

SOCIAL IMPACT INVESTING DISCUSSION PAPER RESPONSE

AUSTRALIAN SOCIAL INVESTMENT TRUST

Social impact investing in Australia, and globally, is still in its infancy and as such the barriers and challenges associated with it are numerous and at this stage impose significant barriers to those wishing to participate in social impact investing from all aspects of the market, from service providers to investors. This also means that there is significant opportunity to build a robust social investment market in Australia for the future by creating a strong foundation framework. Social impact investing is poised to generate more effective and efficient policy outcomes in areas of social disadvantage where cohorts are experiencing complex, long term or intergenerational issues should the frameworks be correctly built in this infancy phase.

1 BARRIERS

Social impact investing and the wider focus on outcomes and commissioning for outcomes is encouraging organisations from the NGO and social enterprise sector to rethink how they operate their business as usual. This is resulting in new, innovative and often more streamlined and focused ways of operating that puts the core needs and aspirations of the chosen location, issue or cohort at the centre of focus with the 'how' as a secondary focus. This will ultimately result in better outcomes for those in the community but does pose a problem with the rigidity of the regulatory and policy environment these organisations are forced to operate within. Take Collective Impact¹ initiatives (CI) as an example; this innovative new collaborative framework was profiled 6 years ago in the Stanford Innovation Review and has been shown globally to be a successful methodology for addressing complex, intergenerational issues using a multi stakeholder approach. The Australian Social Investment Trust (ASIT) adopted a blended approach to CI in its work and this can be seen in the 'Our Place' projects in the Illawarra and Shoalhaven and has come up against many regulatory barriers in working in this new way which have included:

- ACNC regulatory barriers during the charity registration process due to the innovative and new organisational framework that ASIT had. ASIT is now an approved charitable organisation however the cost to the organisation was over \$60,000 in legal fees and a large amount of additional man hours to create educational documents for the ACNC.
- Through its CI, ASIT are looking to remove systemic barriers and empower individuals and whole communities to bring equity to those living in poverty in Australia and is ultimately looking to elevate poverty. However, it was found that the Australian Charities Act 2013 does not allow this to be the mission of an organisation and instead limits an organisation to the ability to 'relieve poverty'. Having this barrier on registered charities is a large barrier for social impact investing which by definition "is looking to address intractable social problems and environmental problems".

Above highlights barriers to entry for organisations looking to act as service providers and intermediary within the social impact investing market. Once an organisation is established and looking to participate within this market there are further barriers associated with proving the outcomes needed for a viable social investment. As outlined in the discussion paper there is a lack of

¹ Kania, J. Kramer, M. (2011). Collective Impact. *Stanford Innovation Review*.
https://ssir.org/articles/entry/collective_impact

knowledge and funding in the community sector for organisations to engage in high level outcomes measurement and the further analysis required to prove documentable, risk reasonable, economic outcomes alongside the social outcomes is complex and costly. This is further amplified by the fact that social outcomes in many sectors of the wider community sector require long term interventions and measurement with funding for this is outside of grant, political and administrative cycles and therefore is often not attempted.

The above examples only looks at the barriers from a service perspective, however, there is a major investor market that is not able to participate in social impact investing due major regulatory barriers and that is the philanthropic sector. This sector is barred for participating in any social impact investing market due to Australian Tax Office (ATO) regulatory barrier regarding Deductible Gift Recipients (DGR) status. The philanthropic sector is only able to contribute to initiatives, programs and organisations that have DGR status, and this in our opinion does not need to be changed, however, the regulatory barriers associated with organisations being approved for DGR status are immense and highly restrictive and are not in line with the evolutions in the social sector.

2 PRINCIPLES OF SOCIAL IMPACT INVESTING

The 4 principles outlined in the discussion paper are good overarching principles for social impact investing and overall the details provided on specificities associated with each of these are in line with what ASIT believe should be included within these baseline principles. There should be a focus within principle 2, specifically 2.3 (Robust and transparent evaluation methods) on understanding the cohort or community context using qualitative methodologies and ensuring these are supplemented by validating methodologies or using mixed methodologies that convert qualitative data into quantitative data such as the Personal Wellbeing Index or the Warwick Edinborough Mental Wellbeing Scale. These baseline principles need to be further refined and added to in order to create a robust principle methodology for social impact investing and ASIT are happy to participate in any consultation process regarding this.

3 SOLUTIONS: GOING FORWARD

The federal and state governments are in a prime position to work collaboratively to facilitate and support the social impact investment market and remove key barriers for organisations and individuals wishing to participate in this market. Below is outlined key actions that could be taken to facilitate, promote and support a social impact investing market in relation to service providers, intermediaries and investors.

3.1 SERVICE PROVIDERS AND INTERMEDIARIES

3.1.1 A Service Provider Tool Kits

The government could play a key role in assisting in the removal of financial and intellectual barriers for those looking to be service providers for social impact investment. A toolkit containing model constitutions for social enterprises that are broadly tailored to various organisational missions would be very valuable in reducing the cost associated with this type of organisation.

With outcomes measurement being a key barrier for the service sector in participating in social impact investing, the government could play a key facilitator role in helping to fund, develop and

implement more robust evaluation frameworks within the service system. Streamlined methodologies for measuring an organisations impact across standardised areas could be developed with the support of the government and a toolkit made available to the service system in order to upskill and increase the capacity of those within the service system to robustly measure program outcomes. The government could also supplement funding for intermediaries to complete more complex analysis on behalf of service providers when complexities in cohort or comorbidities associated with a provision become too complex for those within the service system to evaluate.

3.1.2 Try, Test and Learn

As outlined in the discussion paper, a ‘try, test and learn’ approach for trialling new innovative ideas is recommended for social impact investing and this is currently the responsibility of the Australian Government across multiple portfolios. The Australian government could assist directly in funding try, test and learn projects direct with the service system, however the value of collating learnings from innovative project could be lost if there are multiple projects without any connections and support for those completing the trials could be a significant burden on the Australian Government.

ASIT instead recommends that the government fund boundary spanning intermediaries² to host ‘try, test and learn’ environments which bring together multisector experts in key areas such as organisational management, evaluation and community development to support service providers as they complete ‘try, test and learn’ projects and ensure that they have the resources and support needed to robustly test these new innovative initiatives and to properly track and collate learning from them without any perceived government bias.

These boundary spanning organisations would also be able to benefit from their learnings and cross sector connections in order to identify further regulatory and systems barriers within the government agency and policy system with an eye to be adaptive to evolving needs and solutions.

3.1.3 Data Sharing

The Australian government hold a large amount of information across a significant number of agencies on individuals with whom they interact. Collating and streamlining this information into a whole cohort view would allow for a better overall view of those at greatest need and would assist to identify cohorts who could most benefit from interventions from those in the service provision sector. This whole of client view would also assist in evaluating the outcomes from an intervention and assist in building a more robust investment market in the future and could be utilised to improve actuarial analysis in and of the community sector.

3.2 INVESTORS

The Australian Prudential Regulation Authority (APRA), should be working alongside the wider investment sector as well as the community sector in order to build up the capacity of intermediaries and service providers to prove their social and economic outcomes so that they feel confident that the framework around social investments are robust. Significant consultations were done during the 2014 Financial Systems Inquiry³ relating to Social Impact Investing and the resultant information used to form the initial baseline for APRA’s consultations and resultant capacity building activities.

² Aldrich, H. Herker, D. (1977). Boundary Spanning Roles and Organisational Structure. *Academy of Management Review*. 217-230. <http://amr.aom.org/content/2/2/217.abstract>

³ http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf

Once this is done APRA need to make a signal to the market, not being prescriptive, outlining things investors need to look for when making social impact investments e.g. cost sharing, due diligence and understanding key risks as it has done in the past for hedge funds. This should outline in addition to the above criteria, an addendum relating to superfunds which reassures superfund trustees that long as they meet the sole purpose test to members, social outcomes shouldn't be a barrier for investment. Superfunds are well positioned to participate in a social impact investing market given the long-term nature of their funds management and the increasing focus from the wider community to invest their super in funds that have an overall positive social impact.

The government should also consider an addition to the current DGR eligibility categories that are available for organisations to apply for DGR status under. This new category would:

- Be time limited, with the ability to reapply as needed and if the criteria continues to be met;
- Key deliverable for the DGR category would be related to social outcomes proven with robust outcomes measurement methodologies.

This would allow social enterprise organisations and charitable organisations that are not currently able to access the ridged DGR categories that are committed to creating, measuring and documenting social outcomes to access DGR status in the short term. This allows them to utilise philanthropic funding to build their organisations and also allows the philanthropic sector to participate in incubating and supporting social enterprises in their infancy as well as alternative charitable organisations.

The Australian Social Investment Trust is happy to participate in any future or ongoing consultation process in relation to Social Impact Investing in Australia and is committed to support this market into the future.