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SOCIAL IMPACT INVESTING – RESPONSE TO DISCUSSION PAPER

The Social Impact Investment Network of South Australia (SIINSA) is pleased to receive and respond to the Social Impact Investing Discussion Paper released by the Australian Government.

SIINSA is a member-based network committed to the promotion of social investment as a mechanism for achieving valuable social outcomes. The aims of the network are to:

- Establish a social investment community committed to advance social and public welfare;
- Promote social investment as a source of funds and resources;
- Inform and educate the community, finance sectors and government regarding the different forms of social investment;
- Promote the value and opportunity offered by social impact investment to philanthropic organisations, superannuation funds, government and social investors;
- Contribute to the development of a social investment asset class in Australia; and
- Identify opportunities and inspire development of social investment preliminary projects

We strongly support the notion that social investment has the potential to help deliver public services more efficiently and cost effectively and we congratulate the Commonwealth on taking the initiative to release the Discussion Paper.

As we are a small band of volunteers with limited resources we have determined that rather than attempting to respond to all of the issues raised in the paper and in **Appendix A: List of Consultation Questions** we will all be better served if we instead comment on the three main issues which consistently arise in all of the educational and networking forums which we conduct. These three issues are: The **market** for social impact investing, **information and education resources** in this space and the supply of **projects** which may be suitable for impact investing. These three issues are all closely inter-related.

Market issues

The issue most often cited as being a handbrake on the development of social investment products concerns the lack of a market – a place where social investment products can be released, traded and followed. Investors and their advisers are accustomed to operating in a market environment where values are set by market operations. Investors are substantially less likely to invest in financial products which cannot be ‘market tested’.

This absence of a trading market has many consequences:

- There is no place to take potentially investable projects
- There is no effective information clearing house
- There are of necessity limitations to those investors who may be able to participate in social investment opportunities – most impact bonds are limited to wholesale and sophisticated investors meaning that the retail investor finds it difficult to become involved
- There are clearly problems with the liquidity of investments given that there is no market. These liquidity limitations are a considerable disincentive to most investor classes.

Almost all commentators agree that the development of a market is a high priority in advancing this important field.

We believe that the Australian Government, through COAG (Finance Ministers) and with agency input from the Productivity Commission (or ASIC), has an important role to play in working up proposals which will facilitate the development of a social investment market.

While the lack of an established market is an issue for individual investors – there are also considerable difficulties faced by the Trustees of philanthropic funds as they cannot look to traditional investment advice in fulfilling their due diligence duties in assessing investments.

We believe that there is a role for the Australian Government, through COAG, in exploring the impact of Trustee obligations on the release of investment funds for social purposes. Consideration of this issue, leading to the formulation of specific legislative provisions in relation to social impact investment, could release very significant funds into a developed social investment market.

Engaging an intermediary party to support the social impact investment process and developing cost-offset marketing platforms for both investors and service providers would assist the development of the market, and work to addressing the changed relationships of provider and investor, which leads into our second priority in relation to information and education.

Information and education

Along with the lack of a market there are related issues of information shortages. There is a lack of information at two levels:

- The investment community (including advisers, brokers, analysts and commentators) are generally very poorly informed as to the nature and purpose of the social impact investment landscape generally, and
- Advisers are generally unable to present their clients with SI investment opportunities because product information is not widely available.

There is also a lack of precision in defining what social impact investment is and there is no source of information or education to which advisers can turn.

The field is desperately in need of a source of reliable, professional information. We have no doubt that in time the existing community of information and analysis will pick up this sector, but in the meantime there must be a stimulus from government to make this function commercially viable for a suitable organisation. Our view is that an organisation like Social Ventures Australia is ideally placed to become a clearing house for general and specific product information – at least until the existing advisory sector takes up the challenge.

In addition we are of the view that all relevant agencies of government should act as passive information clearing houses - we would nominate that the Parliamentary Budget Office (PBO), the Department of Finance, ASIC and the ACNC to have information which could be made available to interested parties.

Projects

The other most cited problem in advancing this field is often described as a shortage of projects which may be suitable as impact investment opportunities.

We are acutely aware of the amount of time and resources which have been needed in order to get our existing Social Investment Bonds off the ground. The social investment community – including both social service agencies and government Treasury departments, cannot afford to invest similar amounts of time for each opportunity going forward.

While noting that some good initiatives and funding have been put in place to help build capacity in the social and community service sector, there is still a need for agencies to receive information, education and training which will make it possible for them to bring potential projects to the table. Projects need not be investment ready – they must have the potential to become so.

This is not to say that the projects don't exist. However, without the market and platform available to essentially 'launch' these projects, the time taken to develop a project for SII can be a deterrent. The financial barriers for set-up/start-up costs and time pressures impact on the potential growth and development of the market, and the lack of knowledge and information as to where/how to pursue these projects and funding/investment opportunities.

The social impact investment field is currently in its infancy and must mature substantially before the use of private wealth through investment becomes a viable way of funding community services. We believe that stimulation by government of these three areas of market development, information enhancement and project development will provide an important boost to the field.

Sincerely



Paul Madden, Chair
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