

PRE-BUDGET SUBMISSION 2020-21

28th January 2020



Contacts:

Sally McCutchan

Executive Director and CEO

Impact Investing Australia

Sally.mccutchan@impactinvestingaustralia.com

0402 664 206

Sabina Curatolo

Director of Policy and Social Enterprise Development

Impact Investing Australia

sabina.curatolo@impactinvestingaustralia.com

0400 318 205

© Impact Investing Australia Ltd, 2020

Creative Commons Attribution 4.0 International Licence



Excepting source material and where otherwise noted, all material presented in this document is provided under a Creative Commons Attribution 4.0 International licence. Licence conditions are on the Creative Commons website as is the legal code <https://creativecommons.org/licenses/by/4.0/legalcode>. You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you, your organisation or your use.

Disclaimer

This document has been developed by Impact Investing Australia Ltd in consultation with members of the Australian Advisory Board on Impact Investing. The views expressed represent a consensus view of those involved informed by consultation with practitioners and stakeholders, research relating to the Australian and global context, and international collaboration. Views expressed do not reflect views of individuals from Impact Investing Australia, members of the Australian Advisory Board, or other National Advisory Boards. Any members of the Australian Advisory Board who have contributed to this submission have participated in a personal capacity and no views expressed here represent a view or position of the organisations they represent or in which they hold positions. Nothing in this report should be construed as financial or other expert advice. This document does not constitute an offer of securities or any other financial product or advice in relation to any such product. Any errors or omissions are the responsibility of Impact Investing Australia Ltd.

Contents

Executive Summary.....	1
Introduction	7
Part 1: Impact Investing <i>in</i> Australia - the challenge of scale.....	8
State of the impact investment (II) market	8
Addressing market gaps and driving scale.....	10
Part 2: Addressing intermediation gaps – II wholesalers	12
Proof of concept: International experience of II wholesalers	13
Overview of a potential Australian SII wholesaler, ICA	23
The policy case for an Australian SII wholesaler, ICA	25
Why Government is an essential partner to ICA	27
ICA’s policy alignment.....	28
A notional plan for ICA’s pipeline development.....	30
Part 3: Addressing Demand gaps - focusing on Social Enterprise (SE) development.....	34
Wholesalers - Demand side Capacity Building.....	34
Current SE initiatives & identified gaps	36
Supporting Early Stage SE Capacity Building.....	37
Developing Capacity in SE Contract Readiness.....	40
Adopting Social Procurement	41
Part 4: Addressing Supply gaps - raising capacity & awareness within & outside of Government...	44
Establishing an Office of Social Impact Investment.....	44
Funding a Social Impact Investing Institute	46
Part 5: Addressing the gaps in Impact investing <i>from</i> Australia.....	50
Australia’s regional role in achieving the SDGs	50
The gaps in Impact Investing <i>from</i> Australia.....	51
Extending support for Social enterprise (SE) development.....	52
Barriers and challenges in investment in SDG infrastructure.....	54
Enabling a catalytic institution for impact investment <i>from</i> Australia.....	56
Conclusion.....	57
APPENDICES	58
Appendix 1 – Abbreviations and Acronyms.....	58
Appendix 2: Toward impact at Scale.....	60
Appendix 3: Impact Capital Australia.....	63
About ICA	63
Financial model for ICA	65

Drill down on the multiplier effect	67
Governance and leadership	67
Implementation and accountability.....	69
Risk management.....	72
ICA Theory of change	72
Appendix 4: Other International Wholesalers.....	74
Appendix 5: Case studies	76
Appendix 6: Additional budget measures to build the ecosystem.....	78
Appendix 7: About us.....	80
ENDNOTES.....	81

Executive Summary

Impact Investing Australia (IIA), the operating arm of the Australian Advisory Board on Impact Investing, (AAB) would like to thank you for your consideration of our submission. This submission sets out what we believe to be the key impediments around growth in the Australian II market and our views on the key policies required to accelerate its development.

Impact investing (II) has an important role to play in driving inclusive growth and contributing to the Sustainable Development Goals (SDGs) both in Australia and the broader Indo-Pacific. Impact investments are already tackling social and environmental issues effecting families and communities but the market *in* and *from* Australia lacks scale. Like any new market, impact investing will grow faster with the right market building infrastructure. While recognising that the government has various roles in impact investing as a market participant, market builder and market regulator, the focus of this submission is around the role it can play as a market builder in supporting the pieces of infrastructure that can catalyse private capital and investment.

This submission is broken down by the key pillars of the II eco-system namely demand, supply and intermediation.

A common issue that has played out both in Australia and globally is a lack of particularly social impact investing (SII) product. At the heart of this issue is a lack of SII intermediaries specifically both fund managers and originators of transactions. Experience from other countries in addressing this issue shows that catalytic institutions such as national impact investment wholesalers and development finance institutions (DFIs) have provided “go to places” to help co-ordinate fragmented efforts, and support the development of intermediation and related investible products.

Another area requiring support is innovation and demonstration of new approaches to solving societal issues. A key breeding ground for this innovation is within social enterprises defined as for purpose entities which can be either profit or not for profit. Again, as demonstrated by overseas experience policies fostering social enterprise development are key in delivering social innovation and building a pipeline of sustainable organisations into which impact investments can be made.

Finally, relevant to all pillars but for this submission grouped on the supply side is the need for further awareness raising and capacity building both within and outside of government.

Our key recommendations address these market gaps with potential policies outlined to enable II growth both within and from Australia.

Key Recommendations

Impact investing *in* Australia

Addressing the gap in intermediation with the establishment of a SII wholesaler

The Australian Government has taken some good first steps in support of SII in Australia with early policy moves back as early as 2010 with the establishment of the Social Enterprise Development Investment Fund (SEDIF). This was followed by a suite of measures in the 2017/18 budget (\$30.4m) added to in the 18/19 budget (Cumulative \$38.7m). The last budget saw an additional \$14.1m for outcomes payment trials and the announcement of a SII Taskforce within the Department of Prime Minister and Cabinet (\$5m) to be advised by an Independent Expert panel.

The role of the SII taskforce is to take stock of what has been done and develop a strategy for a whole of Commonwealth Government approach to SII. If we look to other countries, taskforces like this one have been the mechanism from which substantive policy initiatives have emerged. The most significant of these have looked to address the gap in intermediation and SII product development with an impact investment wholesaler.

How an II wholesaler is structured and where and how it operates may vary but, the common elements of II wholesalers are: they are dedicated to measurable social impact; they invest in funds, other intermediaries and directly or indirectly in social enterprises; they help to develop their targeted II market (regional or national); and they seek to invest where but for their catalytic capital, investees could not raise sufficient funds.

Since 2015, we have been discussing with government what a game-changing SII wholesaler could and should be in an Australian context. Our blueprint for the SII wholesaler involved a process of rigorous by an AAB working group comprised of senior cross sector leaders from investment and commercial banking, the community sector, funds management, legal practice, management consulting and philanthropy in consultation with Big Society Capital (UK Wholesaler). Global experience and learnings were adapted for the Australian context. The conceived Australian SII wholesaler already has a proposed name, Impact Capital Australia (ICA).

The term “wholesale” (or indirect investment) refers to only one of the market gaps that ICA seeks to fill namely that of seeding new impact investment funds. Typically new funds need a 3 year track record to attract mainstream investment and ICA could act as a corner-stone investor to help build this track record. ICA’s strong capability in both impact and financial measurement and management would heighten confidence for co-investment. In this way, it would help create the array of impact funds across potentially different areas of impact and asset classes that the market is demanding.

Armed with a suite of financing tools, ICA could also support market development through facilitating or enabling transactions or fund development around priority social issues. Specifically co-developing solutions with impact at the core and appropriately engineered financing models to support its delivery. This aspect of its operations may include origination and direct investment.

From the outset ICA would be set up to leverage government funds to unlock private capital and drive positive societal outcomes at scale. Over time, ICA could help create a self-sustaining for-purpose market that would not require ongoing government support.

The global II market is growing but Australia has yet to realise the potential of this market to attract capital to tackle social issues. The time has come for the Australian government to do what many of its counterparts around the world have already done - commit funding to a national impact investment wholesaler to foster the intermediation and product development that the SII market desperately needs to scale and grow.

Recommendation 1:

Create a step change in Australia’s II market by committing a minimum of \$150m in 2020/21 to be matched by Australian financial institutions and other societally focused investors to establish a SII wholesaler for Australia, Impact Capital Australia (ICA). The Government’s contribution could be structured as a grant and/or an approved investment taking into account budgetary and capital account implications.

ICA will be a game changing \$300m institution with the capital, mission and mandate to improve people’s lives by helping to drive the SII market in Australia to scale.

Addressing the gap in demand through Social Enterprise Support

There are an estimated 20,000 Social enterprises (SEs) in Australia. Social Enterprises are businesses (either profit or not for profit) which primarily exist to fulfil a social or environmental purpose. The SE sector has an incredibly important role to play in helping to address our social issues but this is not without its challenges.

In May 2015, seed funded by the National Australia Bank, IIA established what is now called the Impact Investment Ready Growth Grant. The grant was targeted at helping SEs to get “ready” to raise the capital they needed to grow. Its purpose was to build SE capacity and in tandem support intermediaries providing the services required for investment readiness. Since November 2018, this program has been administering

funding for the Department of Social Services' Sector Readiness Fund (\$7m over 3 years). Over the last 4.5 years we have numerous examples of grantee SEs that have been enabled to scale and grow their impact. Examples include Hire-Up, Vanguard Laundry Services, Outlook, Nightingale Housing, Maths Pathways and Humanitix.

Running this grant program has put us at the centre of the SE eco-system where we have collected views from intermediaries, investors and the social enterprises themselves. What we have identified are two clear gaps in the market in:

- 1) Earlier stage social enterprise support.
- 2) Contract readiness support.

Recommendations 2 & 3:

Complement the DSS sector readiness fund with two additional policies:

- 1) An earlier stage social enterprise growth fund (\$2m + \$1m administration) which is co-funded with philanthropy and/or corporate sponsorship which provides capacity building, mentorship and funding support for SEs before the point at which they would consider investment.**
- 2) Establish a contract readiness fund (\$5m + \$1m Administration) similar in construct to the DSS SRF but targeted specifically around contract rather than investment readiness. This would provide much needed capacity building support for SEs tendering for contracts to support their growth. It would also be highly complementary to government social procurement policies (See Recommendation 4).**

There is a clear policy imperative for governments to enable private sector creation of social value. As part of its marketing building efforts in SII, the Australian Government could leverage its significant buying power and overlay a social as well as economic lens to the goods, services and construction it procures. This would not only potentially deliver better value for money for the Government but also help to support the growth of social enterprises.

Recommendation 4:

Establish a national Social Procurement policy to derive greater social value through Australian Government contracts and purchasing power and further support the growth of social enterprises.

An additional benefit of this policy could be in its encouragement of other anchor institutions to establish their own social procurement policies to further grow the market, creating additional opportunities for SEs to participate in the market.

Addressing the gap on the supply side through awareness raising and capacity building

Within Government:

Our international experience and networks across the GSG have evidenced significant precedent in the establishment of a dedicated Office within Government to build capacity and develop a whole of government policy for SII. Examples include: the Government Inclusive Economy Unit in the UK and The Dutch Innovative Finance Taskforce in Ministry of Foreign Affairs of the Netherlands. A local example is the Office of Social Impact Investment in NSW which has been highly effective in developing a whole of NSW Government SII strategy.

Centralising II in one department and with a responsible Minister would give the Government the ability to both anchor its II knowledge in one place and coordinate the agenda across departments. As evidenced by the NSW experience, it could enable a clearer line of sight to opportunities to mobilise private capital for public good, build capability and attract new talent. Finally, the approach could provide a strong base for engagement with other key II stakeholders such as business, social enterprises, investors and community.

Outside Government:

The cross-sector nature of II requires a centralised and co-ordinating entity for all the stakeholders (including government) and a stable funding mechanism to support this market building activity. The AAB through its operating entity IIA has implemented and co-ordinated some important market building activities but the lack of a stable funding base continues to be a major constraint. In addition, while the AAB has representatives from investors, banks, the community sector, philanthropy and business the Government is not represented. Market building will need to continue in the short to medium term to raise awareness and build capability in other sectors to complement government action and reduce dependency over time. A funded Impact Investing Institute could be a centre of excellence from which the AAB could drive collaboration; bringing together the work of cross-sector entities for pro-active and collaborative engagement with the government. The recently created Impact Investing Institute in the UK, which combined the UK NAB and the UK SII Taskforce (2016) is a working example of this government funded model.

Indicative components of an Australian Impact Investment Institute could be:

- 1) *Knowledge Hub* – driving education, training and thought-leadership. This could encompass awareness raising across key stakeholder groups including by collaborating with representative membership bodies such as RIAA, UNPRI, the GIIN, Philanthropy Australia, the Shared Value Project, the Community Council of Australia, and the AICD. Leveraging existing AAB/IIA and GSG materials and networks, a broad suite of tools could be used including: an online information portal, case studies, events and social media;
- 2) *Eco-system & Capacity Building* - market development initiatives such as the provision of technical assistance, to build capacity and networks. Leveraging the global partnerships of the AAB, through the GSG, including with the Impact Management Project, the UNDP SDG Initiative and the OECD, the Institute could help inform best practice around impact management and measurement as well as II policy frameworks. The Institute could work with investor groups, SEs, governments and others to build capacity in relevant areas.
- 3) *Collaboration toward innovation & scale* – the Institute could co-ordinate organisations to pool resources, innovate and/or aggregate solutions or investment products to drive scale. AAB/IIA global networks could again be used to leverage models from other jurisdictions to inform the development of pilots in key policy areas.

An objective market builder such as the AAB/IIA which fosters cross-sector collaboration informed by the GSG network and partners is an important component of market infrastructure.

Recommendations 5 & 6:

These recommendations are targeted at raising market awareness and driving capability through building centres of excellence both within and outside of government:

- **Create a dedicated Office of Social Impact Investment within the Department of the Prime Minister and Cabinet**, leveraging the existing expertise of the SII Taskforce. This could build public sector capacity and create a go to place within government while ensuring impact integrity is maintained as the market develops.
- **Fund an independent Impact Investment Institute with an initial commitment of \$5m over 3 years**. This would mirror the example in the UK and provide a centre of excellence outside of government to help inform policy, drive market awareness and build broader sector capability.

The combination of these initiatives would deliver a more efficient and effective allocation of existing resources and more future resources through investment targeted at achieving social impact.

Impact Investing *from* Australia

The Department of Foreign Affairs and Trade (DFAT) has for a number of years recognised the importance of impact investing *from* Australia into the Indo-Pacific region particularly in support of the achievement of the Sustainable Development Goals (SDGs). Small (in relative dollar terms) but important policy measures such as Pacific RISE and the Scaling Frontier Innovation initiatives have all been supportive of capacity building and social enterprise development. These alongside more recent initiatives such as a blend finance funding partnership with Convergence should be continued and consideration given to the opportunities for further expansion in the International Aid Review.

Recommendation 7:

Capitalise on the good work already done and:

- **Extend existing programs for SE capacity building such as Pacific RISE and Scaling Frontiers Innovation to further enable Indo-Pacific social enterprise development.**

In last year's submission, we suggested that the Australian Infrastructure Financing Facility for the Pacific (AIFFP) may be the appropriate institution within the government's remit through which to catalyse further impact investment. One year on, it is clear that the AIFFP will likely maintain a very specific Pacific remit and so has limited capacity to address broader regional II issues. There may however be an opportunity to do this through an expanded and sufficiently capitalised Emerging Markets Impact Investment Fund (EMIIF). The EMIIF (launch pending) is effectively a regional II wholesaler however with current funding of only \$40m, it will be difficult for it to play a significant role in driving regional impact investment. If however, its capital pool was expanded and it was enabled with a suite of different financing options including some capacity for technical assistance, greater potential could be unleashed.

The EMIIF could potentially utilise tools used in blended finance to attract private investment in a way that is beneficial and sustainable for targeted countries. The EMIIF could also be the vehicle through which broader collaborations are evolved with emerging DFIs such as FinDev Canada and the new USIDFC. Importantly, it could work in a collaborative way with an Australian II wholesaler, ICA, once established, to ensure consistency in impact management and measurement and to jointly build institutional investor participation in Social Impact Investing (SII).

Recommendation 8:

Australia's role in International Development and impact investing *from* Australia would be further strengthened by a development finance organisation committed to growing impact investment in the region. Leveraging an existing policy initiative, the EMIIF could be the building block of this organisation.

Expand the funding and toolkit of the EMIIF by \$100m (to \$140m) to increase its ability to effectively seed product and fund intermediaries and related capacity building (including for investors) in and into the region. To accelerate the impact delivery, the appropriation period should be at a maximum 3 years.

Our recommendations for ICA in Australia and the extended impact investing activities in support of impact investing from Australia go hand in hand. A catalytic wholesale institution in ICA, working alongside the EMIIF to fund intermediaries and build capacity in impact investing through sharing knowledge, practice and impact measurement and management frameworks would significantly enable Australia's role and investment in the broader regional market.

Conclusion

This suite of recommendations is focused on the market building activities of Government to promote an active Australian impact investment market which would see better outcomes for both Australian communities and those in the Indo Pacific. There is no doubt that these initiatives could be further enhanced by government in its role as market participant and regulator and details of related policy initiatives are in Appendix 6. Notwithstanding, catalytic institutions driving intermediary capacity; funded go to places within and outside of government and support for social enterprise, will, as international experience illustrates, make the biggest difference in putting the impact investing market *in* and *from* Australia on a path to scale.

While all our recommendations are important, the lynchpin to scale is the establishment of an Australian Impact Investment wholesaler, the rigorous design of which is encapsulated in ICA. This measure will enable demonstration of more innovative approaches to tackling issues that matter for communities. It will help build and develop market intermediaries and the capacity needed to drive the SII market to scale. ICA could also help unlock new sources of foreign investment into both our own country and across the region particularly when working in collaboration with EMIF.

Impact Investing Australia welcomes the opportunity to have input into this pre-Budget process. We urge the Australian Government to take up the opportunity for targeted action to fuel development of impact investment. The IIA Executive and members of the AAB will be happy to meet to discuss any aspect of this Submission.

Introduction

There needs to be a recalibration of expectations and focus. There is just not enough programmatic grant funding available from governments and philanthropists to solve all of Australia's social and environmental issues. Grant money is precious and should be used with maximum efficacy and where possible to leverage other forms of capital towards addressing our societal challenges. Impact investing has an important role to play in this. It links capital, a focus on outcomes and in many cases social innovation.

The government has already made some good first steps in unlocking the potential of the Impact Investing (II) market. Policy measures totalling a cumulative \$38.7m in the Australian Budgets in 2017-18 and 2018-19 to develop impact driven enterprises, trial innovative approaches to youth homelessness and new initiatives to finance affordable housing were welcome early steps. As was the establishment of the SII Taskforce within the Department of the Prime Minister and Cabinet with an Independent Expert Panel to advise on a whole of Commonwealth Government Strategy on Impact Investing.

State governments, financial institutions, super funds, foundations, and the community sector are selectively interested to explore opportunities around impact investing. At the institutional investor level a growing interest in the UN Sustainable Development Goals (SDGs) and managing systemic risk has been a driver. What is lacking is the funds, products and related intermediation at scale to address their needs. The feedback from an AAB initiated field scan in 2017, reinforced that stakeholders are looking to the Australian Government to take a more proactive and catalytic role in the market development process.ⁱ

The challenges to achieving scale in impact investing in Australia are familiar to new markets. They include a relative lack of: effective co-ordination; market infrastructure; intermediation, and capacity shortfalls. There is precedence across OECD countries that a combination of catalytic capital and signalling from government has a unique and powerful effect in demonstrating new models, enabling intermediaries and overcoming information asymmetries, well beyond the organic, transaction-based growth the market can deliver alone.ⁱⁱ

Through the work of the AAB and IIA, Australia is positioned as an early and competitive leader in the II market globally. This means the proactive policies outlined in this submission are not just about Australia's domestic outcomes but will affect its broader II international opportunities. There is potential to attract new capital into Australia, to position it as a hub for II into the region and attract new sources of talent and capital for social benefit.

The Australian Government is uniquely placed to pull the policy levers required to make the shift from incremental to transformative change at scale.

Outline of the Submission

Part 1 of this submission looks at the current state of the Impact Investing (II) market in Australia and the key market gaps particularly in investible product development (intermediation) that are limiting scale.

Part 2 looks at the role II wholesalers have played in offshore markets in addressing market failure around intermediation. It also details how the Federal Government can adopt an implementation-ready policy proposal to enable the establishment of a \$300m Australian SII wholesaler, Impact Capital Australia, (ICA) (**Recommendation 1**).

Part 3 examines the gaps in the demand. Drawing on global and Australian experience, it outlines how the government could add to its existing program in social enterprise (SE) development with an early stage investment readiness fund (**Recommendation 2**), a Contract Readiness fund (**Recommendation 3**) and a Social Procurement program (**Recommendation 4**).

Part 4 looks at the II supply side and the need for further awareness raising and capacity building both within and outside of government. **Recommendations 5 & 6** suggest the formation of an Office of II within the Federal government and the establishment of an Australian Impact Investment Institute to help inform and drive capacity and policy development

Finally, *Part 5* discusses Impact Investing *from* Australia and the benefits of both further support of existing social enterprise development policies (**Recommendation 7**) and increasing the size and remit of the EMIIF to become a larger regional II wholesaler (**Recommendation 8**). Both these recommendations will see Australia further supporting SDG achievements across the Indo-Pacific.

Part 1: Impact Investing *in* Australia - the challenge of scale

State of the impact investment (II) market

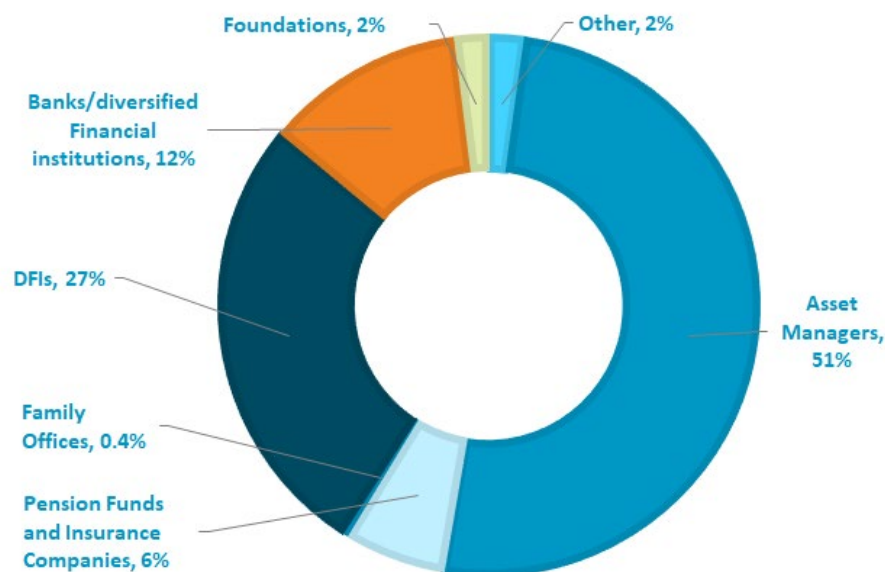
Impact Investing is growing with the global market now estimated at US\$502bn. In Australia, despite strong growth impact investments represent only A\$5.8bn which in the context of a \$2.9trn superannuation market is less ~0.2%. The AAB 2018 report *Scaling Impact* re-enforced this lack of scale despite the strong appetite and potential for impact investing from a broad set of stakeholders, including governments. Significant gaps to growth remain, particularly those that relate to product development and intermediation.

Impact investing can mobilise additional resources to relieve pressure on Government budgets and bring focus to measurable outcomes and sustainable impact for people and the planet.

Initiatives already being financed by impact investing are in areas including: aged care, community development, education, employment, health, sustainable agriculture, renewable energy, justice, social housing and international development.

The impact investing is growing in Australia and across the globe. The Global Impact Investing Network (GIIN), this year sized the global impact investment market at US\$502bn across 1340 organisations with almost 70% of the investments being held by financial institutions (12%), asset managers (51%) and pension funds and insurance companies (6%).ⁱⁱⁱ

Figure 1: Global Impact Investment Market – Split of Assets under management by investor type



Source: Adapted from data from *Sizing the Impact Investment Market*, The Global Impact Investment Network, 2019

Interest is also converging around the opportunities and challenges of meeting the SDGs. Seventy seven percent of respondents to the latest GIIN Annual Survey indicated they were already tracking investments to the SDGs or planned to do so in the near future.^{iv}

In Australia, the market is also growing strongly. According to the Responsible Investment Association of Australasia Benchmarking Survey, 2018, the Australian impact investment market reached \$5.8bn at the end of 2017, up from \$1.3bn two years earlier.^v This growth has largely been driven by green bonds with social impact investing still relatively small in dollar terms. A catalyst is desperately needed to spur growth in the social areas of the impact investing market.

Table 1: Impact Investing \$ Invested and Number of Products to Dec 2017

Asset Class	# of Products	\$m Invested
Other Real Assets	2	35
Other Fixed Income	2	16
Private Equity	2	42
Multi-Asset Class	4	68
Private Debt	5	42
Social Impact Bonds	6	43
Green Bonds	14	4893
Property/infrastructure	16	703
Total	51	5841

Source: RIAA Benchmarking Survey 2018

Momentum is encouraging however we are yet to reach a point where impact investing is at the scale required to bring real change to people and the planet. The US\$502 billion in global impact assets and the US\$30.7 trillion in sustainable investment^{vi} is still only a fraction of global assets under management. Despite progress in recent decades, no country is yet on track to meet the SDGs. Australia ranked 38th in the 2019 SDG Index overall just ahead of China at 39th and behind the US at 35th^{vii}. Results for Australians living in circumstances of disadvantage have not improved in 3 decades^{viii} and Australia ranks in the bottom three wealthy nations on environmental policy^{ix}

In Australia, the market has entered a phase of more coordinated market development rather than early innovation. Potential is there for more significant growth. In the 2017, AAB Field Scan^x, participants across the board raised the opportunity and need for scale. They underscored the need for more and multi-skilled intermediaries and referred to the necessity to prove up more models, replicate what works and aggregate investment opportunities in a form that can engage investors. Participants were clear that they wanted to see more engagement and signalling from governments, including to provide catalytic capital and data that will be critical to supporting scale.

Addressing market gaps and driving scale

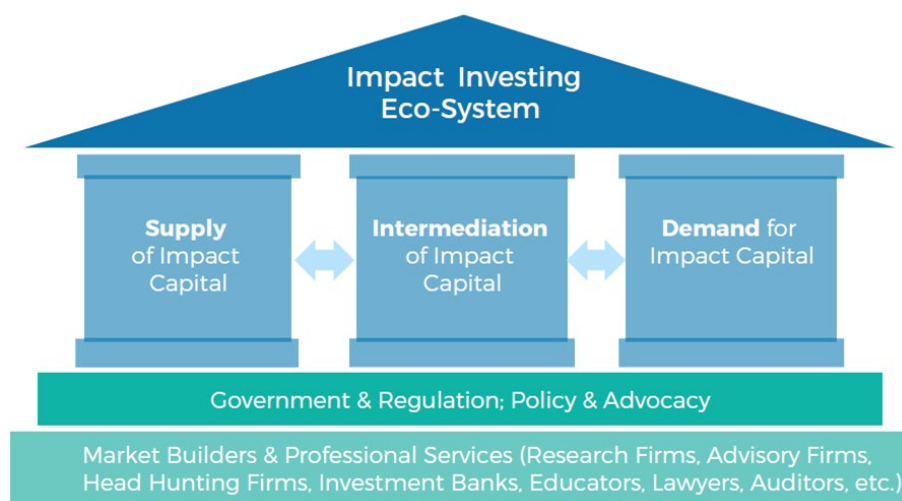
Key gaps in the II market include: lack of origination capacity and long-term capital, viability of intermediaries and aggregators, misalignment of funding terms and incentives, mispriced risk and information asymmetries, under-developed secondary markets, and inconsistency in impact measurement and management. When this is coupled with a broader lack of awareness and capacity around impact investing it's no surprise that the market lacks scale.

Capacity needs to be built in impact management, measurement and risk assessment, and associated transaction development with appropriate capital structures. The involvement of private financiers, (including philanthropist), governments and the community sector necessitates significant cross-sector collaboration.

The barriers are not insurmountable. The trajectory of other markets, like the UK, shows an impact investment wholesaler can support multiple functions of market development. It can improve people's lives by catalysing the connection between investment and impact through support for a critical enabler - intermediation.

The dimensions of demand, supply and intermediation are all key pillars of the impact investing eco-system, (**Figure 2**). Gaps exist across each of these dimensions with the most significant to market development being the gap in intermediation. Intermediation is the key connector and a critical enabler of the demand and supply elements.

Figure 2: The Impact Investing Eco-System



Source: Adapted by IIA from Global Steering Group on Impact Investment, 2019

We have heard too many times to count, that there is plenty of demand for II investments but no pipeline. This comment really reflects the mismatch between the nature of the capital investors are prepared to supply and that which is needed. The uncertainty and risk dimensions of new market-based investment activity and innovation can push up the cost and/or reduce the flexibility and availability of finance and this is playing out in II. Further, private markets do not readily supported the delivery of public goods or optimise social outcomes so a mindset change is required. Finally, II requires the measurement of the social outcomes which needs data access and availability and requisite frameworks and capability potentially further complicating pricing.

The key lever to overcoming this type of market failure is the alignment of II capital demand and supply through effective product development and intermediation enabled by supportive government policy. We have seen this play out in the emergence and flow of capital into fields such as venture capital, infrastructure investment, the corporate bond market, community finance and microfinance.

The evidence base is building that this approach will work for growing II. The UK's II wholesaler, Big Society Capital (BSC) has demonstrated the scale and momentum effects driven by support of existing and new intermediaries; and the proving up of new and innovative business and financing models.

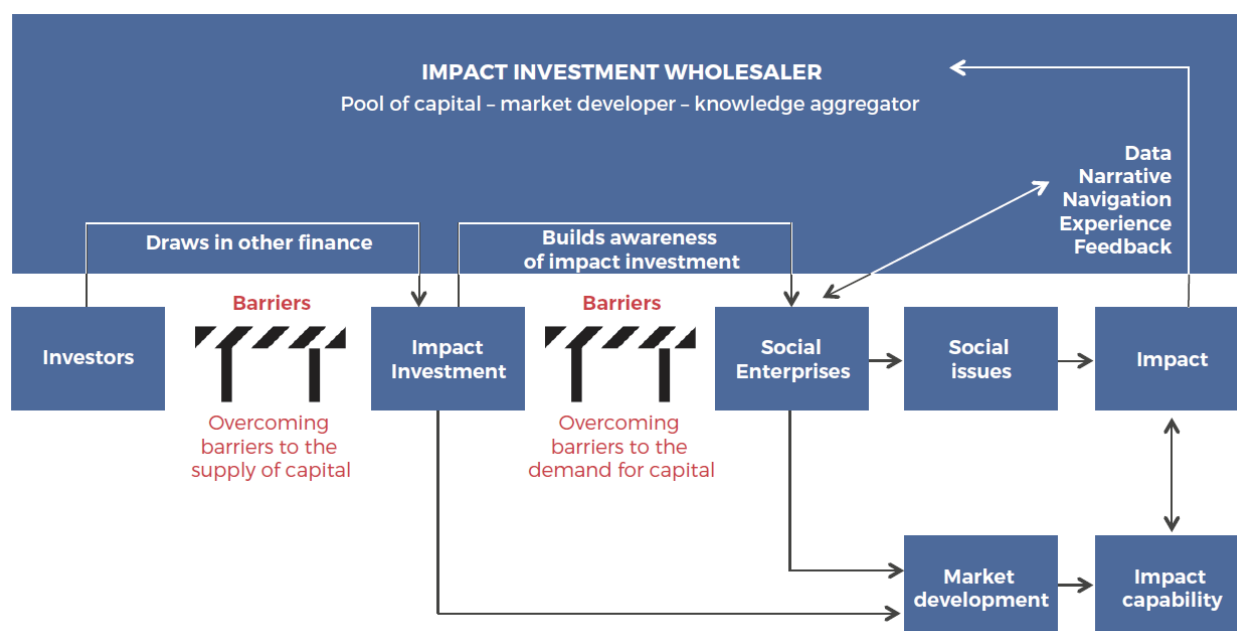
The trajectory of other markets, like the UK, shows a II wholesaler can support multiple functions of market development, it can:

- Strengthen intermediary capacity;
- Encourage collaboration among investors and stakeholders on specific social problems;
- “Crowd-in” private capital with cornerstone investment which would not typically be available from other sources.
- Provide the scale and expertise to instil confidence in investors and encourage social sector engagement in investment and enterprise;
- Help develop and implement a consistent framework for impact management and measurement;
- Aggregate and share impact investment knowledge and tools;
- Raise awareness and educate a broader group of stakeholders and policy makers;
- Foster new financial instruments, mechanisms, practice and innovative approaches.^{xi}

In summary, it can improve people's lives by catalysing the connection between II demand and supply and investment and impact.

The Global Steering Group for Impact Investment (GSG) established a global working group in 2017 to promote the development of Impact Investment wholesalers. **Figure 3** from the subsequent report released late in 2018^{xii} shows the value of these critical pieces of market infrastructure.

Figure 3 – The Value of an Impact Investment Wholesaler



Source: GSG Working Group Report, Building Impact Investment Wholesalers, Key Questions in Design of an Impact Investment Wholesaler, 2018

In Part 2 we examine in more detail II wholesalers including our recommendation and design for an Australian SII wholesaler, with the proposed name of Impact Capital Australia (ICA).

Part 2: Addressing intermediation gaps – II wholesalers

II wholesalers are designed to support and grow intermediaries and act as market champions.^{xiii} Without the type of capital and capacity brought by an II wholesaler, market initiatives may struggle to achieve critical mass. This could limit self-sufficiency and inhibit the opportunities for innovative models to scale.

The GSG Working group on Impact Investment Wholesalers outline in its report the common characteristics & activities that define these institutions:

An impact investment wholesaler is dedicated to measurable impact on people and the planet. It finances funds, other intermediaries and, directly or indirectly, social enterprises. It helps to develop the impact investment market. It seeks to invest where, but for the wholesaler's capital, the investees could not raise enough money.^{xiv}

An II wholesaler is defined by four characteristics:

1. **A wholesaler invests.** It invests indirectly (in funds or other intermediaries) or directly (straight into social enterprises).
2. **A wholesaler draws in other investment.** It invests in ways designed to catalyze capital from other investors (such as foundations, individuals and institutional investors).
3. **A wholesaler measures, manages and reports impact and financial data.** It measures impact and financial data at the wholesale, intermediary and (if possible) enterprise levels. It reports as transparently as possible. It facilitates progress toward shared norms for measuring and managing impact.
4. **A wholesaler seeks to develop its impact investment market.** It builds the market by methods outside investment. Among other efforts, it may strengthen enterprise capacity, encourage policy change, build new intermediaries and promote integrity.^{xv}

In 2014, after extensive market consultation, the AAB, a National Advisory Board of the GSG, recommended in its strategy report, [Delivering on Impact](#), that an impact investing wholesaler should be established for Australia. This was identified by the AAB as a key breakthrough action to deliver demonstrable impact, meaningful practice, and build a greater number of informed participants in the impact investing field.

Since early 2015, the AAB through its operating arm IIA has been working to establish ICA as an II wholesaler for Australia. During that time, Portugal, Japan, Korea, and Canada have all announced II wholesalers and significantly leveraged our design blueprint.

Proof of concept: International experience of II wholesalers

Experience from international markets illustrates that II wholesalers, whether broadly focused or sector specific can provide a catalytic effect in stimulating market growth.

Big Society Capital, the UK II wholesaler, was established in 2012 and since then has unlocked £1.7bn of capital for impact investing. Support for intermediaries has been a key driver of growth with the number of UK II intermediaries managing over £50m going from one to seven.

The European Social Impact Accelerator, an EU focused fund of funds, invests in social impact funds targeting SMEs. Since it was established in 2013, it has helped to support 15 intermediaries in bringing new funds to market.

The Global Energy Efficiency and Renewable Energy Fund is sector specific and demonstrates the leverage of the wholesaler model. While the Clean Energy Finance Corporation fulfils some of its role in an Australian context we have included it as an example to demonstrate the wholesaler multiplier effect on capital and impact. In 2017, GEEREF's €166m of committed capital, through a fund of fund model, helped to unlock €3bn of funds for energy efficiency and/or renewable projects. This created 2,400+ permanent jobs and brought new or improved energy access to 450,000+ developing market households.

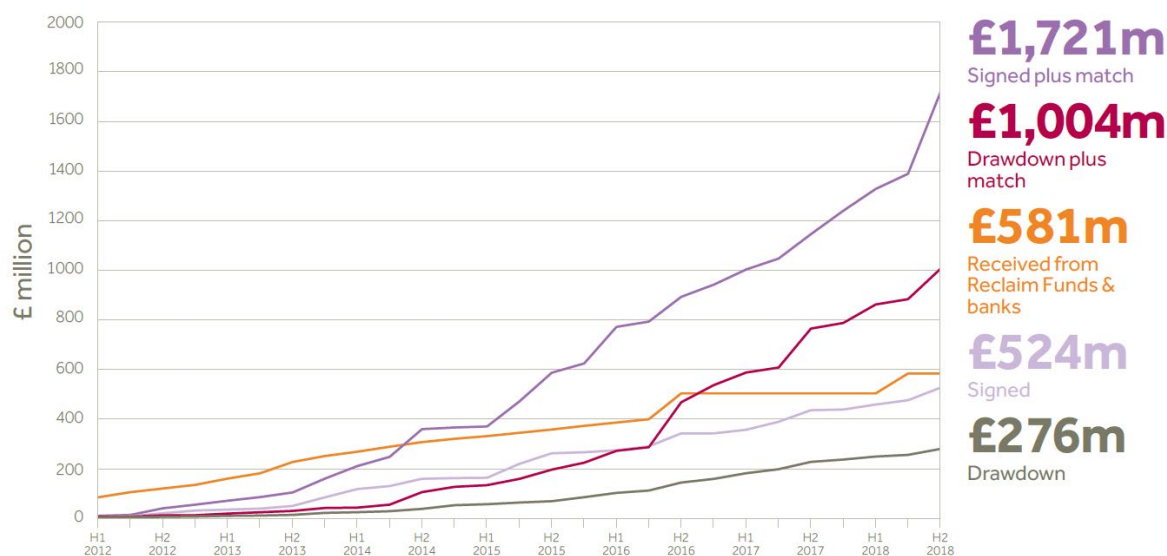
The international experience: National II wholesalers

Experience from international markets shows that a catalytic wholesaler investor and market champion is needed to drive market transition and stimulate growth in impact investing.

Three examples of international wholesalers, their mandates and some of the impact they have created in their respective regions are provided below. Further II wholesaler examples are provided in **Appendix 3**. These II wholesalers aim to build markets, not just write cheques. Their theory of change is that a strong layer of intermediaries will both draw other investors into the market and serve the diversity of impact driven demand. They are designed to 'crowd in' other investors rather than 'crowd out' other intermediaries.^{xvi}

Big Society Capital, UK

In the UK, the 6-year track record of BSC to June 2019, provides evidence of both the direct multiplier effect and the broader market-catalysing effects that can be achieved when government acts as a first mover by co-investing in impact investment, (**Figure 4**). McKinsey analysis found that BSC's impact represented a "*decisive shift*" in the UK impact investing market.^{xvii} Over this time, BSC has invested in 44 intermediaries with an average deal size of £5.2m. The intermediaries have gone on to invest in over 800 social enterprises. BSC made its first profit of £782,000 in 2017 and while profits are expected to experience some volatility overall the organisation is targeting self-sustainability and investor returns.

Figure 4: Big Society Capital's portfolio and leverage effect has built over its 7 years of operation

Source: Big Society Capital Annual Review, 2018

Table 2: Snapshot Big Society Capital^{xviii}

Purpose	To improve the lives of people in the UK by connecting investment to charities and social enterprises.
Summary	Big Society Capital (BSC) is a wholesale institution that invests in UK social investment finance intermediaries. The intermediaries invest in charities, social enterprises and other social organizations.
Year Opened	2012
Geographic Limits	The United Kingdom
Source of Capital	Dormant banks accounts (up to £400m); Merlin Banks ¹ (up to £200m)
Amount Held	£581m (up to £600m)
Amount Invested	£524m Signed / £276m Drawdown
Amount Co-Invested	£1,197m Signed / £728m Drawdown (Co-investment Target = 3x)
Co-Investors	Social bank depositors (19%), charities and foundations (13%), government agencies (7%), international (8%), banks (3%), local government pension funds (2%), funds (1%) and other (47%)
Return Target	4% to 6%
Immediate Investees	Intermediaries (no restrictions on intermediary type)
Final Investees	Charities, social enterprises and other social organizations
Investment Tools	Into intermediaries: Debt and equity.

¹ Relates to Project Merlin - an agreement covering lending, bonuses and transparency between the UK (Cameron) Government and the UK's four biggest banks: HSBC; Barclays; Royal Bank of Scotland and Lloyds Banking Group.

European Social Impact Accelerator, EU

The experience of the European Investment Fund (EIF) run Social Impact Accelerator (SIA) is also supportive of the role of a II wholesaler in stimulating II market development.

The EU's €243m SIA is a fifteen-year fund of funds within the EIF that invests mostly in social venture capital funds. It seeks a return competitive with general venture capital^{xix} and usually supplies between 7.5% and 50% of an intermediary's capital raising.^{xx} The SIA's intermediaries must raise the rest of the capital for that round through other sources. The SIA leverages non-SIA capital by strengthening, developing and enabling its intermediaries to complete their capital raisings rounds outside the SIA. As at 31 December 2018 it had invested €165m in 15 intermediaries.

Table 3: Snapshot Social Impact Accelerator (SIA)^{xxi}

Purpose	To establish a financial market for social entrepreneurship in Europe.
Summary	The SIA is a fund-of-funds that invests in European social impact funds. The social impact funds invest in social enterprises. The European Investment Fund manages the SIA.
Year Opened	2013
Geographic Limits	The European Union
Amount Held	€243m
Amount Invested	€165m (at Dec 2018)
Amount Co-Invested	Up to 50%
Return Target	Over 5%
Immediate Investees	Social impact funds
Final investees	Small and medium-sized social enterprises
Investment Tools	Into intermediaries: Equity. Into final investees: Equity and debt.
Sources of Capital	Public & private financial institutions: European Investment Bank (€230m), European Investment Fund (€9m), Crédit Coopératif (€1m), Deutsche Bank (€1 m), SITRA (€1m) and Bulgarian Development Bank (€1m)

Figure 5: Geographical spread of the social impact fund investments of the SIA (31/12/2018)



Source: EIF, Presentation: European Investment Fund Social Impact Investment Activities – Equity, December 2018

A focus on intermediary support

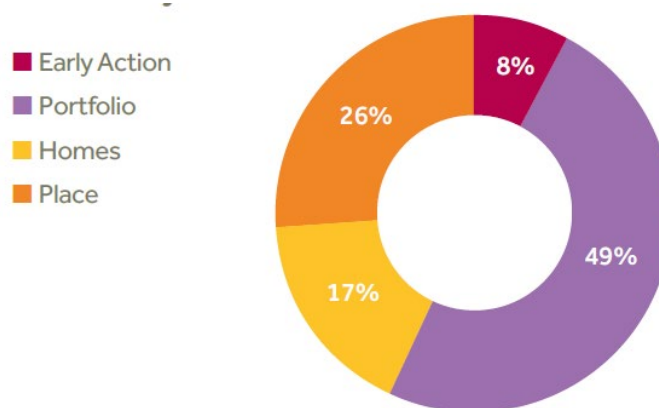
While II wholesalers differ by goals and context, the common thread is intermediary support. Both BSC and the SIA work closely with their intermediaries to hone their processes, sharpen their skills and structure investable products.^{xxii}

BSC has since spent significant time and energy helping intermediaries organise their management, figure out their processes, foster pipelines, structure products and otherwise create entities into which BSC wants to invest. With the help of BSC, as the UK market has matured, the number of intermediaries managing more than £50m jumped from one in 2012 to seven in 2017^{xxiii}. The SIA has followed the same path. It works closely with intermediaries and other partners to put together funds into which the SIA will invest.^{xxiv}

Creating impact in key areas of policy priority

BSC did not deliberately set out to align with government policy priorities. However as it has evolved it has become more focused on specific social sectors (Figure 6).

Figure 6: BSC portfolio by sum committed to focus area



Source: Big Society Capital Annual Review, 2018

Unsurprisingly there is significant overlap between the social issues that it is seeking to address and the UK Government's policy priorities. In the UK, employment, training and education in areas of entrenched disadvantage are key areas of policy focus as are social and affordable housing and aged care. **Table 4** sets out the strategic focus of BSC in more detail with examples of investments and impact delivered. It illustrates that, with a wholesaler in the market driving intermediation, the private sector can be mobilised to provide capital for social purpose with strong impact.

Table 4: BSC creating impact in key outcome areas

Strategic Focus	Priority Areas	Example Investments	Examples of Impact
Homes	<ul style="list-style-type: none"> Fighting homelessness and providing homes for vulnerable people Promoting Social Innovation in Housing 	<ul style="list-style-type: none"> Funding Affordable Homes Cheyne Social Property Fund Bridges Evergreen Fund investing in Ethical Housing Company CBRE's Affordable Housing Fund 	<ul style="list-style-type: none"> 10 housing investments signed £74m committed (£640m with other investors) >3,800 people housed 81% of people housed through Resonance investment say they are now positive about the future
Early Action <i>Addresses problems to prevent them escalating over time</i>	<ul style="list-style-type: none"> Ageing: supporting a holistic approach to wellbeing as people age. Childhood Obesity: supporting food providers to enable and encourage lower income households to have more nutritious diets. Mental Health: supporting a shift towards preventative solutions for at risk groups, enabling better integration between the world of research and social innovation. 	<ul style="list-style-type: none"> Ananda Impact Ventures investment into Hometouch, a marketplace for live-in care focused on dementia patients. Bridges Social Outcomes Fund II - investing in outcomes contracts in children's services, homelessness and health and social care. Bethnal Green Ventures supported TalkLife, an online peer-to-peer support network for young people's mental health. 	<ul style="list-style-type: none"> So far, Hometouch has helped provide 360,000 hours of care to more than 150 older people £43m total value of social outcomes contract fund investments 49 social outcomes contracts supported. >32,000 people expected to be supported through outcomes contracts £55m of value delivered to the government to date² So far, TalkLife has reached more than 60,000 users.

² Relates to investment in Bridges Social Outcomes Fund up to April 2018

Strategic Focus	Priority Areas	Example Investments	Examples of Impact
Places <i>Tackling deeply rooted poverty and inequality in communities across the UK</i>	<ul style="list-style-type: none"> Investing to support community based business models Finding new ways of supporting social enterprises and charities Working with local leadership to empower thriving and inclusive communities 	<ul style="list-style-type: none"> Key Fund Community Property - helping local organisations take on community buildings. Investing alongside others such as Access Foundation to create blended finance options. Bristol and Bath Regional Capital – Community Investment Company targeting significant and sustainable development in the Bristol and Bath Region 	For Bristol & Bath: <ul style="list-style-type: none"> 161 new homes including 34 key worker and 27 “ethical rent” homes 6 new football pitches being used by 2,600 adults and children. 70% increase in women and young girls using sports centre and 531% increase in young attendees from deprived areas. 20% increase in availability of counselling services.
Portfolio	Cross thematic investments that stimulate broader market development	<ul style="list-style-type: none"> Charity Bank co-investment facility - £10m growing Charity Bank’s lending to support more social enterprises and charities. Charity Bond Support Fund - £20m helping charities and social enterprises grow their impact by raising capital from investors through the public bond markets. 	<ul style="list-style-type: none"> 66% of loans directed by Charity bank in 2018 were to organisations operating in disadvantaged communities. Eg. Loan to Footprint Family Centre opened up to 80 new childcare places for 2 year-olds in Bradford also enabling employment options for their parents.

Source: Developed by IIA from information found at <https://bigsocietycapital.com/>, accessed 12/12/2019

Portugal Inovacao Social

Portugal has taken a multi-faceted approach to the design of its wholesaler based on its over arching policy objective to grow finance for social innovation projects, (**Figure 7**). €150m has been sourced from the European Structural funds with the additional condition that all funds are directed outside of the capital city of Lisbon.

Figure 7: Portugal Inovacao Social - financing social innovation projects



Source: Portugal Inovacao Social, *Blended finance to create a social innovation system webinar*, 2019

The financing instruments are designed to support social innovation over its life cycle, (Figure 8)

Figure 8: Portugal Inovacao Social – 4 financing instruments



Source: Adapted by IIA from, Portugal Inovacao Social, *Blended finance to create a social innovation system webinar*, 2019^{xv}

The program had its first call for projects in mid 2016. Participation and results have been strong in the 3 years to June 2019 with capacity building for 201 projects; 111 projects match funded under partnerships for impact, 8 SIB projects launched and 12 projects accredited through the social innovation fund. In addition, the network of social impact incubators has grown by 20 over the 3 years.

The international experience: A multi-national wholesaler

The design for our proposed Australian SII wholesaler, ICA also draws upon lessons from other fields of market development. One such example is the Global Energy Efficiency and Renewable Energy Fund (GEEREF). While we are not proposing that ICA tackles Energy Efficiency and Renewables (really the remit of the CEFC) this example is illustrative of the multiplier effect that a II wholesaler can generate.

Launched in 2008, GEEREF is an innovative fund of funds catalysing private sector capital into clean energy projects in developing countries and economies in transition. In April 2017, the Green Climate Fund, at the time chaired by the Australian Department of Foreign Affairs & Trade, approved a US\$265m investment in GEEREF Next, a further capital raising for GEEREF. GEEREF is advised by the European Investment Bank.

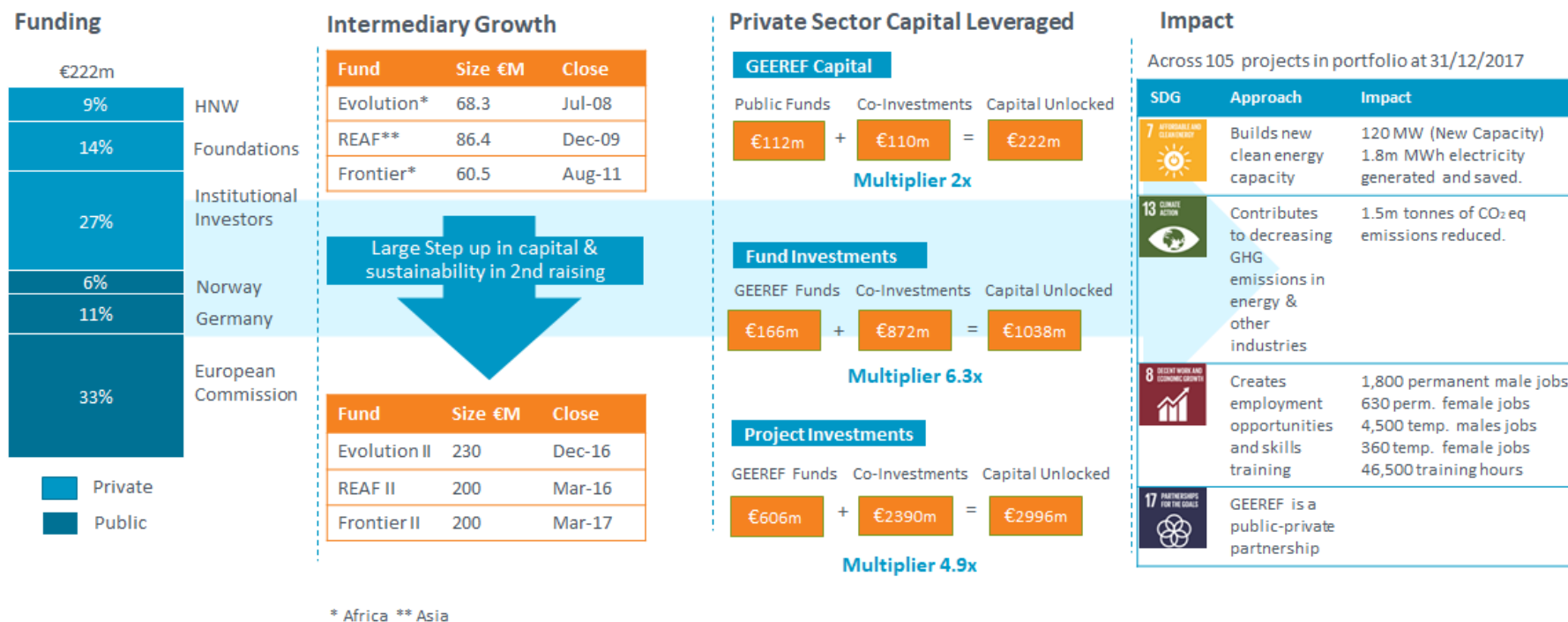
GEEREF's is fully invested as of May 2019 with €222m of commitments in 15 intermediaries across Asia, Africa, Latin America and the Caribbean. The multiplier effect of GEEREF on both impact and finance is significant, (Figure 9). Effective 31 December 2017, at the fund level €166m had unlocked €1038m in total capital, a multiplier of 6.3x. At the project level €2.9bn was unlocked from fund commitments of €606m, a multiplier of 4.9x on project funding and 18.0x on total GEEREF commitments.

Beyond the environmental benefits, GEEREF has also contributed technical expertise and capacity development to supported funds, as well as contributed to other SDG through enabling increases in jobs, training and access to power for developing market beneficiaries.

Significantly, the GEEREF support has also helped the intermediaries build track record which together with the growth in the market has resulted in a major step up in capital raised in their second approach to the market.

Figure 9: GEEREF intermediary support and leverage effect 2017

As at the end of 2017, GEEREF had investments in 13 funds.



Source: Impact Investing Australia, 2018 adapted from information in GEEREF Impact Report 2017

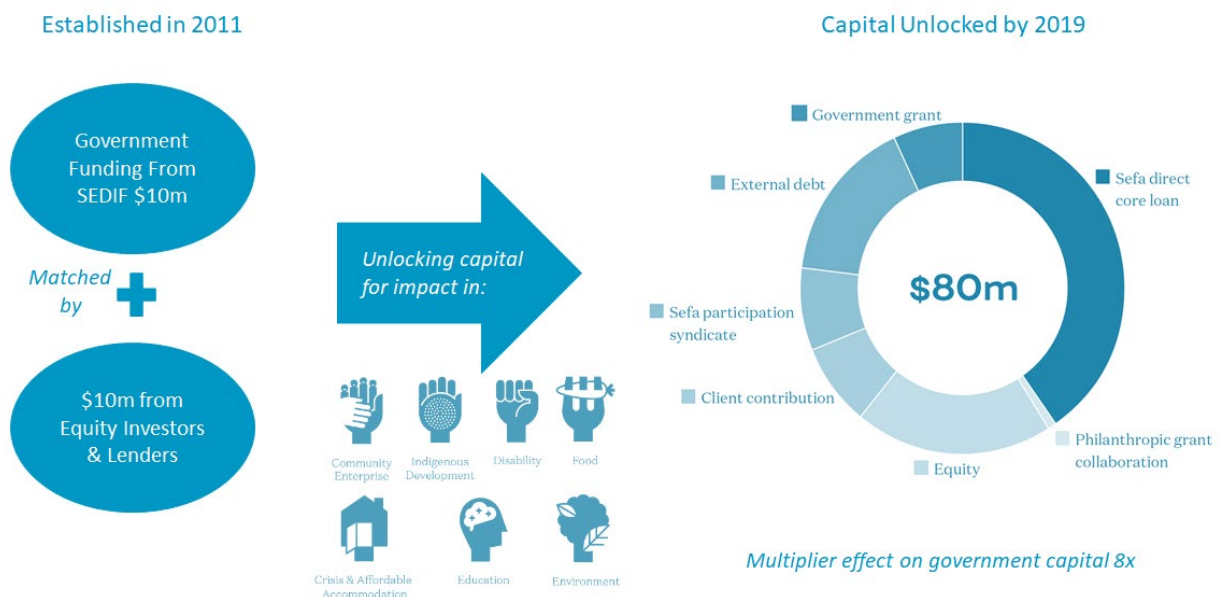
The AAB’s membership of the GSG has provided access to key executives at various international II wholesalers. BSC collaborated extensively in the design process for ICA. The experience from other fields and from impact investing in other jurisdictions was distilled to identify the hallmarks of a successful wholesale investment fund. These features have been integrated into ICA’s design. Additionally, Australia has its own lessons and experience to draw on.

The Australian experience

The Australian experience also illustrates a multiplier effect generated from catalytic capital. Like the experience of international wholesalers, acceleration of momentum was particularly marked post 3-5 years of operation. The key difference between the Australian and overseas experience has predominantly been in the scale of the initial capital and therefore the impact that it was possible to generate.

In 2011, the Australian Government launched the Social Enterprise Development and Investment Funds, (SEDIF). These funds granted a total of \$20m to cornerstone three new investment funds to provide appropriate finance to social enterprise. Social Enterprise Finance Australia (SEFA), was one of the grant recipients of SEDIF, securing \$10m. **Figure 10** shows a multiplier effect of 8x on this government funding. In addition, there is evidence of strong growth in social enterprise lending more broadly since these funds came to market. ^{xxvi}

Figure 10: Social Enterprise Finance Australia^{xxvii} investing for Impact



Source: IIA Adapted from SEFA Impact Report 2019

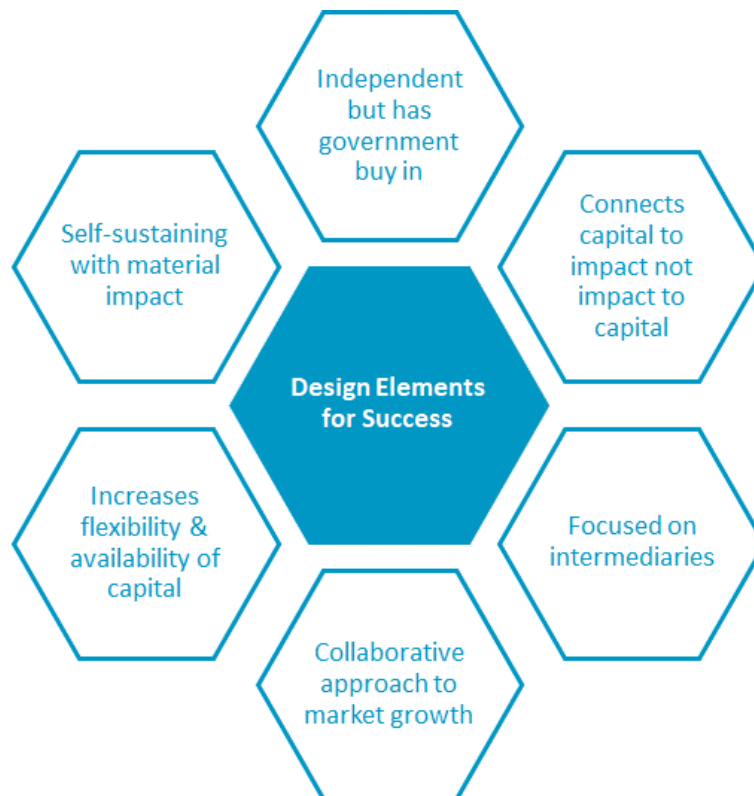
The five year evaluation of SEDIF found that for the \$20m investment of public monies, there were strong direct effects on capacity building and scaling social impacts for 64 SEDIF financed social enterprises, and modest indirect effects on developing capacity of 424 social enterprises.

The evaluation also recommended ‘That future policy developments give consideration to the suggestion raised by multiple interviewees, including some SEDIF co-investors and impact investment specialists, to establish a wholesale impact investment fund to support scalability of impact investing in Australia.’^{xxviii}

Key design components of successful II wholesalers

There are numerous differences between the II wholesaler examples provided both in terms of goals and context. Market size and maturity are critical in II wholesaler design, as is the problem the II wholesaler wants to solve. The design for an II wholesaler that aims to grow the overall market will differ from that of one that wants, for example, to specifically support early stage social enterprises or a specific issue such as social and affordable housing. Notwithstanding different market context and forms, there are some common elements that all these II wholesalers share that have been critical to their success, (**Figure 11**).

Figure 11: Key Design elements of successful II wholesaler^{xxix}



Overview of a potential Australian SII wholesaler, ICA

An Australian SII wholesaler, ICA would be game changing infrastructure conceived to scale the SII market in Australia. It is designed to be independent, with a mission, investment mandate and sufficient catalytic capital at \$300m, to “get noticed” and significantly accelerate market development.

As a predominantly wholesaler investor and market champion, ICA could provide seed capital to new impact funds, and bring tools and expertise to the structuring of products including the measurement of outcomes.

Recommendation 1:

Create a step change in Australia’s SII market by committing a minimum of \$150m in 2020/21 to be matched by Australian financial institutions and other societally focused investors to establish a SII wholesaler for Australia, Impact Capital Australia (ICA). The Government’s contribution could be structured as a grant and/or an approved investment taking into account budgetary and capital account implications.

ICA will be a game changing \$300m institution with the capital, mission and mandate to improve people’s lives by helping to drive the SII market in Australia to scale.

Detail on the vision, mission and mandate designed for ICA is provided in **Appendix 2**. We outline below ICA’s two key roles as an investor and market champion.

ICA an Investor

As an investor, ICA will focus ~80% of its activity on **finance for existing and new intermediaries**. In its capacity as a wholesaler or fund of funds, ICA will invest in funds seeking to enter the SII market or those looking to grow in key social impact sectors.

ICA will also retain ~20% of its capital for investment **directly** into transactions that promise socially impactful, innovative and scalable solutions. It will “crowd-In” rather than “crowd-out” capital with direct investments which would not typically attract first mover capital from other sources.

Impact driven organisations and initiatives need access to capital on appropriate terms. While on the investor side there is an increasing pool of capital seeking impact. The most efficient way to match demand and supply is through effective and appropriately skilled intermediaries delivering a variety of investment products for different types of issues and organisational requirements.

ICA is designed to provide a long-term committed platform that can have a catalytic effect to stimulate intermediaries and, through them, demand and deal pipeline. Funding by ICA in this way creates a much more significant multiplier effect, (discussed in more detail below).

In addition, without the availability of capital from an institution such as ICA, innovative ideas developed by intermediaries will struggle to find investors willing to go first on acceptable terms or who can appropriately price impact risk and return. When initiatives consistently don’t get off the ground, the cycle acts as a disincentive to others.

ICA’s investment mandate will have three central elements: clear impact, financial viability and contribution to market development. ICA will have the scope to be the first mover, providing flexible and appropriate terms and sending important signals to build market confidence and attract other investors. Its investment process will attribute value beyond financial returns to the social and market development dividends of new funds and products entering the market.

ICA as a Market Champion

As a market champion, ICA could facilitate market development by proactively identifying opportunities and tackling barriers. Its combination of capital and collaborative approach will see it quickly become a go to

place for new ideas and opportunities. ICA's proactive allocation of capital to initiatives designed to achieve diversity, innovation and growth will underpin its influence in setting benchmarks for rigorous design and impact measurement.

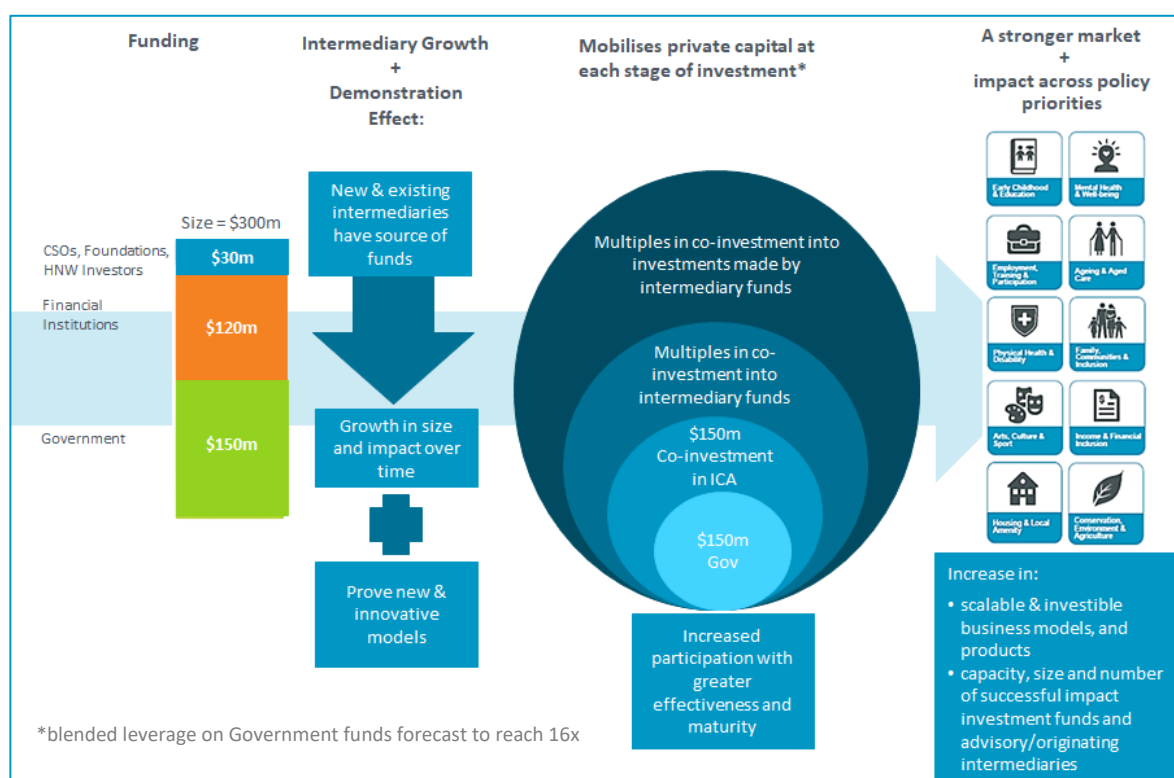
ICA will also have a role in raising awareness and shifting mindsets. Areas it could tackle include: the cultural aversion to debt of socially motivated organisations; the simplification of investment jargon; a framework for understanding of the true costs and risks relating to impact; inexperience in blending philanthropic and investment capital; and the evolution of a new mainstream investment paradigm where impact is evaluated alongside financial risk and return.

In an environment of low trust in institutions, including governments and the banking sector, ICA represents a unique opportunity to demonstrate positive and collaborative action for the benefit of our communities. ICA will foster stakeholder collaboration and embody a multi-sector approach to impact investment. Its approach will include co-design and the convening of stakeholders to develop societally impactful, innovative and scalable solutions, particularly in more complex areas where the market may not go on its own.

The unique aspect of a wholesaler such as ICA is that its mandate seeks to 'grow the pie' rather than compete for a 'slice of the pie'. Intermediaries already active in the market cannot fulfil this role. Their focus primarily is on developing their own businesses rather than encouraging and supporting other intermediaries and market infrastructure. Unless they have the benefit of their own significant capital reserves, they will also struggle to invest in ongoing development of new investment products or complex large transactions without further support being available.^{xxx}

ICA's multiple layers of co-investment will create a material multiplier effect on the Government's \$150m contribution. As **Figure 12** demonstrates, at each stage of investment more private capital is unlocked for public benefit. While in a tight budgetary environment the leverage on government capital is incredibly important, so too is its efficacy. In addition to the capital unlocked, support of intermediation enables the attraction of talent and capacity building. Measurement and monitoring of intermediary impact also places focus on what is being achieved for the money spent. This support of intermediaries will ultimately multiply the opportunities in the field and lead to additional ways of delivering more and better outcomes for our Australian communities including through new solutions to complex issues.

Figure 12: ICA theory of change & multiplier effect



Source: Impact Investing Australia, 2017

The policy case for an Australian SII wholesaler, ICA

In an environment where government budgets are under-pressure SII can assist in:

- Maximising efficacy of government spending against policy priorities ie. Better outcomes.
- Unlocking private capital for direction towards policy priorities ie. More outcomes

More and better outcomes could actually be achieved with less money and result in savings to Government if effectively executed.

A Government commitment in the 2018/19 budget to “*work in partnership with Impact Investing Australia to examine opportunities to leverage private sector capital and community sector engagement to build the impact investment market to scale in Australia*” and last year’s establishment of the SII taskforce confirms Government has recognised that SII has an important role to play in delivering better outcomes for Australian families and communities. There appears to be support for SII market growth.

Game-changing policy in establishing an Australian SII wholesaler, ICA is now required to drive the SII market to a state of development where it can meaningfully contribute toward the Government’s policy priorities.

There is no market from which governments are completely absent and the II market is no exception. The II policy announcements in the last three Federal Budgets, release of the Social Impact Investment Principles, the establishment of the SII Taskforce and public statements from a number of Ministers reflect a level of government support in enabling and growing impact investment *in* and *from* Australia.

However, the Australian Government needs to do more if it is to take up the Financial System Inquiry recommendation that it play a ‘*catalytic role both in facilitating the functioning of the [II] ecosystem and targeting actions to trigger its further development.*’^{xxxii}

The important role of governments in building the market builders is well-recognised internationally in II and more broadly in other fields of market-based activity. The creation of the Clean Energy Finance Corporation is a successful example in the Australian context. The government’s role in building these market builders includes providing catalytic capital to enable greater participation. In the case of II, the public value created goes well beyond economic market effects. It includes improved outcomes for vulnerable groups and communities and the possibility of innovative new solutions to pressing social issues. Providing capital to fund an Australian SII wholesaler, ICA will see the Government effectively execute on its important role of building a substantive market builder.

Governments have well-recognised roles as market stewards ensuring the regulatory environment facilitates market activity and an appropriate level of accountability. ICA will contribute to this role by helping to build capacity, share knowledge and set expectations and standards for accountability for impact thereby mitigating the risk of ‘impact-washing’.

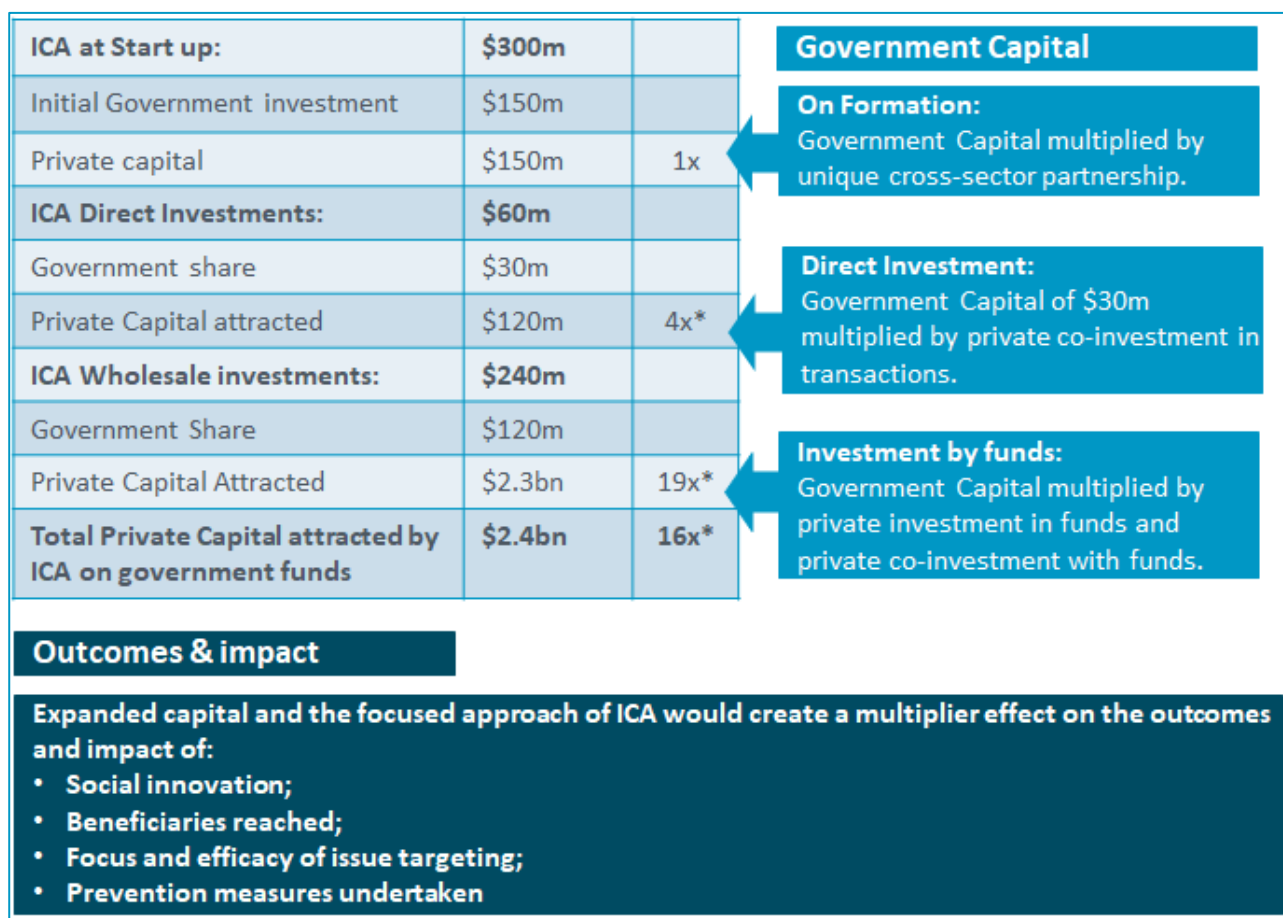
Governments also have an established role as market participants, and this can be a powerful way to unlock and direct capital to areas of policy priority. A clear theme that came through in the AAB field scan is that practitioners are looking for signals from the Government. They will welcome prudent utilisation of public monies to encourage more private capital into areas of need where current market conditions discourage investment. As a specialist SII wholesaler, an investment from ICA into a key area of policy priority could create signals around credibility of impact alongside providing flexible capital. Both elements would make it more attractive for other investors to participate, thereby multiplying the impact of the governments capital in ICA.

ICA is designed to reduce areas of long-term dependency on public funds and is structured to maximise capital and non-capital resources from other sources. It will attract new sources of private capital and expertise to help drive new investment and innovation across key areas of policy priority and into targeted communities.

It has been mission-oriented State investments that have, time after time, and over national boundaries, proved effective in driving individual sectors in the innovation economy... writ large, the strategic State interventions that have shaped the market economy over generations have depended on grander themes – national development, national security, social justice, liberation from disease – that transcend the cultures of welfare economics and the logic of market failure^{xxxii}

The Government will be a clear beneficiary of ICA through delivery of greater public value from improved outcomes and a multiplier effect on public funding. **Figure 13** illustrates an example of the multiplier effect that could be achieved with ICA.

Figure 13: Dimensions of the Multiplier Effect of ICA³



Source: Impact Investing Australia, ICA Implementation Deck 2019

Benefits of ICA will also flow to a broad range of stakeholders including:

- Australian communities and the economy through greater resource availability for social purposes, new approaches to solving entrenched problems and greater transparency and accountability for outcomes;
- Investors such as banks and intermediaries from ICA, as a market champion, being prepared to go first, unlocking new capital and creating new opportunities for investment with impact;
- The social and environmental sectors from improved access to a wider range of funding and finance options;
- Philanthropists and Foundations from the potential to achieve more impact from strategic use of grants and investment capital.

³ See Appendix 2 for further analysis

Why Government is an essential partner to ICA

ICA cannot be implemented to achieve its objectives without the Australian Government as a partner. There are a number of key reasons:

- Government is potentially both a key beneficiary and major participant in SII. The signalling effect of its early collaboration and commitment is therefore critical in instilling market confidence;
- In order for ICA to be self-sustaining, provide flexible capital and operate as a public good, it needs its own capital on the right terms. The private sector is prepared to partner with government to achieve this but would not be prepared to fund ICA alone; and
- The national nature of ICA's remit means the Australian Government is the more natural government partner to fund ICA. Once ICA is capitalised, there will be an important role for State governments in co-investment *with* ICA and its intermediaries.

ICA is designed to occupy a unique position as an independent organisation formed in partnership between the Australian Government, leading financial institutions and the community to operate as a public good. The trust and signalling effect will not be achieved without a cross-sector partnership in which Government is engaged.

ICA's remit needs to be national to have the intended effect. The outcome areas identified for ICA to operate relate to areas of national and shared government responsibility. Without Government as a partner, the capacity to drive activity toward those areas will be reduced. In addition, if Government is not at the table, its access to benefits in learning and capability will be limited at best.

The Government capital will provide a degree of confidence to other investors in ICA such that:

- the risk adjusted return (i.e. Pricing) for co-investors will be reduced;
- Capital will flow which would otherwise not have been made available, (e.g. Banks will not typically provide debt to a fund of funds, particularly in a new market like SII);
- Co-investment is enabled on terms that will not otherwise be possible, (e.g. Longer timeframes more aligned with SII market need).

Government funding in ICA's capital stack has several consequences. Most significantly, capital that if alternatively sourced would be too expensive could be offered by ICA on appropriate terms for impact directed activity and organisations. Additionally, ICA will be able to take a portfolio approach that reaches more impactful opportunities and still become self-sufficient over time, rather than only doing those transactions that target significantly higher hurdle rates of return.

The Government contribution is also structured to enable ICA to undertake and facilitate design for new and more impactful opportunities within its operating budget. This will increase the collaborative effort and innovation to contribute new solutions, design for scale and reach issues that the market alone is unlikely to tackle.

The AAB concluded in 2014, *'There is enough capital and talent to make a significant difference to social issues; they need to be deployed differently to achieve a better result'*.^{xxxiii} The experience across the globe has been that proactive steps are needed to achieve that shift. Even where there is willing capital in the market, the literature indicates that *'It is as if impact investors are lined up around the proverbial water pump waiting for the flood of deals, while no one is actually priming the pump'*.^{xxxiv}

In Australia, the issues are magnified because there is a relatively thin venture capital and private equity market. Hurdle rates to mobilise institutional investment are high, and yet it is necessary to engage these investors if impact investment in this country is to achieve scale.

ICA's policy alignment

This proposal builds on the Government's initiatives to develop the social impact investment market in Australia, including the **Sector Readiness Fund** and contributions made to the **SII Taskforce**.

The design of ICA is based on leading practice in market development and market and innovation policy and adheres to the Australian Government's Principles for Social Impact Investment.

The outcome areas which will be the focus of ICA's investment mandate include Australian Government policy priorities in: housing; employment and training; healthcare and disability; supporting older Australians; childcare and; investing in communities.

In pursuing the growth of intermediation and focusing on efficacy and efficiency of capital, ICA's work will be highly aligned with the objectives of Government around the delivery of both more and better outcomes for Australian communities.

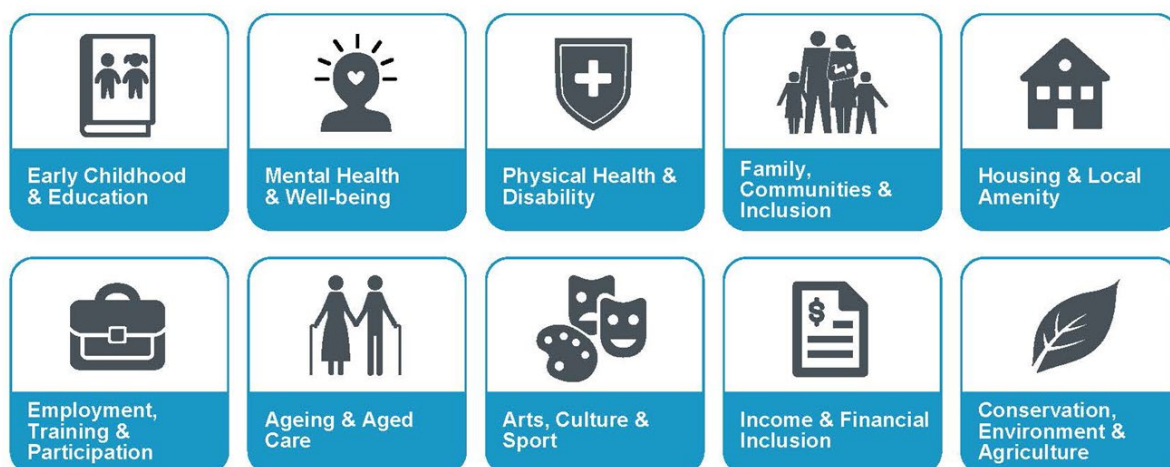
The need for SII arises from the recognition that the next wave of economic growth must have broad and inclusive impact. This means finding solutions to difficult social issues and potentially looking beyond simply disrupting existing systems, to social innovations that may change systems themselves.

Our current reality is that public demand for financial support across a breadth of social issues from health, to affordable housing to aged care and disability services is growing. Government budgets, even with support from philanthropy cannot fill the escalating gap. Innovation is needed.

Impact investments across a broad range of asset classes from venture capital to private equity and physical assets such as property can be a potential enabler of social innovation. Irrespective of asset type, impact investments are all designed to deliver both positive measurable social outcomes and financial returns. They **target efficacy and efficiency of capital around societal outcomes and are essential to the evolving policy toolbox**.

Reflecting the challenges facing our communities, ICA's investment focus has been designed to address the outcome areas in **Figure 14**.

Figure 14: ICA's targeted outcome areas^{xxxv}



These outcome areas incorporate many aspects of the key policy priorities of the Australian Government. ICA, through its broader enablement of the SII market will support government policy priorities as follows:

- *Relieving pressure on budget:* Government and philanthropy alone cannot meet growing budgetary pressure around social issues. Through unlocking private capital, ICA is intended to create a multiplier effect for government capital estimated at over 16x on fully invested capital. A [drilldown on this multiplier](#) is in **Appendix 2**.

Place-based investment in particular will be supported where opportunities exist to improve the flow of capital to communities that have experienced significant under-investment or withdrawal of industry. This will be further enhanced by increased investment availability in social services infrastructure.

- *Delivering more jobs.* The development of a robust *for purpose* or social enterprise sector enabled by greater access to capital through ICA, will support inclusive economic and jobs growth.
- *Guaranteeing essential services.* ICA will enable:
 - greater efficacy of government capital in service delivery by targeting outcomes with every dollar invested;
 - private co-investment delivering both more capital and better results through measurement;
 - innovation in service delivery through collaboration of cross-sector actors.

Measures to encourage market-based approaches could also encourage competition and facilitate access to quality services for all parts of the community.

A key focus of ICA would be on scaling innovation around new structures and models including private co-investment and cross-subsidisation. This could help to tackle cost of living pressures in areas such as aged care and childcare. ICA could also catalyse and unlock private capital for housing and social infrastructure. This could encourage a range of intermediaries and approaches to meet increasing demand for affordable stock particularly in key areas of reform such as disability support and aged care.

While ICA will operate domestically, it will send a strong market signal supportive of foreign policy priorities to encourage private sector partnerships, innovation and enterprise development in the Indo-Pacific and improve outcomes for women and girls. It is complementary to the recently announced Emerging Markets Impact Investment Fund and the Investing in Women and Pacific Rise initiatives.

Apart from its alignment to policy priorities, ICA's design is also consistent with the Government's Principles of Social Impact Investing. A detailed analysis of ICA against each of the Principles is set out in **Appendix 4**.

A clear and accountable implementation plan has been developed for ICA. The plan has four stages, with identified work-streams, milestones and time-frames:

- Stage 1: concept design;
- Stage 2: pre-funding implementation;
- Stage 3: formation and capitalisation; and
- Stage 4: post-funding implementation.

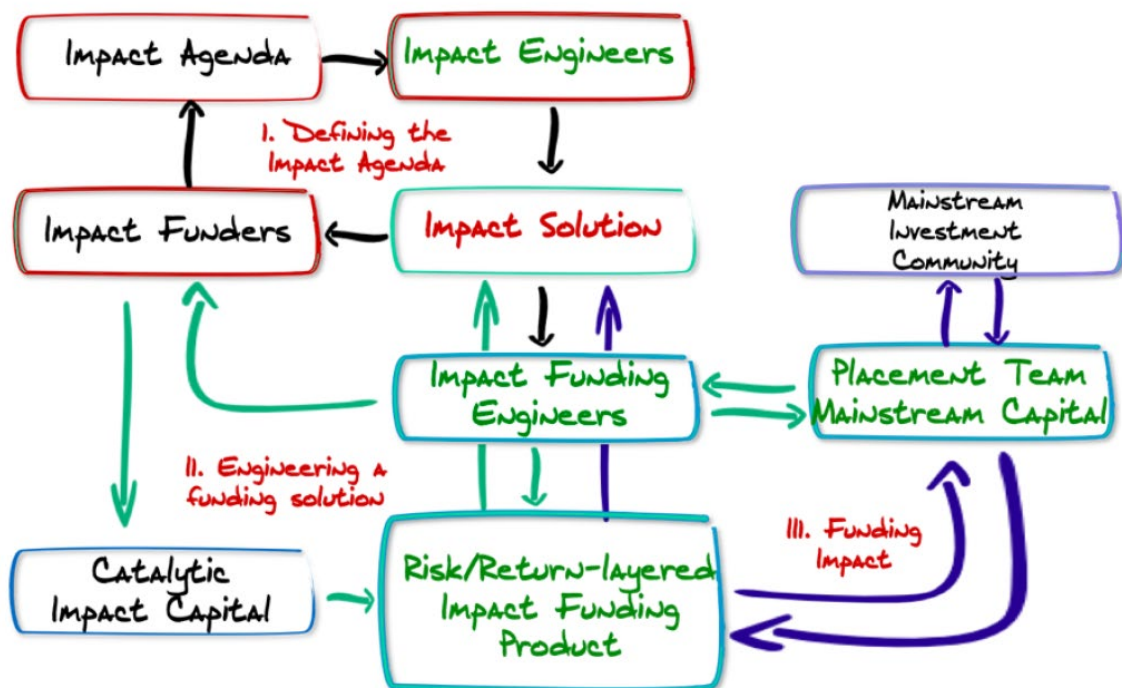
Stage 1, ICA's concept design is based on a broad evidence base and is the product of a collaboration between cross-sector leaders, locally and globally. A three year process of robust co-design and planning has brought ICA to a point where it can be readily implemented. Stage 2 has been progressed to the final stages. **The next major milestone is securing capital commitments from significant stakeholders including the Australian Government.**

A notional plan for ICA's pipeline development

A clear and accountable implementation plan has been developed for ICA. An important aspect of ICA's implementation is pipeline development. The early identification of opportunities and adoption of initiatives around building pipeline, (Figure 16), will accelerate the speed of ICA's market impact, once capitalised.

Important, to ICA's pipeline development is its role as a market champion with impact at its core. ICA will have both the capital and expertise to stand in the market as a key enabler and facilitator of getting capital to impact not just impact to capital. ^{xxxvi} (Figure 15) is illustrative of this type of impact driven approach in which the impact agenda drives the finance. In some cases this may require a blended financing solution and related catalytic capital. In the early stages, ICA will likely be a significant driver of transaction and fund origination. Over time as capacity builds there is an expectation that this role will be predominantly played by intermediaries.

Figure 15: Capital to Impact not Impact to Capital

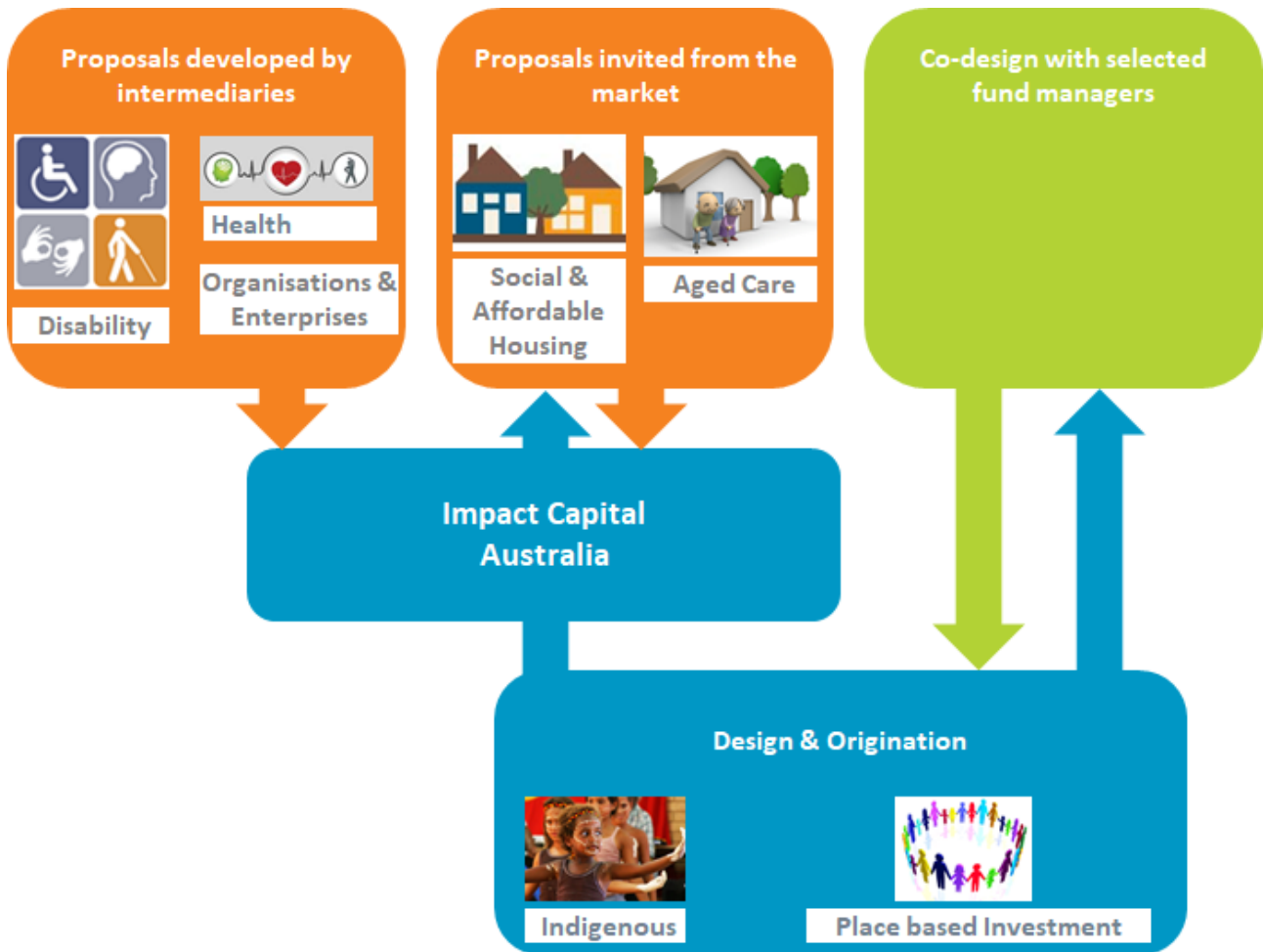


Source: Uli Grabenwarter, 2019, at <https://www.pioneerspost.com/business-school/20191014>

In this context, pipeline development will consider the different types of impact investments which relate to: infrastructure and property assets; organisations and enterprises; and service delivery as illustrated in Appendix 2. ICA could build its pipeline by:

- responsiveness to active approaches for capital from high quality intermediaries;
- seeking proposals in areas of policy priority including housing, aged care and transition to jobs of the future;
- undertaking design work to test and adapt successful models for the Australian context then put these to market e.g. place based investment adapted from lessons of Bridges and other leading fund managers, SIB funds, innovative educational models along the lines of University Ventures.

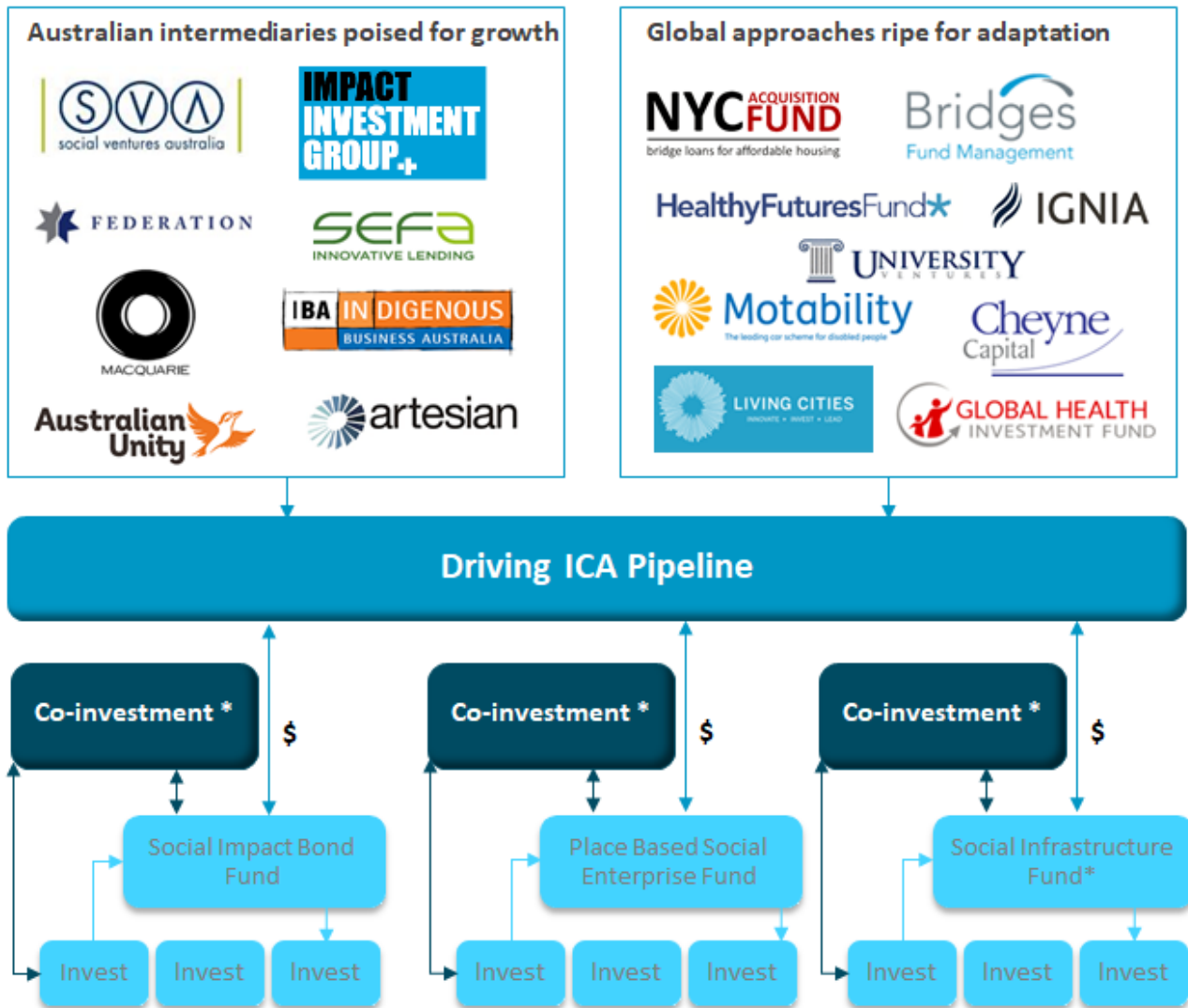
Figure 16: ICA’s proposed initiatives for Pipeline Development



Source: Impact Investing Australia, 2019

Drawing on international experience, early opportunities for investment have been identified in: social and affordable housing as a complement to other initiatives; accommodation and services for people with disabilities to support transition to the National Disability Insurance Scheme; community investment to drive jobs and economic activity in priority areas and; the acceleration of outcomes-based approaches to commissioning, (Figure 17).

Figure 17: Initial opportunities for ICA’s Pipeline



Source: Impact Investing Australia, updated 2019

Examples of potential wholesale investments for ICA include:

- a fund to invest in aspirational small and medium enterprises in communities that have experienced a lack or withdrawal of investment to generate impact in jobs and local economic activity, (**Case Study 1**);
- a social impact bond fund focused on social service-based investments across a range of outcome areas;
- a social to affordable housing transition investment fund to move people along the continuum from social to affordable housing;
- a fund that makes investments to: support new business models that enable new approaches to tough social issues or; enable social purpose organisations to expand successful initiatives.

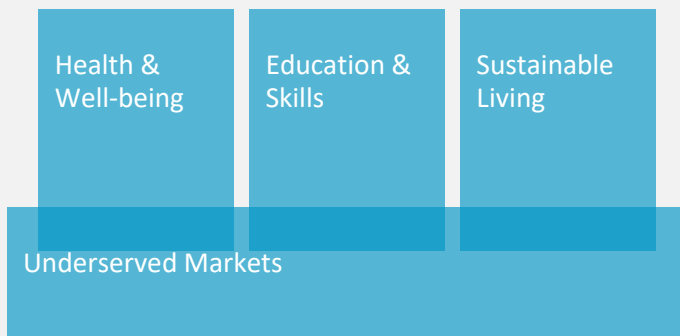
Case study 1: Drawing on the UK experience – an Australian place-based investment fund

UK experience: Bridges sustainable growth fund:



- Bridges’ Sustainable Growth Funds invest in ambitious growth businesses that are helping to tackle some of society’s biggest challenges – in areas like healthcare, education and the environment.
- Bridges invest **£2m-£20m** in businesses pursuing organic growth, buy and build, and multi-site roll out strategies across any of their impact themes.
- Since its first fund was launched in 2002, Bridges have built a strong track record resulting in 10 successful exits generating multiples ranging from 1.6-22x.
- In 2013, the fund won best British private equity exit for the partial sale of its stake in the Gym Group at 3.7x generating an IRR of 50%.

Impact themes:

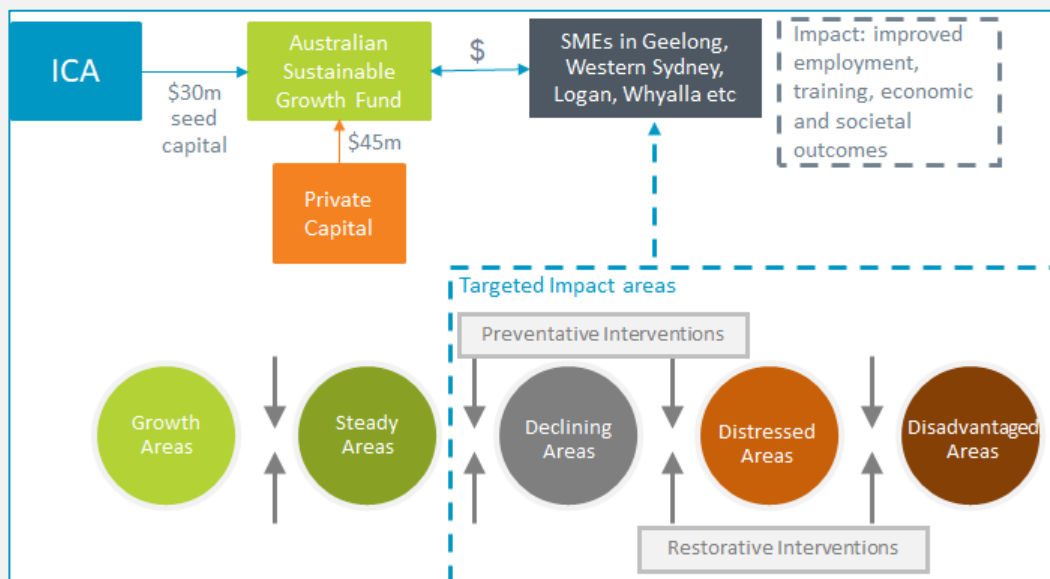


Examples of investments:



Australian concept for a sustainable growth fund:

- Building on work already done to adapt leading community investment models for the Australian context, ICA could cornerstone an Australian sustainable growth fund.
- Like the Bridges fund, it will seek to invest in SMEs in communities which have experienced sustained under investment.
- Impact will be targeted at economic development, employment and training opportunities and improved societal outcomes within the communities.
- Ultimately designed to shift long term dependency on public funds in these communities and create a demonstration effect to encourage further innovation and private investment.



Source: Impact Investing Australia, 2018 from information collected on Bridges Sustainable Growth Fund.

Part 3: Addressing Demand gaps - focusing on Social Enterprise (SE) development

There are an estimated 20,000 Social enterprises (SEs) in Australia. Social Enterprises are businesses (either profit or not for profit) which primarily exist to fulfil a social or environmental purpose. 7,000 of these are employment focused SEs targeting people who experience the greatest barriers to employment including people with disability, young people and women experiencing disadvantage.^{xxxvii} Social enterprises are estimated to generate up to 3% of GDP and employ 300,000 Australians.^{xxxviii} According to a recent Westpac Foundation CSI Swinburne Report, employment focused SEs are: more effective than mainstream employment services; at least if not more efficient than their purely commercial counterparts; produce high social returns and are financially sustainable.^{xxxix}

The SE sector has an incredibly important role to play in helping to address our social and environmental issues but this is not without its challenges. Part 3 of this report will consider ways in which we can help scale and grow this important element of the demand side of the impact investing market.

Wholesalers - Demand side Capacity Building

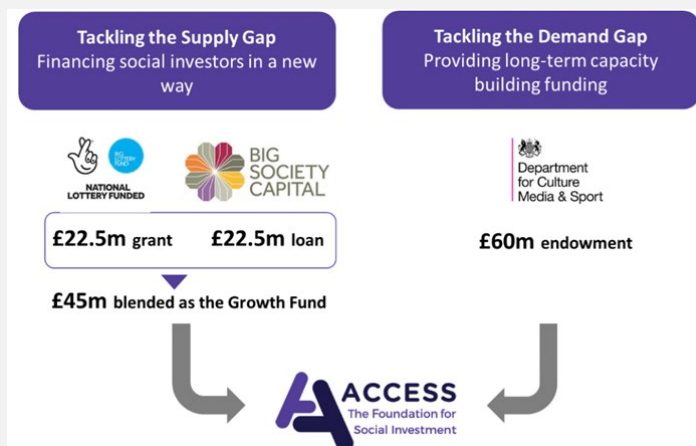
Under our current modelling, ICA's sustainability is underpinned by its design as predominantly an investor generating a return. The nature of that investment and the extent to which ICA can provide technical assistance and capacity building activities for the demand side will depend on the form of the governments funding (ie. grant versus investment) and/or any accompanying operating budget.

We have seen in the case of Portugal that with grant funding from the European Structural funds it was possible to make their approach all encompassing in policy design across the lifecycle of a social innovation project. It could incorporate grant funding to build capacity for SEs as well as investment capital to seed new initiatives. A strong body of evidence both in Australia and internationally supports the existence of these gaps in both the capacity building and funding of social enterprise. BSC also recognised this as a founding partner of the Access Foundation, (**Case Study 2**) and it was similarly recognised by the Canadian Social impact investment taskforce in their establishment of the C\$50m impact investment readiness grant pool.

Whether this gap is filled by ICA itself or a strong and potentially funded collaboration with an independent entity working alongside ICA will be heavily dependant on the appetite and choices of the Government around funding and independence. The following section considers the current capacity building initiatives in the Australian market and what other pieces of key policy could be put in place to drive the market forward.

Case study 2: Social Enterprise Development – The Access Foundation

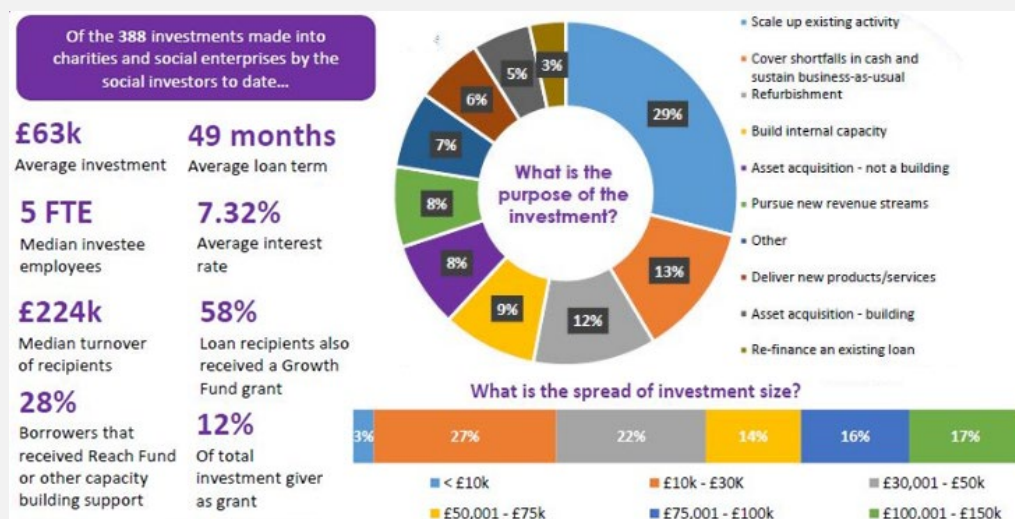
- The Access Foundation was conceived by Big Society Trust and funded by 3 partners.
- The UK Government committed a £60m endowment to **support demand side capacity building**.
- An additional £45m of blended capital; BSC (£22.5m loan) and the Big Lottery fund (£22.5m grant), is administered as the growth fund - a wholesaler of subsidy sitting beside BSC as a wholesaler of capital to **address the supply gap**.
- Expected life of Access is 10 years.



Addressing the Supply Gap:

The Growth Fund:

- Surveys from the UK market^{xl} had identified that a gap in the supply of funding still existed for smaller loans (<£150K) with suitable terms (often needing to be unsecured).
- The Growth Fund was set up and administered by the Access Foundation to address this gap.
- The growth fund is now fully invested through 16 intermediaries. As at 30/09/2019, £24.3m had been invested in 388 social enterprises and charities. Further details can be found below.



Local Access:

- A new program fund by £10m of dormant accounts money and a £15m loan from BSC.
- Provides development finance for place-based initiatives in disadvantaged geographies, aiming to build more resilient and sustainable social economies in those regions.
- Will deliver even more patient and long-term investment products than have been available from the Growth Fund with that fund's learnings incorporated especially in the context of place-based investment.

Addressing the Demand Gap:

The Enterprise Development program: £40m over 5 years to support enterprise development for charities and SEs. A broad range of support including to transition to new enterprise models, or grow existing ones.

The Reach Fund: Up to £3.6m pa of grant funding to support SEs seeking investment.

The Connect Fund: is a partnership of Access and the Barrow Cadbury Trust using 10% of the endowment to support social investment sector infrastructure. This includes building networks, products and tools.

Source: Information compiled from Access foundation website, <https://access-socialinvestment.org.uk/>, accessed 15/12/2019

Current SE initiatives & identified gaps

In Australia, the Commonwealth Department of Social Services \$7m Sector Readiness Fund administered by the IIA growth grant is an initiative that currently supports one aspect of this SE gap. IIA has been running the Growth Grant for a period of 4.5 years with initial funding coming from the National Australia Bank. We have identified a number of gaps in the market set out in the **Table 5**. Unsurprisingly these gaps are relatively consistent with those experienced in other international markets.

Table 5: Key Findings and Recommendations from the Growth Grant Program

Finding	Recommendation
<p>Most unsuccessful applicants are too early. There is a clear gap in support of these early stage enterprises.</p>	<p>Development of a program that provides both early stage grant and mentorship similar in concept to the ones run by the Nathan Cullen Foundation and the Myer Innovation fellowship (Case Study 4). This could potentially be match funded with philanthropy although would need to be agnostic to corporate form (i.e. both profit and NFP). This could also be an effective mechanism to encourage blended financing models.</p>
<p>A number of funds designed to invest in SEs have applied to the program but do not qualify. These funds are very important to market development in terms of enabling more diversified investment and encouraging a broader set of investors.</p>	<p>Consider extending the SRF to support SE funds to do capital raising, (<i>adaption of existing SRF program</i>).</p> <p>Also supports the need for ICA which could potentially provide seed capital to new and emerging SII funds.</p>
<p>There is a hurdle to the use of blended finance in for profit structures. Grants from foundations are constrained by only being available to NFPs with DGR status.</p>	<p>Government has a role to play in supporting the development of blended finance models in the for profit for purpose sector. The establishment of a grant fund (potentially as a complement to an impact investment wholesale fund) could facilitate the development of this market.</p> <p>Additionally, consideration could be given to extending PRI concessions and grant making to non-DGR recipients where impact can be substantiated.</p>
<p>With the new contract opportunities created through social procurement frameworks in states such as Victoria, a need has been identified to support SE Contract Readiness. Contract Readiness may but does not necessarily require investment readiness.</p>	<p>Consider establishing a complementary fund to the SRF targeting Contract Readiness (CR). Experience in this can be drawn from the UK in its establishment of the Investment and Contract Readiness Fund. What this fund's evaluation makes clear is that while some of the capacity building requirements between Investment Readiness (IR) and CR (E.g. social impact measurement and management and financial modelling) are similar, CR requires very specific skills in tendering and bid writing.</p> <p>Linked to contract readiness is social procurement policy. We have seen some strong examples of the effectiveness of this in the Victorian context and see the opportunity as significant for a Commonwealth based social procurement framework.</p>

Finding	Recommendation
<p>Impact measurement and management capacity building is a challenge. This is for both SEs and providers with many mainstream providers still developing expertise in this area. SEs often struggle to identify metrics and there are often gaps in processes and culture which put at risk impact integrity and delivery. Current accelerator and incubator programs focus largely on business model fundamentals and sustainability rather than impact.</p>	<p>Consider funding for training/accelerator programs that target specific impact aspects (e.g. organisational structure, culture and diversity considerations, impact measurement and management frameworks and related process design). These could be made available to both SEs and providers as appropriate.</p>

We believe the most significant of these gaps in terms of new policy is around contract readiness and earlier stage SE support.

Not every SE requires or is capable of attracting investment to grow in the first instance. For many, they need to build capability through early stage support to sure up a sustainable impact driven business model before seeking capital. For others, investment may follow the securing of a contract but the first key step is the contract. The skills required for contract preparation while having some areas of commonality with those for investment readiness also require significantly different expertise.

Outlined below is our proposed approach for addressing both of these current market gaps.

Supporting Early Stage SE Capacity Building

Recommendations 2:

Complement the DSS sector readiness fund with:

An earlier stage social enterprise growth program (\$2m + \$1m Admin) which is co-funded with philanthropy and/or corporate sponsorship which provides capacity building, mentorship and funding support for SEs before the point at which they would consider investment.

A field scan carried out in late 2017 by the AAB supports the requirement for more early stage capacity building. People spoke of *"a need to support innovation and the development of investment opportunities from conception through early incubation, investment readiness and growth in order to develop a stronger pipeline of investment ready opportunities. Some people noted that they thought more needed to be done to support the early stage development and growth of social businesses and social enterprise in order to support that pipeline development and help build out the impact investing field."*^{xli}

The value to a SE of good support along the way is perhaps best demonstrated by an example, HireUp, (**Case Study 3**)

Case study 3: Hireup and Early Stage SE Support



Photo Courtesy of Hireup

A for-profit and for-purpose online platform Hireup was built off the back of the NDIS . It seeks to revolutionise the way people with disability find, hire and manage support workers by harnessing technology and connecting people with shared interests. Still a relatively young SE,

Hireup has navigated the path to scale and grow. Jordan O'Reilly, one of the co-founders of Hire-Up, was a recipient of a Myer Innovation Fellowship which provided both funding and mentorship at the early stages of the company's development. Ultimately this enabled a connection to the intermediary, Impact Generation

Partners and receipt of a Impact Investment Ready Growth Grant to help support the capacity building for Hireup's first capital raising. Jordan and his co-founder and sister Laura O'Reilly have since gone on win a number of other awards. HireUp now has ~200 employees and has made 35K+ support connections, resulting in 3.6m hours of support and savings to its users of \$27.4m.^{xlii}

The HireUp story is an impressive one. There are however only 3 Myer Innovation Fellowships (**Case Study 4**) awarded each year and many hundreds of applications. Our recommendation, drawing on elements of this program and that of the Nathan Cummings Foundation Fellowships, is to establish a fund that combines both government and philanthropy to offer capacity building and funding for earlier stage social enterprises.

A \$4m fund co-funded with \$2m from philanthropy and/or corporate sponsorship (importantly addressing any DGR related issues) could support up to 40 social enterprises through \$50k of SE direct funding and \$50K of intermediary sourced capacity building over a 3 year period. Like the SRF this would support both SE and related intermediary market development.

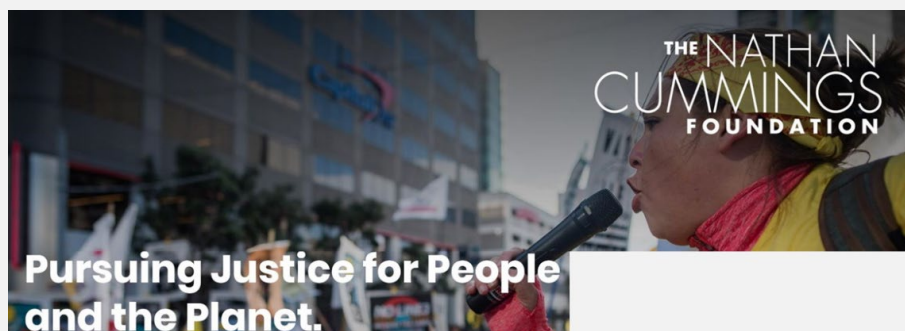
In addition, a further \$1m of funding would be required to support the operations of the program including sourcing appropriate mentors.

Case study 4: Earlier Stage Social Enterprise Development

Both the Myer Innovation Fellowship and the Nathan Cummings Foundation Fellowship have been supporting social innovators for a number of years. While our recommended earlier stage SE support program would be targeted to the SE rather than an individual, the capacity building and funding aspects of these fellowships are key desired outcomes.

Nathan Cummings Foundation (NCF) Fellowship:

- NCF has been established for 27 years and has a focus on finding solutions to “*the two most challenging problems of our time*” the climate crisis and growing inequality.
- Begun in 2013, the fellowship targets individuals with innovative projects in an NCF focus area: racial and economic justice; inclusive clean economy, corporate and political accountability and; voice, creativity and culture and includes:
 - A funding component - up to US\$150K split as US\$100K for the first 12 months with an additional \$50K for a further 6 months assessed against progress.
 - A capacity building component - use of a dedicated office at NCF’s New York City headquarters, and access to NCF’s staff and network of partners and experts in the field.
 - To date 15 fellowships have been granted typically to support not-for-profit innovation projects.



Myer Innovation Fellowships (MIF):

- Launched in 2014 and supported by the Myer Foundation and the Sydney Myer fund the fellowship program offers funding to support exceptional leaders with breakthrough ideas.
- Area of focus must be in: education; poverty and disadvantage; sustainability and environment; or human, civil and legal rights.
- Like the NCF fellowship, the Myer Innovation Fellowship includes:
 - A funding component – up to \$150,000 across twelve months, \$120,000 for the development of the ground-breaking idea into a sustainable plan for action, and \$30,000 for expenses.
 - A capacity building component – Fellows have access to a Support Panel (experts able to help with the development of the proposed idea), Myer networks, Myer family members and program staff with relevant subject area expertise and use of The Myer Foundation board room. The additional \$30,000 for expenses can be used for contracting of external expertise.
 - To date 18 fellowships have been awarded.

Source: Information compiled from Nathan Cummings Foundation and Myer Foundation websites at: <https://nathancummings.org/> and <http://myerfoundation.org.au/grants/other-programs/mif/> 15/12/2019

Developing Capacity in SE Contract Readiness

Recommendation 3

Complement the DSS sector readiness fund with:

A contract readiness fund (\$5m + \$1m admin) similar in construct to the DSS SRF but targeted specifically around contract rather than investment readiness. This would provide much needed capacity building support for SEs tendering for contracts to support their growth. It would also be highly complementary to government social procurement policies (See Recommendation 4) if adopted more extensively.

New contracting opportunities for SEs are growing. This has been driven by increased demand for contracts that deliver both economic and social value in public social procurement and within the private sector. Barriers to meeting this demand exist because *“winning contracts to deliver public services can be challenging for social ventures, especially for those with little or no track record of successfully competing for such contracts in the past.”*^{xliii}

Contract readiness support is required by SEs to be better prepared to compete for and deliver public, private and non-profit contracts. **Contract readiness means the ability to effectively identify, tender and manage contracting opportunities with the public and private sectors.** The Vanguard Laundry Service example (**Case Study 5**) is indicative of the type of contract readiness support that may be required but is atypical in terms of their ability to secure it.

Case study 5: Vanguard Laundry Services and Contract Readiness Support



Photo Courtesy of Vanguard LS

Not-for-profit SE Vanguard Laundry Services (VLS), needed to win a contract before raising capital. VLS operates a commercial laundry in Toowoomba employing people who are long term unemployed and living with mental illness. According to CEO, Luke Terry, there was a *“clear sequence to the funding”* the first part of which was the anchor contract with St Vincent’s Hospital^{xliv}.

VLS had the support for contract readiness from Social Ventures Australia. Alex Oppes, who led SVA’s work has commented that when they were first approached VLS *“was not yet established”*. SVA helped with building a financial model, and contributed an early grant to hire a specialist consultant. They were also involved in guiding the negotiations on the contract. Typically SVA would not be involved at such an early stage but they *“knew Luke very well and banked on the contract”*.^{xlv}

The case studies and experience of the UK Investment and Contract Readiness fund (ICRF) demonstrate that support for contract readiness can drive SEs to the next stage of growth and support the demand for social value. One such example was FCMS, a UK SE providing urgent health and wellbeing services that had been previously unsuccessful in securing a large-scale contract. Using a £50K grant from the ICRF, FCMS were successful in securing an £8m contract. Whilst FCMS had a good track record in service delivery, they felt that the ICRF-funded support made a *“phenomenal”* contribution on the financial modelling aspect of their bid, making it more robust and detailed.^{xlvi} Efficacy of the contract readiness component of the ICRF was high with every £1 spent on contract readiness delivering on average £23 in unlocked contract wins.^{xlvii}

Contract Readiness also cuts across another aspect of Impact Investment, Social Impact Bonds (SIBs). SIBs require significant technical assistance in the tender process and often involve high transaction costs. This can act as a deterrent to already highly stretched social sector organisations and specialist intermediaries to

provide the services to enable bidding into these contracts. Support through a well designed contract readiness program could ease this burden and encourage participation.

Support for technical capabilities and capacity building to help SEs secure contracts drives scale, with or without the related need for investment.

Our concept for a contract readiness fund largely mirrors that of our existing impact investment ready growth grant while recognising that a specialist panel would need to be appointed to assess contract readiness and the technical assistance required. This reflects a finding in the evaluation of the UK ICRF that often SEs seeking contract readiness support needed a discrete piece of technical support while those seeking investments required longer and more substantial support. This suggests that contract and investment readiness support need to be assessed differently to each other. Recognising that they are often interlinked our view is that a contract readiness program is best run alongside the SRF.

Adopting Social Procurement

There is a clear policy imperative for governments to further enable both the impact of community sector providers and private sector creation of social value. The Australian Government could leverage its significant buying power to derive increased value for money in all the goods, services and construction it procures by:

Recommendation 4

Establish a national Social Procurement policy to derive greater social value through Australian Government contracts and purchasing power and further support the growth of social enterprises.

An additional benefit of this policy could be in its encouragement of other anchor institutions to establish their own social procurement policies to further grow the market, creating additional opportunities for social enterprises to participate in the market.

Leveraging Government's buying power

The Australian Government is a large-scale procurer of services and products.

Last year (2018-19) the Australian Government published 78,150 contracts on AusTender worth a combined value of \$64.5 billion.^{xlviii}

Public procurement seeks to meet regulatory propriety, commercial efficiency and socio-economic outcomes. It has been described as a 'sleeping giant' of public policy because of its significant and latent potential in delivering long lasting societal impact.^{xlix} Greater social value could be derived for the Australian community through further innovation in the public procurement process.

The Australian Government already has experience in leveraging its buying power through other measures designed to leverage Government procurement for targeted outcomes. For example, measures designed to promote economic growth such as:

- the commitment to source at least 10% of procurement by value from Small and Medium Enterprises (SMEs), and
- publishing procurement plans for significant procurements to engage early with the market.^l

Other examples where the Australian Government has leveraged its procurement including through the following:

- **Indigenous Procurement Policy**

A mandatory procurement policy for Commonwealth portfolios designed to leverage the Commonwealth's annual multi-billion procurement spend to drive demand for Indigenous goods

and services, stimulate Indigenous economic development and grow the Indigenous business sector. Since its launch in July 2015 to February 2019, 473 Indigenous businesses had won 11,933 contracts valued in total at over \$1.83 billion.^{li,lii}

- **Workplace Gender Equality Procurement**

Under the Workplace Gender Equality Act 2012 (the Act) non-public sector employers with 100 or more employees in Australia must supply a letter of compliance with their tender submission or prior to contracting with the Australian Government. Australia's latest Gender Equality Scorecard reported while more needed to be done to close the Gender pay gap, there has been continued growth in employers implementing gender equality policies and strategies; and that there has been a big increase in employer action on family and domestic violence.^{liii}

The broader shift in public policy towards an investment mindset, and the policy imperative for impact investment has driven interest in social procurement. Social procurement generates public value by building social capital between sectors and recognising the social value added by particular approaches to goods and services provision.

Social procurement occurs wherever government purchasing is purposefully linked to a social objective.^{liiv} It is distinguished from conventional procurement by its recognition of the additional social value arising from buying from for-purpose suppliers. It is broadly defined as the acquisition of a range of assets and services, with the aim of intentionally creating social outcomes.^{liv} This can be:

- **Directly:** buying goods and services directly from social enterprises; and
- **Indirectly:** purchasing from mainstream suppliers, with requirements to deliver social and/or sustainable outcomes. This could be by using invitation to supply or inclusion clauses in contracts or requiring involvement of SEs through the supply chain (eg. as subcontractors).

The definition of what constitutes a social enterprise in the context of a social procurement policy is important. The definition needs to be inclusive and encompass both for profit and not for profit entities that are delivering social outcomes. It must not however be so broad that the policy loses its substance and intentionality. A hurdle requirement could be a formal articulation of the for-purpose nature of the entity within its constitution.

Examples of Social Procurement Policies around Australia

Other Australian government jurisdictions are already engaging to varying extents in dedicated social procurement. As **Table 6** indicates, currently Victoria is the most advanced in policy development and implementation in this area.

Table 6: State Government Approaches to Social Procurement

Government Jurisdiction	Related Policy
Victoria https://buyingfor.vic.gov.au	<p>The Victorian Government launched the first whole of government social procurement approach and framework in Australia last year. The approach seeks to expand and standardise social procurement through all public procurement activities. The framework has 10 objectives with associated measurable outcomes.</p> <p>The first Annual Report highlighted progress against each of these objectives. For example, Rail Projects Victoria and North East Link Project recorded 36,413 hours for long-term unemployed and 6,432 hours for disengaged young people.^{livi}</p>

Government Jurisdiction	Related Policy
Queensland https://www.forgov.qld.gov.au	<p>The Queensland Government Procurement policy requires those purchasing for government to use their “<i>best endeavours to do business with ethically, environmentally and socially responsible suppliers.</i>”^{lvii}</p> <p>This includes the following:</p> <ul style="list-style-type: none"> ▪ Ensuring social procurement forms part of the specific procurement objectives; and ▪ Including social procurement clauses in tenders or contracts that are proportional and that enable suppliers to fulfil their social benefit obligations.
NSW https://www.procurepoint.nsw.gov.au	<p>The NSW Government Public Procurement Policy includes a focus on sustainable procurement which “<i>focuses on spending public money efficiently, economically and ethically to deliver value for money on a whole of life basis. Sustainable procurement extends the assessment of value for money beyond the sourcing process, considering benefits and risks to the organisation, the community, the economy and impacts on the environment.</i>”</p>
Western Australia https://www.wa.gov.au	<p>The Western Australian Government has established policies and social procurement initiatives to support supplier diversity via contracting with Aboriginal businesses and Disability Enterprises.</p>

The power of government purchasing and its importance to SEs is illustrated in **Case Study 6**. This power in purchasing is not however limited to the public sector. Increased consumer demand for ethical products and services is driving responses from the private sector. Changes in regulation such as the Modern Day Slavery Act are also requiring businesses to monitor, report and address risks of modern slavery in their operations and supply chains.

Case study 6: Knoxbrooke – Benefiting from social procurement



Not-for-profit SE, Knoxbrooke, through its disability services organisation, Yarra View Nursery (YVN) provides employment to people with intellectual disabilities. YVN assists people to realise their full potential in a supported employment environment, giving them skills, confidence and opportunity.

Knoxbrooke has won contracts to supply plants for several government projects including: Mernda Rail Project; Western Program Alliance; Southern Program Alliance and North East Program Alliance.

According to Scott Buckland, GM, Knoxbrooke “*Victoria’s Social Procurement Framework has been critical for the growth and sustainability of Yarra View Nursery and has enabled the empowerment and development of people living with disability.*”

YVN now employs 115 people, 86 who are living with disability, and generates over 120,000 hours of paid employment and over 7,000 hours of accredited training each year.

Source: Adapted from Knoxbrooke and Yarra View Nursery websites; and Victorian Government Social Procurement Report, 2019

Part 4: Addressing Supply gaps - raising capacity & awareness within & outside of Government

Recommendations 5 & 6:

These recommendations are targeted at raising market awareness and driving capability through building centres of excellence both within and outside of government:

- **Create a dedicated Office of Social Impact Investment within the Department of the Prime Minister and Cabinet**, leveraging the existing expertise of the SII Taskforce. This could build public sector capacity and create a go to place within government while ensuring impact integrity is maintained as the market develops.
- **Fund an independent Impact Investment Institute with an initial commitment of \$5m over 3 years**. This would mirror the example in the UK and provide a centre of excellence outside of government to help inform policy, drive market awareness and build broader sector capability.

Ultimately the combination of these initiatives would deliver a more efficient and effective allocation of existing resources and more future resources through investment targeted at achieving social impact.

Establishing an Office of Social Impact Investment

A distinct model of ownership is a basic element of any successful policy area.^{lviii} Internationally, policy makers have suggested that for impact investing, policy ownership is particularly significant for its cross-government nature. One government official commented, *“Our biggest obstacle is educating other government officials as there is a very low understanding of impact investing. Policy officials have to go through a process of understanding.”*^{lix}

The structure of policy ownership can enable teams or groups of policy officials, such as the Government Inclusive Economy Unit in the UK (**Case Study 7**) to coordinate government activity on impact investing instead of it developing in isolated pockets across departments.^{lx} The Dutch Innovative Finance Taskforce in Ministry of Foreign Affairs of the Netherlands (**Case Study 8**), has been a key driver in enabling the Ministry to move away from traditional grant funding to more innovative mechanisms of finance in collaboration with non-government stakeholders.

One common aspect of the examples in the international Case Studies and also observable domestically in the Office of Social Impact Investing in NSW (**Case Study 9**) is the ability to both anchor government impact investing knowledge in one place and coordinate the agenda across departments. In addition, the approaches often provide a strong base for engagement with other key stakeholders such as business, social enterprises, investors and community.

Leveraging of the work and expertise of the SII Taskforce, we recommend that the Government establish a permanent Office of Impact Investing within the Department of Prime Minister and Cabinet. This would provide a focal point within government from which to co-ordinate II policy and build public sector capacity in impact investing. In addition, it would provide a go-to place for the impact investing sector to engage with Government and put forward proposals or alternatively respond to RFPs in targeted areas of opportunity. This recommendation is supported by growing precedent both internationally and domestically for the establishment of focused policy teams for social investment and innovation.

Case study 7: Policy Ownership – Departmental Unit Approach, UK



In the UK, domestic II policy is the primary responsibility of the Government Inclusive Economy Unit (IEU) in the Department for Digital, Culture, Media and Sport. Previously called the Social Investment and Finance Team within the UK Cabinet Office, it historically concentrated on the financing needs of SEs and charities and more recently began to explore broader opportunities for impact investing to create large scale social impact. In 2016, the team was formally changed to the IEU to reflect this broader narrative and now works to build partnerships with the private and social sectors to find innovative ways of addressing some of the UK's most challenging social and economic issues. A large part of this work is devoted to developing the impact investing market.

The IEU has a cross government mandate to work in partnership with other departments such as the Treasury, the Department for Work and Pensions, and the Ministry for Housing, Communities and Local Government, on cross-cutting issues that II can help address, such as social housing.

It also works as a knowledge hub to support other policy-makers to use II to achieve certain policy aims.

According to Tom Le Quesne, Head of the IUE: *“Our technical expertise, cross-sectoral experience and deep networks in the business and finance worlds make us a unique team. We are very outward-facing and believe that only by working in partnership with a broad range of stakeholders, from FTSE 100 firms to innovative social enterprises, and also with other government departments, can we help solve the most complex social issues.”*

The IEU in coordinating impact investment for domestic policy, works closely with the Department for International Development, which co-ordinates II for international development.

Source: World Economic Forum (collaborating with the UK Government), *Behind the scenes of Impact Investment Policy-making 2018*

Case study 8: Policy Ownership – Departmental Taskforce Approach, The Netherlands



The Dutch taskforce on Innovative Finance for Development within the Ministry of Foreign Affairs recognises the need for other forms of financing beyond traditional public-sector funding. The Task force acts as a knowledge and expertise hub for innovative financing mechanisms as well as a coordinating unit to source new opportunities for innovative financing for international development policy delivery, such as DIBs and guarantees.

Policy staff and financial controllers from the Directorate General for International Co-operation (DGIS) comprise the task force. They not only share their experience but also explore new instruments to actively advise DGIS staff on project proposals with innovative finance elements.

According to Johannet Gaemers, Project Manager, Innovative Finance for Development, Ministry of Foreign Affairs of the Netherlands *“It has been very useful to have a dedicated task force made up of colleagues from across the department to actively seek new financing approaches, including impact investing, and embed it into our policy-making. It is challenging to move away from traditional grant-funding to new forms of financing but this task force has helped the organization to open up to consider and develop new ideas.”*

Source: World Economic Forum (collaborating with the UK Government), *Behind the scenes of Impact Investment Policy-making 2018*

Case study 9: Policy Ownership – Cross Departmental Approach, NSW OSII



Office of
Social Impact Investment

NSW was the trailblazer nationally in impact investing, pioneering Australia's first two social impact bonds in 2013 and launching Australia's first whole-of-government impact investment strategy in

February 2015. At the same time it established the Office of Social Impact Investment (OSII), a joint team of the NSW Department of Premier and Cabinet (DPC) and the NSW Treasury.

OSII oversees and leads the implementation of the NSW SII Policy, working closely with other government agencies and non-government stakeholders. Key elements of its work include developing new social impact investment transactions and building capability and capacity among agencies and others to participate in social impact investing. The aim is to deliver two new social impact investments to market each year.

Initiatives include:

- Introductory advice packages which are available on legal structure, governance and IP;
- Request for Proposals (RFP), which are now solely focused on a priority issue areas;
- SII Evolve - a 2018 initiative enabling proponents and government to co-develop SII ideas in any policy area. Complementary to the issue-specific RFPs it allows the private sector to approach OSII with innovative ideas for testing and further co-design before proceeding to the formal approval phases.

The aim is to deliver two new social impact investments to market each year.

Source: <https://www.osii.nsw.gov.au/> accessed 18/12/2019.

Funding a Social Impact Investing Institute

In 2013, with the UK presidency of the G8, David Cameron announced the creation of the Global Social Impact Investing Taskforce (Now the Global Steering Group for Impact Investment). The founding members (representatives from the G7, EU and Australia) were tasked with creating a strategy for growing the impact investing market in their own jurisdiction. To do this they formed "National Advisory Boards" (NABs). These NABs were not boards in any legal sense but simply they comprised a group of cross-sector leaders willing to collaborate in designing and implementing their National Social Impact investing strategy to grow the market.

At this time, the AAB was formed and IIA was created as its incorporated operating arm with a mission to grow the IIA market in Australia. Its mandate was to be a market builder with no vested interests aligned with membership, nor revenue streams derived from competing with existing market actors. Funding was sourced from philanthropy, aligned corporate partnerships and where, no conflict existed, government. Most other NABs did not have the need for incorporation as they were funded and housed by their government or a major foundation. The US NAB (now the US Impact Investment Alliance) for example, **Case Study 10**, was supported by the Omidyar Network and then the Ford Foundation.

Fast forward 6 years, there are now 27 NABs, covering 32 countries, a number of which are taking an incorporated approach. The most recent of these is the UK NAB which has merged with the UK SII Taskforce to create an incorporated entity in the Impact Investing Institute, (**Case Study 11**). The funding for this Institute is a combination of government funding and corporate sponsorship.

Case study 10: Foundation Funded II Institute – The US Impact Investing Alliance



The US NAB re-structured in 2016 from a large board (20+) to a more streamlined board with more structured engagement of practitioners through an Industry Advisory Council and philanthropic leaders through a Presidents' Council on II (PCII). The Chair and hosting organisation moved from the Omidyar Network to Ford Foundation and the NAB rebranded as the US Impact Investing Alliance (USIIA) and appointed an Executive Officer. The USIIA's three-pillar strategy includes:

Catalyse investor action - With leadership from the USIIA, the PCII co-developed and launched the US\$150m Catalytic Capital Consortium.



Advocate for supportive policies - According to Fran Seegull, Executive Director, USIIA *"In the past year, we've seen tremendous progress on impact investing policy in the United States – with the creation of new tax incentives for community investing, a new federal outcomes fund, and a new and modern development finance institution. These achievements come in spite of a tensely divided political landscape, and it speaks to the important role of the U.S. Impact Investing Alliance – and NABs across the world – to elevate and advance innovative solutions that can bridge ideological divides"*^{lxi}

Build the movement of impact investing broadly - USIIA facilitated the co-design of the Tipping Point Fund (TPF) and will assist in managing its operations. Launched in Dec 2019, with initial grant funding of US\$12.5m, TPF is a donor collaborative vehicle. It will be used to develop the infrastructure critical to the growth and fidelity of the II market and help build on existing field building efforts by prioritizing the areas that are: chronically under-funded; best suited for collective action and that require additional support beyond that provided by individual grant-making.

The Alliance's long-term vision is to place measurable social and environmental impact alongside financial return and risk at the centre of every investment decision. Source: <http://impinvalliance.org/>, accessed 18/12/2019

Case study 11: Government/Corporate Funded – The Impact Investing Institute, UK



In 2016, the size of the UK NAB was reduced, the Chair rotated and a Practitioners' Council established to inform the NAB's work. In 2019 the NAB came together with the UK Government Implementation Taskforce on Growing a Culture of SII in the UK to form the Impact Investing Institute, (III). The III is an

independent, non-profit organisation. It aims to accelerate the growth and improve the effectiveness of the II market through raising awareness of; addressing barriers to; and increasing confidence in investing with impact.



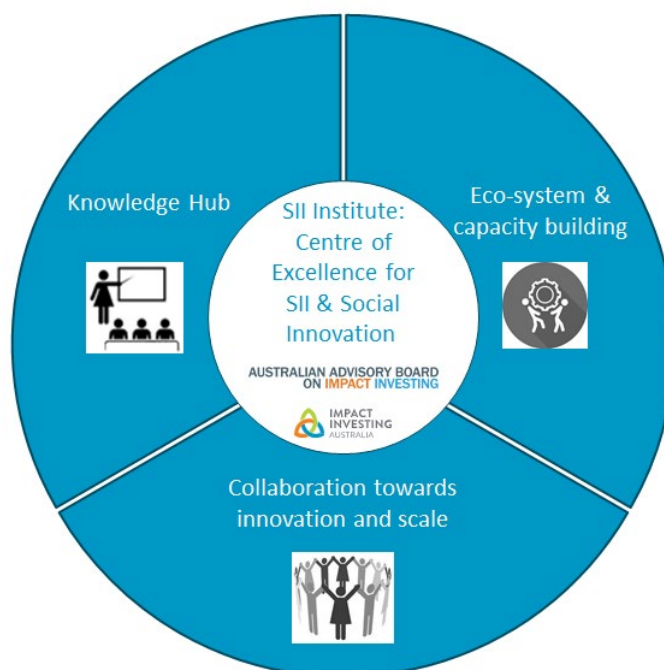
It will promote more effective ways for individuals to use their savings and investments to help address social challenges AND gain financial returns; facilitate the flow of capital to II; and collaborate with national governments, regulators and multilateral bodies to influence policy and advocate for II. The III's key initiatives are:

- Partner with Pensions for Purpose on a programme to improve confidence and competence in II for the pensions industry.
- Collaborate with the Impact Management Project to provide digital tools to allow investors to assess and compare the impact of their investments.
- Partner on a knowledge exchange programme to support the establishment of a new NAB in Ghana.
- Collaborate with the World Benchmarking Alliance to develop global benchmarks focused on SDG impact, including a financial system benchmark.

The III is funded by the City of London Corporation, the Department for Digital, Culture, Media and Sport and the Department for International Development and a number of leading financial services firms including: Aberdeen Standard Investments, BlackRock, CFA Institute, Columbia Threadneedle Investments, Credit Suisse International, Generation Investment Management, Hermes Investment Management, Investec Asset Management, Schroders and Triodos Bank. Source: <https://www.impactinvest.org.uk/> accessed 18/12/2019

The cross-sector nature of impact investing requires a centralised and co-ordinating entity for all the stakeholders and a stable funding mechanism to support this. IIA was created to function as the centralised and co-ordinating entity of the AAB but the stable funding base continues to be a key constraint. The AAB has representatives from investors, banks, the community sector, philanthropy and business but government is missing. A funded “institute” could bring together the work of these cross-sector entities for pro-active and collaborative engagement with the government (ideally through the adoption of Recommendations 6 and 7). We envisage an Impact Investing Institute would be a centre of excellence for collaboration across the dimensions of **Figure 18**.

Figure 18: Dimensions of a II Institute and Centre of Excellence



Source: Impact Investing Australia, 2019

An indicative design of the II Institute around the above components could be as follows:

- 1) Knowledge Hub – driving education, training and thought-leadership.

This should encompass awareness raising across key stakeholder groups including by collaborating with representative membership bodies such as RIAA, UNPRI, the GIIN, Philanthropy Australia, the Shared Value Project, the Community Council of Australia, and the AICD. Leveraging existing AAB/IIA and GSG materials and networks, a broad suite of tools could be used including: an online information portal, case studies, events and social media. This could raise public awareness and provide information to make it easier to make values-aligned investments.

In addition, collaboration with universities and practitioners in the field could yield further incorporation of II within mainstream businesses and specialist courses to educate next generation leaders. Practical and evidence based thought-leadership could also be used to inform II policy development.

- 2) Eco-system & Capacity Building - market development initiatives such as the provision of technical assistance, to build capacity and networks. Leveraging the global partnerships of the AAB, through the GSG, including with the Impact Management Project, the UNDP SDG Initiative and the OECD, the Institute could help inform best practice around impact management and measurement as well as II policy frameworks. The Institute could work with investor groups, SEs, governments and others to build capacity in relevant areas.

- 3) Collaboration toward innovation & scale – the Institute would seek to co-ordinate organisations and institutions to pool resources, and support innovation and/or aggregation in products and delivery models to drive scale. AAB/IIA global networks could again be used to leverage models from other jurisdictions to inform the develop of pilots in key policy areas.

In summary, funding an objective market builder such as the AAB which fosters cross-sector collaboration informed by the GSG network and partners is a important component of market infrastructure.

Part 5: Addressing the gaps in Impact investing from Australia

Australia's regional role in achieving the SDGs

Australia has an important role to play in contributing to the achievement of the SDGs in the Indo Pacific region both as investors, capacity builders and leaders in enabling policy.

ICA can support this in part by catalysing the market for impact investing and raising awareness *in* Australia, which will have some flow on effects for investment *from* Australia.

In its report, *The Rise of Impact*, the UK National Advisory Board for Impact Investing (UK NAB) recognised the need for their key organisations in international development, domestic impact investment and traditional finance to work together to tackle development challenges globally. Through coordinated efforts, they saw that “*the UK has the potential to be a globally recognized ‘hub’ for international development finance, and a leader in helping to achieve the SDGs globally*”^{lxii}. The right market building infrastructure, policy and collaboration, could see Australia achieve a similar standing in the Indo-Pacific.

DFAT in its Voluntary National Review of the SDGs in June 2018, outlined the work that has been done and its strong commitment to delivering the SDGs both at home and globally. Success requires a collaborative effort across the multitude of actors in the development finance eco-system.

Figure 19: The Actors in Australia's Development Finance Eco-system



Source: Impact Investing Australia, 2019

In our recent report, *Impact Investing from Australia: Tackling the SDGs in the Asia Pacific*, IIA examines in more detail Australia's role and the use of Official Development Assistance (ODA) in impact investing for International Development. Australia has an important role to play in contributing to the achievement of the SDGs in the Indo Pacific region both as investors, capacity builders and leaders in enabling policy.

The gaps in Impact Investing *from* Australia

Impact Investing has an important role to play in driving inclusive growth and contributing to the achievement of the SDGs in the Indo Pacific. It can mobilise private resources to complement donor, public and philanthropic funds to meet the additional requirements under the SDGs, accelerate the pace of change and reverse negative trends in several areas.

It can support innovative delivery of products and services that meet peoples' needs and enable sustainable infrastructure (e.g. cleaner, more climate resilient energy, roads, water, buildings), sustainable land use and social infrastructure (e.g. for health and education) in Indo Pacific developing countries.

It *from* Australia is a critical aspect and there is an opportunity in the International Aid Review to consider how this may be better enabled. In particular, how to open up the scope for investors and intermediaries through capital and capacity support to play a role in achieving sustainable development and better outcomes for people and the planet in the Indo Pacific region.

“Despite progress towards some SDGs, the Asia-Pacific region needs to accelerate the pace of change and reverse negative trends in several areas. At regional level, satisfactory progress has been made towards eradicating poverty (Goal 1) and promoting good health and wellbeing (Goal 3). But at the current rate of progress, only Goal 4 focused on achieving quality education and lifelong learning opportunities will be met.”^{lxiii}

Australia as a developed nation in the Indo Pacific region, has a key role to play in assisting less developed nations to meet SDG targets. The 11 years to 2030 is a short time frame in which to tackle the breadth and depth of the task required to meet the SDGs in the region. The capital element alone is enormous at an estimated \$2.5 trn per annum gap across global developing markets. Impact investment *from* Australia and related policy into the region needs to consider two aspects in respect of this capital need. The capital must meet the additional requirements under the SDGs and; shore up existing and in some cases declining capital bases of aid, philanthropic grants or investments to maximise and sustain existing impact.

The approach requires the support of social innovation and fundamental market building infrastructure. It needs the further development of the social enterprise (SE) sector and greater investment in critical social and sustainable economic infrastructure. Existing government policy is already supportive at some level in these areas, the major gap remains in significant support of intermediation beyond the Multi-Lateral Development Banks. This support is critical in facilitating the Indo Pacific impact eco-system to contribute more fully to the solutions required for achievement of the SDGs in the region.

Extending support for Social enterprise (SE) development

Impact investment to support the development of the regions Social Enterprises (SEs) is emerging. For-profit SEs particularly those that target place with appropriate funding and support can empower people and communities through the creation of jobs and SDG related services.

As with any relatively young market there are several challenges. Targeted initiatives by DFAT and others to tackle issues around capacity, intermediation (at some level) and capital flows are gaining traction but more needs to be done to see this sector develop and meaningfully contribute to the SDGs.

Social entrepreneurship is being recognised in the region as an approach to reduce widening income inequality, address environmental degradation and empower women and girls. The biggest factor is the emergence of social entrepreneurs themselves, many of them young, who have stepped up to develop financially self-sustaining solutions to address social and environmental challenges in their communities. While the idea that business can and should play a positive role in the community has deep roots, the contemporary social enterprise business model is less well established^{lxiv}

The barriers and challenges impeding the development of the SE sector in the Indo Pacific are outlined in **Table 7** along with some great first steps and potential considerations in SE enablement for DFAT and others. Notwithstanding progress to date, to see the regional SE market further develop, broader engagement and resources need to be deployed. Our recommendation is that the key initiatives in this regard be directed towards intermediation and related capacity building.

Table 7 – Barriers and Challenges to Social Enterprise Development

Barriers	Opportunities	Policy Initiatives
Skills and capability	Build Entrepreneur and SE Capacity	Continue to support Pacific Rise and Scaling Frontier Innovation initiatives. Consider additional support for sector collaborations e.g. Aspen Network of Development Entrepreneurs (ANDE).
SE Financing gap	Establishment of SE Angel Investor Networks & Investment in Micro SMEs	Continue Engagement and support for key organisations e.g. Asian Venture Philanthropy Network (AVPN). Consider supportive tax policy for investors & fund development.
	Support trade financing gaps	Consider further initiatives with Multilaterals development Banks (MDBs) e.g. extension of DFAT's work with the Asian Development Bank (ADB) to other MDBs.
	Improve the regulatory and business environment	Continue to support and work with OECD, MDBs; British Council, UNESCAP etc around enabling target country policy development.
Inconsistent legal structures and government regulation	Promote positive perception of SEs	As above - Thailand, Malaysia and Singapore all have initiatives in place as examples.

Barriers	Opportunities	Policy Initiatives
	Business model innovation – not for profit to for profit.	Consider the establishment of an early stage discovery fund/funding to assist NGOs in exploring Development Impact Bonds and for-profit models as appropriate. E.g. Fred Hollows and Alina Vision.
Preference for non-profit over for-profit models	Aid for Trade targeting key issues/sectors	DFAT Aid for Trade target of 20% (2020) already exceeded – consider additional budget and allocation to this area.
Economic and cultural diversity of countries across the region	Investment in Agriculture	Consider tax incentivisation for targeted investment in supply chain e.g. Nestle’s Shared value program which globally has trained 431,000 farmers through capacity building programs.
	Policy and other initiatives to build market infrastructure and enable access to capital for SEs	Consider expansion of policy targeting intermediation ie additional funding to the Emerging Market Impact Investment Fund (EMIIF) (currently only \$40m) could be expanded. Tax incentives could also be considered for early fund investment.
Limited eco-system intermediation	Corporate Sector sponsorship of SEs	Consider further support of inclusive business initiatives e.g. Carnival Cruises in partnership with DFAT and The Difference Incubator to develop the Yumi Tourism project in the Pacific ^{lxv}
Investor Risk appetite remains low	Development of diversified product offerings with local market experts	Consider opportunities for supporting the raising of investor awareness and de-risking investment per the EMIIF above or working with experts beyond MDBs. E.g. The Tropical Landscape financing facility (TLFF) in Indonesia - a partnership which brings expertise and risk mitigation for private investors while helping farmer livelihoods.

Recommendation 7:

Capitalise on the good work already done:

- **Extend Australia’s existing programs for SE capacity building such as Pacific RISE and Scaling Frontiers Innovation to further enable Indo-Pacific social enterprise development.**

Barriers and challenges in investment in SDG infrastructure

While investment picked up in 2017, long-term investment in sustainable development, especially in some developing countries remains insufficient; and despite a global consensus on the need to increase investment in infrastructure, private participation in infrastructure has fallen each year since the Addis Agenda was adopted in 2015^{lxvi}. The situation in the Asia Pacific is of particular concern with the Asian Development Bank (ADB) estimating significant infrastructure requirements between 2016-2030 at a climate change adjusted⁴ US\$26.2trn^{lxvii}.

Infrastructure is a critical aspect in achieving the SDGs in the Indo Pacific and with current spending a tiny fraction of what is required, infrastructure directed policy initiatives are imperative. This could see ODA directed to: further support for the work in this area of the Multi-lateral development banks; providing technical assistance around policy and financing structures to beneficiary countries; and raising investor capacity and awareness of impact investing and blended finance solutions.

In the case of infrastructure, finding the capital on the right terms is a major issue, with the ADB reporting over 90% of Asian infrastructure spend (as defined) as financed by the public sector⁵. Given the constraints on government budgets, enabling and facilitating the mobilisation of significant amounts of private capital toward financing Indo Pacific infrastructure is a critical aspect of the delivery of the SDGs.

Table 8 – Barriers and Opportunities to Critical SDG Infrastructure investment

Barriers	Opportunities	Policy Initiatives
Limited government development spending	Greater focus on Blended financing models and designing for impact	Continue support for MDBs in this area particularly in relation to infrastructure projects. Consider consistent Impact management framework built into project design whether through MDBs or own financing facility such as EMIIF or the Australian Infrastructure Financing Facility for the Pacific.
Short term bias of institutional investors	Improved understanding of liquidity requirements and fiduciary duties.	Clarify beyond doubt that fiduciary duties can (and must) take account of impact in terms of assessing future value. Consider further mechanisms (potentially through EMIIF) for de-risking liquidity issues eg. facilitating secondary market mechanisms.
Difficulties in assessing risk	Co-investment with local or regional experts	Expand tool kit of the EMIIF and continue support for MDBs as enablers – e.g. International Finance Corporation (IFC) Managed Co-lending Portfolio Program for Infrastructure (MCPPI) brings the expertise of the IFC in developing markets to a credit enhanced syndicated debt product.
Challenges in assessing impact	Leverage the emerging suite of tools	Adopt a consistent government methodology for managing impact - emerging tools include the Impact Management project and the IFC Operating Principles for Managing Impact. Create a dedicated Office of Impact Investment within government to enable this (Recommendation 6).

⁴ Climate change adjusted figures include climate mitigation and climate proofing costs, but do not include other adaptation costs, especially those associated with sea level rise.

⁵ Public finance covers tax and nontax revenues, borrowing via bonds and loans, official development assistance from donor countries, and support from multilateral development banks (MDBs).

Barriers	Opportunities	Policy Initiatives
	Awareness raising and capacity building	Support the organisations in Australia such as the AAB/IIA, the Responsible Investment Association of Australasia (RIAA) and the UNPRI that are doing this – through an Australian II Institute structure (Recommendation 6)
Regulation and regulatory uncertainty	Improve policies and ease of doing business	Further co-operate with the OECD, UNESCAP, the MDBs and other regional governments to assist where possible with policy development to promote infrastructure-based investment
Lack of Intermediary and fund manager capacity	Further Support for intermediaries	Expand the EMIIF to invest more in key funds supporting infrastructure intermediation including the IFC Catalyst fund.
Bias toward infrastructure development in major urban areas	Focus on investment structures suitable for projects outside major urban areas	Further support MDBs who are looking at ways of working with local governments outside major urban areas, e.g. through municipal bond investment and Project Preparation facilities (PPFs)

Given their strong track records, access to reasonably low-cost finance through international capital markets and associated expertise in International development financing, the MDBs have an important role to play in addressing many of the challenges described above and mobilising the private sector toward SDG aligned Indo Pacific infrastructure investment. The MDBs have developed several platforms that support the development of replicable and scalable infrastructure projects, these include SOURCE and the Global Infrastructure Facility (GIF).⁶

In 2017, an estimated US\$163.5bn of long-term private capital was mobilised by MDBs and DFIs of which around US\$16.5bn was directed to projects in APAC. 97% of this global private capital was mobilised by MDBs with the balance by DFIs.^{lxviii} Of the global long-term capital mobilised 45% or ~US\$73bn was directed to infrastructure and only 8% of this to social infrastructure such as schools and hospitals.^{lxix} This further underpins the point that there is a long way to go in addressing the SDG financing gap in infrastructure.

While the financing tools the MDBs use to unlock significant amounts of private capital are important they recognise that substantive change needs to go beyond the capital to the support of the building blocks of policy and capability. A significant catalytic institution to implement Australia's policies in this respect would be an important driver of regional development.

⁶ SOURCE is a joint initiative of multilateral development banks to develop sustainable, bankable and investment ready infrastructure projects (<https://public.sif-source.org/>). The Global Infrastructure Facility (GIF) supports Governments in bringing well-structured and bankable infrastructure projects to market (<http://www.globalinfrastructurefacility.org/>).

Enabling a catalytic institution for impact investment *from Australia*

Recommendation 8:

Australia's role in International Development and impact investing *from Australia* would be further strengthened by a development finance organisation committed to growing impact investment in the region. Leveraging an existing policy initiative, the EMIIF could be the building block of this organisation.

Expand the funding and toolkit of the EMIIF by \$100m (to \$140m) to increase its ability to effectively seed product and fund intermediaries and related capacity building (including for investors) in and into the region. To accelerate the impact delivery, the appropriation period should be at a maximum 3 years.

If utilising an expanded EMIIF, the Australian Government would need to ensure that organisation has a mission and mandate that will see the effective and timely deployment of different types of capital. Ultimately, the EMIIF would need to have the capability to utilise other tools used in blended finance to attract private investment in a way that is beneficial and sustainable for targeted countries. The EMIIF could also provide a vehicle through which broader collaborations are evolved with emerging DFIs such as FinDev Canada and the new USIDFC.

An expanded EMIIF would need to work in a collaborative way with ICA, once established, in ensuring consistency in impact management and measurement and in building stakeholder awareness and capacity in the impact investing sector. Working together ICA and EMIIF could help Australia contribute to the achievement of the SDGs in the Indo Pacific region as leaders in enabling policy. They could:

- support investors to build their awareness and capacity, reframe their investment approach to incorporate SDG impact and potentially reassess tolerance and/or mitigation approach for risk and liquidity management.
- Support Australian corporates to adopt a shared value approach that considers the SDGs in a regional context. Sustainability of supply chain including potential investment in capacity building, technology and ensuring integrity of labour practices are all important factors.

The regional issues encapsulated in the SDGs require Australia to take further action NOW if we are to avoid the detrimental and irreversible effects of a failure to act for current and future generations. Impact investing is providing an important mechanism to collaborate, participate and actively engage around solutions to these issues and intermediation is critical. A commitment to further funding this key gap is a critical step for Australia in helping to achieve the SDGs in our region.

Conclusion

This suite of recommendations is focused on the market building activities of Government to promote an active Australian impact investment market which would see better outcomes for both Australian communities and those in the Indo Pacific. There is no doubt that these initiatives could be further enhanced by government in its role as market participant and regulator, details of related policy initiatives are in Appendix 6. However, catalytic institutions driving intermediary capacity; funded go to places within and outside of government and support for social enterprise, will, as international experience illustrates, make the biggest difference in putting the impact investing market *in* and *from* Australia on a path to scale.

While all our recommendations are important, the lynchpin to scale is the establishment of an Australian Impact Investment wholesaler, ICA. This measure will enable demonstration of more innovative approaches to tackling issues that matter for communities. It will help build and develop market intermediaries and the capacity needed to drive the SII market to scale. ICA could also help unlock new sources of foreign investment into both our own country and across the region particularly when working in collaboration with EMIF.

Impact Investing Australia welcomes the opportunity to have input into this pre-Budget process. We urge the Australian Government to take up the opportunity for targeted action to fuel development of impact investment. The IIA Executive and members of the AAB will be happy to meet to discuss any aspect of this Submission.



APPENDICES

Appendix 1 – Abbreviations and Acronyms

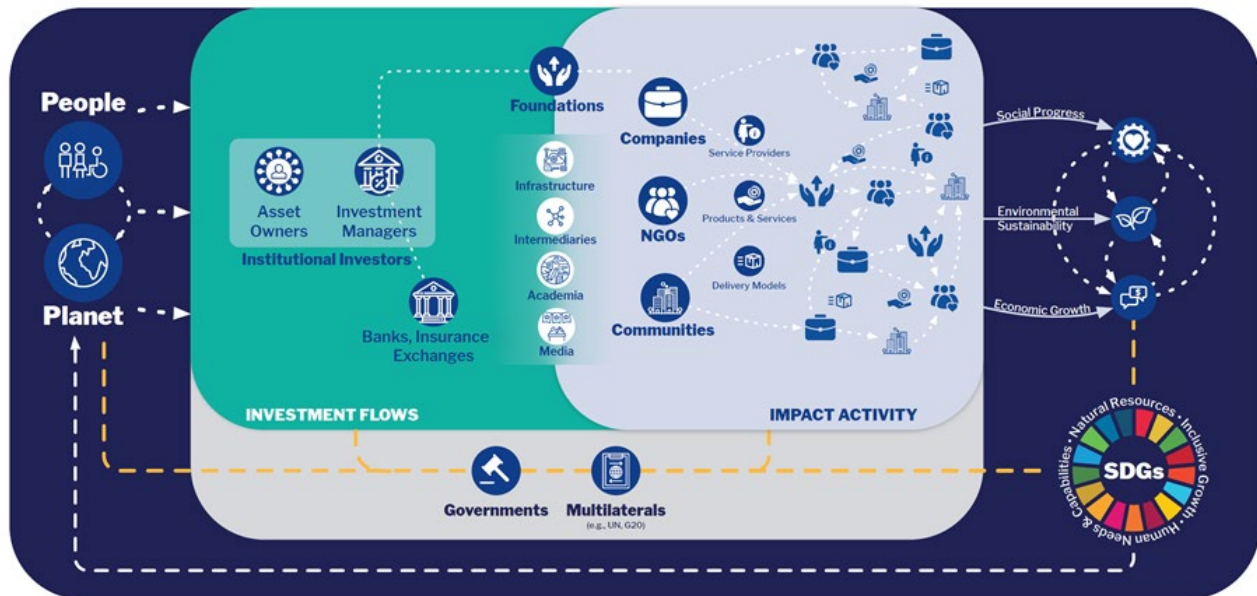
AAB	Australian Advisory Board on Impact Investing
ADB	Asian Development Bank
AIFFP	Australian Infrastructure Financing Facility for the Pacific
AIIB	Asian Infrastructure Investment Bank
ANDE	Aspen Network of Development Entrepreneurs
APAC	Asia Pacific
ASEAN	Association of South East Asian Nations
AVPN	Asia Venture Philanthropy Network
BUILD Act	Better Utilisation of Investment Leading to Development Act
DFAT	Department of Foreign Affairs and Trade (Australia)
DFI	Development Finance Institution
DMC	Developing Market Countries
EBRD	European Bank for Reconstruction and Development
EIB/EIF	European Investment Bank/Fund
EMIIF	Emerging Market Impact Investment Fund
FinDev Canada	Canada's Development Finance Institution (announced in 2017)
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GIF	Global Infrastructure Facility
GSG	Global Steering Group for Impact Investment
IFC	International Finance Corporation (World Bank Group)
IFI	International Finance Institution
II	Impact Investing/Investment
IIF	Impact Investment Forum (established by RIAA)
IIA	Impact Investing Australia
IIX	Impact Innovation Exchange
IMF	International Monetary Fund
IMP	Impact Management Project
Indo-Pacific	Region ranging from the eastern Indian Ocean to the Pacific Ocean connected by Southeast Asia, including India, North Asia and the United States.
INGO	International Non-government organisation
IsDB	Islamic Development Bank
iXc	Innovation Exchange (A DFAT initiative)

LEAP	Leading Asia's Private Sector Infrastructure Fund
LDCs	Least Developed Countries
LLDC	Landlocked Developing Countries
MCCP	Managed Co-lending Portfolio Program (an IFC Initiative)
MDB	Multi-lateral Development Banks
MIGA	Multi-lateral Investment Guarantee Agency
MSME	Micro, Small and Medium-sized Enterprises
NAB	National Advisory Board for Impact Investment
NGO	Non-Government Organisation
OECD	Organisation for Economic Co-operation and Development
ODA	Official Development Assistance
OPIC	Overseas Private Investment Corporation (USA), now the USIDFC, (see below).
PPF	Project Preparation Facilities
PPP	Public Private Partnerships
SDGs	United Nations Sustainable Development Goals
SE	Social Enterprise
SII	Social Impact Investing/Investment
SMEs	Small and Medium-sized Enterprises
SRF	Department of Social Services Sector Readiness Fund
RIAA	Responsible Investment Association of Australasia
TLFF	Tropical Landscape Financing Facility
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
USAID	United States Agency for International Development
USIDFC	United States International Development Finance Corporation
WB	World Bank

Appendix 2: Toward impact at Scale

The vision for growing impact investment is to resource an impact ecosystem capable of delivering genuine change by enabling impact at scale^{lxx}. **Figure 20** is a representation of an ecosystem that supports and encourages integration of impact. The orientation is outcomes for people and planet. Everything flows from and is directed to these two imperatives with a reinforcing feedback loop.

Figure 20: Vision for a dynamic impact-driven ecosystem



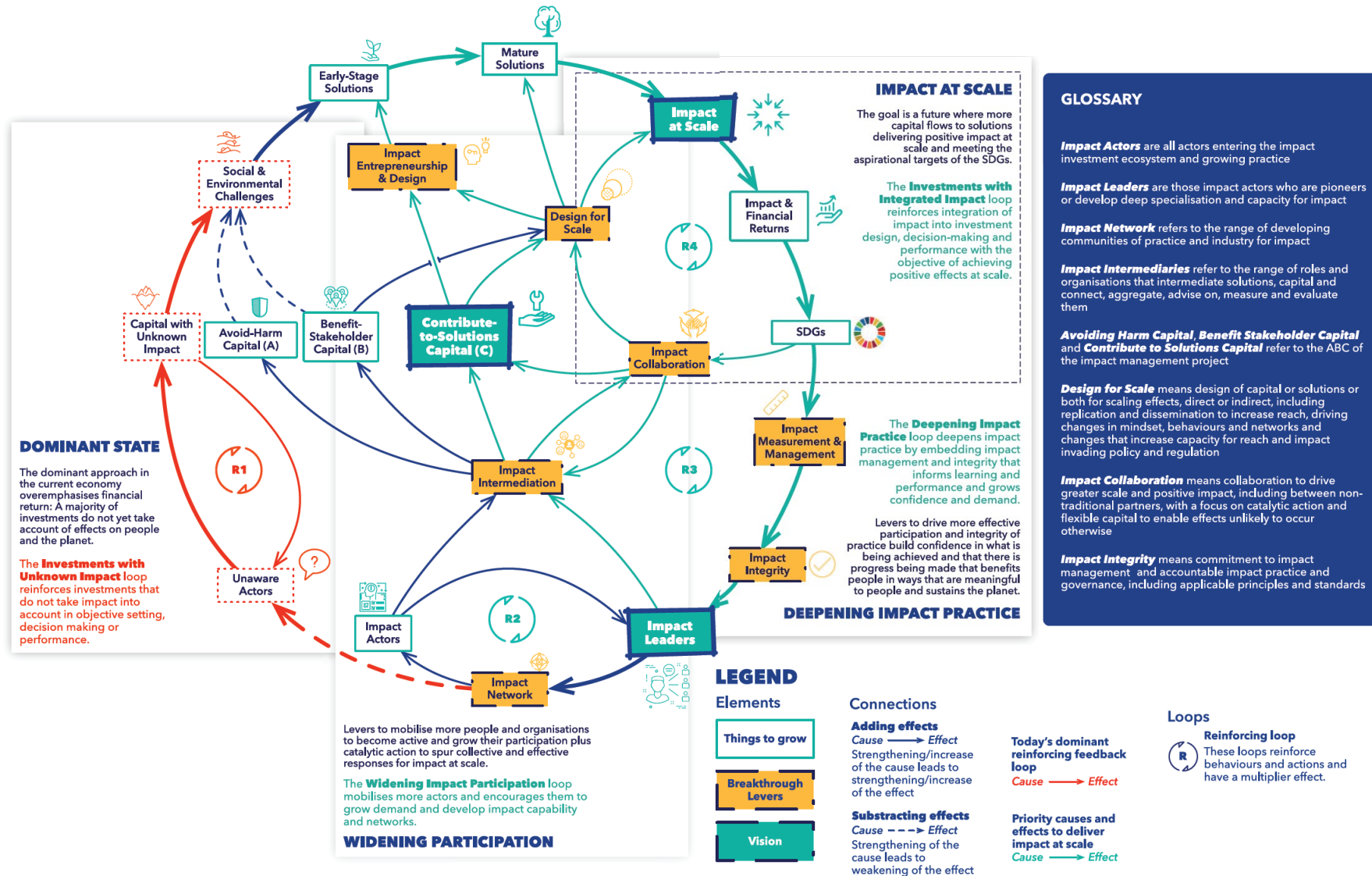
Source: Global Steering Group for Impact Investment (GSG) Working Group, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018.

A recent OECD report also calls for an impact imperative and sets out 4 pillars and recommendations to help ensure financing for sustainable development achieves the desired impact and results. These include: the financing imperative (shifting from billions into trillions); the innovation imperative (piloting new approaches); the data imperative (transparency and standards) and the policy imperative (policy tools and evaluation)^{lxxi}.

Figure 21 maps out a theory of change where the world of today moves from an overemphasis on financial return to a future where significantly more capital flows to solutions delivering positive impact that meets the needs of people and sustains the planet^{lxxii}.

The map has adopted the ABC framework of the Impact Management Project. It shows that driving towards an impact focused economy requires actors to progress down a continuum of avoiding harm (A), doing more to benefit stakeholders (B) and contributing solutions that can scale (C). Ultimately the system that evolves will be one that fully values and integrates social and environmental factors.

Figure 21: Theory of Change - Mapping the Course Towards Scale



Source: Global Steering Group for Impact Investment (GSG) Working Group, *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018.

Two objectives and reinforcing effects are highlighted in **Figure 22**: widening participation and deepening practice to drive towards the achievement of impact at scale.

Widening participation brings focus to:

- mobilising more and different people and organisations (actors) to become active and grow their participation;
- catalysing impact through collaboration and design of more effective responses; and critically designing for impact at scale, understanding the role of flexible capital and the need for intermediation.

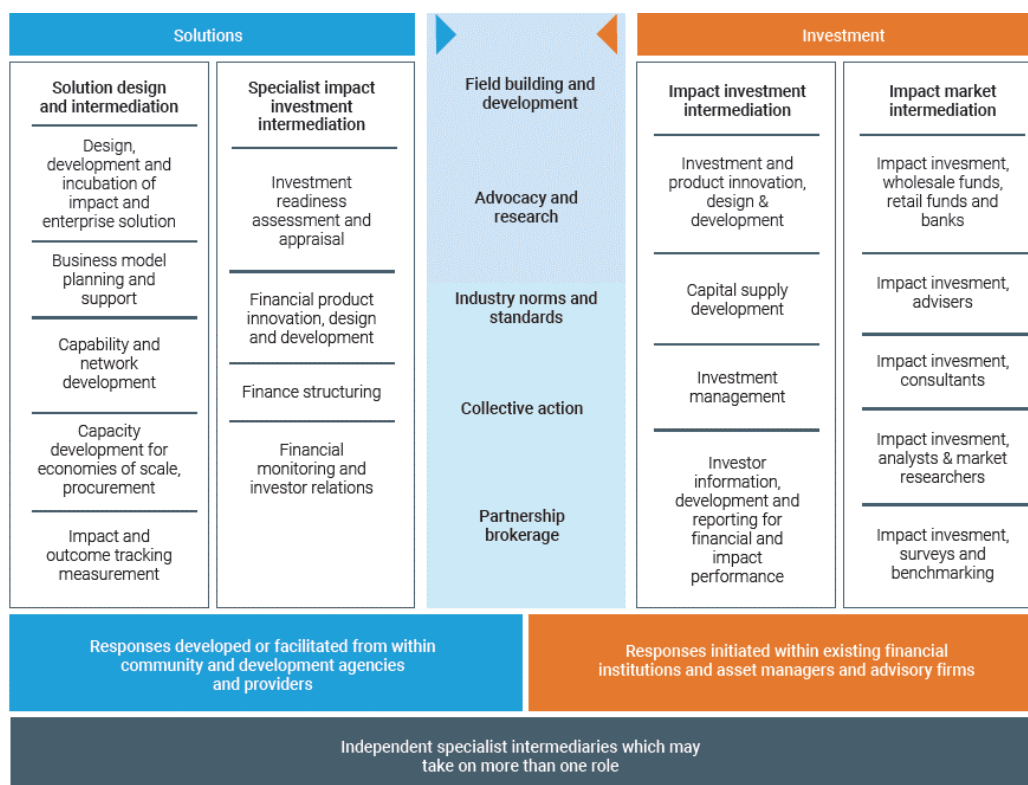
Deepening of impact practice requires:

- embedding impact management and measurement; and
- impact integrity through commitment to principles and standards. Of importance is collective action to drive the infrastructure, frameworks and benchmarks that build confidence and trust and enable more informed choices about impact.

The lynchpin for achieving solutions and investment at scale and bringing them together is intermediation. Intermediaries activate different actors and drive pipeline, product and channel development. They design, originate, structure, and develop platforms and measurement frameworks. Intermediaries can design solutions in place or package opportunities to match investor preferences or both.

Effective intermediation influences the broader system. Expertise developed by intermediaries working on multiple initiatives can be applied more rapidly across the eco-system. Deepening and diversifying the pool of intermediaries across the value chain for impact in a sustainable way is critical to a dynamic and functional system at scale. In Australia, there are still critical gaps in intermediation and many of the intermediaries lack the scale needed to enable them to be more proactive in the design and development of impact opportunities and/or investment product. This underpins the need for a catalyst such as ICA focused on the development of intermediaries.

Figure 22: Intermediaries: various and critical roles in the impact eco-system.



Source: GSG Working Group Report, *The Impact Principle: widening participation and deepening practice for impact investment at scale*, 2018; adapted from Burkett, I, *The Role of Specialist Intermediaries in Reaching Underserved Markets*, 2013

Appendix 3: Impact Capital Australia

About ICA

A detailed Blueprint has been developed for how ICA can and should be brought to market. It is available at [Blueprint to Market](#).

The strategy and design have been developed with leaders from across sectors. The work to date on ICA has drawn on a broad evidence base and cross-sector skill set both locally and globally. It is grounded in a deep understanding of the local market and lessons learned internationally. There is a clear and accountable plan for implementation.

The vision and mission for ICA are set out in **Figure 23**.

Figure 23: Impact Capital Australia: vision, mission and mandate

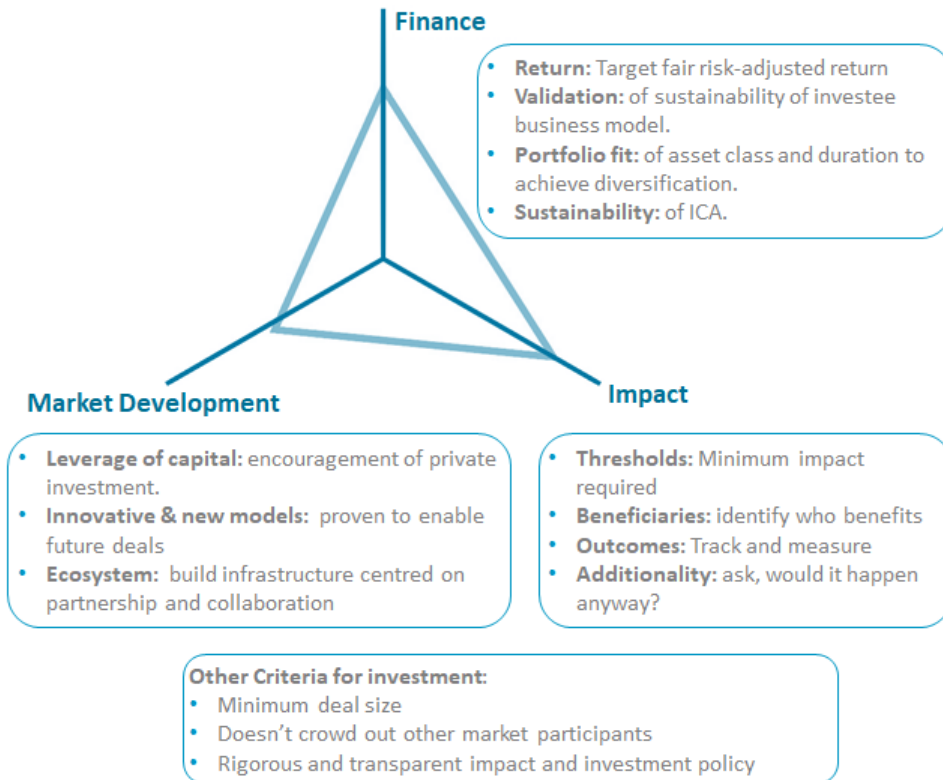


Source: Impact Investing Australia, 2016

ICA's investment mandate will have three central elements: clear impact, financial viability and contribution to market development (**Figure 23**). ICA's predominant investment focus will be wholesale (**Figure 24**), providing finance to existing market participants to grow their reach and impact, and encouraging more participants to enter the market because capital is more readily available to them.

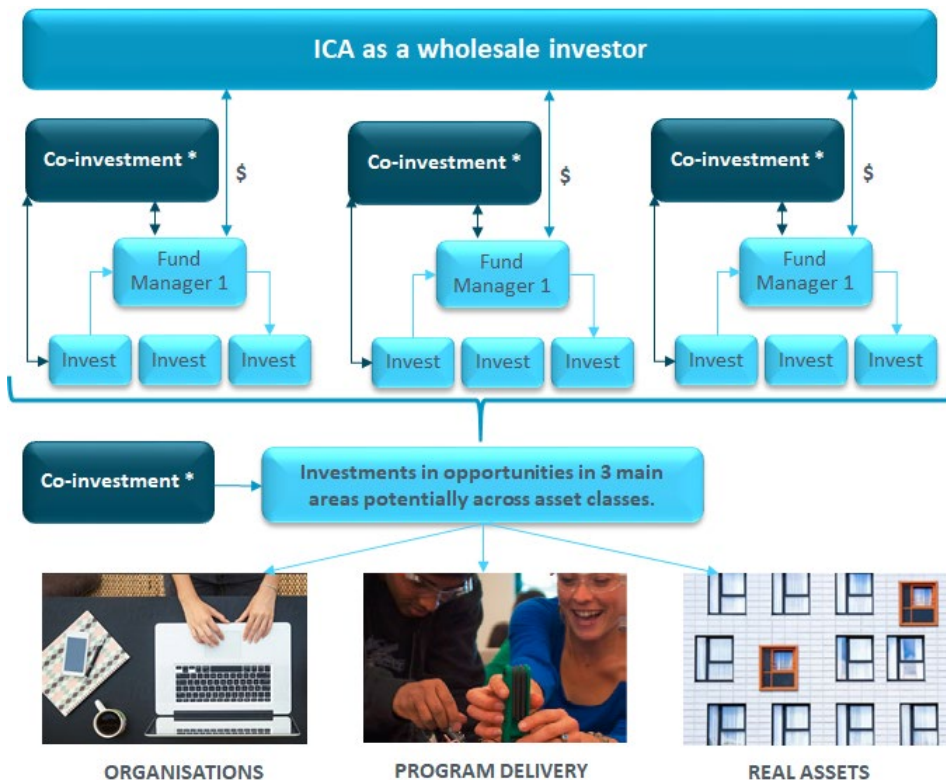
To be effective, ICA will also need capacity to be proactive to fill market gaps where deals will otherwise not happen, and where its participation will send a market signal that unlocks the potential for transformative approaches and for resources that will not otherwise be available.

Figure 24: Portfolio dynamics for impact



Source: ICA Implementation presentation, 2017

Figure 25: ICA's role as a wholesaler

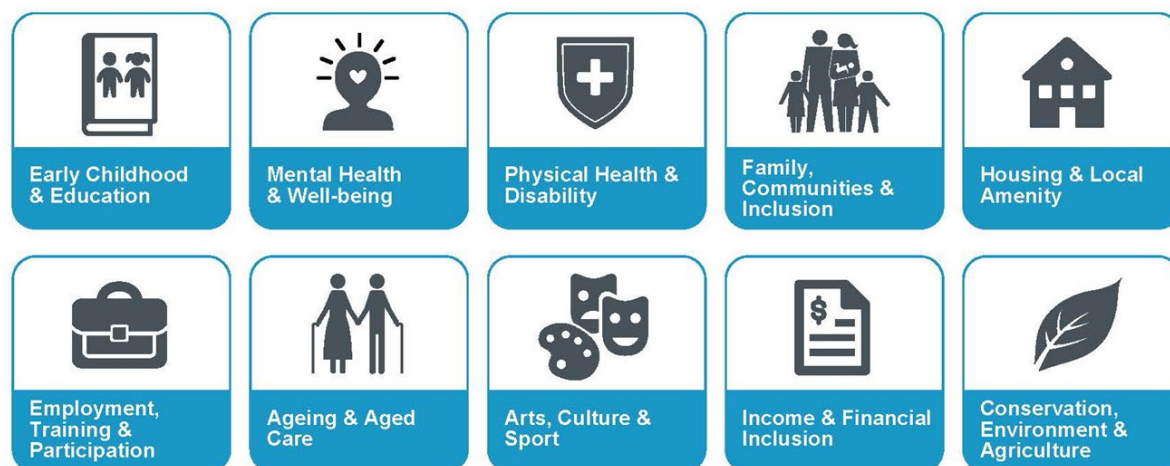


* Could be corporate, private or philanthropic

Source: ICA Implementation presentation, 2017

As a threshold requirement, all investments will need to demonstrate impact in one or more of the outcome areas that define the portfolio, (Figure 26).

Figure 26: ICA Outcome areas

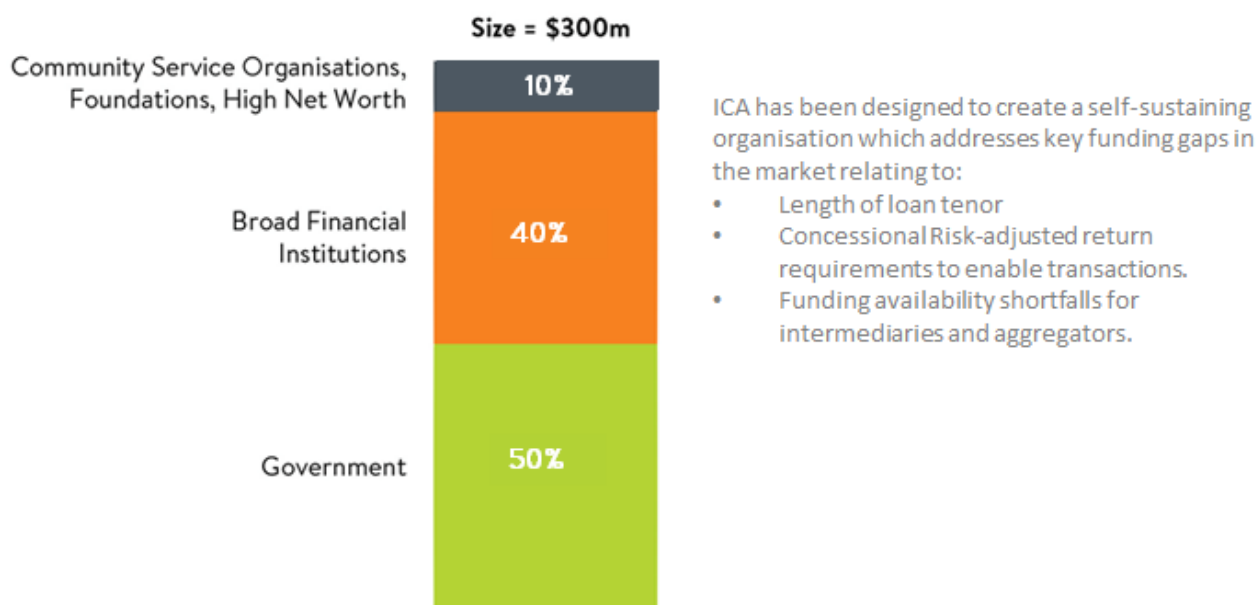


Financial model for ICA

Modelling indicates ICA will need **initial capital of \$300m** to provide a signal to the market, invest in deals at scale, and to operate self-sufficiently. Initial capital contributions to ICA (Figure 27) have been modelled: Government 50%; mainstream financial institutions 40%; community, philanthropy and other investors 10%.

If the government's contribution was a grant ICA's income stream, including interest earned on seed funding, will support the origination function and fund market building activity and the establishment and operating costs.

The terms of funding are likely to be different for each of the categories of capital provider. Grant or investment funding from governments; debt from major financial institutions on terms that include preservation of capital but with a return below full commercial rates; and debt on similar terms from the community sector and other investors providing it meets their fiduciary duties. Initial modelling anticipates ICA will have a self-sustaining cash flow profile within 7 years.

Figure 27: Initial capital structure for Impact Capital Australia

Source: Modified from Addis, R, McCutchan S, and Munro P, *Blueprint to Market*, 2015

Initially conceived by the Australian Advisory Board as a \$350m fund, a rigorous process was put in place to validate the capital requirements for ICA thereby reducing this to \$300m. Underpinning this is a financial model developed by Impact Investing Australia together with a Working Group of senior leaders and A.T. Kearney, and predicated on ICA's proposed business operating model.

The first step in this process was the construction of an economic model to better understand the key financial levers of the business across the elements of revenue, capital and expenses. The economic model also considers the tangible and intangible drivers of value, such as brand and government policy changes, to enable appropriate risk recognition and assessment across these dimensions. The economic model was further broken down and tested for key sensitivities. These identified sensitivities form the basis of the most significant variables and assumptions around which the financial model is built.

Once the initial financial model was constructed, a sub-committee of the Working Group, with extensive experience in financial markets and analysis, rigorously examined assumptions and sensitivities. The financial model went through extensive and iterative revision as part of this process.

The modelling indicates that \$300m is the total capital required to ensure a sustainable business model for ICA. The first 5 years of cumulative net income will result in a deficit which will need to be supported by ICA's initial capital. Over a 10-year period, this deficit becomes a surplus as investments mature enabling ICA to self-sufficiency. It is anticipated ICA will reach net positive cash flow in 7 years with steady state cash flow in 10 years, based on an assumed life cycle of investments at 7 years. Capital contributions to ICA will need to be patient to correspond with the underlying investment profile.

A summary of the economic model, sensitivities and financial model are available in the full Blueprint document.

Drill down on the multiplier effect

It is anticipated that a government investment in ICA will have a significant multiplier effect on government capital. This is set out in **Table 9** below with a blended multiplier effect of 16x.

Table 9: ICA Multiplier effect explained

	ICA at Start up	Direct [D]	Wholesale [W]	Total ICA [D+W]
% of portfolio		20%	80%	100%
ICA Investment (\$M)		60	240	300
Maximum Investment %		40%	40%	n/a
ICA + Private Direct Investment		150	600	750
Maximum % of Investee Purchased			25%	n/a
Funds Investment (\$M)			2400	2400
Government Capital (\$M)	150	30	120	150
Total Private capital (\$M)	150	120	2280	2400
Multiplier on Government funds	1.0	4.0	19.0	16.0

Source: ICA Implementation presentation, 2017

ICA modelling assumes that the maximum direct or wholesale investment ICA makes in an entity is 40%. This is consistent with the ratio of comparable companies such as the Clean Energy Finance Corporation and Big Society Capital since inception.

Investments by funds in investee companies is capped at 25% which takes into account both a conservative approach to the multiplier effect and risk management at the fund level.

The result shows a multiplier effect on private capital of 16x on the government's capital at the final stage of investment. Implying a \$150m contribution by the government into ICA will unlock \$2.4bn of private capital.

Governance and leadership

Clear, transparent and accountable governance is a minimum requirement for ICA. Its governance principles are designed to enable it to execute its unique mission and mandate effectively and for impact, financial return and the benefit of the market as a whole (**Figure 27**).

ICA's mission and mandate for the public good will be embedded in its Constitution and in the policies that govern its operations. ICA also needs to be independent and not be reactive to, or inhibited by, shorter-term drivers, vested interests, or changes in the political environment.

Legal advice has been obtained from Ashurst on regulatory and compliance considerations and structuring and governance. Policies and processes will be put in place to embed the requirements and ensure it is compliant with relevant licensing and regulatory requirements. It will be transparent and accountable to the public and market. It will operate collaboratively, including with its founding partners.

Figure 28: Structure and governance will ensure conformity to the agreed mission and mandate



- Independence is critical to attract funding from the private sector alongside government.
- Constitutional mission lock would underscore the mandate of ICA.

Source: Adapted from Blueprint to Market, 2015

ICA will be constituted as a public company with a Constitution that embeds and safeguards its mission and mandate. The Board of the organisation will have responsibility under the Corporations Act for its stewardship. A majority of the Board will be non-executive directors to safeguard the independence of the organisation.

A committee structure will be put into place to oversee key aspects of governance and operations. Additional expertise may be sought, to ensure that expertise and evidence on social impact, on investment and on markets are brought together in appropriate combinations.

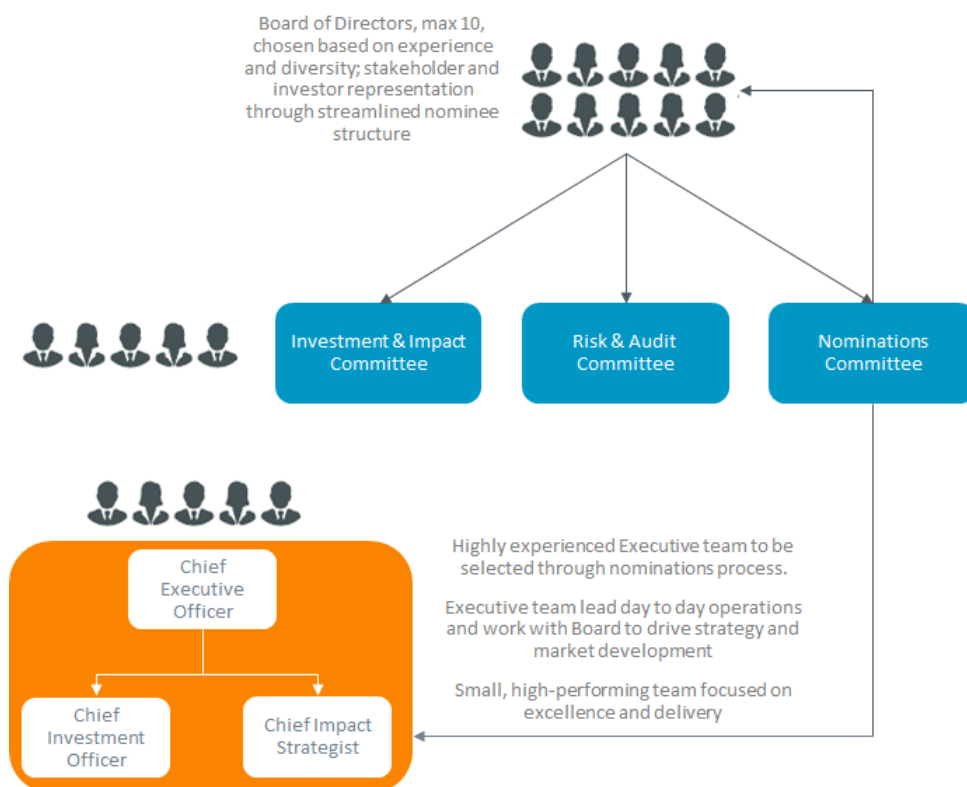
ICA will also be accountable for performance as an organisation, investor and market champion. It will have structured and rigorous processes for measurement and reporting. Those processes will embed accountability for impact achieved, financial performance and market development effects.

In addition, ICA will proactively seek to establish a reputation in the market for excellence, integrity and transparency; and operate on a basis where transactions with which it is involved reach the market with effective execution and monitoring of impact.

ICA will have a Board of committed Australian leaders that combines diversity of experience and perspectives with individual credentials, providing ICA with stewardship to operate with excellence, integrity and impact (Figure 29).

A highly effective team led by a first-rate executive will be critical. Based on the lessons from other impact funds, the team will be constructed to integrate investment professionals, impact strategists and systems expertise for maximum capacity to deliver across the three core elements of impact, financial viability and market development. Over time, ICA will become an important training ground for talent.

Figure 29: ICA will have a leadership structure to support effective execution & accountability



Source: Revised from Blueprint to Market 2015

ICA will recruit people with clear values-alignment with its mission, excellent track record, skills, experience and reputation to satisfy expectations of government, regulators, and other investors and to build confidence with the social and impact investment sectors. Across the team, there will need to be capacity to deliver against all dimensions of the mission and mandate.

For the purposes of establishing ICA, it is proposed that leadership from the Australian Advisory Board on Impact Investing will work with key stakeholders including government and other founding capital providers to establish an appropriately credentialed Board to make initial appointments.

Once operations are established, an Appointments Committee of the Board will be responsible for nomination of future Board members and key executive positions including Chief Executive Officer, Chief Investment Officer and Chief Impact Strategist. Board Committees will comprise members of the Board and appropriately qualified external parties that bring particular expertise.

Implementation and accountability

ICA can be delivered in line with all requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the *Commonwealth Grants Rules and Guidelines* (CGRGs). The design for ICA and

the proposed founding partnership for the Australian Government specifically meets all the seven key principles under the CGRG, including integrated governance arrangements to mitigate risk. Performance monitoring is built into the design and will be reflected in contracting arrangements, including for impact reporting to be made publicly available.

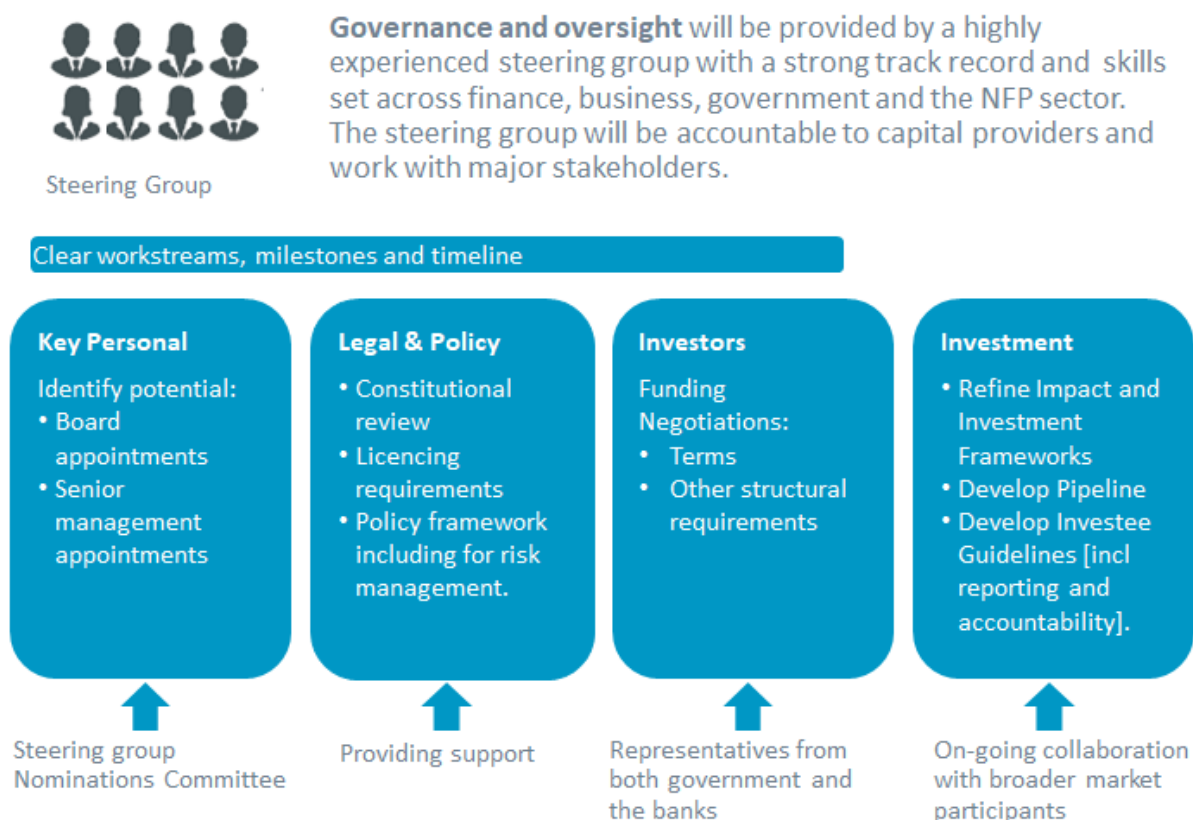
The implementation plan is already in advanced stages of development. Work to refine this is on-going through a process of securing founding partnerships with the Australian Government and financial institutions to enable ICA to be operational as quickly as possible once the initial capital is secured. The plan recognises that an establishment phase during which key personnel are engaged and proper accountabilities and governance are established will be essential before funding can be deployed in the market. An outline of the proposed approach to implementation is set out in **Figure 30** and the implementation tasks are further detailed in **Table 10**.

Ensuring that the robust policy logic and design and the governance and accountability mechanisms are mapped and reflected in contract arrangements with Government will be an essential step. Initial delivery of value for money will include securing partnerships with financial institutions and other private and community sector partners.

An independent Board of highly qualified and experienced leaders will be appointed as a first step as stewards for the implementation. Appointment of a CEO and other key executive roles including the Chief Investment Officer and the Chief Impact Strategist is a priority.

Operationalising the Governance architecture (as outlined) will also be a priority. This includes finalising a Board charter, establishing investment and operating policies and putting in place a framework for measuring and reporting on ICA's operating and financial performance, including impact. In addition, a risk and compliance framework together with related policies will be adopted. Effective risk management will be critical in ensuring the ultimate integrity and sustainability of ICA as an organisation and no investment will be made before this is in place.

Figure 30: Key implementation milestones will ensure a strong basis for ongoing governance



Source: Impact Investing Australia, 2017

This implementation stage for ICA will be relatively fast and its organisational structure will evolve from the core as it builds capacity. It may be necessary to retain specialist advisors to provide advice to the Board during this initial phase to ensure that all of the compliance obligations are met, and processes established in a manner that meets the intention of best practice governance, risk management and delivery.

Table 10: Key implementation tasks will involve rigorous framework, policy and systems development

	Stage 3 (~6 months)	Stage 4 (~6 months)
Legal and Governance	<ul style="list-style-type: none"> Finalise ICA Board Obtain required licences e.g. Australian Financial Services Licence Put in place financial delegations from Board to Executive Define Board Charter clarifying role and risk/control Framework Formalise Board operating structure including role of sub-committees Finalise Risk Management and Compliance Framework Formalise organisational structure & employment plan Develop impact and investment performance frameworks Develop corporate plan and reporting frameworks 	<ul style="list-style-type: none"> Adopt and publish Board charter and operating, investment and performance policies Establish Board sub-committees Implement performance and reporting systems Publish corporate plan Embed risk management & compliance systems Adoption of investment and valuation policy and investee reporting guidelines.
Personnel	Finalise key executive appointments	Recruit other key personnel
Finance and Operations	<ul style="list-style-type: none"> Establishment tasks including: office accommodation & set up, insurance, auditors, tax registration, software and systems, communication and IT contracts, service contracts etc. Develop a more detailed forward budget Refine initially identified areas of potential investment 	<ul style="list-style-type: none"> Document and adopt policies and procedures relating to: financial operations, HR and Finance delegations, procurement, accounts management, stakeholder and media communications Engage market, in particular financial intermediaries Formal launch
Communications	Initial development of stakeholder and media communications strategy	<ul style="list-style-type: none"> Design and establish ICA website Ongoing communication materials

Source: Updated from Impact Investing Australia, 2017

Risk management

International experience and an understanding of the Australian market for impact investment has informed a preliminary assessment of the potential risks and associated mitigation strategies for ICA. Some of these are outlined in **Table 11**.

Table 11: Early Identification of some potential risks and associated mitigation strategies.

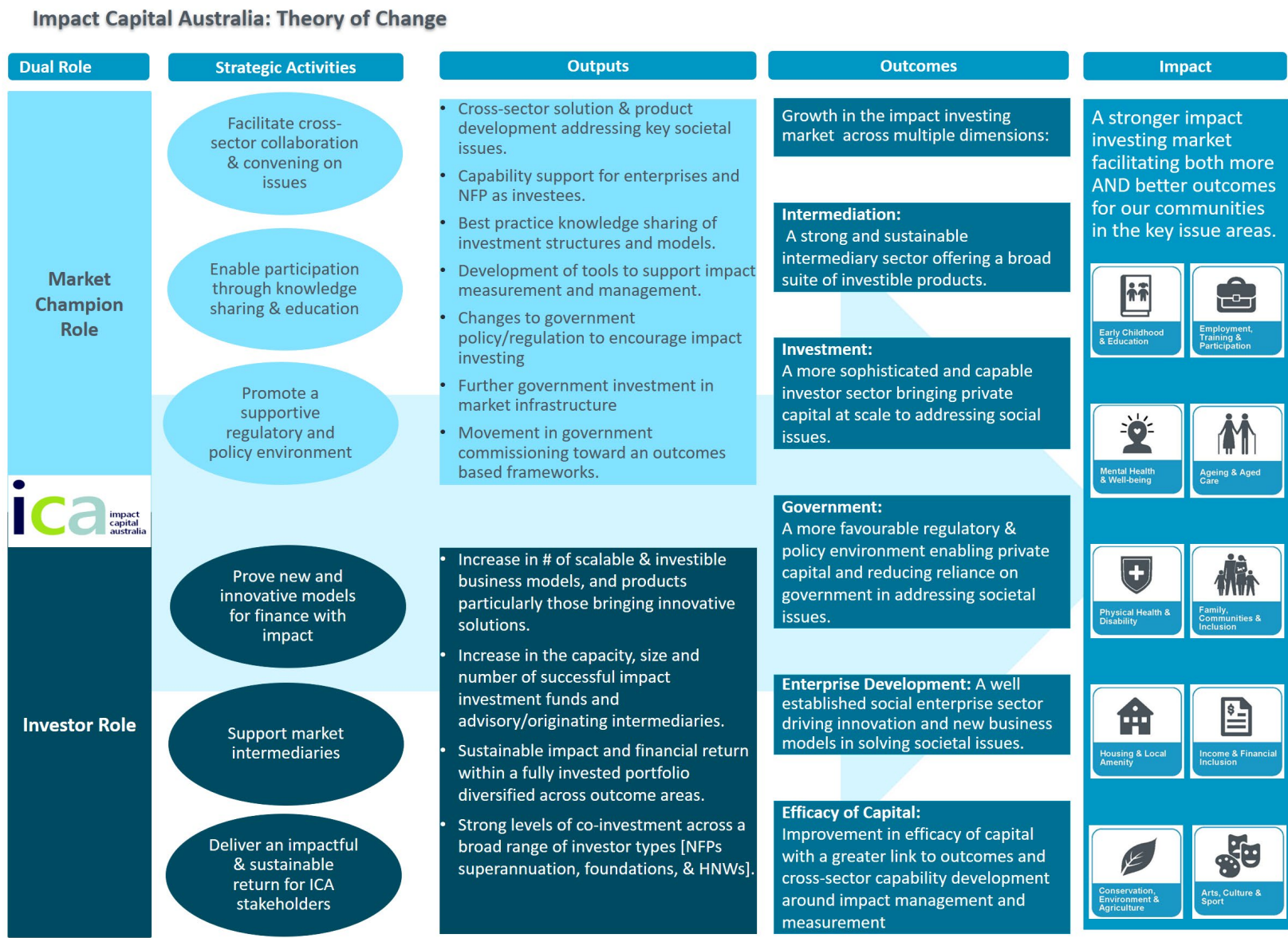
Risk	Mitigation strategy
Capital deployment slower than forecast	Provision for ICA to undertake origination and design and co-create strategies with the market; capacity development for intermediaries
Failure to capture impact	Development of practical, useful impact framework including employing best practice impact management in design, strategy, management and measurement
Lack of Innovation	Foster partnerships and collaboration; convene stakeholders to co-design in areas of priority for need and demand
Lack of scale	Understand mainstream investor needs and combine focus on services with asset backed transactions while scalable enterprise models build
Underperformance of financial return	Balance portfolio across finance, impact and market development dimensions and design for financial sustainability over medium term (7-10 years); manage investor expectations on term requirements to achieve impact and financial outcomes.

Source: ICA Working Group discussion and analysis

ICA Theory of change

Figure 31 sets out ICA's Theory of Change for a stronger impact investing market facilitating more and better outcomes for our Australian communities.

Figure 31: ICA’s Theory of change



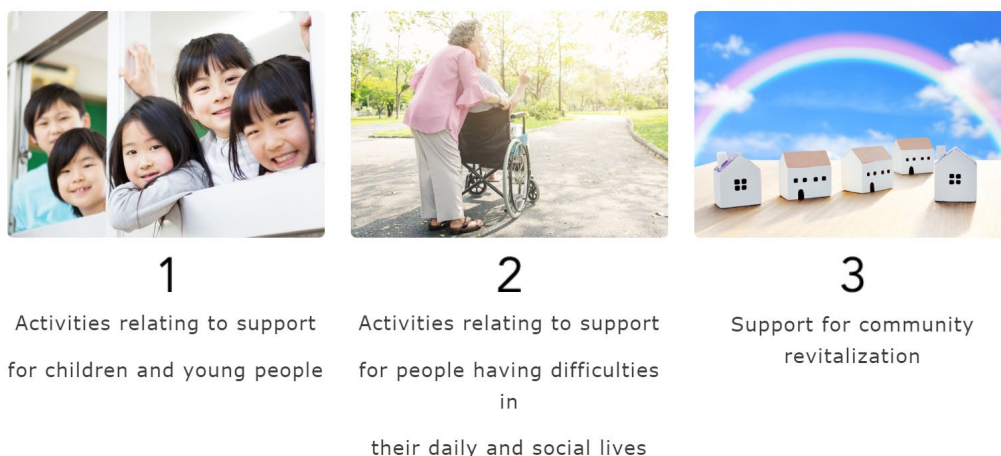
Source: Impact Investing Australia, 2017

Appendix 4: Other International Wholesalers

Japan's Designated Utilization Foundation - JANPIA

Japan's wholesaler has been designated under the law by the Prime Minister with a view to utilising some of the estimated ¥70 bn (\$920m) a year from dormant assets accounts. The designated utilization foundation under the Act is JANPIA (Japanese Network of Public Interest Activities). It began operations in April 2019. Its target areas are displayed in **Figure 32**.

Figure 32: Target areas of the Japanese Wholesaler



Activities relating to support for children and young people

Activities relating to support for people having difficulties in their daily and social lives

Support for community revitalization

Source: <https://www.janpia.or.jp/en/about/vision.html> accessed 17/01/2020

JANPIA, publicly seeks intermediary organizations that distribute funds to organizations, and then, accredited intermediary organizations publicly seek and select fund recipients and provide funds. This can be to give grants, make loans or invest equity in social enterprises and other social organisations. In its first fiscal year, JANPIA has been allocated ¥3 bn (\$39m) to deploy. This will be scaled up in later years subject to successful deployment. JANPIA mission includes elements such as: capacity building through incubation and acceleration; enabling the “crowding in” of private funds; encouraging of social innovation; and transparency in measurement of outcomes from funds utilised. ^{lxxiii}

Korea Social Value and Solidarity Fund

The South Korean wholesaler, the Korea Social Value and Solidarity Fund, was granted non-profit trust status by the Korean Ministry of Strategy and Finance in December 2018. The Government has agreed to match the private donations raised with total targeted fund size of KRW 300bn (about \$375m) over five years. The wholesaler operates as a foundation. It intends to mirror BSC's strategy, though it has not yet worked out the details of its business plan. It plans to emphasize intermediaries (it has yet to decide if it will invest directly in enterprises). It plans to employ grants, debt, equity and guarantees across a diverse set of social sectors and legal forms. The Fund will seek to grow South Korea's social economy by strengthening the links between investors and enterprises. Proponents believe that the Fund will spur great activity in a country keen on impact investment but without a strong intermediary layer. The wholesaler continues to work to secure its KRW 300 bn and evolve its business plan. It technically operates independent of government although as a key funder the government is driving aspects of its design.

Canada

In November 2018, the Canadian Government committed to make available up to C\$755m on a cash basis over the next 10 years to establish a Social Finance Fund.

The Social Finance Fund is currently in the design phase. It will:

- Support innovative solutions on a broad range of social challenges through a competitive, transparent and merit-based process.
- Attract new private sector investment to the social finance sector. It is expected that the Fund would achieve matching funding from other investors.
- Share both risks and rewards with private investors on any investments.
- Only support investments that are not yet viable in the commercial market.
- Help create a self-sustaining social finance market over time that would not require ongoing government support

The Canadian Government estimates that a fund such as this Social Finance Fund could generate up to C\$2bn in economic activity and help create and maintain as many as 100,000 jobs over the next decade.

The fund is likely to be structured with a majority of the C\$755m deployed to repayable investment, with other non-repayable components for technical assistance, credit enhancement, market building and administration.

Concurrent with the II wholesaler commitment the Canadian Government announced a C\$50m (\$56m) investment readiness (IR) program. The program started in April 2019 with ~C\$46m to be made available over a 2-year period in grants and contributions with the balance (C\$4m) reserved for administration.

The IR program was developed to help advance Social Innovation and Social Finance in Canada and build on existing initiatives to help catalyse community-led solutions to persistent challenges. The objective of the program is to provide time-limited investments that support as many Social Purpose Organisations (SPOs) as possible in improving their capacity and ability to participate in the social finance market, access new investment opportunities and support them throughout the innovation cycle. These SPOs may serve a variety of populations and communities including Indigenous, rural and remote, LGBTQ2+, OLMC, people with disabilities, recent immigrants, visible minorities and cultural communities and/ or youth.

The IR program has four key intersecting focus areas:

- Technical capacity;
- Impact measurement and knowledge mobilization;
- Emergence and growth of social finance intermediaries
- Early-stage innovation^{lxiv}

Appendix 5: Case studies

Examples of impact created by Big Society Capital in key outcome areas.

Case Study 12: Nesta Impact Investments and GetMyFirstJob – Education, training and employment



GetMyFirstJob (GMFJ) launched in 2012 as a one-stop-shop through an innovative web-based platform connecting young people, training providers, colleges and employers. This platform provides more effective and efficient connections across what had become a fragmented and difficult to navigate market.

In 2015, Nesta Impact Investments (NII) invested £500,000 into sales, marketing and other resources to enable GetMyFirstJob (GMFJ) to scale-up their reach and impact. At the time of launching in 2015, when unemployment amongst 16 to 24 years old's had risen by 30,000 to 764,000, over 160,000 young people were registered with GMFJ who hoped to place 10,000 young people into apprenticeships in that year.

Increasing the number of young people entering suitable apprenticeships creates measurable social impacts by improving their skills, employment readiness and rates of employment.

Impact:

The platform grew to 250,000+ candidates in 2016, processing 30,000+ applicants monthly and working with 150+ colleges, employers and providers across the UK. In December 2017, nearly 12,000 vacancies were listed, 28,000 candidates shortlisted and 500 recruiters were working on filling apprenticeship opportunities.

Improving the rate and quality of apprenticeship placements aims to encourage more apprenticeship opportunities for young people.

Catalytic Capital:

NII's lead investment saw a rapid growth of 500% of GMFJ's business. Following on from this success Nesta jointly invested £1m with City & Guilds Group in 2016. In 2017, NII provided an additional £320,000.

Source: Impact Investing Australia, 2017, adapted from information on Nesta Impact Investments and City and Guild websites.

Case Study 13: Bridges Funds Management and Babington Group – Education and training



A skills shortage continues to hamper the UK's economic recovery, with one in five job vacancies remaining unfilled; while employment among 16-24 year-olds continues to lag behind pre-crisis levels, with almost a million classified as NEET (not in education, employment or training). Bridges believed that Babington's high-quality apprenticeships and trainee programs in areas like accounting and insurance could help to address this skills gap, by allowing businesses to harness fresh talent and enabling staff to develop specialist skills through on-the-job training.

Bridges, a specialist sustainable and impact investor, invested in Babington in line with its focus on backing companies that have a clear growth opportunity by tackling major societal challenges or responding to long-term macro trends. Babington has continued to diversify its product offering, by expanding its Traineeship provision and increasing the breadth and depth of courses available

Impact:

Babington has supported over 32,000 learners, and helped over 3700 formerly unemployed people to find jobs. In 2015, it trained 1600 16-17 year-olds at risk of becoming NEET with about two-thirds of its students coming from underserved areas of the UK. It now works with over 2,100 employers to source and support talent.

Catalytic Capital:

A capital injection from Bridges Fund Management, a specialist sustainable and impact investor, catalysed Babington's growth. This investment from Bridges Sustainable Growth Fund II in 2009 helped scale Babington Group. Revenues increased from under £2m to more than £15m over the 7 year period. Exiting in April 2016, Bridges achieved an IRR of 33%.

Source: Impact Investing Australia, 2017 adapted from information on Babington Group and Bridges Funds Management websites.

Case Study 14: Golden Lane Housing and Retail Charity Bonds – Disability accommodation



Golden Lane Housing (GLH) was established in 1998 by Mencap, advocacy and service providers for people with learning disabilities. GLH is a charitable company providing quality homes to more than 2000 people with learning disabilities in the UK. One of the biggest challenges facing people with a learning disability is lack of access to suitable supported accommodation. Only 16% of people with learning disabilities in the UK live in supported housing in their community. Most live far away from their friends and family.

GLH works with more than 80 different support providers to ensure all tenants can access the personal support they need to maintain their tenancy.

In 2014, GLH raised the first listed retail charity bond to finance this work. Retail Charity Bonds are a new way to borrow for established charitable organisations that develop assets, generate revenue and create impact. The bond was raised through Retail Charity Bonds, an initiative of Alia Impact Finance.

Impact:

This Retail Charity Bond capital was used to buy and adapt 30 homes for 120 people supported by Mencap, service providers and advocates for people with learning disabilities.

Support includes providing people with learning disabilities with the opportunity to live in the right house, in the right place, with the right support, so that they can prosper, develop their independence and skills and contribute to their communities.

Catalytic Capital:

GLH raised £11 million from investors through the first charity bond listed on the London Stock Exchange's Order Book for Retail Bonds in 2014. The Bond offered 4.375% per annum due 2021.

GLH's 2nd Retail Charity Bond (£18 million) offering 3.9% due 2027 was fully subscribed, closing earlier than expected in November 2017.

Source: Impact Investing Australia, 2017, adapted from information on Golden Lane Housing and Retail Charity Bonds Website

Case Study 15: London Early Years – Early childhood learning



Research shows that nursery education best supports children's early development. Many parents, especially women, are locked out of the workplace because of the cost of childcare. As a result children, especially those from disadvantaged backgrounds, miss out on the high quality early education they need to set them up for life.

The London Early Years Foundation (LEYF), an award-winning group of 37 nurseries across London provides children from all backgrounds with an affordable nursery place. LEYF nurseries are located in some of London's most disadvantaged areas. Social investment has enabled LEYF to develop a cross-subsidy business model whereby profitable nurseries in affluent areas subsidise community nurseries in deprived parts of London.

Impact:

LEYF builds social cohesion by bringing children from all backgrounds together. It supports family wellbeing through education that increases the child's readiness for school while enabling parents to return to work.

In 2016, 43% of the children attending LEYF nurseries were provided free of charge places across 38 nurseries. LEYF grew 60% between 2013-2016, taking on 14 new nurseries and providing an additional 1500 nursery places for children.

Catalytic Capital:

In 2014, two leading social impact investors, Bridges Funds Management and Big Issue Invest invested £1.25m to support LEYF's growth strategy to reach 5,000 children and their families by 2017. National Westminster Bank, provided an overdraft facility to go alongside Bridges' and Big Issue's investments.

In 2015, LEYF successfully raised a second stage of investment worth £1.5 million, with the support of ClearlySo, an impact investing intermediary.

Source: Impact Investing Australia, 2017, adapted from information on London Early Years Foundation Website

Appendix 6: Additional budget measures to build the ecosystem

Additional measures outlined below complement ICA. These are designed to build government capacity and leadership, remove regulatory barriers, grow enterprising activity to tackle social issues and develop capacity for commissioning of services that improves outcomes and reduces costs over time.

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

Identified as actions that can have the greatest impact, these measures complement the Australian Advisory Board strategy for the local Australian market, which reflects key recommendations of the global G8 Social Impact Investment Taskforce.

Summary of proposed additional budget measures:

Additional Budget Measure	Description	Costs
Remove regulatory barriers to facilitate growth	<p>Low cost measures to remove regulatory barriers to market growth:</p> <ul style="list-style-type: none"> ▪ Clarification of the fiduciary duties of philanthropic and superannuation trustees to put beyond doubt that impact can be considered in addition to risk and return by fiduciary decision makers; ▪ Ensure program and mission related investment is enabled to provide greater flexibility for philanthropic trusts and foundations to direct capital toward achieving their social mission through mission related investment; ▪ Assess the extent to which regulatory issues, accounting and balance sheet treatment of social infrastructure assets, including housing, is limiting capacity to attract private capital to these assets. This could be linked with policy work underway through the Council on Federal Financial relations to explore innovative mechanisms to boost affordable housing; ▪ Extend provision for unsolicited proposals to be brought forward from current parameters to include a transparent framework for unique proposals to develop the impact investment market or leverage private capital for priority policy priorities at scale; ▪ Amend the Corporations law to enable a clear legal framework for Benefit Corporations in Australia and investigate the application and impact of other innovations for purpose organisational forms; and 	No administrative funding

Additional Budget Measure	Description	Costs
	<ul style="list-style-type: none"> ▪ Leveraging procurement to shift the way in which services are purchased by requiring that a broader approach to value creation be considered. 	
Promoting outcomes focus, efficacy and innovation	<p>Promoting better outcomes, efficacy and innovation starting with design and feasibility for 2 initiatives with a view to moving quickly to a decision on implementation in the out years of the Budget. The focus is building capacity to use market-based mechanisms to attract capital to achieve strong social and economic outcomes, including through collaboration between the Federal and State Governments.</p> <p>The development work relates to the following.</p> <ul style="list-style-type: none"> ▪ A dedicated Outcomes & Innovation Fund to support proof of concept and scaling what works through outcomes-based commissioning, including social impact bonds; and ▪ Protocols for data sharing to inform efficacy and innovation and facilitate more efficient and effective allocation of existing resources to achieve social impact. 	
Government leadership and engagement	<p>A suite of opportunities to build Government capacity and leadership and connect the Australian Government at the forefront of developments.</p> <ul style="list-style-type: none"> ▪ Nominating senior observers to the Global Steering Group for Impact Investing and the Australian Advisory Board on Impact Investment. ▪ Appointing a clear Ministerial lead on impact investment. ▪ Developing the whole of government advisory remit of Innovation and Science Australia by including social innovation expertise on the Board. 	No administered funding required in the short-term pending feasibility

Appendix 7: About us

Impact Investing Australia (IIA) & the Australian Advisory Board for Impact Investing (AAB)

IIA was established in 2014 as the operating entity of the AAB and in response to an industry-identified need for dedicated leadership, facilitation and capacity building. The AAB, is Australia's National Advisory Board for Impact Investing within the Global Steering Group for Impact Investing (GSG). In 2013, under the UK presidency of the G8, the Global Social Impact Investing Taskforce (now the GSG) was created. The founding members (G7, EU and Australia) were tasked with creating a strategy for growing II in their own jurisdiction. To do this they formed National Advisory Boards (NABs). These NABs were not boards in any legal sense, they comprised a group of cross-sector leaders willing to collaborate in designing and implementing a National II growth strategy.

Primarily responsible for driving the implementation of the AAB's strategy to catalyse the market for impact investing, IIA provides a focal point for market development in Australia, as well as participating in international efforts to grow the market globally.

Partners and supporters

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

Market Building and impact is made possible with collective action and resources. We thank our partners and supporters and welcome others who would like to contribute to realising the potential of impact investing in and from Australia.

AUSTRALIAN ADVISORY BOARD
ON IMPACT INVESTING



Partners:



Australian Government
Department of Social Services



Equity Trustees

G&S Consulting



Impact
Strategist



LORD
MAYOR'S
CHARITABLE
FOUNDATION

Perpetual



Supporters:



MinterEllison



ENDNOTES

- ⁱ Hill R and Addis R, *Views from the Impact Investing playing field in Australia on what's happening and what's needed next*, 2017.
- ⁱⁱ Wilson, K & Silva, F, *Policies for Seed and Early Finance: Findings from the 2012 OECD Financing Questionnaire*, OECD Science, Technology and Policy Papers, No 9, 2013
- ⁱⁱⁱ The Global Impact Investing Network, *Sizing the Impact Investing Market*, April 2019
- ^{iv} The Global Impact Investing Network, *Annual Impact Investor Survey*, 2019
- ^v Castellás E and Findlay S, *Benchmarking Impact 2018*, Responsible Investment Association of Australasia, 2018
- ^{vi} Global Sustainable Investment Alliance, *Global Sustainable Investment Review*, 2018
- ^{vii} Sustainable Development Solutions Network and Bertelsmann Stiftung, *2018 SDG Index and Dashboards*, 2018
- ^{viii} Australian Productivity Commission, *Rising Inequality? A stocktake of the evidence*, 2018
- ^{ix} Centre for Global Development, *Commitment to Development Index 2018* <https://www.cgdev.org/commitment-development-index-2018>
- ^x Hill R and Addis R, *Views from the Impact Investing playing field in Australia on what's happening and what's needed next*, 2017.
- ^{xi} Adapted from GSG Working Group Report, *Building Impact Investment Wholesalers, Key Questions in Design of an Impact Investment Wholesaler*, 2018
- ^{xii} GSG Working Group Report, *Building Impact Investment Wholesalers, Key Questions in Design of an Impact Investment Wholesaler*, 2018
- ^{xiii} Social Impact Investment Taskforce, 2014, and Notes of GSG Plenary Meeting, London, [unpublished] July 2015
- ^{xiv} GSG Working Group Report, *Building Impact Investment Wholesalers, Key Questions in Design of an Impact Investment Wholesaler*, 2018
- ^{xv} Ibid
- ^{xvi} GSG Wholesaler Working group draft materials Nov 2015 [unpublished]
- ^{xvii} Godsall, J & Sanghvi, A, *How Impact Investing can reach the mainstream*, McKinsey & Company, 2016
- ^{xviii} Retrieved from <https://www.bigsocietycapital.com> accessed December 2019
- ^{xix} GSG Wholesaler Working group Interview, Sept-Nov 2017 [unpublished]
- ^{xx} Retrieved from https://media.sitra.fi/2017/05/30110707/EIF_Social_Impact.pdf, accessed December 2019
- ^{xxi} Retrieved from http://www.eif.europa.eu/what_we_do/equity/sia, accessed December 2019
- ^{xxii} GSG Wholesaler Working group Interview, Sept-Nov 2017 [unpublished]
- ^{xxiii} Retrieved from <https://www.bigsocietycapital.com/impact-report/impact-market>, accessed December 2019
- ^{xxiv} GSG Wholesaler working group Interviews Sept-Nov 2017 [unpublished]
- ^{xxv} Portugal Inovacao Social, *Blended finance to create a social innovation system webinar*, 2019
- ^{xxvi} Castellás E and Findlay S, *Benchmarking Impact 2018*, Responsible Investment Association of Australasia, 2018
- ^{xxvii} Social Enterprise Finance Australia (SEFA) one of the SEDIF funds
- ^{xxviii} Barraket J and Muir K, *Social Enterprise Development and Investment Funds (SEDIF) Evaluation Report*, Centre for Social Impact, 2016
- ^{xxix} Impact Investing Australia, 2019 adapted from Addis, R (2015). *The roles of government and policy in social finance* in Nicholls et al, *Social finance*, Oxford, UK
- ^{xxx} Addis, R, McCutchan, S and Munro, P, *Blueprint to Market: Impact Capital Australia*, Impact Investing Australia, 2015
- ^{xxxi} *Financial System Inquiry Report*, The Australian Government The Treasury, 2014
- ^{xxxii} Janeway, W, H *Doing Capitalism in the Innovation Economy: Markets, Speculation and the State*, Cambridge University Press, 2013
- ^{xxxiii} Addis, R, Bowden, A and Simpson, D, *Delivering on Impact: The Australian Advisory Board Strategy for Catalysing Impact Investment*, Impact Investing Australia, 2014
- ^{xxxiv} Bannick, M and Goldman, P, *Priming the Pump: The Case for a Sector Based Approach to Impact Investing*, Omidyar Network, 2013
- ^{xxxv} Addis, R, McCutchan, S and Munro, P, *Blueprint to Market: Impact Capital Australia*, Impact Investing Australia, 2015
- ^{xxxvi} Uli Grabenwarter, *The devil in 'investment opportunities': Why funding solutions must be the new paradigm in impact investing*, <https://www.pioneerspost.com/business-school/20191014>, 2019
- ^{xxxvii} Barraket, Jo; Mason, Chris and Blain, Blake, *Finding Australia's Social Enterprise Sector 2016: Final Report*. Centre for Social Impact Swinburne & Social Traders. Melbourne, Australia, 2016

- ^{xxxviii} <https://www.socialtraders.com.au/about-social-enterprise/> accessed 16th December, 2019
- ^{xxxix} Barraket, Jo; Qian, Joanne and Riseley, Emma, *Social Enterprise: A people-centred approach to employment services*. Report for Westpac Foundation. Australia: Westpac Foundation and the CSI Swinburne, 2019
- ^{xl} SEUK's *State of the Sector and Prospecting the Future* and Big Lottery Fund's *Investment Readiness in the UK*
- ^{xli} Hill, R & Addis, R, *Views from the impact investing playing field in Australia on what's happening and what's needed next*, Australian Advisory Board on Impact Investing, 2017
- ^{xlii} Hireup website, <https://hireup.com.au/about/> accessed 16/12/2019
- ^{xliii} Brown, A., & McAllister, K., *Ready, willing and able: an interim review of the Investment and Contract Readiness Fund*, Boston Consulting Group, 2014
- ^{xliv} Ziegner, J; McCutchan, S and Hu, J, *Paving Pathways: A review of the Impact Investment Ready Growth Grant*, 2018
- ^{xlv} Ibid.
- ^{xlvi} Ronicle, J & Fox, T, *In Pursuit of Readiness: Evaluation of the Investment and Contract Readiness Fund*, UK, 2015
- ^{xlvii} Ronicle, J & Fox, T, *In Pursuit of Readiness: Evaluation of the Investment and Contract Readiness Fund*, UK, 2015
- ^{xlviii} Department of Finance, 2019
- ^{xlix} NESTA, See: <https://www.nesta.org.uk/blog/transforming-public-services-through-innovative-procurement/> accessed December 2018
- ^l Australian Government Department of Finance, *Consideration of broader economic benefits in procurement*, 2019
- ^{li} NIAA, See: <https://www.niaa.gov.au/indigenous-affairs/economic-development/indigenous-procurement-policy-ipp> (2019)
- ^{lii} Australian Government Department of Finance. See: <https://www.finance.gov.au/government/procurement/clausebank/indigenous-procurement-policy-ipp> (2019)
- ^{liii} <https://www.wgea.gov.au/newsroom/media-releases/australias-latest-gender-equality-scorecard-released-today>
- ^{liv} Barraket, J. and Weissman, J., *Social procurement and its implications for social enterprise: a literature review*. Brisbane, Australia: The Australian centre for philanthropy and nonprofit studies, Queensland University of Technology, 2019
- ^{lv} Furneaux, C. & Barraket, J., *Purchasing social good(s): a definition and typology of social procurement*, *Public Money and Management*, 34(4), pp. 265-272, 2014
- ^{lvi} Victorian Government, *Social Procurement Annual Report 2018-19*, December 2019
- ^{lvii} <https://www.forgov.qld.gov.au/consider-social-procurement>, accessed December 2019
- ^{lviii} Institute for Government, *The "S" Factors: Lessons from IFG's Policy Success Reunions*, 2012
- ^{lix} World Economic Forum in collaboration with the UK Government, *Behind the Scenes of Impact Investment Policy-Making*, 2018
- ^{lx} Ibid.
- ^{lxi} Addis, R and Wood, D, *National Advisory Boards: A handbook for establishing and driving a highly effective National Advisory Board on Impact Investing, NAB Action Guide from the GSG*, 2019
- ^{lxii} UK National Advisory Board on Impact Investing, *The Rise of Impact: Five Steps towards an inclusive and sustainable economy*, Oct 2017
- ^{lxiii} Dr. Shamshad Akhtar, Under-Secretary-General of the United Nations and Executive Secretary, United Nations Economic and Social Commission for Asia and the Pacific, 2018
- ^{lxiv} Thomson Reuters Foundation, British Council, Tilleke & Gibbins and United Nations ESCAP, *Asean Social Enterprise Structuring Guide*, 2018
- ^{lxv} Carnival Australia, Media Release: *Carnival Australia Recognised for Sharing The Value Of Cruise Tourism In The Pacific*, 23/10/2018
- ^{lxvi} United Nations, *Financing for Development: Progress and Prospects 2018*, Report of the Inter-agency Taskforce on Financing for Development, New York 2018
- ^{lxvii} Asian Development Bank, *Meeting Asia's Infrastructure needs*, 2017
- ^{lxviii} Collaboration of MDBs (AfDB, ADB, AIIB, EBRD, EIB, ICD, IDB, IFC, IsDB, MIGA, NDB, WB), *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions, 2017*, (June 2018)
- ^{lxix} Ibid
- ^{lxx} Abridge version of extracts from Addis R, Michaux F and McCutchan S, *Scaling Impact: Blueprint for collective action to scale impact investment in and from Australia*, AAB 2018
- ^{lxxi} OECD, *Social Impact Investment 2019: The Impact Imperative for Sustainable Development*, OECD Publishing, 2019
- ^{lxxii} Hsueh, J and Blankinship, B, *Complexity in collaboration with Addis, R and Barbosa-Vargas, E and design by Murphy, R, Systems mapping for theory of change for and as set out in GSG Working Group Reports 2018, The Impact Principle: Widening participation and deepening practice for impact investment at scale*, 2018
- ^{lxxiii} <https://www.janpia.or.jp/en/about/vision.html> accessed 17/01/2020
- ^{lxxiv} <https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/consultation-investment-readiness-stream/discussion-guide.html> accessed 17/01/2020