factors to make the investment commercially viable.*

Goodstart: a Social Investment Story, Social Ventures Australia, unpublished presentation





MISSION	
Mission	To purchase world class stringed instruments for long term capital gain, while making them available to the public through use by a world leading chamber orchestra
Sector	Arts and culture
Location	Various across Australia plus international tours
Legal	Fixed unit trust
Scale	Currently owns a \$1.75 million instrument and is searching for further quality acquisitions

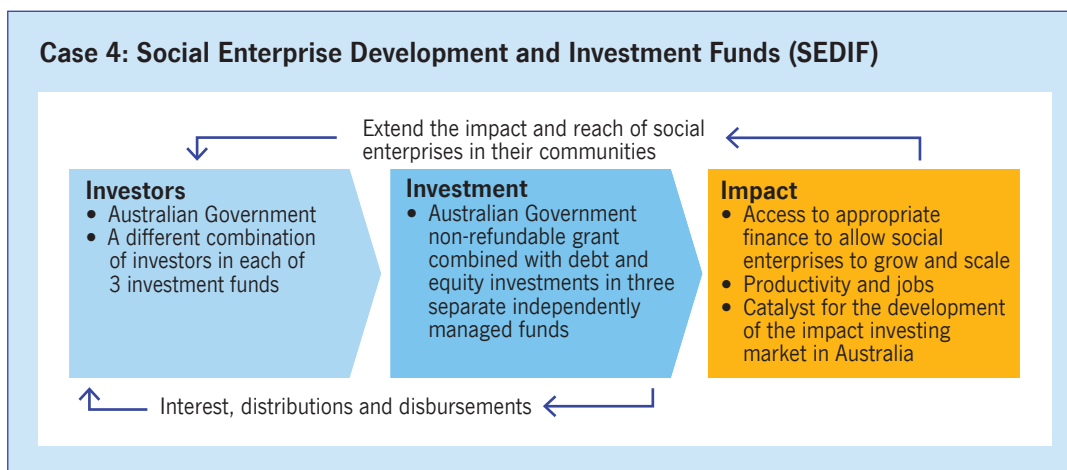
INVESTMENT	
Description	The instrument fund provides an investment vehicle for the pooling of funds from investors to purchase world class stringed instruments, the total value of which may preclude a single owner. Investors participate in the long term capital gain expected from assets of this type. The care, use and insurance of the instruments are covered by the ACO. The funds only assets will be instruments and cash, no borrowings are allowed.
Instrument	Unlisted Australian unit trust
Deal structure	<ul style="list-style-type: none"> <li>• Cornerstone investment of \$1.75 million from ACO to purchase the first instrument</li> <li>• Additional investments go first to redeem some ACO units (some retained for future gains), then to purchase additional instruments</li> <li>• No fixed term; fund can be terminated after 10 years (2021) or after subsequent 5 years intervals subject to vote of unit holders; additional units may be issued</li> <li>• Approved unit transfers allowed; limited withdrawal windows every 3 years</li> </ul>
Investors	Private investors, Australian Chamber Orchestra

*The concept of aligning financial and artistic interests attracted tremendous public and media interest when the Fund was launched in June 2011. Our aim is to balance the ability of the ACO to access world class instruments for an extended period with unitholders' desire to generate a long-term capital gain from their investment*

Australian Chamber Orchestra Instrument Fund Annual Report 2011-12: Chairman's Report

FINANCIAL RETURN	
Reported returns	In 2011-12, the Fund's first year, it acquired a \$1.75 million Stradivarius violin after selling units in the fund much faster than originally anticipated. After the first year of operation, the ACO had redeemed units to the value of \$0.75 million retaining the remainder to allow it to participate in potential gains. Currently the fund has \$0.2 million available for further purchases plus the ability to issue more units. The Fund is not expected to generate income returns but rather long term capital gains from the value of the instruments acquired.

IMPACT	
Impact objective	To provide access to world class stringed instruments for use by the ACO, funded by investors who wish to retain ownership of the instruments.
Reported impact	While the fund is still in its early stages, the quality of the initial instrument purchased has added to the attractiveness and audience appeal for performances in a variety of Australian locations. It has also helped the ACO attract and retain some of the best performers in the world with international reviews labelling them 'the finest chamber orchestra in the world' ( <i>The Telegraph</i> , UK).



MISSION	
Mission	Provide appropriate, affordable, tailored finance to social enterprises
Sector	Social enterprise
Location	Australia wide
Legal	Three unique funds administered by different organisations—two organisations are public companies, limited by shares; one organisation is a public company, tax concession charity, limited by guarantee
Scale	Over \$40 million

INVESTMENT — Foresters Community Finance: Community Finance Fund — Social Enterprise and Social Enterprise Finance Fund	
Description	Foresters is a Community Development Finance Institution (CDFI) that provides finance and investment capital to the community sector. Foresters' Social Enterprise Solutions program provides social, cultural and environmental enterprises with access to community finance loans for property, business equipment or business development purposes. The program draws from two funds. The Community Finance Fund – Social Enterprise (CFF-SE) provides secured loans to sophisticated social enterprises. The Social Enterprise Finance Fund (SEFF) provides unsecured finance to social enterprises, assisting in their strategic growth and development. The total capitalisation of the Social Enterprise Solutions program is \$12 million.
Instrument	Unit trust
Deal structure	<ul style="list-style-type: none"> <li>• Christian Super purchased \$6 million of ordinary units in the CFF-SE</li> <li>• Australian Government \$6 million grant: <ul style="list-style-type: none"> <li>– \$4.3 million in 'capital warranty' units in the CFF-SE which provide a subordinated capital investment</li> <li>– \$1.2 million in units in the SEFF</li> <li>– Government is not seeking earnings or a capital return</li> </ul> </li> </ul>
Investors	Australian Government, Christian Super

*Our members want us to make a good return for them, but also make a difference, and being invested in Foresters provides those core characteristics for us.*

Peter Murphy, CEO, Christian Super, SEDIF video, DEEWR

INVESTMENT — Social Enterprise Finance Australia (SEFA): SEFA Loan Fund	
Description	The SEFA Loan Fund is a \$20 million fund. SEFA offers loans to social enterprises in tandem with targeted business advice and support to help build their capacity to manage debt and become financially sustainable over time. The SEFA Loan Fund consists of three sub-funds focused on: community development, Indigenous and environment. SEFA brings together a range of enterprise partners (including investors) with expertise in social finance, business development, community development, and research and training.
Instrument	Trust sourced from a combination of debt, shares and grant funding
Deal structure	<ul style="list-style-type: none"> <li>• A total of \$10 million in debt and equity investments. Some investments take the form of equity in SEFA Ltd provided as loans to the SEFA loan fund, some as debt directly to the SEFA Loan Fund.</li> <li>• Australian Government grant: \$10 million of Government funding is provided to the SEFA Loan Fund and is subordinated to other capital. The Government is not seeking earnings or a capital return.</li> </ul>
Investors	Australian Government, Triodos Bank, Community Sector Banking, Macquarie Group, NSW Aboriginal Land Council, Private Investors

*We were attracted to the SEDIF program because it gave a great opportunity to put into place what we'd been looking to do in funding social enterprise in Australia. It provided a very worthwhile guarantee to marshal more private resources, to effectively leverage monies and funds for the social enterprises in Australia.*

David Rickards, Social Enterprise Finance Australia, SEDIF video, DEEWR

<b>INVESTMENT – Social Ventures Australia (SVA)</b>	
Description	SVA is an independent, not-for-profit organisation that invests in social change to help increase the impact and build the sustainability of the social sector. SVA's Social Impact Fund is an \$8.6 million fund which invests in social enterprise through debt, equity and quasi-equity products. The fund also offers capacity building grants to earlier stage social enterprises for a specific activity or piece of work to build their investment readiness. The Fund's social aim is to support enterprises that are providing opportunities to disadvantaged Australians.
Instrument	Unit trust
Deal structure	<ul style="list-style-type: none"> <li>• Unit holders: invested \$4.6 million and have the senior investment in the fund.</li> <li>• Australian Government grant: \$4 million of Government funding is provided to the SVA Fund and is subordinated to other capital. The Government is not seeking earnings or a capital return.</li> </ul>
Investors	Australian Government, over 30 private investors

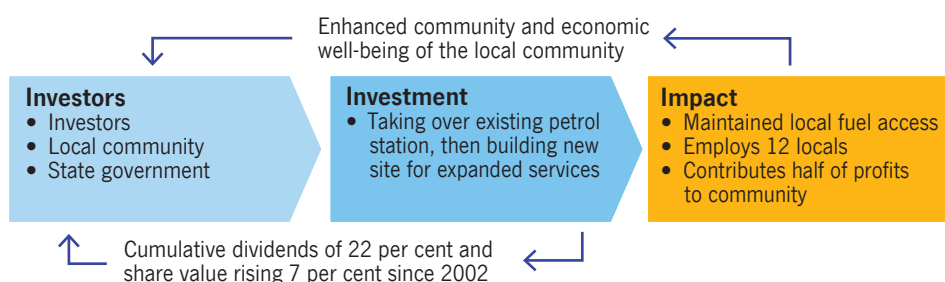
*The SEDIF program gave SVA an opportunity to work with the government collaboratively to form effectively a new model of funding social enterprises. SVA was able to leverage off the government funding and access our own pool of investors, and together, put together a pool of capital which can be landed and invested in social enterprises around Australia for positive change.*

Ian Learmonth, Social Ventures Australia, SEDIF video, DEEWR

<b>FINANCIAL RETURN</b>	
Reported returns	The SEDIF fund managers each have slightly different approaches to the management of their funds. Across the three funds, targeted returns to investors are in the range of 6 to 13 per cent. Actual returns to investors will vary depending on different organisational structures, different terms of other cornerstone investors and different modelling on the size, nature and terms of the funds' investments.

<b>IMPACT</b>	
Impact objective	<ul style="list-style-type: none"> <li>• Establish impact investment funds which increase capital for social enterprises.</li> <li>• In the short term:                             <ul style="list-style-type: none"> <li>– provide a catalyst for market development;</li> <li>– test capacity for and existing barriers to social impact investment and access to capital for social enterprise;</li> <li>– capacity building for social enterprise; and</li> <li>– target investment in priority areas for impact.</li> </ul> </li> <li>• In the longer term:                             <ul style="list-style-type: none"> <li>– support development of infrastructure to build the market place for social impact investment;</li> <li>– support innovative product development; and</li> <li>– attract longer term investment in priority areas for impact.</li> </ul> </li> </ul>
Reported impact	<ul style="list-style-type: none"> <li>• Enabling social enterprises to purchase their operating premises, providing them with greater security and stability</li> <li>• Providing finance for business development allowing expansion, product development and diversification</li> <li>• Extending the reach of social enterprises into their communities; for example, enabling the provision of 800 counselling sessions for people recovering from eating disorders, providing accommodation for people experiencing homelessness, providing integrated transport and accommodation for people who need to travel for medical procedures, recycling end-of-life electronic waste and providing employment opportunities for disadvantaged people.</li> </ul>

### Case 5: Yackandandah Community Development Company



MISSION	
Mission	To maintain and grow the local community through the continued availability of essential supplies, particularly petrol and then more broadly employment and community support
Sector	Community development
Location	Yackandandah, VIC (around 300km from Melbourne and 500km from Sydney)
Legal	Australian Public company, limited by shares, unlisted with over 600 shareholders
Scale	Construction of a new petrol station cost around \$450,000 with later expansions costing \$150,000, petrol sales of over 2 million litres per annum, employs 12 full-time and part-time local staff

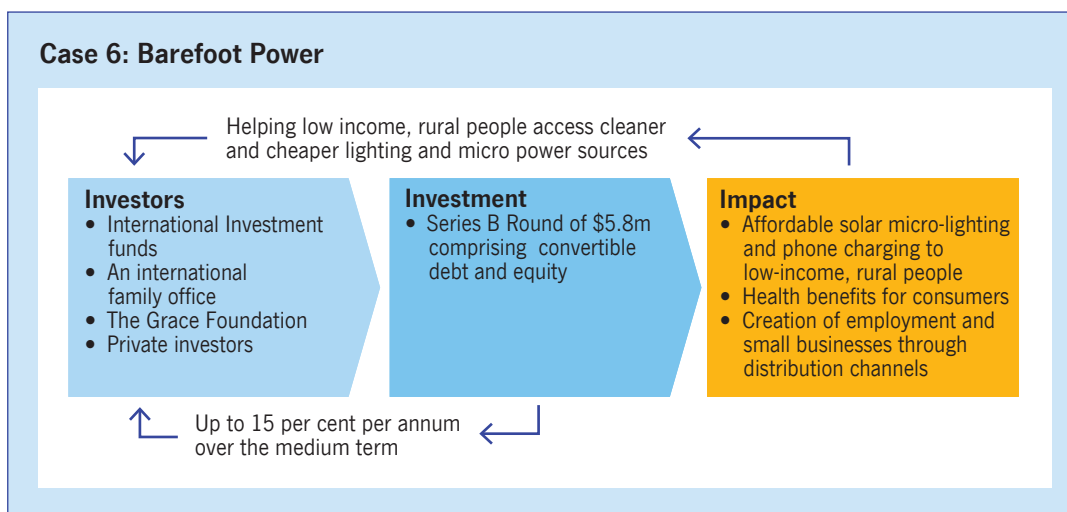
INVESTMENT	
Description	The proposed closure of the town's only petrol station caused the organisation to establish to purchase the operation and later construct a new station which has since expanded to offer other supplies and community support from part profits. Around one third of the township's households became shareholders raising \$412,000 in an unlisted public share float in 2002.
Instrument	Shareholder's funds combined with a small State Government development grant
Deal structure	<ul style="list-style-type: none"> <li>Shareholder capital of \$412,000 raised in 2002</li> <li>State Government grant of \$150,000 through the Indigo shire to develop the Industrial Estate site</li> </ul>
Investors	473 share applications representing 649 applicants from the local community

*We either sit around and whinge about rural decline, or we get off our backsides and do something about it.*

Mark McKenzie-McHarg, Founding Director Yackandandah Community Development Company

FINANCIAL RETURN	
Reported returns	In 2011-12, a small after tax profit of \$12,000 was made, representing the 8 <sup>th</sup> year in 9 of profit since operations commenced. Annual revenues have more than doubled since commencement and dividends have been paid in 4 of the 9 years, totalling \$22.31 including franking, on the original \$100 shares. Net asset backing of shares was 107.15 as of 30 June 2012.

IMPACT	
Impact objective	To maintain a local supply of petrol and create employment which is important to a rural community plus contribute part profits to that community
Reported impact	Total petrol sales have risen over 50 per cent since commencement while reinvestment of part profits to the community has totalled over \$100,000. Employment for around 12 locals (4-5 full time equivalent staff members)



MISSION	
Mission	To help low income, rural people in developing nations break their dependence on inefficient, expensive and harmful light sources by giving them cleaner and cheaper options
Sector	International/Environment
Location	Sub-Saharan Africa, Asia and the Pacific, Latin America and the Caribbean
Legal	Australian Proprietary Company, Limited By Shares
Scale	Products assist over 2 million people worldwide

INVESTMENT	
Description	Barefoot Power designs, manufactures and distributes micro-solar lighting and phone charging products that are affordable for low income populations that do not have access to electricity. It has undertaken a number of financing rounds to expand its reach in low-income, rural communities in Sub-Saharan Africa, Asia and the Pacific, Latin America and the Caribbean in 2011 and 2012. Series B, advised by Unitus Capital, was designed to enable the company to continue the solid growth trajectory and potential of the business which has an overall target of impacting 10 million people by 2015.
Instrument	Convertible debt and equity
Deal structure	Series B Round totalling \$5.8 million completed in two stages: i) convertible debt; and ii) equity (including conversion of convertible debt)
Investors	The Grace Foundation (Australia), Oikocredit Ecumenical Development Corporation (Netherlands), Ennovent Sustainable Enterprise Fund (Netherlands), the Insitor Fund (Netherlands), d.o.b foundation (Netherlands) and private investors (Australia and international)

FINANCIAL RETURN	
Expected returns	Targeting real financial returns of up to 15 per cent per annum over the medium term (around 7 years)

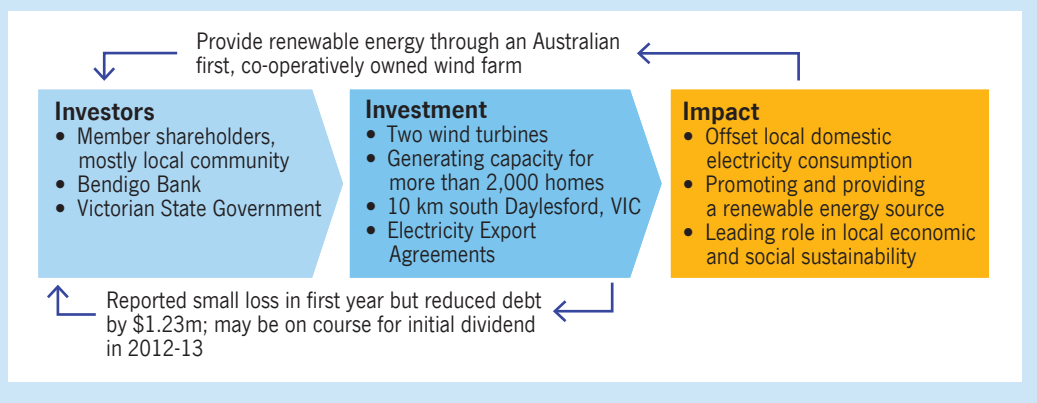
IMPACT	
Impact objective	Provide lower cost and better quality lighting and selected power to 10 million people by 2015
Reported impact	Increased reach from 1 million to 2 million people between 2011 and 2012; reducing kerosene use and contributing to better health and environmental outcomes

*Traditional NGO's will never reach their goal of widespread poverty alleviation without selling products that help people become more productive. Barefoot Power sits in between a profit-maximising business and a charitably motivated NGO as a deliberately conceived social enterprise. We invested our capital to get a real financial return and widespread social impact.*

*The challenge of getting people in this situation to buy their own solution to this problem excites us with its scalability and impact.*

John Altmann,  
Executive Director,  
The Grace Foundation

## Case 7: Hepburn Community Wind



MISSION	
Mission	Develop, own and operate Australia's first co-operatively owned wind farm
Sector	Renewable Energy
Location	Leonards Hill, Hepburn Shire, VIC
Legal	Co-operative with almost 2,000 members, not tax concession charity or DGR
Scale	Two wind turbines with expected generation of 12,200 MWh per annum; equivalent to the electricity consumption of more than 2,000 homes

INVESTMENT	
Description	The project was initiated in early 2005 by the Hepburn Renewable Energy Association's desire to establish a community-owned wind farm to meet the electricity needs of the Hepburn Shire. The Association engaged a private renewable energy project development company to assist with the required co-operative establishment, planning permit application, capital raising and construction contracts. Electricity Export Agreements were signed with Powercor Australia in August 2010 and construction commenced in February 2011. In June 2011, operation commenced for Victoria's ninth wind farm and Australia's first to be initiated and owned by a community. Income is received from both electricity generation and renewable energy certificates.
Instrument	Layered investment combining secured loan facilities and member shareholder funds
Deal structure	<ul style="list-style-type: none"> <li>• Member shareholder capital: \$7.5 million at June 2010, increased to \$9.5 million at June 2012</li> <li>• Secured loan facility: \$3.1 million Bendigo Bank</li> <li>• Grants: \$0.975 million State Government's Renewable Energy Support Fund and \$0.75 million Regional Electrical Access Program (part of Regional Development Victoria's Regional Infrastructure Development Fund)</li> </ul>
Investors	Almost 2,000 member shareholders, Bendigo Bank and the Victorian State Government

FINANCIAL RETURN	
Reported returns	In 2011-12, Hepburn's first full year of operation, saw 19 per cent lower generating output and 20 per cent lower prices combine for revenues 35 per cent below forecast; however, 2012-13 has commenced on forecast. Loan repayments were \$1.23 million in 2011-12 and early performance in 2012-13 indicates Hepburn Wind shareholders may be in line for an initial dividend.

IMPACT	
Impact objective	To offset the domestic electricity consumption of Daylesford and much of that of the surrounding towns while advocating more broadly for members interests in promoting renewable energy. A community fund set up to support environmental and social sustainability projects in the local community.
Reported impact	Generated 9,876 MWh during 2011-12, but improved as their first year of operation progressed. Each month of 2012-13 has exceeded the previous year's output. The Hepburn Wind Community Fund contributed \$30,000 in 2011-12 to 23 local sustainability projects. The fund is expected to grant more than \$1 million over the next 25 years.

*Climate change has become the primary global issue of our time. As a key component of the solution to climate change, renewable energy has become a major growth industry. Based on a highly successful European model, and built on solid commercial principles, Hepburn Wind's significant local ownership ensures that it will play a leading role in the environmental, economic and social sustainability of the local community.*

Hepburn Community Wind Park  
Co-operative Limited Membership and Share Offer:  
Chairman's Letter

## 2.3 Foundations to build on

Many of the foundations for increasing the scale and scope of impact investment activity in Australia are in place. A picture is emerging of the development of activity from relatively isolated deals to funds and early proposals for platforms; and signs are starting to appear of a shift from ad hoc investments to more coherent and connected practice. International commentators visiting Australia have remarked on the familiar signposts.

*I am seeing [in Australia] that there is a government openness to creating a policy environment which can be supportive of impact investing; I am seeing the seeding and growth of intermediaries that bring and help cast opportunities for impact investing in ways that are accessible to investors; I see groups of investors, institutional investors from super funds to banks to foundations that are beginning to show interest and begin to make investments that are impact investments; and I see a call to philanthropy in this country that says you can use a broader toolbox to support the emergence of this marketplace and in doing so extend your effectiveness and your impact in your own terms.*

*Luther Ragin Jr., CEO, Global Impact Investing Network<sup>34</sup>*

There is interest, activity and energy coming from a broad range of actors, who come, in turn, from across sectors. Areas of potential have already been identified in terms of both supply of capital and areas of demand and unmet need that target social, cultural and environmental impact. Research and proposals being generated in and for the Australian context have already examined a number of areas where impact investing opportunities exist. These range from housing, to aged care to directing capital to communities and other groups whose needs for finance are not currently being met. Potential sources of investment capital have been identified and could start to flow with thoughtful attention to investment vehicles and structures, and to how some regulatory settings, policies and processes are framed, interpreted and applied.

*Australia needs to build on the foundations with more deals and practice*

There is a clear need for more and differentiated intermediation, but there is activity happening and the research for this report suggests it is growing and that more links are being forged between those early intermediary organisations and other parts of existing systems.

Practitioners and leaders in impact investing in Australia are increasingly connected with peers globally, exchanging ideas and experience. There is opportunity to develop more active and structured networks that reinforce these connections and facilitate a broader sharing of ideas, information, tools and practice.

Early deals and structures in and for the Australian market are already demonstrating that impact investing can be done here. They may provide frameworks that can be replicated for a broader range of circumstances. For example, the work has not yet been done to examine whether the elements of Goodstart Early Learning (Case 2), that include a reliable government revenue stream relating to the business and impact in an area of policy priority and reform, could be harnessed as a basis for impact investment in other areas that share those features.

There are examples showing that different actors can and will come together with different types of capital and different risk/return requirements to enable transactions that would not be achieved through traditional grant making or mainstream investment practice. The capital structures used in Goodstart Early Learning (Case 2) and the Social Enterprise Development and Investment Funds (Case 4) confirm the role for different actors and the need for collaboration.

The imperative now is to translate interest into action, and fragmented activity into a more coherent picture of appetite and capacity for impact investing in the Australian context. There will not be a precise road map. Those interested will need to connect, experiment, learn and get more deals done, and in doing so test potential and navigate the challenges ahead. Moreover, committed leaders will need to step forward to carve the path and start to scaffold the frameworks for practice to make that possible.

<sup>34</sup> Social Investment: An interview with Luther Ragin Jr., CEO of the Global Impact Investing Network – September 2012, video recording, Australian Government Department of Education, Employment and Workplace Relations, Canberra





## 3 Growing impact investing in Australia

Realising the potential for impact investing in Australia is not a soft proposition. It demands innovative thinking and focused action to build practice and create viable investment vehicles that best suit a range of problems, organisations and situations. It will take commitment, tenacity, flexibility and leadership to solve some of the current obstacles and maintain focus on priority areas.

*Just as traditional investing did not emerge whole-cloth, but rather evolved over numerous decades, impact investing must also be given the time to emerge in a way that is effective, not only for moving money, but for moving smart money into the right opportunities.*

*Jed Emerson<sup>35</sup>*

The foundations for growth are present, and Australia can draw upon significant advances made across developed and developing markets. The challenges here have much in common with the experience in other countries; although the research for this report suggests that issues in Australia are sometimes compounded by the relatively smaller scale and depth of our domestic markets. Learning from this broader context is critical, not only because others are further advanced in their thinking and practice, but because, like other capital markets, impact investing is global.

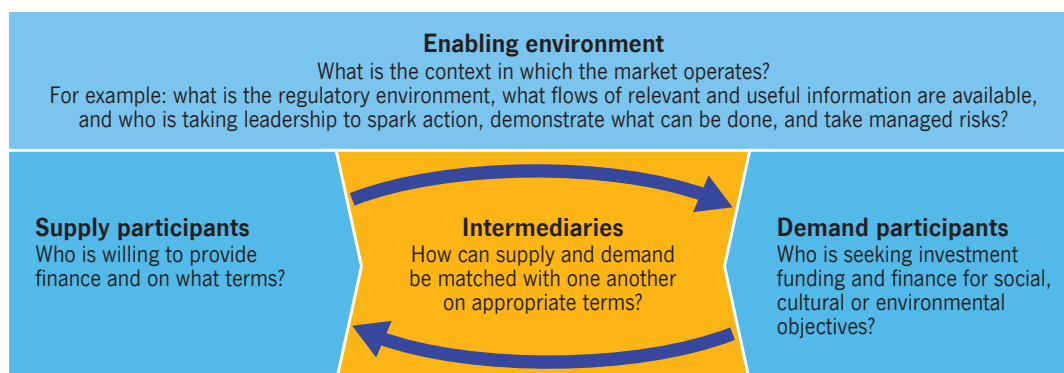
### 3.1 Acknowledge the challenges and opportunities

Impact investing does not occur in isolation. The field is developing through practice and transactions driven from and linking with existing capital markets, institutions and more traditional ways of funding social outcomes and philanthropic activity. Much of the literature and research on impact investing is informed by the framework of a marketplace. That is: ‘demand’, or who is seeking finance; ‘supply’, or who is willing to provide finance; and ‘intermediation’, or how matches can be made on appropriate terms (Figure 5). The marketplace is shaped by those seeking and those supplying capital, but also by the regulatory environment, and the availability of relevant and useful information. It is also shaped by a leadership prepared to break new ground, to take managed risks to spark action, demonstrate what can be done, learn from what does not work and inspire others.

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<sup>35</sup> G Christianson, Q&A with Jed Emerson: How Can Impact Investing Help Environmental Entrepreneurship Grow?, WRI Insights, viewed 24 February 2013 <[insights.wri.org/news/2012/11/qa-jed-emerson-how-can-impact-investing-help-environmental-entrepreneurship-grow](https://insights.wri.org/news/2012/11/qa-jed-emerson-how-can-impact-investing-help-environmental-entrepreneurship-grow)>

**Figure 5: Dynamics of the market for impact investing**



Source: Adapted from J Freireich and K Fulton, *Investing for Social and Environmental Impact*, Monitor Institute, 2009; and R Hill, Effective Consulting, in collaboration with the Australian Government Department of Education, Employment and Workplace Relations.

*Australian practitioners agree that, for impact investing to work, attention needs to be paid to all the key dynamics of the marketplace.*

The international experience, strongly supported by participants in the field in Australia, is that attention is needed to development across all dimensions of the marketplace for impact investing to grow and for the field to develop. However, the relationships between the market dimensions are not linear; they are interdependent. Without supply of capital, investments cannot occur. Without robust propositions and organisations in which to invest that actually produce impact and returns, capital will not enter or remain in the field. Without people and structures that facilitate supply and demand coming together within acceptable frameworks for all parties, many impact investments simply will not happen.

The consultation process, embracing participants from all parts of the Australian market, revealed a strong commitment to impact investing (Figure 6). While the real number of participants currently is small, the fact that they are active in the different parts of the market and talking with each other is significant and underpins the foundations for growth. The research revealed realism about the challenges and barriers to growth. It also revealed creativity, enthusiasm and drive for finding pathways forward. It showed a depth of conviction that it is important to explore the potential of impact investing as part of the toolbox for capital markets to work effectively, and to create benefits for society in more ways than the traditional mechanisms of grant making and finance can do alone.



The size of Australia's institutional investment market points to potential for significant investment. This will not happen overnight or without effort. Investments will need to be designed in a way that enables these investors to participate readily, including within their existing policies and frameworks. The research for this report suggests that awareness and interest within and from institutional investors in Australia has grown, even in the past year. If the proposed Government Rental Affordability Index-Linked (GRAIL) Fund is successful, it will provide a powerful demonstration of investment at scale by superannuation funds.

*...understanding how the investment is structured helps us to identify the potential market, political, liquidity and other risks with mitigation strategies developed within the structure (e.g. subordination) or externally (e.g. currency or interest rate hedging). As this is an emerging asset class, super funds have the opportunity to work with impact investing fund managers to develop investment products that work for them and provide the necessary transparency.*

*Samba Marekera, Christian Super<sup>36</sup>*

### 3.2.2 Developing the market

Transactions will drive growth, but the field will remain fragmented unless other aspects of the market also start to develop. That development is unlikely to be orderly or linear. It can start to occur through smart practice that builds on what is already happening here, and translates lessons from other fields and from impact investing globally (Section 3.4), into concrete experiments and opportunities.

Generating more transactions will require attracting more capital to the field and building the pipeline of investments that have demonstrable impact. Critically, it also requires a concerted focus on how available capital and investment opportunities can be brought together. There are not yet systematic ways in which those seeking and offering finance through impact investing can find each other.

*The intermediaries ... educate the market and bring both the providers and the suppliers of the capital together ... If they fully appreciate and understand the issues on both sides, they can then look to build appropriate opportunities. There is nothing unusual about that. In the history of capital markets ... the role of the intermediary has been fundamental.*

*Christopher Thorn, Council Member, Philanthropy Australia<sup>37</sup>*

Intermediaries play important roles in bridging the gap between supply and demand, and in creating opportunities. These range from expertly brokering connections to attracting and managing capital, structuring deals and facilitating interest in different parts of the market. Intermediaries can also convene parties for dialogue and due diligence.

Intermediation is even more important in the early stages of field development when there are fewer established pathways for connecting supply and demand. They provide a critical locus of the work required to move from bespoke transactions to funds and more standardised investment opportunities. Intermediation capacity is currently very concentrated in Australia and still dependent on the networks of a relatively small number of people and organisations. Indications are that the range of actors is expanding. However, more intermediaries are needed with the expertise to guide investors and those seeking finance, and to translate impact investing opportunities to actionable transactions.

Another key issue is how to go from bespoke deals to funds and other structures that pool capital, and ultimately allow impact investments to be traded.

<sup>36</sup> 'Impact investing for super funds', *Superfunds*, May, 2012

<sup>37</sup> Senate Economics References Committee, Committee Hansard, 1 August 2011, p. 9

Funds play a vital role by allowing smaller amounts and different types of capital to be pooled in one place to create more capacity to invest and direct capital. This enables more and different types of investors to participate. Funds also enable different types of investments to be made out of the one pool, so a range of investments can be made with different risk, return and impact, provided that the profile of the aggregated, or total, pool of investments is acceptable to investors.

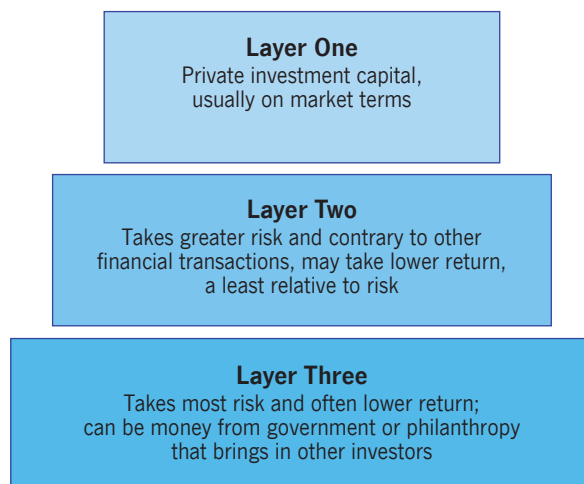
The advantage of having different types of investors involved is that it allows the needs and capacity of different investors to combine to match the overall investment requirement. Not all investors want or need the same type or rate of financial return from an investment. Not all investors may have the same appetite or capacity to take on risk. Layered investments can be structured so that each layer meets the needs of a particular investor group (Figure 7).

This approach is also used in project finance where investors in the top layer take less risk and get priority for repayment, and investors in lower layers take more risk. A key difference is that in project finance, investors in lower layers usually seek a higher financial return to compensate for the risk. In impact investment, these lower layer investors may accept even lower financial return because that will attract more private capital to the transaction and enable a social, cultural or environmental impact to be achieved that would otherwise not occur.

*Impact investors with a broad perspective on their markets see real power in capital diversity; namely, that different types of capital may be ‘stacked’ in order to enable different types of investments to be realized that would not otherwise be possible.*

Cathy Clark, Jed Emerson and Ben Thornley<sup>38</sup>

**Figure 7: Layered structures for impact investing**



Source: Adapted from I Burkett, *Place-Based Impact Investment in Australia: A Literature Review Exploring Opportunities for Place Based Impact Investment in Australia*, 2012

***Layered structures enable different actors to achieve together what none of them could do alone by combining different types of capital in non-traditional ways; they commonly disrupt the traditional risk-return equation as investors taking greater risk may get a lower return.***

The Social Enterprise Development and Investment Funds (Case 4, Section 2.2) are an example of this. Government funding is combined with different types of capital in each of the three funds. The terms of the government funding attracted private investors to participate. Those funds now have a pool of capital to invest in a range of social enterprises to enable them to enhance their impacts in the community. Some of the funds have built into their design a capacity to support enterprises that may be higher risk or at an early stage of development, but also have potential for high impact. This approach was also adopted in Goodstart Early Learning (Case 2, Section 2.2).

Impact investing funds are starting to emerge in Australia and a few investors have placed capital with international funds. This will start to inform local practice; however, the activity is limited in scale and reach. Certainly it is currently below the thresholds above which most institutional investors will participate. Research for this report clearly identified this as an area where more work and activity is needed. Suggestions included looking to other fields where the Australian capital market has been successful in utilising pooled capital structures, such as Real Estate Investment Trusts.

An important, as yet unresolved, issue for impact investing is exit or liquidity. Flexible flow of funds (liquidity) in any investment field provides options for investors to sell or exit the investment if they want to switch investments, need their capital or want to minimise losses. At this stage, impact investments are considered to be long-term investments by capital market standards and do not have ready options for exit. This has consequences for attracting investment as investors have to be prepared to 'lock up' their capital for a period. For most investors, that also has an impact on how they consider the level of risk and how much return they expect as a result. Institutional investors have particular constraints governed by a range of regulatory considerations and reflected in internal policies and systems, in turn affecting culture and attitudes towards assessment of risk.<sup>39</sup>

As a practical matter, this is another area where leadership is likely to be required. Someone needs to go first and sell an impact investment to someone prepared to buy. Showing it can be done is a good place to start. For scale to be achieved, some structures and benchmarking will need to develop. A number of models and platforms are the subject of experimentation and development internationally. Some of these could be considered for Australia and further work is required to develop options and demonstrate what can work in the Australian context.

There are some innovative platforms operating in Australia which could provide useful perspectives and models, including the Indigenous Stock Exchange and the Australian Small Offerings Board. Other platforms that have played that role in capital markets could inform options, particularly the Australian Stock Exchange and National Stock Exchange. In the consultation process for this report, a 'clearing house' approach was proposed as one way to facilitate impact investors finding one another and finding investment opportunities. There are already international models to look to (see Section 3.4).

Supply of capital alone is unlikely to be enough; there needs to be a pipeline of deals and vehicles in which to invest. Building 'informed and confident' capacity for a range of organisations to seek and obtain finance on appropriate terms will be an important factor for the growth of impact investing, as it is for other fields.<sup>40</sup>

More choice in accessible financing options for organisations ranging from small and medium enterprises to community organisations and social enterprise would stimulate demand by offering greater flexibility and efficiency in how they utilise some of their capital and extend their reach.<sup>41</sup> Financing options appropriate to community sector needs could help overcome the 'mission drift' dilemma for many of needing to 'go where the money is' rather than follow their own impact strategies. However, work will also be required to enable organisations to develop their financial strategies to integrate and manage a broader range of financing options.

<sup>39</sup> For example, banks and superannuation funds are constrained by liquidity provisions which limit the capacity to invest significantly in illiquid assets

<sup>40</sup> P Cheng (ed), *The Impact Investors Handbook: Lessons from the World of Microfinance*, Charities Aid Foundation (CAF) Venturesome, 2011

<sup>41</sup> Capital expenditure by not-for-profit organisations often relies on keeping cash reserves beyond what would be expected in the private sector and this reduces the potential to deliver to families and community.

More targeted advice and support in the right areas would assist with this and with transforming more good ideas into sustainable operating models that can attract capital. Organisations like Enterprise Connect, Donkey Wheel, Social Traders, Indigenous Business Australia and QuickstART are already working in this area and there is potential for others to follow.

*Social enterprises come to us with a wide variety of ideas and with a wide span of capability. Some are quite sophisticated and have operated for many years and are looking at growing enterprise in some form.*

*Belinda Drew, CEO, Foresters Community Finance<sup>42</sup>*

Opening up more seed and early stage capital and development advice for early stage enterprises could accelerate and increase the number reaching an investable stage. Australia can draw on the propositions developing internationally to close the so called ‘pioneer gap’ between seed funding and later stage capital.<sup>43</sup> In these areas, clearer links can also be drawn between what is already in place to develop commercial enterprises and private equity investment.

Policy, regulation and taxation play an important part in shaping the market for impact investing and can serve to encourage, or potentially inhibit or distort development of the field.

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

*Michael Traill, CEO, Social Ventures Australia<sup>44</sup>*

Like other jurisdictions, Australia has seen increasing focus on the policy environment for impact investing over the last few years. The Productivity Commission highlighted the importance of a role for government that goes beyond funding alone. The Senate Economics References Committee recognised that government also has a role to provide a supportive environment. This includes taking a longer-term view of its development, convening and encouraging collaboration across sectors, designing and implementing innovative policies to challenge market participants to take up new financing options.

Initiatives by Australian governments have already played a role in catalysing the field and others have been proposed (for example, *Creative Australia: National Cultural Policy*). The Australian Government has also acknowledged a role for new partnerships in developing vital community infrastructure.

*The infrastructure needs of our regional capitals are not going to be funded by one government—or by governments alone . . . All levels of government must work in partnership, and we have to find innovative ways to finance new infrastructure, including tapping the resources of the private sector, and in particular, superannuation funds. A concept I urge you to consider is the formation of an alliance of local governments, a mutual society that uses the strength of their collective asset base to access debt at competitive market rates to fund new infrastructure.*

*The Hon Simon Crean MP, Minister for Regional Australia, Regional Development & Local Government; Minister for the Arts<sup>45</sup>*

<sup>42</sup> *Social Investment: Social Enterprise Development and Investment Funds (SEDIF) – December 2012*, video recording, 2012

<sup>43</sup> ET Jackson and Associates, 2012; H Koh, A Karamchandani and R Katz, *From Blueprint to Scale: The Case for Philanthropy in Impact Investing*, Monitor Group and Acumen Fund, 2012

<sup>44</sup> Senate Economics References Committee, Committee Hansard, 1 August 2011, p. 22

<sup>45</sup> *New funding to help local governments unlock opportunities*, press release, 21 February 2013

International leaders in the field have called for governments to help establish the enabling environment in which impact investing can grow through consistent policy settings and appropriate incentives.<sup>46</sup>

A number of policy suggestions were made through the Senate Economics References Committee process. The policy debate includes a focus on whether adjustments are required to regulation of capital markets to remove perceived barriers to impact investing while still maintaining appropriate prudential standards.

One area that comes up frequently is the fiduciary duties of trustees of institutional investors, such as superannuation funds. These duties serve an important function of requiring trustees to act in a manner that prioritises capacity to ensure obligations, such as meeting members' retirement payments, are met. However, the way they apply fiduciary duties is not static. In responsible investing practice, there is a view that attention to environmental, social and corporate governance factors is not only permitted but required to meet fiduciary obligations in managing risk. The proposition is not settled at law; it is contested for impact investing. There is a view that greater clarity on the scope of fiduciary duties with respect to factors which are not solely financial would reduce a barrier to investment.

Governments, including those in Australia, have responded in a variety of ways to the policy debate, but few have yet developed overarching policy frameworks. The UK is the exception in a jurisdiction often regarded as comparable.<sup>47</sup> At this stage, relevant policy initiatives in Australia are coming through not only different levels of government but also different portfolio areas, rather than a whole-of-government approach. This is appropriate to the extent that impact investing is a tool that can be applied to better target public spending and leverage private capital, where appropriate, across a range of policy areas. There is scope for Australia to look for inspiration and insight at what other jurisdictions have done (Section 3.4).

### 3.2.3 Taking leadership and developing collaboration

The story of impact investing showcases what can be achieved through pioneering leadership. People and organisations from all sectors have a role to play, including through their experience from other fields, opportunity identification, and track record in taking ideas to action.

Philanthropic investors have a powerful opportunity to 'punch above their weight' by leading not only in individual transactions but also field building activity. Some early adopters among the philanthropic community in Australia are leading the way. Philanthropy Australia is becoming more active in field building. There are already Australian examples where creative use of small amounts of philanthropic or other risk-taking capital has triggered significant additional investment. Research for this report identified both scope and need for more of this activity to grow the field in Australia.

As canvassed above, there is an important leadership role for governments. This includes providing the 'impact-focused', risk-taking capital to stimulate the field and attract other investors, in appropriate circumstances. There are already examples in Australia where this has been done (see for example, Social Enterprise Development and Investment Funds, Case 4, Section 2.2, and the Renewable Energy Equity Fund). But the leadership role for governments goes beyond money. They have significant convening power to bring people together and send signals to the market in strategic areas. They also have other resources to contribute, including data, evidence and research capability, and extensive experience in delivery.

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<sup>46</sup> UK and Canadian Task Forces; Global Alliance for Banking on Values; Submissions to Senate Economics References Committee Inquiry 2011

<sup>47</sup> HM Government (UK), *Growing the Social Investment Market: A vision and strategy*, UK Cabinet Office, 2010



The leadership role for financial institutions includes early industry research and analysis as well as facilitating deals and charting a course for impact investing functions within their organisations. Some of the larger financial institutions in Australia are already experimenting in this area, and there are smaller institutions active in various aspects of ‘community’ banking and finance. Other than that, Australia is yet to see these institutions (including local counterparts of international banks) set up identified impact investing divisions here, such as those at JP Morgan Chase, Morgan Stanley Smith Barney, Credit Suisse and Deutsche Bank.

There is a longer term role for the pioneering leaders to continue to cut a path for others to follow. The international benchmark is currently investors experimenting with integration of impact across the whole portfolio of their investments. These pioneers aim to get beyond a bifurcated approach that distinguishes between impact and investment, or looks at return in terms of ‘above’ or ‘below’ market rates. The integrated approach involves active management across all investments to achieve a mix of financial, social, cultural and environmental impacts.

*... like building a house. It requires the vision to see the opportunity and a combination of technical skills, organisational savvy and stamina to capture it. Each house ultimately takes its own form, and building it means facing unique challenges and celebrating breakthroughs.*

*Antony Bugg-Levine and Jed Emerson<sup>48</sup>*

The extent to which leaders can find ways to work effectively together to build practice in the field is a consistent global theme for growing successful impact investing. Non-traditional alliances are a hallmark across a range of value-creation endeavours.<sup>49</sup> Impact investing is no different; in successful transactions, philanthropists have teamed with banks and private equity funds, and venture capitalists have joined forces with non-governmental organisations. This type of collaboration enables participants to achieve together what is not possible within their individual silos.

*A consistent commonality in many early and successful impact investing initiatives is effective collaboration amongst multiple actors which in the traditional finance landscape would be thought to be strange bedfellows.*

*Kylie Charlton, Co-Founder and Managing Director, Unitus Captial<sup>50</sup>*

The emergence of early networks around impact investing in Australia is a positive sign and has potential to build momentum and bring more people and organisations into the field. They include Donkey Wheel Investors’ Circle; the Social Innovation, Entrepreneurship and Enterprise Alliance; and the Social Impact Investment Network for government agencies. A Financial Services Social Finance Quarterly Forum has been proposed by Westpac and JBWere, and is expected to commence in mid-2013. Such networks will enable information and experience to be shared and practice to develop. Research for this report suggests that existing networks developed over the past decade for responsible investing and social responsibility are also beginning to consider impact investing on their agendas. This is also positive and will facilitate impact investing connecting with other activity in the marketplace.

### 3.2.4 Enhancing awareness, education and talent

Impact investing is still an unknown to many people and organisations in Australia. Raising awareness is a first step for prospective players to engage with one another and opportunities for investment.

*Getting to the bulk of the market – those organisations who aren’t yet awake to the possibility of this kind of capital – is a real challenge.*

*Ms Belinda Drew, CEO, Foresters Community Finance<sup>51</sup>*

48 A Bugg-Levine and J Emerson, *Impact Investing: Transforming how we make money while making a difference*, Jossey-Bass, 2011 p. 205

49 J Nelson and I Jackson, *Profits with Principles: Seven strategies for Delivering Value with Values*, 2004

50 *Does profit belong in the social investment landscape?*, Centre for Social Impact Issues Paper No. 3, 2009, p. 7

51 IMPACT—Australia research, 18 September 2012

Beyond awareness, education and frameworks need to develop so people and organisations can engage in a coherent way. For example, philanthropic foundations need to understand how they can use the full extent of their capital (investments and grants) in impact investments and meet the requirements of the applicable regulatory framework that includes fiduciary duties and requirements to distribute a certain amount in grants.

*It's a great message to send to philanthropists – 'you can keep your corpus, do good with your corpus and you can give your money away'.*

*Mr Stephen Hawkins, Executive Social Initiatives, The Benevolent Society<sup>52</sup>*

The experience globally has been that when the opportunities are presented, people gravitate to impact investing for its compelling potential to combine their core skills and experience with a sense of purpose.<sup>53</sup> The pipeline of capable talent is expected to grow once people with talent and skills to contribute are more aware of impact investing and its potential. Therefore, avenues for building that awareness, such as including more about impact as well as impact investing undergraduate and postgraduate (Masters) programs, need to be explored.

*If I had been leaving Harvard in 2010, this would be the area I would want to be going into. I think societies everywhere will come to the conclusion that an important part of the capitalist system is having a powerful social sector to address social issues, because government doesn't have the resources.*

*Sir Ronald Cohen<sup>54</sup>*

### 3.2.5 Improving measurement, information and infrastructure

Positive intentional social, cultural or environmental impact is the defining feature of impact investments. Good intentions are not enough. If impact is not genuine, investors will lose confidence and the community sector and philanthropy will not engage.

*It is fundamental that the social return is not an incidental or even 'nice to have' by-product of a financial investment, but is a primary purpose and expectation of the investment.*

*Rupert Evenett<sup>55</sup>*

However, perfection should not be the enemy of the good, particularly in early stages when the market is still working out how to engage with impact investing. Even longer term, measurement needs to be proportionate and fit for purpose; above all it must be meaningful to the activity. Over time, a body of information based on accessible and practical measurement and metrics will build the confidence of investors and inform good decision making. In the meantime, participants need to harvest and share lessons to build this resource.

Increasing visibility and access to available information for the Australian context, including on current, completed and prospective transactions, would also greatly facilitate efficient decision making. Some investment will be required in information, platforms and infrastructure to enable this to develop efficiently over time. Roundtable participants suggested even straightforward technology-based solutions could be developed in the short term.

Further developing a quality, credible research base for the Australian context would also inform and direct practice. A research agenda (Section 4.2.3) could usefully be developed with a focus on better understanding potential areas and barriers to growth.

<sup>52</sup> Senate Economics References Committee, Committee Hansard, 23 September 2011, p. 22

<sup>53</sup> For example, when JP Morgan Chase first announced formation of a social finance unit, management received over 1,000 expressions of interest.

<sup>54</sup> *Capitalism has its consequences*, UK Telegraph 26 June, 2010

<sup>55</sup> *Impact Investing – Going beyond SRI, your SRI*, November 2012

### 3.3 Harnessing valuable lessons from other fields

Impact investing can learn a lot from other fields; however, a full analysis is beyond the scope of this report. Highlighted here are selected lessons. Examples have particularly been drawn from fields where innovation to promote value creation and/or greater integration of social, cultural and environmental factors with performance and economic drivers has been a focus.

*The impact investment market should be recognized as an emerging market, and compared with other now-emerged financial markets at similar early stages of their development.*

*Engaged Investment*<sup>56</sup>

Fields of investment in property, infrastructure, bonds, venture capital and private equity have faced liquidity constraints and developed intermediation models to reduce transaction costs and pool investment.

*Just as the formation of the venture capital industry ushered a new approach and mindset toward funding innovation within the private sector, impact investment has started to bring opportunities to harness entrepreneurship and capital markets to drive social improvement. This in time will bring much needed change to the social sector.*

*Sir Ronald Cohen and William A. Sahlman*<sup>57</sup>

Three areas provide lessons for the field of impact investing. First, a number of these fields achieved traction as they demonstrated opportunity to diversify risk and return from traditional sources at the time, including mainstream financial institutions and market-listed equities. Lessons should also be harvested from other areas where ‘public private partnerships’ have been utilised to ensure appropriate allocation of risk and return across different actors. This includes lessons about where a different allocation of risk and return may be required and the roles different actors can most usefully play.

Second, some of these fields have demonstrated effective fund and other structures to pool capital and aggregate a range of investment opportunities. For example, Real Estate Investment Trusts are vehicles that pool capital for investment across a mix of small and large property assets in different sectors. Investors buy an interest in the property portfolio through a unit trust. This amounts to low-cost exposure to real estate, with low management and transaction costs. As listed assets they are highly liquid for investors. There are already a number of ‘themed’ funds with a particular focus that can be readily bought and sold in the Australian market, such as sustainable property. A similar approach could inform impact investment funds. Such funds could direct capital to social businesses seeking capital to own their own premises (for example, building on the initial work of Social Investment Australia’s Social Impact Property Fund #1), or to small and medium enterprises in communities where jobs and investment are needed (for example, modelled on Bridges Ventures Sustainable Property Fund).

Third, a significant body of work has been done in Australia and internationally on what enterprises of all types need to do to become investment ready. This work examines the reasons organisations seek investment, what steps they take to develop their management, business and financial models and capacity, and other factors to attract investment. This can inform planning for enterprises seeking investment for impact and help shape capacity building initiatives to build a pipeline of impact investment opportunities.

<sup>56</sup> Our vision, Engaged Investment website, viewed 28 February 2013 <[www.engagedinvestment.com/vision.html](http://www.engagedinvestment.com/vision.html)>

<sup>57</sup> Social Impact Investing Will Be the New Venture Capital, 17 January 2013, HBR Blog Network, viewed 24 February 2013 <[blogs.hbr.org/cs/2013/01/social\\_impact\\_investing\\_will\\_b.html](http://blogs.hbr.org/cs/2013/01/social_impact_investing_will_b.html)>

The development of microfinance highlights how pioneering, early-stage investors enabled demonstration of the value proposition, and then capital market actors came in, and infrastructure and capital flows developed for the field to reach scale. Lessons have been drawn from that field specifically with a focus on developing the field of impact investing, including a number of clear and practical drivers for growth and sustainability (Box 7).<sup>58</sup>

### Box 7: Lessons from the field of microfinance

- |   |   |
|---|---|
| i. Embrace and support sector pioneers  | xii. Encourage mainstream finance to engage where appropriate, particularly with institutions that have demonstrated some track record and are attempting to scale operations |
| ii. Coordinate sources of early grant capital in order to prove experimental models   | xiii. Promote cross-sector collaboration with mainstream, commercial entities in developing innovative financial mechanisms and products                                      |
| iii. Demonstrate demand   | xiv. Guard against mission drift when pursuing commercial returns   |
| iv. Demonstrate impact  | xv. Simultaneously develop investees' absorptive capacity for capital   |
| v. Create beacons of success by doing deals that prove the impact investing concept   | xvi. Exploit market hunger for new ideas  |
| vi. Be clear about your business model in order to drive replicability  | xvii. Create a unified voice for the sector that can engage with the media and other elements of civil society  |
| vii. Recognise a range of organisational models that underlie the spectrum of investment returns                                | xviii. Build on momentum to create both regional and global movements   |
| viii. Promote a transparent market, and be prepared to subsidise initiatives that enhance transparency                          | xix. Promote mainstream recognition   |
| ix. Share best practices and measurement methodologies, and be honest about failures  | xx. Leverage social networking technologies and online movements  |
| x. Adopt industry regulation that facilitates the development of viable social investment funds and other market infrastructure | xxi. Don't oversell the capacity and mandate of the social finance sector   |
| xi. Provide subsidies and guarantees to capitalise pioneering funds and reduce risk for first-time investors                    |   |

Source: P Cheng (ed), *The Impact Investors Handbook – Lessons from the World of Microfinance*, Venturesome, 2011

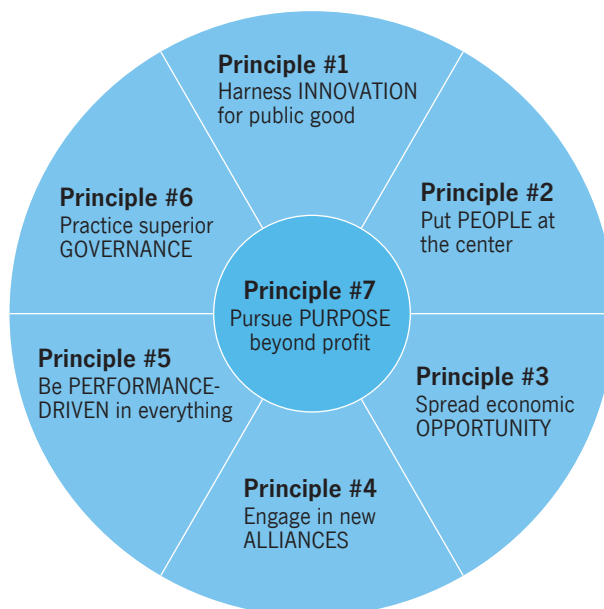
Other fields to which impact investing can look include corporate social responsibility and responsible investment; both of which are informed by the need for the corporate sector and capital markets, respectively, to respond and adapt to long term global trends eroding trust and performance.

*Companies today are under intense pressure to rebuild public trust and to be competitive in a global economy. To do this they must act with greater accountability, transparency and integrity, while remaining profitable and innovative. They must engage with activists as well as analysts, cooperate as well as compete, manage social and environmental risks as well as market risks, and leverage their intangible assets as well as their financial and physical assets.*

Jane Nelson and Ira Jackson<sup>59</sup>

Strategies developed to inform this values-aware approach could equally be applied to approaches to develop the field of impact investing (Figure 8).

**Figure 8: Seven strategies for delivering value with values**



Source: I Jackson and J Nelson, *Profits with Principles: Seven Strategies for Delivering Value with Values*, 2004

**Strategies for integrating social responsibility to deliver value are focused on innovation, people, opportunity, alliances, performance, governance and purpose**

The significant traction and growth achieved by responsible investing, particularly since the United Nations Principles for Responsible Investment were formulated in 2006, also provides insights for the field of impact investing. This field is developing a body of practice and research for integrated consideration of environmental, social and corporate governance factors in investment decision making. This work is building a body of evidence that suggests ‘companies who ignore sustainability issues expose themselves to a range of risks, including physical, regulatory, competitive, litigation and reputation risks that will impact on long-term corporate performance’.<sup>60</sup> Beyond that, it suggests that well managed processes for assessing environmental, social and corporate governance factors not only reduce risk but create value, and may even lead to outperformance.<sup>61</sup>

Responsible investment has also produced a number of funds or pooled investment structures, primarily themed around a sustainability or environmental focus. Impact investing funds could provide the next wave of opportunity for responsible investors.

The United Nations Principles for Responsible Investment also provide a particularly pertinent example of how strong leadership together with a network can become a powerful voice and agent of change in capital markets.

<sup>60</sup> Mercer, *The ABC of ESG: An Introduction to Responsible Investment*, 2012

<sup>61</sup> For example, see Mercer, *Demystifying Responsible Investment Performance*, 2007 and *Shedding Light on Responsible Investment Performance*, 2009 which reviewed 36 studies. Note that some commentators attribute outperformance in part to the fact that organisations which are able to manage social and environmental factors well have more sophisticated management practices which are the real driver of performance.

## 3.4 Harnessing valuable lessons from impact investing globally

There is a volume of international literature, research and practice from the developing global field of impact investing to draw on. Some of this looks across the whole of the impact investing field and the marketplace; other material and examples are more focused. An extensive reference list is provided in Appendix 1. Research for this report highlighted the synergies between the early market experience in Australia and the patterns, issues and opportunities identified internationally. That indicates potential to draw on more advanced practice internationally in shaping next steps for impact investing in Australia.

Building on the market analysis in the Monitor Institute report, the most recent scan of the impact investing field internationally, *Accelerating Impact*, included 15 recommendations for accelerating impact investing which are presented in Appendix 3. International research is examining practice across impact investing funds globally.<sup>62</sup> This work looks across dozens of impact investing funds being created and draws out success factors and good practice. Industry research is also coming forward focusing on fund performance (for example, JP Morgan's Global Social Finance research series).

There are a range of examples and lessons to draw upon for the Australian context. This report focuses on some which may contribute to overcoming the key challenges identified and drive growth.

### 3.4.1 Attracting and pooling capital

There is an increasing volume of literature and precedent on developing supply of capital for impact investing. There is scope for further work grounded in the Australian perspective to synthesise the learning from this material, and suggest what could be adopted or adapted here.

One entry point would be to review available information on some of the leaders and early adopters internationally, such as Big Lottery Fund, Esmée Fairbairn Foundation, The Omidyar Network, FB Heron Foundation, Social Finance in the US and UK, Big Society Capital, Bridges Ventures, Triodos, Shorebank International and Impact Assets. This work could also be done through an issues lens, looking to those areas where there has been activity over a longer period such as the environment, affordable housing and community development.

Another reference point is learning from those pioneers experimenting with 'total foundation asset management', such as RS Group, Felicitas Foundation, Blue Haven Initiative and the Piton Foundation (in conjunction with the Gary Community Investment Company).

*I have always believed that business is one of the important forces for good in our society, and that the discipline and efficiency of private enterprise, coupled with the creativity and compassion of philanthropy, offer the best 'one-two punch' for building strong and successful communities. I've worked towards this vision all of my life and now have the chance to synch up these ideas and build a fully integrated toolkit.*

Sam Gary, Gary Community Investment Company<sup>63</sup>

Some particular international examples provide insights to inform and inspire pathways for more funds and investment vehicles to develop in Australia. International research is highlighting the dynamics shaping successful impact investing funds and practice. Australian practitioners have the opportunity to test and draw on this work.

Lessons from community development finance, including a range of funds with track records, provide insights into structuring and managing funds to direct capital to communities that have lacked investment and need quality jobs, and more local economic activity to reverse the cycle.

<sup>62</sup> C Clark, J Emerson and B Thornley, *A Market Emerges: the six dynamics of impact investing*, The Impact Investor Project Research Collaboration, 2012

<sup>63</sup> Sam Gary, Gary Community Investment Company, viewed 1 March 2013 <<http://garycic.com/#>>

Research and design for how these approaches could be applied in the Australian context has already been done in the *Place-Based Impact Investment in Australia* initiative. This could be used to shape funds here that build on the example of organisations like Pacific Community Ventures (San Francisco) and Coastal Ventures (Maine) in the US, and the Bridges Ventures' funds in the UK (Case 8). Investors in these funds globally include pension funds and other institutional investors as well as family offices, individuals and philanthropic trusts. In the US in particular, community reinvestment policies and initiatives and the Small Business Administration have been active for nearly four decades.

### Case 8: Bridges Ventures Funds

**Bridges Ventures Funds.** Bridges Ventures is a specialist fund manager, using an impact-driven investment approach to create returns for investors and society. They have raised capital for 5 equity funds and completed two with competitive returns for investors. They have £275 million under management.

**Lessons for the field.** Impact investment can bring economic activity and quality jobs to low income communities. Investment in the local community creates opportunities for people where they live and work, while generating an acceptable return to a range of investors. After 10 years, over 60 per cent of investments from Bridges Ventures' funds are in the UK communities ranked in the bottom 10 per cent by social and economic indicators.

**Investors.** Banks, pension funds, foundations, private investors, government and others

**Investment.** Five equity funds focused on sustainable growth, property and social entrepreneurs. To date, impact has been achieved with competitive returns

**Impact.** Employment, health, training and economic outcomes for people in communities in lowest 25 per cent by social and economic indicators

Other potentially underdeveloped or overlooked opportunities to inspire Australian practice include international funds like Acumen Fund, Root Capital and the Pakistan Poverty Alleviation Fund. These funds invest in sustainable agriculture, sanitation, safe clean energy and water in developing economies. While there will be design issues to consider like currency risk, these examples point to ways in which Australia could lead to the development of viable, generative impact investing opportunities across the Asia-Pacific region.

'Retail' models have been utilised in some jurisdictions to attract a range of smaller investors keen to invest in a way that aligns with their values, such as individuals and families. There are a number of compliance requirements that apply when raising money from the public, so careful design is needed.<sup>64</sup> However, there are inspiring examples like the Calvert Community Notes (Case 9) and Impact Assets' Giving Fund that could be explored for the Australian context. Further development of early crowdfunding models could also inform work in this area.

<sup>64</sup> Australian Securities and Investments Commission, *12-196MR ASIC guidance on crowd funding*, viewed 4 March 2013 < <http://www.asic.gov.au/asic/asic.nsf/byheadline/12-196MR+ASIC+guidance+on+crowd+funding?openDocument>>

### Case 9: Calvert Community Investment Notes

#### Calvert Community Investment

**Notes.** Calvert began lending in 1995 to provide affordable capital for Community Development Financial Institutions. Lending has expanded to community based organisations and over US\$185 million in loans to over 200 organisations in 80 countries.

**Lessons for the field.** Viable impact investment opportunities for the retail investor are possible. A low entry point of US\$20 means they can reach a broad retail base. It also demonstrates features of commercial viability and risk management, providing layers of investor protection through provisioning for portfolio losses. Credit enhancement is provided through US\$11 million of subordinated philanthropic investment.

**Investors.** Around 8,000 retail and institutional investors; philanthropic foundations

**Investment.** Community Investment Notes with terms of 1 to 10 years and return up to 3% depending on maturity; loss rates <1% over 15 years

**Impact.** Affordable capital to community organisations seeking to improve housing, educate the next generation and promote sustainable agriculture in underserved communities

Australian practitioners can also look to global innovations for options to increase the liquidity, or capacity to trade, impact investments. Options for Australia will need to intersect with the local context, particularly the regulatory regime. However, experiments include 'social stock exchanges' and clearing houses designed specifically for impact investments which are being trialled and prototyped as widely as Brazil, Kenya, Singapore, Canada and the UK.<sup>65</sup> In some cases there has not been sufficient scale or interest to maintain the full ambition of these initiatives, but they are contributing to the innovation, learning and available platforms.

### 3.4.2 Other intermediation

In addition to learning from the experience of intermediaries locally, exploration of the operating and revenue models of intermediaries in other fields and impact investing intermediaries in other countries would add to the Australian research to inform an assessment of what could work here.

Surveys and tools have been developed in the US by investment intermediaries and advisors already working in capital markets to gauge their awareness of, and attitudes to, impact investing. This includes the Impact Assets Issues Brief series and recent *Gateways to Action* surveys in the US, work led by JP Morgan on a *Portfolio Approach to Impact Investing*, and research on the success factors for impact investing. As reflected at a recent forum hosted by the US Federal Reserve in San Francisco:

*No financial advisor wants to have a conversation where she doesn't know the answer to the 10 to 25 most likely questions the client is going to ask about that product ... and so she probably steers people away from products or opportunities she doesn't know about.*<sup>66</sup>

<sup>65</sup> For example, the Canadian Social Investment Exchange, Brazilian Socio-Environmental Investment Exchange, Impact Investment Exchange Asia, Singapore's Social Enterprise Stock Exchange, Kenya Social Investment Exchange, Social Stock Exchange (UK)

<sup>66</sup> Rockefeller Foundation and InSight at Pacific Community Ventures, *Capital Markets for Impact at Scale: Showcasing Institutional Impact and Community Investing*, 2012, p. 13



Awareness raising, education and tools for financial advisers and asset consultants will be important as these advisers and ‘gatekeepers’ influence how large amounts of capital are directed and placed. Impact investing is outside the experience and expertise of many of these professionals; so not only are they unlikely to recommend it to clients, they may actively dissuade clients from taking up options on the basis impact investments are ‘too new’ or ‘too risky’. The work done overseas would need to be customised for the Australian environment, but it provides a useful springboard.

Work of international organisations like Triodos Bank in the Netherlands, and Venturesome in the UK also provide examples Australia can learn from in intermediating appropriate financial solutions for not-for-profit and community organisations and social enterprise.

### 3.4.3 Field Building

In the early stages of market development, conscious and intentional work to build the field is critical to forge networks and increase understanding and practice. Examples internationally include the Rockefeller Foundation’s *Harnessing the Power of Impact Investing* initiative. The recent evaluation of these strategies by ET Jackson and Associates provides an overview of both the initiative and learning that can be harvested by others seeking to develop the field of impact investing.<sup>67</sup>

Global networks are emerging in more structured ways. Some are beginning to specialise in different elements of market development, such as investment due diligence and impact measurement. These global networks can provide models and connection points for Australian participants (Box 8). Other examples Australia can look to include centres of excellence emerging as ‘go to’ points for best practice and access to information and networks. Examples include the Centre for Impact Investing at MaRS in Canada, the Global Impact Investing Network, the Centre of Excellence established by the UK Cabinet Office, the White House Office for Social Innovation and Civic Participation, and the Impact Investing Policy Collaborative.

#### Box 8: Examples of impact investing networks globally

**Global Impact Investing Network (GIIN)** is a non-profit organisation dedicated to increasing the scale and effectiveness of impact investing. It was founded in 2008 by Rockefeller Foundation, USAid and JP MorganChase. Based in the US, the GIIN focuses on building practice to overcome systemic barriers to impact investing and attract more capital to the field. It has led development of the IRIS taxonomy and Impact Base.

**Global Alliance for Banking on Values** is an independent network of banks using finance to deliver sustainable development for unserved people, communities and the environment. The 21 members represent world leading sustainable finance organisations including Triodos Bank and the first Australian member, Bankmecu. Members come from Asia, Africa, Latin America to North America and Europe, and Australia.

**TONIIC** is an international network of impact investors promoting investment in ‘entrepreneurs, enterprises and funds seeking to change the world for the better’. It offers tools, educational material, process support and access to quality deal flow.

**Social Impact Analysts Association** is a UK-based international professional network connecting social impact analysts to enable sharing of knowledge and practice, and to create awareness of the work of social impact analysis.

**Impact Investing Policy Collaborative (IIPC)** is a global network launched in 2012 by InSight at Pacific Community Ventures and The Harvard Initiative for Responsible Investing. The network shares policy research and innovation to support effective capital markets with intentional social and environmental benefits. IIPC’s online presence serves as a virtual hub for sharing research and practice.

<sup>67</sup> ET Jackson and Associates, *Unlocking Capital, Activating a Movement*, prepared for the Rockefeller Foundation, 2012

There are also prototypes and early initiatives to draw on for developing other market infrastructure including measurement, impact ratings and indices. Some organisations have relied primarily on transparency and disclosure to achieve both accountability and make information available; for example, Triodos discloses details of all its transactions publicly and Impact Base and Impact Asset 50 provide information on funds and their performance. Others are proposing and prototyping taxonomies, measurement tools and indices which are starting to shape the field's development (Box 9).

#### **Box 9: Examples of impact investing infrastructure globally**

**IRIS**, Impact Reporting and Investment Standards, describe environmental, social and financial performance. These definitions enable consistency in application and reporting of metrics.

**Pulse** is based on the IRIS metrics. It is a tool to collect financial, operational and social data for a portfolio of investments or companies.

**GIIRS**, Global Impact Investing Rating System, applies analysis and ratings to the social and environmental impact of developed and emerging market companies and funds. It also links with the IRIS definitions.

**CARS**, CDFI Assessment and Ratings System, matches investor social objectives and risk parameters by providing a performance assessment and analysis of CDFI impact and financial strength.

**Impact Base** is a global database of impact investment opportunities. It is designed to increase information on impact investments and their performance globally in an accessible and consistent way.

**Engaged Investment** (EngagedX) is being piloted in the UK to aggregate investment data for the market and provide benchmarks for investors.

**SROI**, Social Return on Investment, provides a framework based on social generally accepted accounting principles that can help manage and understand social, economic and environmental outcomes.

**IIX Asia**, Impact Investment Exchange Asia, is catalysing infrastructure and intermediation for impact investing in the Asian region. It does so by providing public and private platforms to connect social enterprises efficiently with appropriate capital.

Other innovations are highlighting structural issues and solutions to support organisations to deliver social, cultural and environmental mission and financial outcomes. A leading example is BLab, which has developed an approach to certification of companies that meet audited sustainability criteria. They have achieved passage of legislation in a number of US States to enable 'B Corporations' that entrench their 'public' or sustainability mission into their constitution, shaping their fiduciary obligations and relationship with shareholders and other stakeholders around these as well as traditional financial performance.

*Today, there is a critical mass of entrepreneurs, investors, consumers, workers, and policymakers seeking to create social and environmental impact through business. However, they face two systemic obstacles: 1) the absence of transparent standards which allow all of us to support 'good companies' not just good marketing; and 2) the legal concept of shareholder primacy which makes it difficult for corporations to include employee, community, and environmental interests in decision making.*

*Andrew Kasso, Founder, BLab<sup>68</sup>*

The concept is being explored in other places from Canada to South America. Some other new corporate forms recognising ‘community interest’, such as the Community Interest Company in the UK, have also been emerging to facilitate greater integration of societal and financial considerations. The first Australian ‘B Corporations’ gained accreditation in 2012, but there is not yet specific provision for a different corporate form here.

### 3.4.4 Shaping strategies

The international experience and literature includes lessons for how actors and organisations can approach the strategic challenge of shaping their contribution to the field. At some point, interested parties need to work out how they want to engage and what to do. This is not yet an established science; nor is it an exercise starting from a blank piece of paper. There are practical resources to draw upon from different parts of the marketplace.

For investors, there are tools developed for responsible investing practices; for example, a tool developed by Mercer articulating an approach to integrated investment governance and decision making could be adapted for impact investing. Internationally, JP Morgan recently published an article on developing a portfolio approach to impact investing. Impact Assets’ *Issues Briefs* include guidance and the Global Impact Investing Network publishes a range of material for investors. A relatively straightforward approach to strategy development can start with an overlap of impact focus which can be related to other investment objectives and requirements. Figure 9 outlines the approach proposed by Rockefeller Philanthropy Advisers in *Solutions for Impact Investors: From Strategy to Implementation*.

**Figure 9: Developing a strategy as an impact investor**

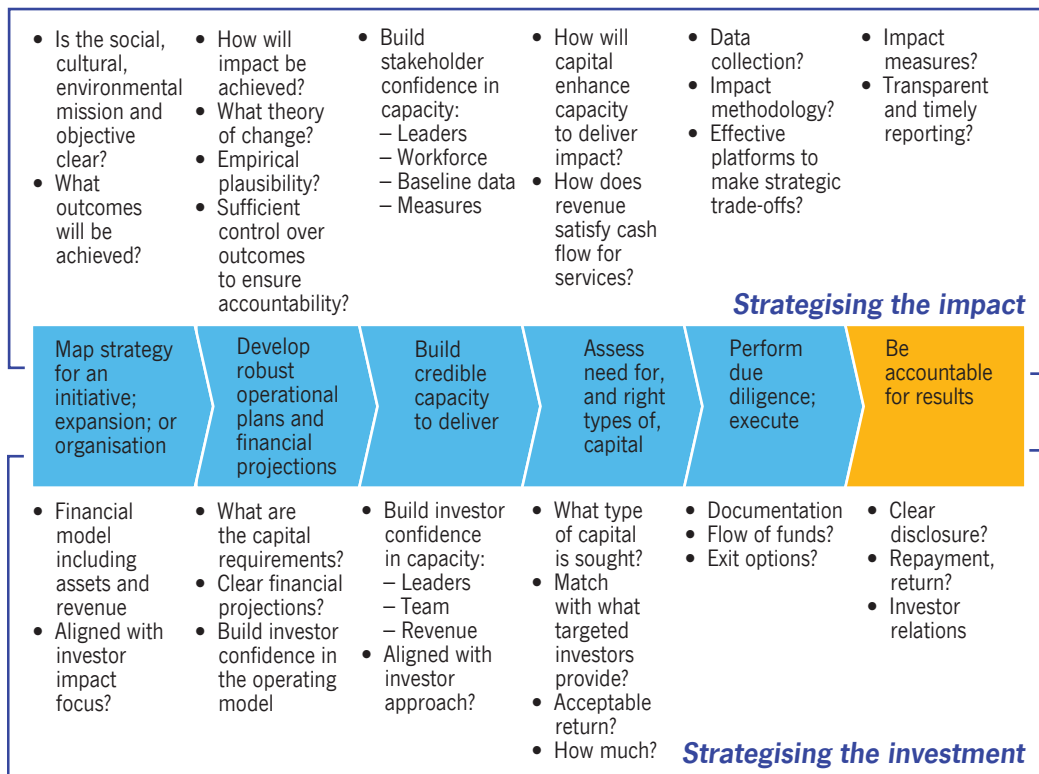


Source: Rockefeller Philanthropy Advisors, *Solutions for Impact Investors*, 2009

*Tools and experience from the field have been harvested to create pathways for new participants.*

For organisations seeking investment, or seeking to develop investment opportunities to deliver impact and financial return, there are also resources to draw upon. The key is that the strategy needs to be fit-for-purpose. A high level guide to mapping out strategy that draws upon the literature for what investors are looking for, and best practice in designing for impact, is proposed in Figure 10.

**Figure 10: Developing a strategy to seek investment for delivering impact**

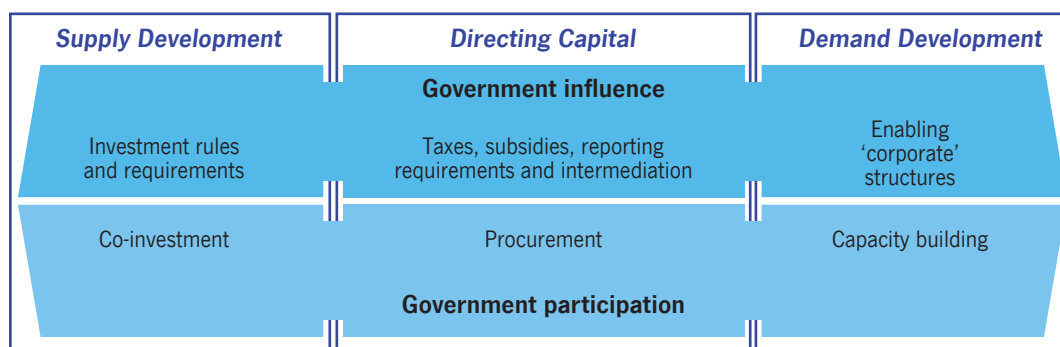


Source: Australian Government Department of Education, Employment and Workplace Relations 2013; adapted from: D Gregory, K Hill, I Joy and S Keen, *Investment Readiness in the UK*, Commissioned by the Big Lottery Fund, 2012; S Colby, N Stone and P Carttar, *Zeroing in on Impact*, Stanford Social Innovation Review, Fall 2004; C Mason and J Kwok, *Investment Readiness Programmes and Access to Finance: A Critical Review of Design Issues*, OECD Discussion Paper on Investment Readiness Programmes, 2010

**Successfully attracting impact investment requires credible, actionable strategies for impact and for investment.**

Policy makers can look to international frameworks for impact investing policy analysis and design (Figure 11). They can also draw upon a growing body of lessons from other governments and the policy resources of the Impact Investing Policy Collaborative.

**Figure 11: Framework for impact investing policy**



Source: InSight at Pacific Community Ventures and Initiative for Responsible Investment at Harvard University, *Impact Investing: A Framework for Policy and Design Analysis*, 2011

**Government can influence impact investing through policy or regulation and as an investor.**

The UK Government has a whole-of-government strategy—*Growing the Social Investment Market*—and recently formed a centre of excellence in the UK Cabinet Office. Examples come not only from countries to which Australia commonly looks for policy inspiration such as the US, Canada and European Union, but a much broader range of jurisdictions including in Africa, India, and South and Latin America. The Global Agenda Council on Social Innovation, associated with the Schwab Foundation and World Economic Forum, have identified the policy environment for impact investing as a priority area and intend to launch a *Policy Guide to Scaling Social Innovation* in April 2013.<sup>69</sup>

Some of this work has focused on issues which also have particular resonance for Australia, such as policy settings that could encourage institutional investors into the field and the interaction of fiduciary duties with impact investing. Thoughtful consideration and design is required to achieve policy settings that encourage early adopters without distorting the market or creating incentives for those seeking only financial gain without proportionate attention to social, cultural and environmental impacts and benefits.

<sup>69</sup> World Economic Forum, *Global Agenda Council on Social Innovation: Issues Brief*, 2012; *Policy Guide to Scaling Social Innovation* – a joint publication of the Schwab Foundation for Social Entrepreneurship and the World Economic Forum, produced with the Initiative for Responsible Investing at Harvard University and InSight at Pacific Community Ventures, with guidance from the World Economic Forum's Global Agenda Council on Social Innovation



## 4 A call to action

The practical and insightful contributions from participants and leaders who already have an awareness or involvement of impact investing in Australia have been referred to throughout the report. At one level, their call to action is ‘just start somewhere’ and shape practices from the learning that follows. But their insights go beyond that to suggest Australia is reaching a tipping point that could generate significant additional investment activity to accelerate development of the field.

Participants from a range of perspectives reinforce a shared view that impact investing presents opportunities to drive more investment into communities and finance the services, amenity and infrastructure for a sustainable, well-functioning society that is vital in an increasingly resource-constrained environment. Their reflections, on what is happening and what is needed, enliven a vision for what impact investing could, and perhaps should, be in Australia.

- Community organisations are confident and informed about, and have choice in, a range of appropriate financial options to grow and increase their effectiveness, sustainability and impact.
- Individuals or groups with quality ideas to address new or old or recurring problems differently and achieve better outcomes can find talent, support and finance to develop and implement their ideas.
- More capital is available on appropriate terms that complement government and philanthropic funding.
- People have more choice in how they contribute to the things that society needs and cares about alongside strong economic performance.
- A range of intermediaries offer advice and brokerage services that match those seeking and offering impact investing capital.
- A range of investment vehicles has expanded the ways in which more investors—from retail to family offices, philanthropic foundations, corporations, banks and institutional investors—can participate.
- Significantly more information is available—with a higher degree of transparency and comparability about social, cultural and environmental performance of investments—to inform risk management and decision making.

What if the growing interest, energy, and passion are not harnessed around clear and common purpose? What if there is not sufficient focus and leadership to create the structures to support a coherent body of practice, prioritise activity to demonstrate efficacy and build critical mass?

The call to action focuses on steps that will be necessary to coalesce activity around development of a body of practices so as not to let the opportunity pass by. This is coupled with a concrete agenda for action proposed by those already interested and active in the field.

*To realise the potential, leaders will need to step forward and—beyond the deals—start to shape frameworks and practice*

## 4.1 Get started: learn, participate and connect

The first, and natural, point of entry for individuals and organisations is to consider how they can contribute. That may start with developing a better understanding of how the field of impact investing is developing. To facilitate that process, a list of references is provided with this report (Appendix 1).

Considering the options is one thing; acting is another. The call from the field to ‘get on and do’ goes beyond individual action to field building.

The future could include an increasing number of actors experimenting and participating in impact investing, bringing others with them and altering the investment landscape as they do so. Or interest could fail to translate to activity, and activity could fail to develop practice as various actors operate without sufficient connection and wait for others to go first.<sup>70</sup>

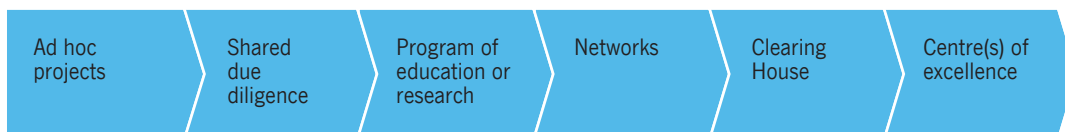
Impact investing in Australia will develop if there is effort and interest and the willing involvement of the range of actors, and they are prepared to act and interact together to encourage the enabling environment for practice to develop alongside pursuit of their own endeavour in the field. This is how markets develop.

This more connected approach could accelerate the next wave of transactions and encourage new people and capital into the field. That will require leadership to create structured opportunities for like-minded people to come together, stimulate the generation of ideas, make sense of developments and problem-solve.

For the field to grow, it will require a clearer narrative for what it is and how it adds value. The narrative must then be supported by frameworks for practice-building to chart the way forward. Collaboration activities and forums can contribute to this practice building (Figure 12). They include: developing a critical mass of skilled, enthusiastic practitioners; creating and collating a body of knowledge within a knowledge-building agenda; and investment in developing practice and practitioners. One or more committed leadership groups will need to be formed to make this possible and engage and inspire others to commit.

*Collaboration is critical to achieving the next wave of transactions, and encouraging new people and capital into the field*

**Figure 12: Spectrum of collaboration opportunities**



Source: Australian Government Department of Education Employment & Workplace Relations, 2012

***Collaborations can be designed to fit the opportunity and participants—with more or less commitment, formality and structure.***

*Pluralism is wonderful. But the traffic on this road is a nightmare. [We need] a high occupancy vehicle . . . [with] incentives for at least some of the drivers to collaborate, to get in the same vehicle and drive in the same direction towards the same goals together . . . [leading to] a purposeful blending of resources toward a common purpose with common definitions of success.*

*Susan Raymond, Executive Vice-President, Changing Our World Inc<sup>71</sup>*

70 Adapted from J Emerson and A Bugg-Levine, *Impact Investing: Transforming how we make money while making a difference*, 2011, pp. 253-256

71 *The Philanthropic Path Forward: Road Signs from the Other Side of the World*, Philanthropy Australia Conference Keynote Address, September, 2010.



Practitioner reflections gained in the research identify themes that will shape the way forward and these are listed below.

- Impact investing is fundamentally about making effective use of the key tools in our capitalist system to support and enable a well-functioning society; not about social good to the exclusion of financial rigour or profit over purpose.
- A variety of passions and skills and resources can be harnessed—anyone can play and different parties can come together in new alliances to achieve things together they could not do alone.
- Growing the field will be ‘a marathon not a sprint’, although it should now be closer to a 10-year rather than 25-year proposition.
- The best case for engagement is to ‘get on and do’; this will have a demonstration effect and provide concrete examples, build a track record and a base of skills and experience in how to construct and execute impact investments responsibly.
- The best place to start is building on the foundations that exist and be prepared to seize opportunities when and where they arise.
- There needs to be authenticity and accountability in how social, cultural and environmental considerations are addressed in different financial structures, without undue complexity.

These insights, combined with the practical and concrete suggestions for action below, start to shape an agenda for field building.

## 4.2 Make headway: an agenda for collective action

Within the frame of an emerging impact investment practice in Australia, there remains the task of identifying and prioritising action. The suggestions from the field have been organised to suggest three priority areas of focus: harnessing ideas and experimenting to enable more transactions; identifying opportunities for leadership, collaboration and network building; and scaffolding the elements for market development and infrastructure.

### 4.2.1 Harness ideas and experiment

These actions focus on driving activity and deal flow by developing ideas and proposals already in the field.

- Leverage experience, lessons and points where there is energy present to experiment and generate quality deals, and product offerings that can channel effort to collective endeavour based around transactions. This could include convening focused coalitions to develop and execute proposals that are already being scoped (for example, in financing arts and cultural enterprises and aged care).
- Scope opportunities to develop and replicate existing deals and funds. For example, lessons from Goodstart Early Learning, Hepburn Community Wind, STREAT, or Barefoot Power could inform new opportunities and reduce the cost and time to market.
- Translate Australian research into transactions (for example, consider Place-Based Impact Investing proposals and work in providing accommodation for people with disabilities). This could extend to stress testing fund structures used in other fields to propose impact investing funds to focus on particular social, cultural or environmental impact opportunities.
- Harvest lessons from the community sector about financing strategies they already use, about the needs not yet being met and about the impact investing deals done and proposed. This would inform the design of new opportunities that meet the needs of those organisations and inform options to connect those opportunities with investment capital.
- Identify practical ways to create and target interest in impact investing alternatives. For example, a survey of the appetite of different investors (including retail and institutional) for investment options that deliver positive social, cultural and environmental impact as well as financial return. This would need to test the likelihood of translating interest into action.

### 4.2.2 Identify opportunities for leadership, collaboration and network building

Entrepreneurial leaders, employing a creative blend of tenacity and flexibility, need to continue to play a vital role in experimentation and prototyping impact investing. Intrapreneurial leaders need to continue to generate and encourage capacity within their organisations to engage.

Beyond this endeavour, leadership for field building is required. The following suggest areas where people and organisations are willing to take leadership that will begin to create a coherence and momentum for impact investing practices.

- Develop structured (and time limited) opportunities to undertake collective due diligence and design to realise existing or new opportunities. This could be achieved through strategic alliances where costs and other resources and outputs are shared.
- Establish more formal networks for open exchange and learning. This can be done by building links with existing organisations and networks already operating in Australia (for example, Philanthropy Australia and the United Nations Principles for Responsible Investment), replicating chapters of impact investing networks already in Australia, and exploring closer links with, or developing local chapters of, global networks (for example the Global Impact Investing Network (GIIN) and Social Impact Analysts Network).
- Draw and build on existing services, platforms and infrastructure with reach across the community and other sectors (for example, Our Community, ProBono Australia and Creative Partnerships Australia). This could enable connections to be brokered and provide space for community organisations to articulate what they need to understand about impact investing and what types of activities they need new ways to fund and finance.
- Create an awareness and education campaign to reach the next ‘ring’ or ‘generation’ of actors and engage a wider cross-section of talent and organisations. This should include an Australian survey of the existing financial intermediaries, advisers and asset consultants to better access whether and how they understand impact investing and what it means for their clients. This would raise awareness with these existing ‘brokers’ and gather useful data on the barriers and opportunities for growing the field.
- Continue to convene meetings and forums that enable different actors to connect, encourage thought leadership and enable problem solving across sectoral boundaries.

### 4.2.3 Start ‘scaffolding’ market elements and infrastructure

The gaps in the field and its links to the broader marketplace and infrastructure are relatively well understood; they may take time to fill. Knowing what the gaps are also points to where thoughtful action in the short term can create the ‘scaffolding’ that supports more activity into those areas.

- Articulate a clearer industry identity for impact investing in Australia derived from a discussion of the aspirations of participants in the field. This could enhance focus for even those most engaged and active in the field, and provide a clearer entry point for others.
- Develop a toolkit, including a common set of questions and issues for assessing potential for social, cultural and environmental impact as well as financial return, and for making informed assessment of risk.
- Set up a straightforward ‘clearing house’—perhaps an online hub—to share ideas and proposals, data and learning, and facilitate connections between people and organisations interested in working together, and between those seeking and offering impact investment. A hub of this type could harness resources from a range of organisations active in impact investing globally and introduce Australian investors to existing investment opportunities in overseas markets.
- Explore opportunities to facilitate greater liquidity so impact investments can be traded. This could start with a clearing house and include examination of social stock exchanges and similar platforms developing globally or in other areas (including Australian innovations like the Australian Small Scale Offerings Board) for their suitability and usefulness.

- Trial taxonomies (for example, Impact Reporting and Investment Standards (IRIS)), measurement and rating systems (for example, Global Impact Investing Rating System (GIIRS) and CDFI Assessment and Rating System (CARS)) and indices (for example, Engaged Investment) developing globally to assess whether they are helpful in the Australian context.
- Develop an active and action oriented research agenda appropriate for Australia including industry and academic research. Suggestions from the field for areas to start include:
  - model the potential to attract private capital in two or three areas of clear societal need or benefit if appropriate risk taking capital were available, illustrating the leverage effect that could be achieved;
  - develop an evidence base regarding the extent of (additive) potential for impact investing to bring additional capital to social, cultural and environmental issues, possibly drawing further on lessons from other fields;
  - develop a framework to better understand the relationship in practice between current policy and regulatory settings, such as the fiduciary duties, and impact investing opportunities;
  - develop portfolio design and risk assessment approaches that could encourage a ‘total asset management’ approach to risk, return and impact, potentially building on responsible investment research and tools for integrated practice; and
  - undertake similar bottom-up research to that done in UK, with a view to further developing the Australian market understanding and areas of potential demand, on the basis of an accurate and communicable survey result.

#### 4.2.4 Taking up the call

Inspiring leaders have started to implement some of these strategies and actions already. Others need to join them to demonstrate legitimacy, rigour and performance from the field; experiment and learn; and transform disparate activity into a dynamic field of practice. Impact investing offers intentional opportunities to develop and adapt existing systems to create more benefit for society in resource-constrained times and respond to challenges in the global context. Harnessed well, its potential may also contribute to solving bigger issues of prosperity, inclusion and environmental sustainability.

There are foundations to build on in Australia with potential for growth in scale and understanding. It is up to people and organisations that share the vision for what impact investing could be in Australia to communicate it to others and create the pathways to practice that will see the field achieve the critical mass necessary for that potential to be realised.



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## Appendix 2: Challenges and opportunities in Australia as seen from the field

In the consultation process leading to this report, participants in Australia brainstormed strategies and actions that could contribute to developing impact investing in Australia. The participants focused on targeted strategies and actions to address the challenges ahead.<sup>72</sup>

Build capacity and information from demand side	<p><b>Investment readiness</b></p> <ul style="list-style-type: none"> <li>• Improve translation of raw ideas into investable propositions; this could include hands-on support and/or training.</li> <li>• Give thought to options for funding and financing this development work in a sustainable way.</li> </ul> <p><b>Capacity building</b></p> <ul style="list-style-type: none"> <li>• Develop organisational competencies (e.g. management) for sustainability and, where needed, to strengthen governance for a range of enterprises.</li> <li>• Look to models such as the UK Investment and Contract Readiness Fund or other social accelerator programs from around the world for what might work here.</li> </ul> <p><b>Culture block</b></p> <ul style="list-style-type: none"> <li>• Educate targeted to the needs of demand-side players, particularly to demystify risk and investment.</li> <li>• Create a portal to build awareness of options, engagement and connect people and organisations.</li> </ul>
Stimulate more capital and opportunity from supply side	<p><b>Supply stimulus</b></p> <ul style="list-style-type: none"> <li>• Encourage more money to be made available for impact investing. <ul style="list-style-type: none"> <li>– Take robust, saleable propositions to potential investors including philanthropists.</li> <li>– Encourage venture capital and private equity funds to articulate more clearly and transparently their funding mission, priorities and process.</li> <li>– Consider options for more government and philanthropic participation that would encourage investment by ‘normalising’ risk-return for other investors.</li> <li>– Develop a range of products across asset classes to enable different types of investors to engage.</li> <li>– Encourage more investors to follow the lead of pioneers in the Australian market (e.g. Christian Super, Grace Mutual).</li> </ul> </li> </ul> <p><b>Aggregated funds</b></p> <ul style="list-style-type: none"> <li>• Create more funding vehicles that aggregate risk and attract multiple investors.</li> <li>• Create portfolio funds (e.g. for social infrastructure and others).</li> </ul>

<sup>72</sup> The views here are those expressed by the participants from the field of impact investing in Australia as we received them and do not necessarily represent the views of the Australian Government Department of Education, Employment and Workplace Relations, JBWere or their collaborators in developing this report. They have been edited and aggregated.

<p>Grow and deepen intermediation</p>	<p><b>Develop intermediaries</b></p> <ul style="list-style-type: none"> <li>• Increase the scale and reach of intermediaries.</li> <li>• Encourage alliances to bring together disparate players.</li> <li>• Encourage ‘bankers’ to do more social impact deals.</li> <li>• Develop independent intermediaries to be non-captive to financiers.</li> <li>• Target small social enterprises via intermediaries.</li> </ul> <p><b>Improve transparency</b></p> <ul style="list-style-type: none"> <li>• Clearly articulate what is required by intermediaries to progress a deal.             <ul style="list-style-type: none"> <li>– Create a pro forma term sheet/list of what is needed.</li> <li>– Write a guide which sets out what investment readiness means, why it helps and what questions you will be asked.</li> </ul> </li> </ul>
<p>Mature infrastructure and ecosystem to support development and growth</p>	<p><b>Regulatory architecture</b></p> <ul style="list-style-type: none"> <li>• Clarify and streamline the regulatory system to make investment easier.</li> <li>• Write a toolkit on legal forms and set up models to make this easy to implement.</li> <li>• Produce guidelines for trusts and foundations (including PAFs) on impact investments, including fiduciary duty.</li> <li>• Make impact investments more accessible to retail investors.</li> <li>• Create a new DGR type 1 category (CDFI) to enable trusts and foundations to invest.</li> <li>• Provide appropriately structured tax incentives.</li> </ul> <p><b>Information and Communication</b></p> <ul style="list-style-type: none"> <li>• Raise awareness of the impact investment market.</li> <li>• Portray a cohesive picture.</li> <li>• Organise forums, papers, dinners, direct engagements between investors and investees.</li> <li>• Strengthen international connections.</li> <li>• Document successful stories/case studies of illustrative deals and actors.</li> <li>• Leverage online modes for greater exposure.</li> <li>• Map pathways for organisational development and develop understanding of what funding and financing models are appropriate for organisations at various stages of development.</li> </ul> <p><b>Language</b></p> <ul style="list-style-type: none"> <li>• Develop a consistent language for the sector.</li> </ul> <p><b>Government cohesion</b></p> <ul style="list-style-type: none"> <li>• Centralise to one government contact (both Commonwealth and state).</li> <li>• Identify and communicate priority areas to guide impact investment.</li> </ul> <p><b>Education</b></p> <ul style="list-style-type: none"> <li>• Implement mentoring program.</li> <li>• Provide secondment opportunities to create blended teams.</li> <li>• Incorporate modules on funding and financing options into courses (e.g. business degrees and specialised courses).</li> <li>• Establish a clearing house and secondary exchange.</li> <li>• Create a directory of funded and unfunded social investment opportunities.</li> </ul>

	<p><b>Leadership and practice</b></p> <ul style="list-style-type: none"> <li>• Form associated groups of practising operators; overarching and networks of similar groups. <ul style="list-style-type: none"> <li>– Define aims of sector (before challenges, strategies and actions); create a ‘definition statement’ and explanation of roles.</li> <li>– Create FAQs.</li> <li>– Ensure cross-sector representation.</li> <li>– Set up an impact investment conference.</li> <li>– Establish an accreditation system.</li> <li>– Establish an Australian Centre for Impact Investment or Centre of Excellence.</li> </ul> </li> </ul> <p><b>Talent pipeline</b></p> <ul style="list-style-type: none"> <li>• Develop pool of talent with awareness and capability to play useful roles in the market.</li> <li>• Implement business monitoring by experienced advisers. On the ground, real world experience is critical (the ‘crunch’ model).</li> </ul> <p><b>Hubs of activity</b></p> <ul style="list-style-type: none"> <li>• Create an Australian version of the GIIN – ‘Just get one’.</li> <li>• Establish university research links.</li> <li>• Establish collaborative partnerships.</li> </ul> <p><b>Improve measurement</b></p> <ul style="list-style-type: none"> <li>• Gather examples of how measurement has been done in different sectors internationally.</li> <li>• Define how measurement could be used (e.g. comparison) and models that could be used (e.g. accreditation).</li> <li>• Get to an Australian impact investment measurement framework, drawing on global systems – SROI, IRIS, CARS.</li> </ul> <p><b>Comparability</b></p> <ul style="list-style-type: none"> <li>• Enhance measurement system to allow greater comparability.</li> <li>• Explore ways of describing social investment risk from growing body of experience to increase investor confidence.</li> <li>• Approach ratings agencies/government agencies to rate projects and providers/organisations.</li> </ul>
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## Appendix 3: Accelerating Impact Report— Recommendations for accelerating impact investing

Source: ET Jackson and Associates, *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*, Rockefeller Foundation, 2012, pp. 43–50.

### Recommendations for unlocking more capital

1. Strengthen the business case for large institutional investors, both public and private, to integrate non-financial factors into their investment decision-making, particularly to enhance risk mitigation.
2. Use education and research to encourage a move from individual deals to multi-investment portfolios, in which investors can hold both impact-first and financial-first investments.
3. Encourage foundations to continue to innovate by making the strategic and cultural shifts necessary to devote the full range of their assets to their mission.

### Recommendations for placing more capital

4. Create new intermediaries, and strengthen existing ones, that can effectively facilitate investments in businesses in underdeveloped markets, as well as those that can enable larger deals suitable for institutional investors.
5. Increase the variety of products that address the risk/return profile of a wide range of investors, that are provided through easily accessible distribution systems, and that offer reasonable evidence of track record or comparable product performance.
6. Create new options by matching investor risk/return profiles with investee businesses that can generate measurable returns on both the financial and impact dimensions, as well as by supporting investor collaboration and deal syndication.

### Recommendations for strengthening demand for capital

7. Co-sponsor new action research on emerging hybrid, scalable enterprise models in both the very poor and the new-power economies of the Global South, as well as in industrialised economies.
8. Identify and support successful and cost-effective approaches to improving the management capacity of social entrepreneurs, while nurturing a range of enterprise supports throughout the life cycle of growing ventures.

### Recommendation for assessing impact more effectively

9. Strengthen investor understanding of various dimensions of performance management, and address confusion concerning the relationship between key impact assessment initiatives.

## **Recommendations for improving the enabling environment**

10. Accelerate the production and application of practical knowledge products, including research and tools, aimed at governments engaged in or considering support for impact investing through policies that develop the supply of capital, policies that direct capital, and policies that strengthen demand.
11. Facilitate a continuous and open exchange of experience among governments engaged in supporting impact investing, across the Organisation for Economic Cooperation and Development (OECD) countries, the BRIC (Brazil, Russia, India, China) nations and other emerging economies, and low-income countries.
12. Establish publicly funded safety nets that can address the consequences of failed or inadequate impact investments, and resist pressure for markets to displace states in addressing the basic needs of populations that are vulnerable and in distress.

## **Recommendations for renewing and broadening industry leadership**

13. Mobilise multi-year grant funds to expand and deepen the public-goods infrastructure necessary for a fuller industry ecosystem, especially in the Global South, while setting out clear, realistic results expectations and timelines.
14. Work with educational institutions to design and launch professional development and graduate programs for current fund managers, for new entrants to the investor and intermediary segments of the sector, and for social entrepreneurs seeking investment.
15. Actively manage the brand integrity of the impact investing field through renewed media engagement and storytelling of both successes and failures, managing stakeholder and public expectations, and strengthening, testing and policing the definition of impact investing.



## Appendix 4: Indications of market dimensions

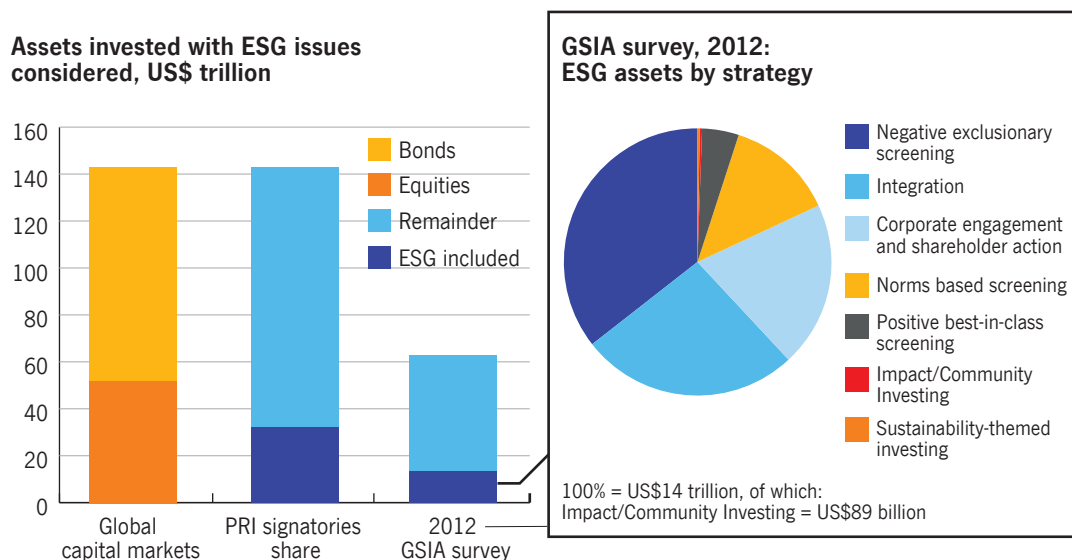
The analysis set out in this appendix has been prepared by JBWere as part of the research for this report. Putting impact investment in its place—the position, shape, and potential of the field and a calculation of the market for impact investing in Australia.

### Position—the place of impact investing in capital markets

Interest in using capital responsibly has arguably always been a part of global capital markets. What has changed in recent years has been the organisation and rigour attached to this broad field and attempts to define and quantify its differing segments. Perhaps the broadest initiative has been the Principles for Responsible Investment (PRI), a partnership between signatory investors who agree to incorporate environmental, social and governance (ESG) issues into their decision making and the UNEP Finance Initiative and the UN Global Compact. From its launch in 2006 there are now 1,071 global institutions from over 50 countries representing managed assets of over US\$32 trillion, between 15 and 20 per cent of global capital markets.

For those investors more actively incorporating ESG in their investment decision process, the methods used vary widely (Figure 13). A recent attempt to classify them for professionally managed funds found a total of US\$13.6 trillion, comprising 22 per cent of funds under management. These were broken into seven ESG categories, led by negative exclusionary screening. Included in this total is Impact/Community Investing in a combined category which totalled US\$89 billion. While it is a large number and growing rapidly, it is currently only a small percentage of global investments, representing only 0.14 per cent of funds under management.

**Figure 13: Allocation of global assets by responsible investment strategy**



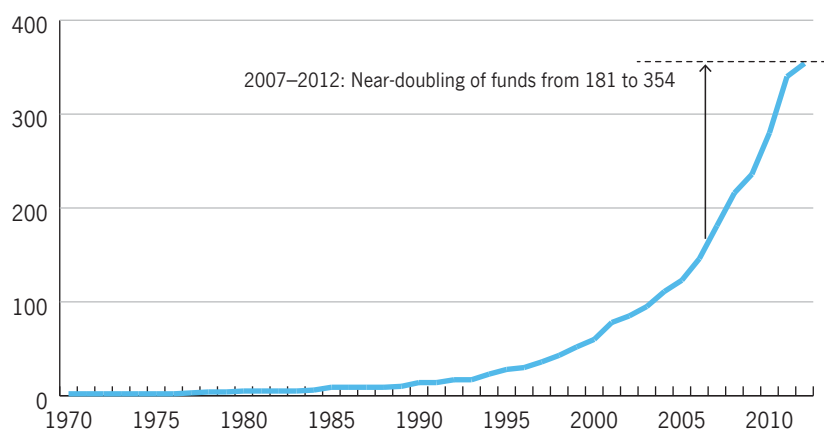
Sources: Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2012, 2013*; [www.unpri.org](http://www.unpri.org).

*The share of global capital markets covered by Principles for Responsible Investment signatories has risen to between 15 and 20 per cent (US\$32 trillion) in six years, while 22 per cent (US\$14 trillion) of professionally managed funds incorporate an ESG strategy. Negative screening is the most common ESG strategy, while combined impact and community investing totals US\$89 billion but represents only a small share (0.14 per cent) of total managed funds.*

## Shape—the size and spread of impact investing

Globally, there has been significant work done to estimate the shape of the impact investing field. It has been made easier by the growing use of impact investing funds which co-ordinate and manage a portfolio of individual investments and can more effectively be surveyed to get coverage of this diverse field. Recent work compiled the year of establishment of around 350 impact investment funds. This highlights the recent surge with around half of funds established in the last 5 years (Figure 14). The total capital managed by these funds was over US\$40 billion (consistent with the US\$89 billion for both impact investing and community investing suggested by the GSIA survey).

**Figure 14: Cumulative number of impact investment funds globally, 1970–2012**



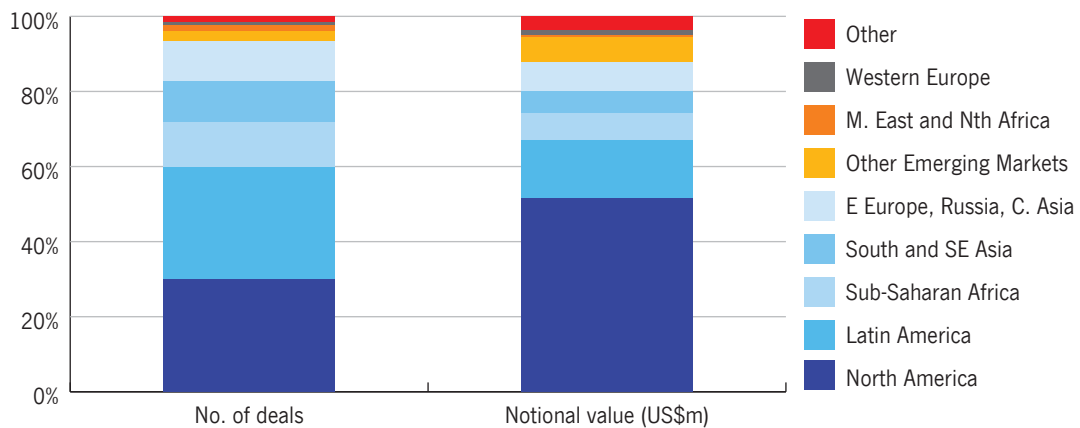
Source: C Clark, J Emerson and B Thornley, *A Market Emerges: The Six Dynamics of Impact Investing*, The Impact Investor project, 2012

***An accelerating number of new impact investing funds has been established over the past 10 years with the total doubling in the last 5 years.***

A more in-depth, but smaller, survey by JP Morgan and GIIN covering around 90 funds, particularly larger ones, found a similar quantum of capital had been invested since inception, US\$36 billion. Of this total US\$8 billion was committed in 2012 with a further US\$9 billion expected in 2013.

Although there was a concentration in the location of headquarters of the funds with 56 per cent in North America and 27 per cent in non-Eastern Europe, the spread by number of investment locations was much broader (Figure 15). It was noted that values for Western Europe and Australia were low due to sample bias, rather than lack of activity.

**Figure 15: Global funds investment by location during 2011**

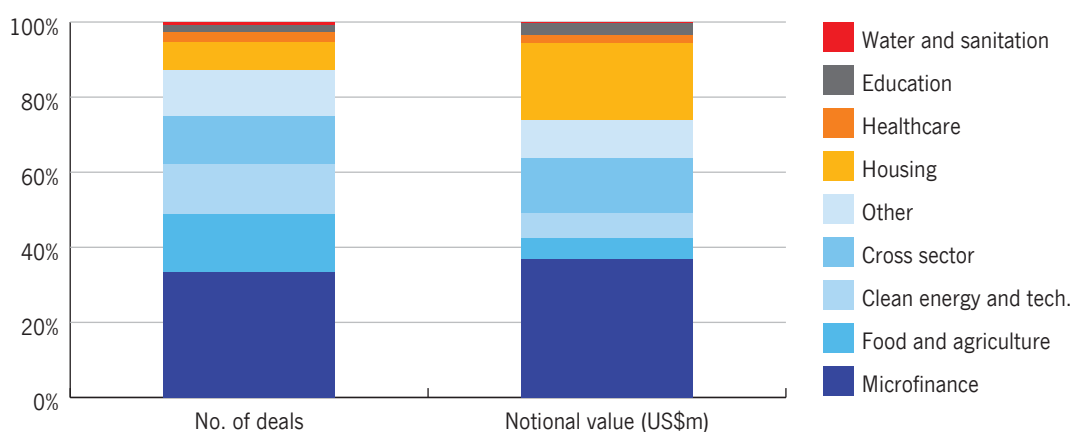


Source: Y Saltuk, A Bouri & G Leung, *Insight into the Impact Investment Market: An in-depth analysis of investor perspectives and over 2,200 transactions*, JP Morgan and the GIIN, 2011

*There is a broad spread of investment destinations reflecting world need and opportunities.*

To illustrate the diversity of the impact investing field, the survey also showed the break-up by sector of investment (Figure 16). While microfinance remains the largest and most developed area of support in both number and value, it is interesting to note the substantial rise in housing investments when examined by value rather than by number of investments. This indicates the opportunity for scale, while the opposite effect was seen for clean energy and technology, and food and agriculture sectors.

**Figure 16: Global funds investment by sector during 2011**

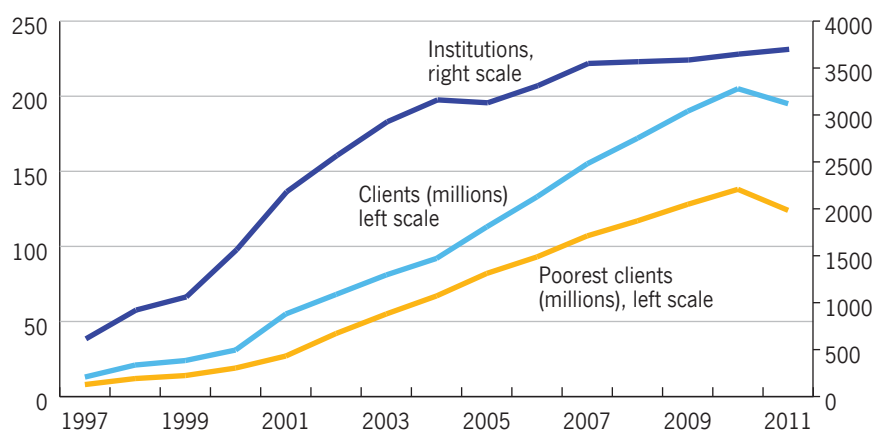


Source: Y Saltuk, A Bouri & G Leung, *Insight into the Impact Investment Market: An in-depth analysis of investor perspectives and over 2,200 transactions*, JP Morgan and the GIIN, 2011

*Microfinance remains the dominant recipient sector but growth and scale are emerging in housing.*

With microfinance representing the largest and arguably the most mature field in impact investing, it is informative to look at growth within this one field, perhaps as a guide to how others may develop over time. The success of microfinance in helping the poorest—mostly women—escape poverty has been a leading example for other impact investing fields. Recent data has shown a slowing in the rate of growth of new funds and clients, after a 38 per cent per annum increase in clients in the 10 years to 2007. This is due to a combination of recent broad economic conditions and the success and transition of past recipients to more sustainable business activities. The time period to reach current levels can be traced back to the origins of the Grameen Bank in 1976 and the growth experienced in other microfinance providers over the last 20 years (Figure 17).

**Figure 17: Microfinance: clients and institutions globally, 1997–2011**



Source: J Maes and L Reed, *State of the Microcredit Summit Campaign Report*, Microcredit Summit Campaign, 2012

*As one of the earliest and currently the largest form of impact investment, microfinance has seen continuous strong growth (clients grew at 38 per cent per annum over 10 years from 1997) with some maturing only recently emerging.*

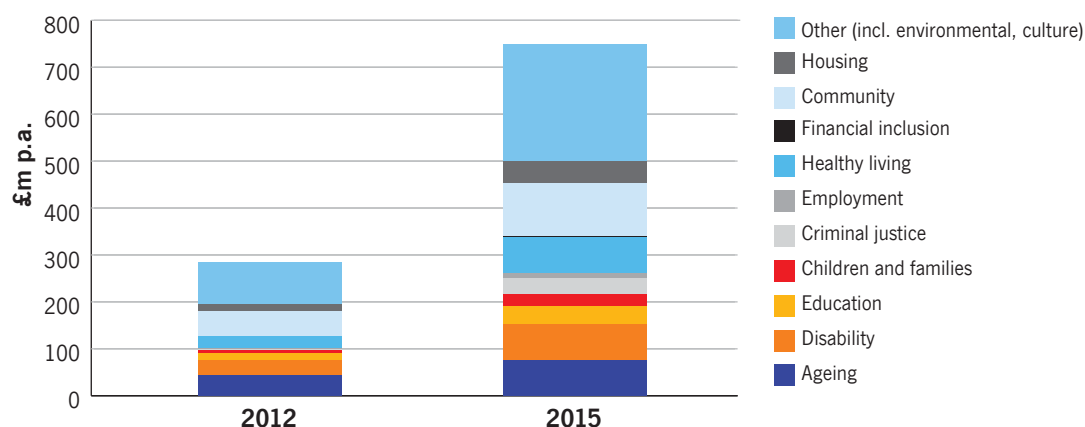
## Potential—the growth outlook for impact investing

Given the relatively small share of global capital markets currently represented by impact investing, the diverse geographical regions covered and the wide range of social, cultural and environmental sectors in which investments are made, predicting the future growth of the field is challenging.

A recent report by Brown and Swersky looked at the potential for growth in social investing in England. It focused on ten economic sectors, broken into 26 sub-sectors and for each one examined four drivers of growth for impact investment demand. These drivers were the market size, the share that social organisations have in each market, the capital intensity of those organisations and the share of their investment demand provided by social investment. It then estimated changes in each of these drivers to 2015. The results predicted growth in impact investment demand of 38 per cent per annum driven mainly by an increased share of the sectors' activities being undertaken by social organisations and by increases in the size of the sectors (Figure 18).

It is interesting to note that this huge growth expectation is still only within a relatively mature economy in England and within relatively tightly defined sectors. Some of the factors leading this growth are common in other western economies such as an outsourcing by governments of public services, the inclusion of social values when considering tenders, and the emergence of payment by results forms of compensation for social activity.

**Figure 18: Forecast growth in impact investment demand, social sector, England**



Source: A Brown and A Swersky, *The First Billion: A Forecast of Social Investment Demand*, Boston Consulting Group, Sept 2012

**Sector analysis found 38 per cent per annum expected demand growth for social investments in England to 2015, driven mainly by social organisations gaining market share within sectors and overall growth in sector demand.**

A report by the Monitor Institute suggested that global impact investing had the potential to grow to about 1 per cent of current funds under management over a 5 to 10 year period. This would require an annual growth rate of around 32 per cent, over a more conservative 10 year period, to take it from currently over US\$40 billion to US\$630 billion (1 per cent of current funds under management in 2012). This compares favourably to either the growth seen in the number of clients in microfinance over 10 years from 1997, or the expected growth in social investment demands in England (both 38 per cent annually). That 10 year total projection also sits in the range suggested by JP Morgan (*Impact Investments: An Emerging Asset Class*, JP Morgan, Rockefeller Foundation, GIIN, 2010) who found potential invested capital required for 'bottom of the pyramid' businesses over the next 10 years totalled US\$400–1000 billion, mainly in housing and microfinance.

## Size—a calculation of impact investing in Australia

The Australian market is currently made up of many small organisations, predominantly funded by private equity from existing not-for-profit organisations and a small number of large higher profile and recently established groups (e.g. Goodstart Early Learning and Hepburn Community Wind) plus a small number of funds in the early stages of selecting investments (e.g. the three groups that SEDIF funded).

While no bottom-up data is yet available for the Australian impact investment market, estimates based on the proportion that impact investment has gained in the US and UK, compared to their capital markets and charity sectors, can be used to suggest a potential annual size if Australia were at the same stage of market development (Figure 19). At that point, the analysis suggests annual investment of A\$300 million, with total capital managed of A\$2 billion, growing to around A\$32 billion over 10 years.

**Figure 19: Calculation of Australian impact investments based on US and UK market experience**

<b>Calculation logic for Australian market size and potential:</b>			
1. Take JP Morgan and BCG assumptions for US and UK 2. Calculate impact investment share of US and UK capital markets and NFP sectors 3. Infer possible impact investment share of Australian capital market and NFP sector 4. Back-chain from share inferred through market values and NFP revenue to current and +10 year A\$ numbers			
<b>Impact investments</b>	<b>US*</b>	<b>UK**</b>	<b>Australia***</b>
2012 investments	US\$ 5.6b	£ 286m	(calc.) A\$ 300m
Current capital managed	(calc.) US\$ 30b	(calc.) £ 3.8b	(calc.) A\$ 2.0b
Capital managed in 10 years****	(calc.) US\$ 480b	(calc.) £ 60b	(calc.) A\$ 32b
* Assumes 75% of global total \$ are US based compared to 56% of headquarters; ** Assumes 15% of global total \$ are UK based compared to 27% of headquarters in Europe *** When Australia achieves the same development stage as US and UK, and based on comparable size of not-for-profit sector and capital markets **** Assumes 1% of capital markets			
<b>Not-for-profit sector†</b>	<b>US</b>	<b>UK</b>	<b>Australia</b>
Annual revenue	US\$ 1,510b	£ 59b	A\$ 77b
† US—nccs.urban.org (reporting public charities in 2010); UK—www.charity-commission.gov.uk (Dec 2012); Australia—ABS 2006–07			
<b>Capital market values‡</b>	<b>US</b>	<b>UK</b>	<b>Australia</b>
Stocks (US\$ billion)	16,690	2,830	1,309
Bonds(US\$ billion)	32,081	4,744	1,432
Total (US\$ billion)	48,771	7,574	2,741
‡The Asset Allocation Advisor, 2010			
<b>Size of impact investment market</b>	<b>US</b>	<b>UK</b>	<b>Australia</b>
Annual (% of not-for-profit revenue)	0.37	0.48	(calc.) 0.4
Annual (% of capital markets)	0.011	0.006	(calc.) 0.01
Current managed (% of capital markets)	0.06	0.08	(calc.) 0.07

Sources: J Freireich, and K Fulton, *Investing for Social and Environmental Impact: A design for catalysing an emerging industry*, Monitor Institute, 2009; A Brown and A Swersky, *The First Billion: A Forecast of Social Investment Demand*, Boston Consulting Group, Sept 2012; Y Saltuk, A Bouri, A Mudaliar and M Pease, *Perspectives on Progress: the impact investor survey*, JP Morgan and the GIIN, 2013; Y Saltuk, A Bouri & G Leung, *Insight into the impact Investment Market: An in-depth analysis of investor perspectives and over 2,200 transactions*, JP Morgan and the GIIN, 2011; The Asset Allocation Advisor, *World Stock and Bond Markets and Portfolio Diversity*, 2010, 2010; JBWere calculations.

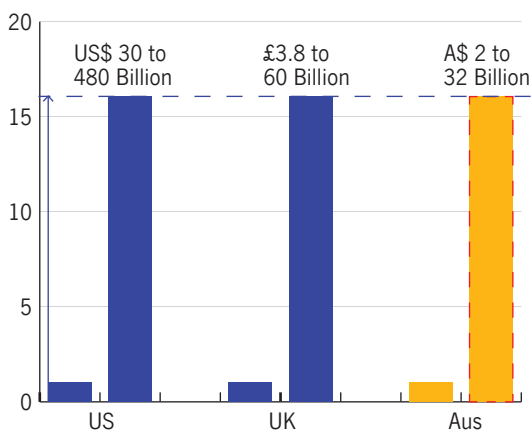
*Based on the size of US and UK impact investment markets relative to their not-for-profit and capital markets, the Australian potential when at a similar development stage can be calculated.*

Individual investment deals have the potential to make growth volatile in the early stages of development of the market (e.g. Government Rental Affordability Index-Linked (GRAIL) fund). However, it is clear that the potential for growth from current levels is large as our market moves towards the levels enjoyed in the US and UK (Figure 20), and then beyond as is illustrated in growth rates still expected for those markets. Although it is hard to say how long this development catch-up might take, recent interest and activity in Australia plus the speed of early sector growth experienced in the US and UK suggest the next 2 years could substantially close the gap.

**Figure 20: Capital for impact investment—current and projected 10 year capital managed**

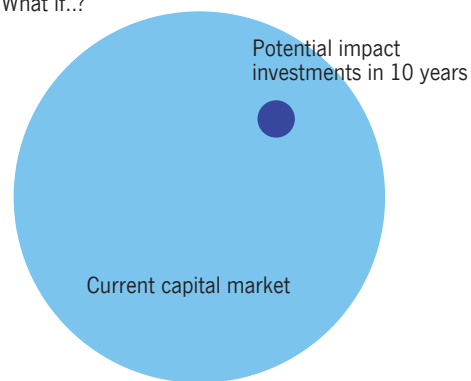
**The 10 year calculated growth in capital managed is significant**

Index: current = 1



**There is huge further potential in total capital market assets**

What if..?



Source: JBWere analysis; based on calculations of Australian impact investments derived from US and UK markets, presented in previous chart

***Even with strong expected growth in capital managed for impact investment there is huge further potential within total capital market assets.***

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