EMMA TOMKINSON

ABN: 98 133 642 813

Claremont, Western Australia

emma@emmatomkinson.com

RESPONSE TO THE AUSTRALIAN GOVERNMENT'S CONSULTATION INTO SOCIAL IMPACT INVESTING

BACKGROUND

I am a

- Social investor with several current social impact investments that include debt, equity and a social impact bond
- Founder of a social enterprise (Community Insight Australia) that has several social investors
- Social impact analyst that has worked on setting policy and defining payment metrics for social impact/benefit bonds with the NSW and UK Governments.

OVERALL COMMENTS

There appears to be an assumption in the discussion paper that the bigger the social impact investment market the better. I would ask what might make a social impact investment market better. A social impact investment market shouldn't just offer a range of investment opportunities. It should:

1. Offer investment opportunities to all investors, including retail – it doesn't make sense that only the wealthy can access social returns alongside their financial returns. Let's not be patronising and 'protect' retail investors from the risks involved in social impact investments. Retail investors can access the risks and returns of the stock market – social impact investments are no riskier by any measure. Social value is maximised when investor returns are also used to do good, and being distributed to people who are not very wealthy is part of that picture.
2. Meet the needs of social purpose organisations. I cannot say what these needs might be because nobody in Australia has every asked social purpose organisations what kind of finance they need – what size, what conditions, over what length of time and in what form. This discussion paper could have been a good opportunity to ask social purpose organisations what the current issues are in terms of access to finance and what a social impact investment market might need to offer to solve those issues. But, like most initiatives around social impact investing in Australia so far, it has excluded the stakeholder group that

Some of the discussion in the paper appeared to refer specifically to social impact bonds, which are only a tiny part of any social impact investment market. I have given my responses sub-heading so that it is clear whether I refer to social impact bonds or the social investment market as a whole.

RESPONSES TO SUBMISSION QUESTIONS

1. What do you see as the main barriers to the growth of the social impact investing market in Australia? How do these barriers differ from the perspective of investors, service providers and intermediaries?

THE SOCIAL INVESTMENT MARKET AS A WHOLE

There is a mismatch between what investors are offering and what investees need. In general, investors are looking for large, low-risk (often secured) opportunities with (at least) market rate returns. Social enterprises (including my own) require small amounts of high risk capital that is cheap and patient. This is similar to the UK, where the average social investment deal is larger than the annual turnover of most social enterprises. Two years ago, the UK Government was part of establishing Access – the Foundation for Social Investment in recognition of this problem. Until there is a closer match between the investor offering and the investee need, the market will not grow. I recommend reading the full report of the Alternative Commission on Social Investment for a fuller explanation of the problem in the UK (http://socinvalternativecommission.org.uk/).

Another key barrier to the growth of the market is the lack of any 'marketplace' in which investors and investees can find each other. If someone wants to participate in the social impact investing market they would struggle to find out how to do so.

A third barrier is that the events and language around Australia's social impact investing market are very investor-centric. This is not inviting or welcoming to social purpose organisations seeking finance. We have created a world of investors talking to each other about how long they're going to have to wait until the big deals rock up. Until an effort is made to understand the financing that is sought and engage the organisations that are seeking it, this will continue to be a market dominated by a lot of talk and not much action.

The social impact investment market is usually promoted as one that will fund new organisations with new ideas. However, the bulk of social impact investment deals that are made in Australia fund established organisations buying property. When the talk doesn't match reality on the ground, people get sick of turning up to listen.

SOCIAL IMPACT BONDS

Social impact bonds are limited in terms of their potential spread. This is because they are largely a tool that is inserted into a service gap (a space where no services exist). It's difficult to find such a gap to start with, but then the government officers responsible for that service area need to be both willing to fund something new and be completely hands-off as it is delivered.

2. What do you see as the future for social impact investing in Australia: for example, can you foresee the development of new structures for social impact investing?

THE SOCIAL INVESTMENT MARKET AS A WHOLE

I hope that new structures emerge that make it easier for social enterprises (particularly new and small ones) to find the finance they need. New structures should not simply reflect existing financial markets, but should be designed to solve the specific problems faced by investees and their investors.

3. Are there any Australian Government legislative or regulatory barriers constraining the growth of the social impact investing market?

SOCIAL IMPACT BONDS

Some investors will say that the market will grow faster if returns receive some kind of tax concessions, but the problem is not the lack of investors, it's a lack of deals that meet their requirements. Every social impact/benefit bond so far has been oversubscribed, so tax concessions won't solve any problems there.

THE SOCIAL INVESTMENT MARKET AS A WHOLE

The ability of social enterprises to crowd-source a certain amount of equity without onerous and expensive documentation may make a difference. It's a mechanism Community Insight Australia would have used if it had been legal and easily accessible.

4. What do you see as the role of the Australian Government in developing the social impact investing market?

It would be useful if there was a point of contact to which barriers could be reported as they were discovered, and a mechanism by which these barriers could be investigated and addressed.

5. Do you see different roles for different levels of government in the Australian social impact investing market? For example, the Australian Government as co-funder with State and Territory Governments continuing to take the lead in developing social impact investments?

THE SOCIAL INVESTMENT MARKET AS A WHOLE

This is an area where the Australian Government has led, particularly with the SEDIF funds. Analysis of what the SEDIF funds have gone on to achieve, where the funding gaps still exist, and what can be done to fill these gaps would be useful.

SOCIAL IMPACT BONDS

The UK Government's co-funding initiative, the Social Outcomes Fund was established on the basis that it would be able to 'track' savings for each department and come up with some kind of rate card, i.e. that for each reduction of a night in prison, a corresponding reduction of three night's foster care and 6 days of unemployment benefits could be assumed. This 'tracking' proved infeasible (read: impossible), and as it floundered to find a replacement purpose, the fund has proven difficult and expensive to administer. It would be difficult to describe its achievements, let alone its purpose. I think the Australian Government should always go back to why it's doing something, be clear about its objectives and measure the achievement of these objectives on the way. If being co-funder solves a clear and distinct problem, then it should be done. But it should not be pursued as simply a way to be involved in something new and shiny.

6. Are there areas where funding through a social investment framework may generate more effective and efficient policy outcomes than direct grant funding?

SOCIAL IMPACT BONDS

Absolutely – to help government departments improve their measurement. Grant funding does not offer incentives for measurement, learning, knowledge dissemination and building the evidence-

base. When they are based on improving an outcome for a cohort of people, social impact bonds are very effective at improving the way data is collected, organised and used by a government department. If this improvement is institutionalised, it is then able to generate more effective and efficient policy outcomes for the department. So I'd recommend it for department that are looking to reform their data systems.

7. What Australian Government policy or service delivery areas hold the most potential for social impact investing? Are there any specific opportunities you are aware of?

SOCIAL IMPACT BONDS

"Employment services contracts are structured using a mixture of service fees and outcome payments. Service fees are related to the administration of what in Australia is called the 'mutual obligation requirement' (Department of Employment 2015), the activities that must be fulfilled in order for unemployment benefits to continue to be paid. Outcome payments are attached to milestones related to achieving and then sustaining employment. The service delivery organisation is paid for unemployed people who are most likely to get a job more through outcome-based payments, with payment with those who are less employable more through service fees (Department of Employment 2015; Koning and Heinrich 2013). While this encourages the service of clients who have more difficulty accessing the job market, it lessens the incentive to find them employment, as it becomes more efficient to work for service fees than outcome payments. The balance between fees and outcome payments is hard to get right and employment contracts are frequently adjusted to correct for unintended consequences (Considine et al. 2011; Leon 2014; Thomas 2007). The UK National Audit Office (2015) found that sometimes the value of service fees and outcomes payments have been set such that providers will pursue only the service fee. [1]"

If a basic income were paid to people in a certain location (or across the nation), employment services providers wouldn't need to be paid the service fee that comes with administering the 'mutual obligation requirement'. This would mean that for the first time, employment services providers could be funded on a purely outcomes basis, which would introduce a lot more risk, which may make it more suitable for social impact investing.

Other suitable areas would be those in which Government has never funded a service before, or where services have been funded but outcomes are getting worse. In these cases, there needs to be an appetite for risk and a readiness to embrace failure should it occur.

8. Are there opportunities for the Australian Government to collaborate with State and Territory Governments to develop or support joint social impact investments?

SOCIAL IMPACT BONDS

A collaboration between the Australian Government and a state or territory government would be very difficult, but quite ground-breaking. The hands-off approach of an outcomes-based contract could make it easier for a project to have two funders. The increased risk of such a project could

[1] Tomkinson, E. (2016). Outcome-based contracting for human services. *Evidence Base, 1*.

make it suitable for social impact investment. This would be a long and difficult undertaking, but could pave the way for much closer working between layers of government.

9. What are the biggest challenges for the implementing the Australian Government's public data policy in the social impact investing market? What can do the Australian Government do to address these challenges?

In our experience, the biggest challenge to implementing the Australian Government's public data policy is the lack of statistical literacy and analytical skills in both the teams tasked with implementing the policy and the data custodians they are trying to influence. The Australian Government could:

- Hire a lot more analysts across the board – one in every policy team would be a good start
- Give preference to those with analytical skills in every position as it is recruited
- Conduct a lot of professional development in statistical and analytical skills for all officers.

10. Are there opportunities for the Australian Government to form data sharing partnerships with State and Territory Governments, intermediaries and/or service providers?

Yes – there's a lot to learn from longitudinal data linkage projects that involve Australian Government data in combination with that of the State and Territory Governments. Particularly linking Department of Social Services payment data to state corrections, education, health or child protection data. This would deliver new insights in to the long terms effects of state government services and allow for evidence-based improvements to be made.

The other thing the Australian Government could do is help collate state government corrections, education and child protection data so that it can be released in a way that maximises utility while maintaining confidentiality. One way to do this would be to release the data by grouping home addresses into small areas, like postcodes, rather than releasing data for individuals. This would help organisations pursuing social outcomes to target their services at those who need them most.

11. We are seeking your feedback on the four proposed Principles for social impact investing.

SOCIAL IMPACT BONDS

The Principles seem to apply to social impact bonds only, rather than other forms of social impact investing. (If not, I strongly recommend that they are not applied to other forms of investment – requiring an outcomes-focus for a property loan just doesn't make sense.) In this context, they seem to be statements that most people would agree with, so I can't see anyone actually using them for anything. They don't do any harm though.

28. Have you faced a legal impediment as a director of a social enterprise from making a decision in accordance with the mission of the enterprise, rather than maximising financial returns, that only a change in the legal structure could resolve? If so, what amendment to Commonwealth legislation, regulation or ASIC guidance would you consider is needed to address this problem?

No I have not, but I do not have shareholders for whom I must maximise returns.

29. Would making a model constitution for a social enterprise assist in reducing the costs for individuals intending to establish a new entity? What other standard products or other industry-led solutions would assist in reducing the costs for individuals intending to establish a social enterprise?

A central bank of resources such as constitutions from other social enterprises would be useful, but that the Government role would be to collate and house these, rather than write them.