

## Social Impact Investing Consultation response

Women's Property Initiatives (WPI), a Victorian Registered Community Housing Agency, congratulates the Australian Government on preparing the Social Impact Investment discussion paper and for calling for responses. As an organisation that has facilitated the start up of a Social Enterprise to create a revenue stream for WPI, social impact investment has been a key enabler of our Social Enterprise. While this is only small scale, it demonstrates the positive impact it can have for Social Enterprises and not for profits and the potential for much greater social benefit if this was scaled up on a much more significant and broader level. WPI's most recent Social Return on Investment measurement undertaken by independent consultants and internationally assured, determined that our housing creates the social and economic value of \$11.00 for every \$1.00 invested. This outcome provides a credible argument for increasing investment in the housing we provide. We believe this type of outcome should be attractive to any potential investor, particularly those morally aligned with delivering better outcomes for those disadvantaged in our society.

Further information on WPI and our Social Enterprise, Property Initiatives Real Estate can be sourced on the following websites: [www.wpi.org.au](http://www.wpi.org.au) and [www.propertyinitiatives.com.au](http://www.propertyinitiatives.com.au)

### Barriers to Investment and the potential role of Government

WPI believes there is a general apathy towards social impact investment and an important role of government should be to address this apathy and actively promote social impact investment. A framework needs to be established to facilitate social impact investment and government should undertake this role. For example, in our experience, a lack of even a modest financial return is a significant barrier to attracting potential investors. Government's role could be to underwrite a modest (cash rate like) return for investors. In addition to this, Government could provide tax incentives (eg accelerated write offs and/or deductibility of loans) to enhance the after tax returns possible for impact investors.

Another barrier identified to the growth of the social impact investing market in Australia is the lack of scale in the market. Providers are often small, disaggregated and opaque. Due diligence by large institutions is too costly to make the investment parcel economic to place. Intermediaries could play a role to facilitate the larger scale investment required by institutional investors through sourcing and aggregating a large diversified portfolio. This may or may not be via a Fund structure. Government could have a role in providing incentives for the establishment and survivorship of these intermediaries. Importantly, government ought to have a role in the regulation of these intermediaries to ensure investment funds are not diverted to overhead expenses.

### The future for social impact investing in Australia

WPI believes there is a great opportunity and future for social impact investment in Australia if backed and resourced by government. A range of new structures could be developed including:

- ❖ Social Impact bonds
- ❖ Social Impact Investment fund

### **Government legislative or regulatory barriers constraining the growth of the social impact investing market**

WPI recommends that a Social Impact Investment made by a PAF from their portfolio should not be included in the net equity base of the PAF for the purposes of calculating the annual 5% DGR distribution, subject to a prescribed maximum percentage (%) of the portfolio being allocated to such investments. We believe this would encourage PAFs to invest in often illiquid impact investments which may/may not yield a financial cash return without risking capital depletion via the 5% distribution requirement. We are not in favour of the thrust of the discussion paper in so far as it relates to sophisticated investors and founders/primary donors. This proposal puts at risk the necessary independence and governance already in place in the PAF regulations.

### **Further Role of Australian Government in developing the social impact investing market**

An additional role the Australian government could play is to influence the dialogue between banks/APRA and residential property developers in relation to the supply of social housing stock and lending metrics where social housing is part of the residential mix.

### **Service delivery areas that hold most potential for social impact investing**

As a community housing provider, WPI is focused on the provision of affordable rental housing for disadvantaged women headed households. WPI believes there is great potential for social impact investing either through a social investment fund or social impact bonds. Returns based on outcomes can be measured through a number of proxies such as a decrease in the cost of transitional housing, decreased health costs, decreased incarceration costs, decreased government benefit payments, increased tax collection through employment etc. Provision of housing requires significant capital and social impact investing is an excellent option to source some of the capital required.

### **Australian Government collaboration with the state and territory governments.**

It would seem important that the Australian Government collaborate with the states and territories to develop and support joint social impact investments. For example, social impact bonds could require national investment through super funds as they have a national focus and due to the size of the investment required, and therefore the Australian government would need to facilitate and provide a framework to attract super funds to invest in the bonds. Delivery of the social impact investment may be at the state level to a range of social impact investment options. Collaboration and partnerships between federal and state/territory governments and major investors such as super funds would need to be developed to enable this.

### **Data sharing partnerships between the Australian, State & Territory Governments, intermediaries & service providers**

The development of a data collection platform that can be used and shared at all levels of government, service providers and intermediaries is highly desirable, if not essential. The adequate resourcing of this, including training and ongoing support provision to facilitate data collection will be vital. It will be the data

collection over a long term period which will provide several of the most important outcomes of the social impact investment as it is known that some of these will be a generational impact. It will also be essential that there is agreement on the proxies to be used to determine the outcomes as recorded as part of the data collection.

### **Proposed principles for social impact investing**

a) **Social impact investments should only proceed when they represent value for money**

WPI agree with this principle, but it may be hard to determine until investment outcomes/measurement is established and agreed to and it could take an extensive period of time for the value to happen, therefore, initially one can only anticipate/estimate value. We do, however, caution against measurement being the sole focus. This would have the potential to both distort social outcome programme design and preclude certain programmes/organisations from participating in the social impact investment arena if measurement was particularly difficult or required very long dated longitudinal studies.

**However**, organisations that have a proven track record with quantifiable successful outcomes and can demonstrate they have had measurements and discipline in place around measuring value for money should be able to participate, even if they cannot measure in shorter time periods.

For example, WPI has undertaken two Social Return on Investment measurements since 2009 to measure the social and economic value of the housing they provide in order to validate that we are achieving our mission. We are also keen to provide this information and measurement to our investors to demonstrate the impact of their investment and the outcomes achieved.

b) **Social impact investments should include outcomes- based measurement to monitor progress, risks & returns of the investment and a robust and transparent evaluation method to determine the investment's impact**

WPI agrees with this principle as well and the establishment of the data collection system must expedite this process

c) **The risks and returns of a social impact investment should be fairly shared between the Australian Government, investors & service providers**

WPI believes it is reasonable to expect that the risk and return is shared between all parties involved in the social impact investment. An outline of the risks and returns and where they sit in relation to each party should be documented and agreed to by all parties prior to the social impact investment being executed.

**d) Social Impact investments should have a strong case for being able to successfully address social and/or environmental problems which are priorities for the Government**

WPI agrees with this principle, however, there should be the ability to have other social or environmental problems considered which may align with the investor's preferred social issue to be addressed. In addition to this a review of government priorities should be undertaken from time to time which may result in an update and change of their priorities.

**e) Social Impact Investors must have a moral alignment to their investment and the impact of the investment. They must also be prepared to invest for a minimum of a 10 year period.**

Social Impact investors must agree that their investment will result in their funds being 'illiquid' for a minimum period of 10 years. We propose that the framework should include the ability to request and negotiate an extension of the investment.

**Level of demand from both DGR and non DGR recipients of program related investments**

WPI believes that the demand from both DGR and non DGR recipients of program related investments will be high. There are many untapped innovations and programs that could provide positive social and environmental outcomes that have not been able to be progressed due to the lack of investment. While the SEIDF was established to provide funding/investment options to social enterprises and new projects that had difficulty sourcing investment from traditional avenues such as banks, the interest rate required often made the option of sourcing these funds unfeasible. WPI has established their own Social Enterprise and managed to source grant funding in addition to a social impact investment at a very acceptable interest rate (the same rate as a Term Deposit) which resulted in a viable financial model to establish and progress the Social Enterprise. Social Impact Investment only requiring this level of return would allow many more progressive and innovative programs and projects to be instigated and address the many social and environmental issues in our society.

**Costs of administration for organisations receiving program related investments compared with receiving irrevocable donations**

From WPI's and our social enterprise's experience there are not huge differences in costs of administration in relation to grants or program related investments. Financial reporting and acquittals are required for all grants and sometimes auditing is required. Regular financial reporting is required for the social impact loans/investment which are no more onerous than the financial reporting required for good governance by the Directors of the organisation. Interest payments can be set up to be paid at the agreed time and does not require significant additional resourcing.



## **Conclusion**

WPI looks forward to the Australian Government's involvement in enabling and progressing social impact investment to fund interventions through innovative programs, projects and social enterprises to deliver better outcomes for Australians. We would be delighted to partner and be recipients of social impact investment to increase affordable rental housing for disadvantaged women headed households. As noted above, our Social Return on Investment (SROI) research/evaluations have demonstrated the significant benefits that can be provided to social impact investors, government and society. We encourage you to review our SROI report by accessing [www.wpi.org.au](http://www.wpi.org.au)

Thank you again for this opportunity to respond to the discussion paper.

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