



# Community Council for Australia

The Community Council for Australia is an independent non-political member based organisation dedicated to building flourishing communities by enhancing the extraordinary work undertaken by the charities and not-for-profit sector in Australia. CCA seeks to change the way governments, communities and not-for-profits relate to one another. It does so by providing a national voice and facilitation for sector leaders to act on common and shared issues affecting the contribution, performance and viability of NFPs in Australia.

This includes:

- promoting the values of the sector and the need for reform
- influencing and shaping relevant policy agendas
- improving the way people invest in the sector
- measuring and reporting success in a way that clearly articulates value
- building collaboration and sector efficiency
- informing, educating, and assisting organisations to build sustainable futures
- providing a catalyst and mechanism for the sector to work in partnership with government, business and the broader Australian community to achieve positive change.

Our success will drive a more sustainable and effective charities and not-for-profit sector in Australia making an increased contribution to the wellbeing and resilience of all our communities.

A list of Members is provided as Attachment B.  
[www.communitycouncil.com.au](http://www.communitycouncil.com.au)

## Life Without Barriers

Life Without Barriers (LWB) is a leading social purpose organisation working in more than 440 communities across Australia. Our services currently support just over 14,000 people living in their own homes or in residential houses that we manage. We support children, young people and families, people with disability, older people and people with mental illness. We work with people who are homeless and refugees and asylum seekers. This includes working in partnership with the community, elders, government and private sector to improve the lives of the people we support.

As part of its efforts to identify and shape future trends in the delivery of social services, LWB has been actively engaged in Impact Investing for over five years. LWB became an Anchor Partner of Impact Investing Australia, a body established to advance impact investing nationally, and has supported the promotion of impact investing through its partnership with the Community Council for Australia. LWB has also played the role of investor in the social impact investment market.

LWB has sought to participate in almost all social impact bond trials, culminating in LWB launching Australia's first social bond to reduce youth reoffending in 2017. LWB has been glad to share its experience in impact investing with other organisations that have an interest in learning more and in exploring opportunities to participate in this emerging market.



# Our Partners and Panelists

*Community Council for Australia and Life Without Barriers thank our partners and panelists for their support and involvement in the Impact Investing – making it happen CEO Forums, 2018*

## **PwC Australia**

One of the world's leading professional services firms, with a global network across 158 countries. We help our clients to assess performance and improve the way they work, contributing our skills and expertise to help solve some of the biggest challenges facing our society. Our clients range from start-ups to the largest global organisations, governments and other not-for-profit organisations.

Our global purpose to 'Build trust in society and solve important problems' drives our desire to play a part in contributing to the solution for Social Impact Investing in Australia.

## **Social Outcomes**

Social Outcomes is a 'for purpose' enterprise that was established in 2014 to work with clients from across all sectors to maximise their desired social, cultural or environmental impact through an evidence based design process. An integral part of the design is the development of either a sustainable business model or investment instrument to finance the approach. Our deep understanding of payment by outcomes approaches, including social impact bonds, impact creation, social enterprise, social procurement and the impact investor market provide an

important context for assessing the various business model options for any client. We also work closely with our clients on articulating their theory of change so as to develop a strong but simple impact measurement framework to report on and gain insights from their program outcomes.

## **Social Ventures Australia**

Social Ventures Australia (SVA) is a for purpose organisation that works with partners to alleviate disadvantage, working towards an Australia where all people and communities thrive.

SVA pioneered social impact investing in Australia and continues to lead development and innovation in the market. We invest to enable enterprises and organisations to scale their social impact through connecting these organisations to a network of impact investors.

SVA currently has \$115m of funds under management, comprised of four social impact bonds (SIBs) and two investment funds that invest debt and equity in enterprises and asset backed transactions that have a social impact. In addition we provide advice to for profit organisations around funding options, and bespoke financial solutions for large scale transactions.

## **Koda Capital**

Koda Capital provides expert and impartial advice to non-profit, charitable and philanthropic investors. In 2018, Koda launched a fully-fledged impact investment advisory service to enable Koda clients to make investments that are deliberately designed to generate measurable social or environmental returns as well as financial returns.

## **National Australia Bank**

NAB is interested in growing impact investing, working to support investments that create positive social and environmental impact alongside financial return, and measuring the achievement of both. Lisa Wade, Kath Leong and James Waddell from the Capital Markets and Advisory team shared valuable expertise and insights at the CEO forums.

## **Hutt St Centre**

Hutt St Centre and partners secured South Australia's first Social Impact Bond for the Aspire Program, a program to assist 600 people to permanently end their homelessness through long-term intensive case management, housing and employment pathways. CEO Ian Cox joined our Adelaide panel to share game-changing insights from the Hutt St impact investing journey.

# Executive Summary

Telling charities they should diversify their income streams is a little like telling football teams they should score more goals – it's much easier said than done.

Over the past decade, the charities sector has generally been gaining increased income year on year, driven largely by growth at the big end of the sector. Universities and higher education have collectively increased their income by billions of dollars each year since records have been kept at the Australian Charities and Not-for-profit Commission (ACNC). The same cannot be said of the small to medium sized charities where income trends indicate a stalling of growth in recent years and, in many cases, a loss of income.

Income may be a blunt measure of how well the charities sector is performing, but as anyone who has ever accepted responsibility for managing a charity will know, maintaining or increasing income is what enables many charities to fulfil their charitable purpose. Uncertainty about future income is one of the issues that keeps charity CEOs awake at night.

In considering the future viability of a charity, the diversity of income streams is seen as a critical factor. A charity that is 100 per cent funded from one source – be it a government, service fees or philanthropy – is more vulnerable than one with multiple sources of income. It makes sense to have diversified income.

There are three primary sources of income for charities: government funding; fees and charges from service provision; and philanthropic giving, grants and donations. All three of these areas of income are very hotly contested and not just within the charities sector. Increases in government revenue have stalled as demand for services has grown. The fundraising pie has stayed around the same size as a percentage of our incomes, and more charities are competing to attract donors and grants. Competition for income from fees and services is also increasing and not just amongst charities. For-profit providers are often competing for the same services. There is no low hanging fruit in these three orchards.

Two less significant, but growing funding strategies look toward debt financing and impact investment.

CCA has undertaken quite a lot of work across the sector to promote better use of existing assets, particularly as equity or leverage in accessing debt financing for medium to longer term investment. The most common example of this approach is charities choosing to buy offices or other accommodation which they partly use themselves, but also lease out to generate income, cover the costs of debt financing, and reduce their own accommodation costs.

Impact investing is an emerging option for a significant number of charities, which is one of the reasons CCA collaborated with Life Without Barriers, PwC, Social Ventures Australia, Social Outcomes, Koda Capital and NAB to support better understanding of how charities can access the impact investment market.

What is most interesting about impact investing is how much potential growth there is in the investment pool. There are literally trillions of dollars held in superannuation and other funds looking for investments. It is estimated that the impact investment market in Australia will be well over \$35 billion within the next five years. This is at least double how much money is donated to charities every year.

Given the accepted need for charities to diversify their income stream and the growing investment pool looking for impact investing opportunities, this market seems ripe for charities eager to increase their capacity. Unfortunately, the potential of the impact investment market is not being realised.

One of the most commonly identified barriers is that charities often do not have the tools, the time or the skills to translate great ideas into impact investment ready proposals. And why should they have these skills?

Charities are being asked to be many things to many people. The growing list of expectations is becoming unrealistic. Charities are being told they should be closer to their core values, closer to their communities, more responsive, more business-like, more accountable, more outcomes focused, more transparent, etc. Preparing an investment ready prospectus for a potential impact investment should not be seen as yet another add-on task for overstretched senior staff to do on top of fulfilling their primary purpose and mission.

Unlike business, which is used to buying in expertise, charities often try and save money by doing as much as possible in-house, as cheaply as possible.

One of the critical factors that will enable impact investing to accelerate to the next level in Australia is more charities drawing on the knowledge and experience of intermediaries that know how to work with both investors and charities.

The work of Impact Investing Australia, a handful of leading intermediaries, supporters from the finance industry, charities and advisory groups have established a growing impact investment market in Australia. With increased government support to further catalyse this market, the potential is enormous.

When CCA brought together charity leaders and some of Australia's most experienced and informed experts in making impact investing deals happen,

it was clear that gaining clarity around impact, and drawing on the expertise of investment intermediaries were the two critical steps a charity can make early in their consideration of an impact investing journey. The potential is apparent, but we are still in the formative stages with stewardship of the emerging market and capacity development key challenges. We hope the issues and recommendations shared in this report will assist NFP leaders and Boards interested in impact investing, and that government seriously considers the recommendations for actions it can take to better support impact investing. Working together, we can leverage a lot of social good from the capital flowing through our markets.

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# KEY MESSAGES AND RECOMMENDATIONS

This report summarises recommendations drawn from discussions among NFP leaders and experts at CEO Forums on Impact Investing held in Sydney, Melbourne, Brisbane, Adelaide and Canberra. It also draws on CCA’s broader policy development work.



# Key messages and recommendations for not-for-profit organisations

*'We wanted to launch a transformational program. That was our driver. It wasn't easy, but we believed in what we wanted to do. Aspire is delivering – and the rigor around data and the investment in measuring impact is improving performance across our organisation.'*

Ian Cox, Hutt St Centre

## 1. Impact led – not finance led

Impact investing is about accessing capital to drive impact.

It is not in itself a revenue source, but a capital enabler that unlocks money to make it possible to scale, build or deliver revenue generating work that produces social outcomes. This funding can be very time and resource intensive to secure. It is not a quick fix solution to a looming funding shortfall.

*Approach impact investing transactions as a tool to increase impact.*

## 2. Purpose

For all the charities and not-for profits (NFPs) participating in the CEO forums, the purpose of the organisation or its mission was clearly the reason they existed. At times, some organisations can become almost entirely focused on running their programs or raising the income they need to engage in their ongoing activities without always reflecting on how best they might seek to achieve their purpose. Impact investing starts with strategic planning – and that must start with a focus on mission. Impact investing is not necessarily the best approach to increasing impact.

*Achieving the charitable purpose should be the primary focus of the organisation. Impact investing strategies must contribute to – not distract from – achieving Purpose.*

## 3. Sometimes the best impact investment is one we make in other NFPs

A number of charity leaders talked positively about investing capital in other NFPs social impact investment initiatives as a means to better achieve their purpose. Investment driven by purpose is a good way to leverage assets for impact.

*Becoming an impact investor in other NFPs can be an asset leveraging strategy that contributes to mission.*

#### **4. Know your impact. Measure what matters**

Charities increasingly need to be able to speak to measurable outcomes, evidence and impact. This is fundamental for impact investing and payment by outcomes and is a growing requirement for donor and stakeholder relationships, philanthropy and government. It is also a foundation for mission-driven strategic planning. Without measures of success, it is difficult to assess and articulate impact and identify where we create value. Without measures it is also difficult for Boards and organisational leadership to assess and manage risk and identify better ways to pursue impact.

*All organisations need to develop appropriate measures and reports about their outcomes, impact and value.*

*Boards need to be supported with evidence, measurement, and expertise to assess and manage risk and opportunity.*

#### **5. Payment by Outcomes – not easy, but it can set you free**

Social Benefit Bonds or contracting based on payment by outcomes can facilitate a cultural shift in the relationship with government. A focus on outcomes accountability can free charities to move beyond the constraints of prescribed activity to put together and deliver the programs they think will work for their clients. It can be complex and costly to establish, but can empower organisations to work in the way they know will deliver outcomes without having to justify every decision along the way. It also enables organisations to be more flexible and adaptable to community and client needs.

*Payment by outcomes can facilitate a better way of working with communities, clients and government – but recognise it can be costly to establish and there are risks to be managed.*

#### **6. Value the value you create (tangible / intangible)**

Impact investments are fundamentally about securing capital to scale or enable the development of a revenue stream. If there is no capacity to generate revenue, there is no potential for impact investment. Forum discussions highlighted the need for charities to better articulate and potentially commercialise the value inherent in their work where this value is something that others may pay to secure. Sometimes the external eyes of an expert intermediary can help identify where commercialisation opportunities might be. Data, intellectual property, connection to community are all assets that experts and leaders identified as being under-valued and under-leveraged across the sector to create income (including by generating savings or dividends that government or others might pay for).

*Identify and assess the commercialisation potential of the assets and value you create.*

#### **7. Role of intermediaries – catalysts for impact investment**

Charities are good at impact, but are not financial experts and investment deal brokers. The overarching message from this series of CEO forums for any charity looking to diversify their income and consider impact investing is bring in the expertise you need. Impact investing intermediaries are experts that speak the language of finance and investment, government, and community. They are navigators, deal negotiators, interpreters and midwives – whose expertise is in building the bridge between charities and investors. The sooner a charity involves an intermediary, the better informed about the potential for impact investing they will be.

*Bring in the expertise of impact investing intermediaries – early.*



## 8. Blend and stack capital for a viable impact investment, with a helping hand

Impact investing offers enormous potential to grow access to capital to support social outcomes. Capital can come from a variety of sources and risk appetites along a continuum stretching from philanthropy (emphasis on impact; no or low financial return) to financial investor (emphasis on high financial return). Intermediaries are experts at blending the 'capital stack' (combining different sources of capital) to manage risk appetites and attract the right mix of investors for a viable impact investment product.

*Intermediaries bring the expertise to 'blend' and 'stack' capital to create a viable impact investment.*

## 9. Encourage shared value and the use of an impact lens to further your mission

Shared value can be powerful, encouraging the overlay of an impact lens on investment, procurement, operational and other decision-making by corporates, private individuals, government, philanthropy and NFPs. This is not just about what the charity is achieving, but how others can contribute and make positive change in support of your mission. This is not always about direct funding to a charity, but about the benefits that can flow from the decision making of others to engage in activities that deliver positive outcomes.

*Promoting shared value can be a powerful impact investing strategy.*

## 10. Leverage philanthropy to grow investment readiness and access to capital

Exciting potential exists for charities to attract more capital towards social good, but there is work to do. There is a lack of investable product and investment readiness. Charity leaders believe philanthropy can add value in promoting investment readiness and in growing access to capital:

- by supporting innovation, proof of concept and the building of an evidence base. Once grounded in evidence, more options and new sources of capital can be attracted.
- philanthropy may accept a lower return or a first loss position within an impact investment, helping to manage risk and make an investment viable by attracting other investors to a blended investment.
- Impact investment products can enable PAFs to invest their corpus (95% of their capital) and put it to work for their cause; not just their 5% annual grant distribution.

*Philanthropy can be a key enabler of impact investing, and can be leveraged to increase access to capital.*

*Philanthropic funds are special – precious. They should be leveraged for impact, and not diluted by calling on them when other sources of funding can be secured.*

## **11. Scale can be about depth, not just breadth**

Ability to go to scale is important in impact investing – mostly because it helps absorb the significant set up costs.. ‘Go big or go home’ holds true for many financial investments. But for charities, scale can be about going deep: support over a period of time, intergenerational benefits and harnessing the resources that sit around people in place-based initiatives. The focus shifts from reaching a larger number of people, to helping people and communities most in need to become self-supporting. This often involves more intensive and comprehensive interventions with a targeted community because that is what is needed to achieve real outcomes.

## **12. Sector leaders have a stewardship role**

With social purpose our raison d’être it is incumbent on the leaders and the ground-breakers in our sector to take a stewardship role - to influence the agenda and understand how impact investing can benefit our sector and the work we do with our communities.

It also requires us to speak with a collective voice, push back and shape the contracts we enter into. Establishment costs are a barrier – and currently the NFP sector is carrying the bulk of the load to develop the market. Government needs to shift to negotiating on commercial terms with NFPs to allow overheads to be covered and to support viability.

*Sector leaders and ground-breakers should assume a stewardship role, actively shaping the way impact investing affects the sector’s future and the work we do with our communities.*

# Recommendations for Government

*This series of CEO forums and CCA's ongoing work identifies seven areas where government can support capacity development and growth in the impact investment ecosystem:*

## Data and Measurement

Improving data access, linkage and use, and supporting the development of stronger outcomes measurement for charities and NFPs has long been on the agenda. The Productivity Commission highlighted the issue of measurement in their major report into the *Contribution of the the Not-for-profit Sector* released in 2010. Measurement was the subject of the first substantive chapter in the report (Chapter 3). The main recommendation of the Productivity Commission was the development of a common evaluation and measurement framework appropriately supported by funders of programs and services. The benefits of adopting this approach are enormous and Australia could learn from international experience.

The many ad hoc efforts across various government departments and differing levels of government are patchy at best. Expecting charities to develop their own measures in various program areas without appropriate resourcing is only compounding the issue.

*Life Without Barriers and others gave an insight into the time, resourcing and costs incurred in pursuing and eventually securing a Social Benefit Bond to run a transformational program they know will change lives. These costs can be significant and the not-for-profit sector needs to build its capacity to negotiate commercial contracts and recover any upfront costs over the life of the investment.*

## Impact readiness funds – and ensuring viability

Experience in Australia and overseas has shown that impact readiness funds can provide an important stepping stone for organisations that are close to being able to offer innovative impact investment opportunities.

Establishment costs, particularly for complex transactions such as Social Benefit Bonds - are a barrier and represent a risk to NFP Boards. Government needs to shift to negotiating on commercial terms with NFPs to allow overheads to be covered and to support viability.

## Intermediaries

Supporting the role of intermediaries will be important into the future. A joint government initiative with high level advisory firms and established intermediaries would make the preparation of investment ready proposals more feasible for many across the NFP sector.

## Impact Investing Australia

Supporting major policy initiatives, such as Impact Investing Australia, which bring together key players to help stimulate the impact investing market, can be very important for the impact investing market in Australia and internationally.

### **Impact Capital Fund**

In the United Kingdom, the creation of the Big Society Bank was a catalysing factor for the impact investing market. A similar investment by government into a dedicated impact investment capital fund would undoubtedly deliver the same benefits in Australia.

### **Government guarantees**

Offering more surety around government income streams, wherever possible, will reduce risk and increase investment opportunities.

### **French 90/10 rule**

Adopting a system where people can choose to have a percentage of their superannuation contribution invested in impact investment funds has been successful overseas and would certainly stimulate the impact investing market in Australia.



## APPENDIX

# SUMMARY OF DISCUSSION, ISSUES AND RECOMMENDATIONS

## Impact led – not Finance led

The loudest message from experts and organisations that have pursued impact investing, is that impact investing must be impact led – not finance led.

Impact investing is not a revenue source, but a capital enabler that unlocks money to scale, build, deliver or buy revenue generating assets that produce social outcomes.

It is a charity's revenue generating activity in pursuit of charitable purpose that may offer opportunity for impact investing, but the tail should not wag the dog. Impact investing transactions – often complex, costly and very time and resource intensive to establish – are a tool. Impact is the end game.

## Start with Purpose

Purpose is the touchstone for all strategic decision-making. Leaders agreed that impact investing starts with strategic planning, with all charities obligated to look at how they can best deploy and leverage their assets to further their Purpose. Impact investing is one way to leverage assets – it is not necessarily the best way.

Discussion on Purpose highlighted a number of areas Boards and executives should consider:

- Outcomes and Impact Measurement – do we know what outcomes and impact we are achieving? How do we know? What does success look like and what are our indicators? Are we focused on the activities we do, or the outcomes we want?
- Better leveraging assets. The charities sector holds \$270bn in assets – some \$35bn sitting idle as cash in banks. Leaders asked, 'why aren't we better at investing in our sector?'

Impact investing can start with a simple strategy to place financial reserves in mission aligned investments (e.g. The Newpin Bond, focused on restoration of children in out of home care has paid returns of 13%, Goodstart, supporting education has paid a 12-13% return.)

Many of the issues and the recommendations arising in this series of leadership discussions mirror those from CCA's Better Using our Assets leadership forums. That report is available at: <https://www.communitycouncil.com.au/node/238>

*Focused on impact – the goal of creating a world-class orchestra performing on world-leading instruments – led to the Australian Chamber Orchestra thinking creatively and using impact investing to create the ACO Instrument Fund. The unit trust has purchased a Stradivari violin, Amati Cello and Guarneri violin. Investors enjoy special performance privileges. Investors achieve a financial return through capital appreciation of the rare assets owned by the fund, which they realise at the point of on-selling their units.*

*Impact investing must contribute – not distract – from achieving Purpose.*

# Know your Impact. Measure what Matters

*Charities increasingly need to be able to speak to measurable outcomes, evidence and impact. This is fundamental for impact investing and payment by outcomes, and is a growing requirement for donor and stakeholder relationships, philanthropy and government. It is a foundation for mission-driven strategic planning.*

Leaders at the forums acknowledged the lack of an evidence base in the sector and highlighted a lack of capacity to build and share evidence. Robust evaluation is rarely funded, and learning, particularly from failure, is not shared. There needs to be a cultural shift in government, philanthropy, the sector and the community to value investment in measurement capabilities – and to value and support learning from failure as well as success.

Measurement is challenging, particularly when working on complex, long term problems – but it is possible, including for prevention and early intervention – and does not have to be overly complicated. An example was shared of using strengths-based outcome measures as a proxy for personal development in a program building resilience in young people. These included demonstrating positive behaviour such as seeking help and enrolling in a parenting course.

The advice from Sandy Blackburn-Wright with a wealth of experience in negotiating impact investment deals, is to honestly state your evidence about level of impact and keep things as uncomplicated as possible.

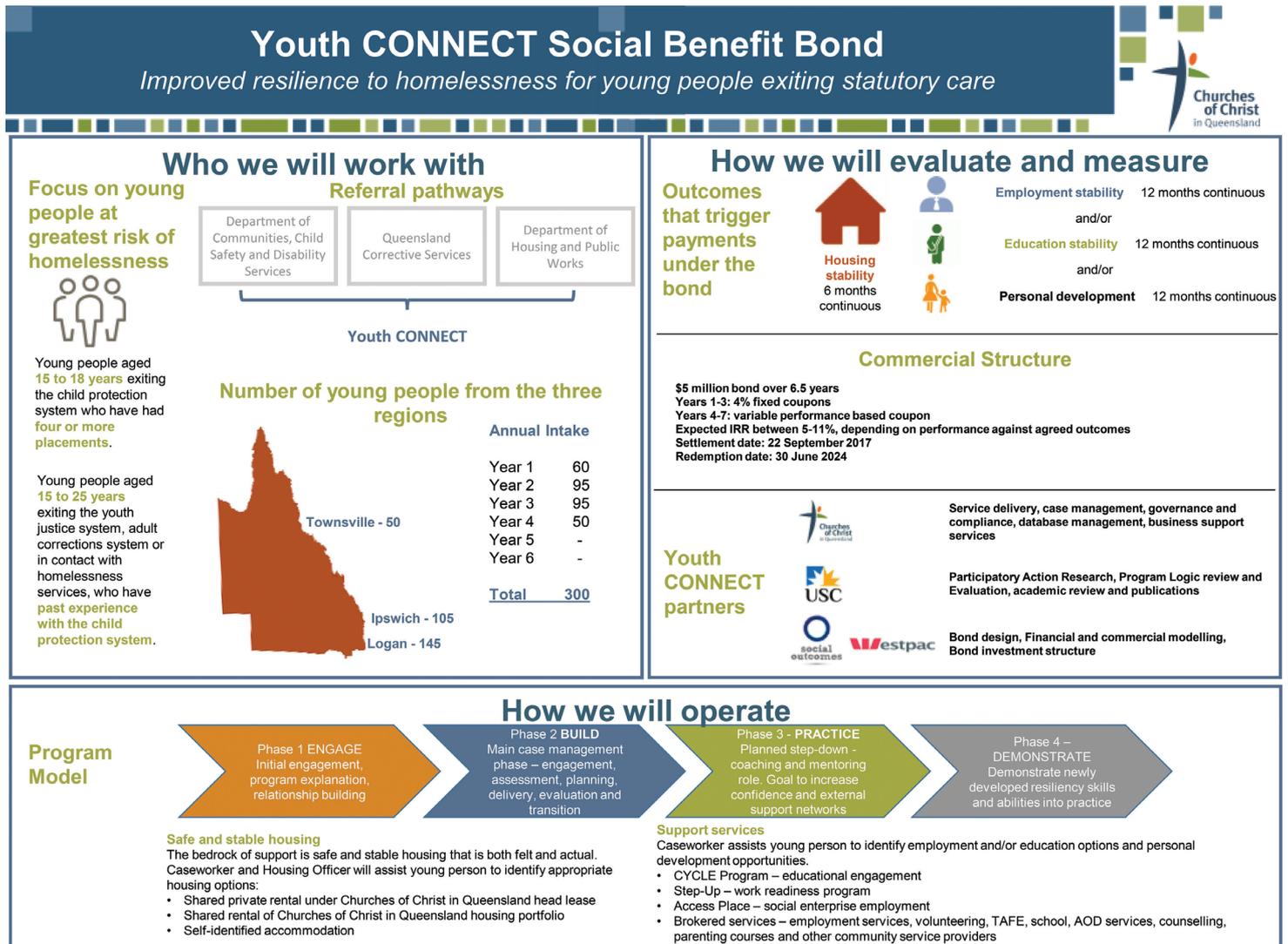
*‘The idea we try and promote is to understand deeply but express simply.’*

*‘Impact measurement frameworks can be overly complex, placing a burden on the entity that is measuring as well as making it difficult for stakeholders to engage. So we work with our clients on understanding deeply how they believe they create the desired change in the life of their beneficiaries, and then narrow down to a handful of key indicators that are both simple to collect and easy to communicate and let this become the impact measurement narrative that they communicate to stakeholders.’*

*‘Internally, the organisation may need to collect more information on how they manage impact so that they can be constantly learning and adjusting their practice, but what they share with stakeholders needs to be clear and simple.’*

There is no doubt that if the proof points around impact are strong, the case for value will be supported and any impact investing transaction will be easier. Using and building an evidence base is critical. Prove the idea – build the evidence around what you do – and then think about impact investment.

Leaders pointed to the need for Board education, with many Boards in the sector risk-averse and conservative. Boards, not unlike investors, need to be brought along the journey. The journey begins with evidence and knowing and measuring impact. From here decisions can be made about whether to invest resources towards exploring and pursuing impact using impact investing – or another strategy. Philanthropy can be invaluable in progressing the learning through a proof of concept phase, as can the early involvement of intermediary expertise.



*Thanks to Social Outcomes and Churches of Christ Queensland for sharing this infographic.*

# Outcomes – a transformational shift for government and our sector

*Government support for capacity building in measurement is a glaring and unmet challenge. As is the need for data to be linked up across government.*

*There also needs to be more evidence informed decision-making that values the expertise and involvement in designing solutions of those actively working with the problems in community.*

The emergence of outcomes contracting by government facilitates access to private capital for social programs (e.g. through Social Benefit Bonds) and sharing of risk. It sees a switch from outputs-based ('bums on seats') accountability in program delivery, to outcomes accountability. It can facilitate a cultural shift in the relationship with government, freeing charities to move beyond the constraints of prescribed activity to put together and deliver the programs they think will work for their clients. It enables nimble and flexible services with the ability to customise and quality improve.

As Elyse Sainty from Social Ventures Australia put it, the focus on outcomes is the 'gold in the hills'. It encourages Government to understand – and value - the cost of disadvantage and to think about data and about monitoring the effectiveness of policy and programs.

As a sector, we have a stewardship challenge in shaping the future of impact investing and payment by outcomes. The focus on outcomes may be the 'gold in the hills' driving a systemic shift in government funding and policy toward outcomes, but it also comes with a warning. As highlighted by Mark Thomson from PwC, the capacity of the market to respond to payment by outcomes is limited. Most activity has been niche and not scaled to the mainstream. The evidence base is lacking and has not been grown. The capacity development for measurement needs to be supported by funders, and we must beware the risk of perverse incentives and sacrificing longer term holistic goals to facilitate shorter term demonstrable outcome measures.

# Value the value you create

A key step for leaders in the journey towards the launch of an investable opportunity is clearly articulating a revenue strategy and determining how it is possible to commercialise the value they create. Impact investing is a business development exercise that can start by asking:

*'What part of our business has a revenue stream? How do we ramp this up to create an investment/return (an investment product)?'*

*'Where and how do I create value? Who is the customer who is willing to pay for that value?'*

The next step is to establish any capital needs required to scale or commercialise.

Impact investing is one possible option to meet those capital needs – but it may not be the best or the only option. Perhaps a sustainable business can be identified that is scalable and bankable, for which it may be easier and more cost effective to capital raise from traditional sources. There may be creative solutions to overcoming hurdles to commercial loans.

Sometimes we are blind to the value we create, and the eyes of an outside expert can help us consider where our commercialisation opportunities might be. Data, Intellectual Property, connection to community are all assets that experts and leaders identified as being under-valued and under-leveraged in our sector to create income or reduce costs. Chris Wilson from Koda Capital observed that a lot of charities give away value that people would be willing to pay for.

Experts encouraged charity leaders to attribute value to what their charity does – and to collect the data and build the evidence around that value. Government is one beneficiary of charity work, but there could be others e.g. reducing crime might be an outcome that is of interest to insurers.

The discussion highlighted a need to better understand our potential customers and their priorities. Less pitch; more listening. Know your customer, their needs, their interests, their priorities. Can you solve the problems that they have cost effectively?

*Unless you can monetize your impact, there is no revenue and no opportunity for impact investment.*

## Get the help you need – early

*Charities are good at impact, but are not financial experts and investment deal brokers.*

The overarching message from this series of CEO forums for any charity looking to diversify their income and consider impact investing is bring in the expertise you need.

Impact investing intermediaries are experts that speak the language of finance and investment, government, and community. They are navigators, deal negotiators, interpreters and midwives – whose expertise is building the bridge between charities and investors. They are critical – and the catalyst – for making impact investing happen.

CEOs participating in this series of forums had the opportunity to talk with Australia's leading intermediaries. Since that time, quite a few organisations have taken the next step in exploring their income diversification and impact investing potential. Participants indicated that the most valuable aspect of these forums was to meet expert intermediaries and better understand the foundations of impact investing and the intermediary role.

*'We know how to do homelessness; we didn't know how to combine data and finance.'*

The second resounding message was, engage early. Intermediaries need to be resourced – but will usually meet the first time for free.

NFP leaders talked to the value of intermediaries:

- Capacity to look at where the revenue streams are in our work. They bring an investment/revenue perspective to that.
- Help develop an investment offering and broker the deal.
- Bring financial rigour and credibility to negotiations, particularly with government.
- Guide through a complex process and manage investor relationships.
- Help identify the capital blend – the 'capital stack' - to make the deal happen. Impact investing can incorporate different sources of capital – a range of investors across a continuum of motivation and risk profiles - from pure philanthropy interested only in impact, with no financial return; to pure investor interested only in financial return.

A number of charities successful in securing Social Benefit Bonds with government talked to the importance of working with an intermediary, particularly in changing the dynamic with government. Intermediaries – with their financial expertise and credibility - are taken seriously by government and can change the master-servant power imbalance that often characterizes government relationships with the sector. They help to get government to listen and can speak the language of Treasury.

Getting the right mix of capital is a skill. Philanthropy can be a critical enabler, funding investment readiness or taking a first loss position, helping to bring other investors in.

Interest from capital is ahead of the sector's ability to be impact investment ready. The sector needs to drive the deals we want. Working with intermediaries is the key to realising the potential of impact investing.

Ian Cox, CEO,  
Hutt St Centre on the  
importance of having  
Social Ventures  
Australia expertise

# Potential to grow Impact and the capital pie

Impact investing offers enormous potential to grow access to capital to support social outcomes. As Kath Leong from NAB noted, there is a lot of money flowing through markets. There is a real opportunity to direct it toward social good, using all the tools we have (for impact and for finance) and understanding each other's skills and resources.

Shared value can be powerful, encouraging the overlay of an impact lens on investment, procurement, operational and other decision-making.

Private wealth managers are seeing this play out as the next generation asks if their businesses, their investments and the core capital of their philanthropic foundations is working for (or against) their social values.

There is significant opportunity to open access to the capital corpus of PAFs for impact investment, with offerings that allow philanthropists to invest their corpus (95%), not just their annual grant distributions (5%), to advance their cause.

Governments are interested in the ability of Social Benefit Bonds to bring private capital to social services, and to share risk.

Exciting potential exists for charities to attract more capital towards social good, but there is work to do. There is a lack of investable product, investment readiness. Charities can begin to make inroads by identifying where and how they create value (and an existing or potential revenue stream); knowing and measuring their impact; and building an evidence base.

Leaders believed philanthropy had a valuable role in promoting investment readiness and in growing the capital pie:

- by supporting innovation and the build of an evidence base.  
Prove the concept with philanthropic funds by starting small, making sure it works, testing the market and doing the groundwork for scale and impact investment by working with an intermediary to set things up in a proof of concept stage. Once grounded in evidence, a different blend of capital can be attracted. More options and new sources of capital emerge when you have the evidence.
- philanthropy may accept a lower return or a first-loss position, helping to manage risk and attract other investors.

Leaders recognised the special potential of philanthropic funds in turning the key on investment readiness and on opening up other sources of capital. They identified an incumbency on the sector to leverage and protect philanthropic funds – not calling on them for opportunities that can be funded another way (and therefore diverting philanthropic dollars away from critical services that have no other funding options).

*An example of leveraging PAFs to change the risk profile of a social impact investment fund to attract a broader range of investors is Social Ventures Australia Diversified Investment Fund. It provides flexible finance (ranging from \$0.5m to \$1.5m) to organisations able to create meaningful social outcomes for people experiencing disadvantage in Australia.*

## Scale

*Scale can be a question of depth, not just breadth*

Ability to go to scale is important in impact investing – mostly because it helps absorb the significant set up costs. ‘Go big or go home’ holds true for many financial investments. But for charities, scale can also be about going deep – some have called it ‘reverse scale’. The emphasis shifts from how many people can be reached by the program, to one that is more concerned about achieving self-sufficiency for people and communities that is sustainable over time, across generations. Within government, the traction for this approach to ‘scale’ is within central agencies (e.g. Treasury) where there is a focus on a bigger picture of costs and savings. To date, it has been these central agencies that have driven government interest and activity in impact investment solutions.

## Sector and Market Development

*Establishment costs are a barrier – and represent a risk to NFP Boards.*

*Government needs to shift to negotiating on commercial terms with NFPs to allow overheads to be covered and to support viability.*

*Currently the NFP sector is carrying the bulk of the load to develop the market.*

Life Without Barriers and others gave an insight into the time, resourcing and costs incurred in pursuing and eventually securing a Social Benefit Bond to run a transformational program they know will change lives. Their learning was echoed by experts.

Capacity to develop investment readiness, outcomes measurement and building and sharing an evidence base needs better support from government.

As LWB Board Member, Gill Calvert AO, summed up at the Sydney forum, with social purpose our *raison d’être* it is incumbent on the leaders and the ground-breakers in our sector to take a stewardship role - to influence the agenda and understand how impact investing can benefit our sector and the work we do with our communities.

CCA’s work and our learning from this series of forums affirms a significant role for government in supporting the development of impact investing. Government should act to better support measurement and sharing of evidence; data linkage; investment readiness funds; intermediaries; and the work of Impact Investing Australia. Australia could also learn from initiatives from overseas such as the UK’s use of dead money to establish the Big Society Bank, and the French 90/10 rule which allows people to choose to have a percentage of their superannuation contribution invested in impact investment funds.



# Useful Resources

[Views from the impact investing playing field in Australia on what's happening and what's needed next](#), from the Australian Advisory Board on Impact Investing, 2017. (It also comes with an 8 minute video snapshot.)

[Impact – Australia Report](#) – released in 2013, but still relevant and featuring some case studies. There is also a useful companion report on *Place-based Impact Investment*.

[Impact Investing Australia](#), with resources and case studies.

[Is your program suitable for a social impact bond?](#) Answers a lot of first-up questions in considering whether to pursue a social impact bond. A useful article by Sydney panelist, Elsyé Sainty from Social Ventures Australia.

[Shared Value](#), a report from Social Outcomes, sponsored by NAB and LendLease, with case studies on moving business to align commercial success with social benefit.

[Sandy Blackburn-Wright On Social Enterprise Startups, Impact Bonds & Flipping The Design Process For Better Social Outcomes](#), panelist and Managing Director of Social Outcomes, Sandy Blackburn-Wright talks to many of the themes discussed at the forums.

[A library of case studies](#) from Social Ventures Australia, and some perspectives shared from charity leaders that have travelled the impact investing journey in this issue of SVA Quarterly, *Funding their vision: social purpose organisations share their stories*

# Attachment A:

## Impact Investing CEO Forums 2018 – Participants

|   |   |
|---|---|
| Remberto Rivera, CFO  | ACSO  |
| Richard Mussell, CEO  | Animal Welfare League                               |
| Murray Baird, Assistant Commissioner                            | Australian Charities and Not for profits Commission |
| Stephen Bartos, CEO   | Australian Research Alliance for Children and Youth |
| Marcia Balzer, CEO  | Baptist Care Australia                              |
| Jeanmaree Furtado, Finance Manager                              | Bell Shakespeare Company                            |
| Wilma James, CEO  | Bravehearts   |
| Annemaree Callander, CEO  | Brisbane Youth Services                             |
| Anna Spencer, Vice President                                    | Brisbane Youth Services                             |
| Gaylene Coulton, CEO  | Capital Health Network                              |
| Zoe Holdenson, Strategy Advisor                                 | Capital Health Network                              |
| Jennifer Merriman, Strategic Development                        | Carers ACT  |
| David Militz, CEO   | Carers SA   |
| Louise Woods, Manager Fundraising                               | Caritas Australia                                   |
| Jenny Hughes, CEO   | Catalyst Foundation                                 |
| Sue-Ann Polden, Director  | CatholicCare Canberra and Goulburn                  |
| Paul Scully, CEO  | Churches of Christ Queensland                       |
| Murray Coates, CEO  | Community Based Support                             |
| Freddie Brincat, Executive Director                             | Community Bridging Services                         |
| David Crosbie, CEO  | Community Council for Australia                     |
| Deborah Smith, Partnerships Manager                             | Community Council for Australia                     |
| Craig Wilkins, CEO  | Conservation SA                                     |
| Jo Cavanagh, CEO  | Family Life   |
| Rhyll Gardner, CEO  | Foresters Finance                                   |
| Mary Sue Rogers, CEO  | ForPurposeCo  |
| Aaron Chia, CEO   | Guide Dogs SA/NT                                    |
| Craig Hodges, CEO   | Health and Community Services Workforce Council     |
| Dennis Young, Executive Director                                | Healthy Options Australia                           |
| Ian Cox, CEO  | Hutt Street Centre                                  |
| Sam Barrett, Social Impact Bond Program Manager                 | Hutt Street Centre                                  |
| Sharon Tuffin, CEO  | Karralika Programs                                  |
| David Knowles, Partner, Head of Philanthropy and Social Capital | Koda Capital  |
| Chris Wilson, Partner - Philanthropy and Social Capital         | Koda Capital  |
| Gill Calvert AO, Board  | Life Without Barriers                               |
| Jan Lowe, Board Director  | Life Without Barriers                               |
| Jocelyn Bell, Social Bonds Lead                                 | Life Without Barriers                               |
| Brad Swan, Executive Director - Strategy and Engagement         | Life Without Barriers                               |
| Sue Thomas, State Director                                      | Life Without Barriers                               |
| Peter Dahl, ACT Director  | Life Without Barriers                               |
| Sally Cowling, Manager Research and Practice Outcomes           | Life Without Barriers                               |
| Graeme Shearman, Director of Corporate Services                 | Marymead  |
| Deborah Fewster, GM - Policy, Public Affairs, Impact            | Melbourne City Mission                              |
| Helen Lunn, State Leader  | Mission Australia                                   |

|  |                                      |
|--|--------------------------------------|
| Helena Kyriazopoulos, CEO                                | Multicultural Communities Council SA |
| Mary Jo Capps, CEO                                       | Musica Viva                          |
| James Waddell, Director, Product and Channel Development | National Australia Bank              |
| Kath Leong, Capital Markets and Advisory                 | National Australia Bank              |
| Dagmar Parsons, CEO                                      | National Seniors                     |
| Carol Bennett, CEO                                       | Painaustralia                        |
| Susanne Legena, CEO                                      | Plan International                   |
| Rosalie Wilkie, Social Impact Partner                    | PwC Australia                        |
| Eduardo Arnoni, Partner                                  | PwC Australia                        |
| Kim Challenor, Partner                                   | PwC Australia                        |
| Mark Thomson, Partner                                    | PwC Australia                        |
| Stephanie Males, Partner                                 | PwC Australia                        |
| Jody Broun, Director NSW/ACT                             | Red Cross                            |
| Heather Neil, CEO  | RSPCA                                |
| Lynn Crawford, Finance Manager                           | SANE Australia                       |
| Peter Zographakis, General Manager                       | Settlement Services International    |
| Violet Roumeliotis, CEO                                  | Settlement Services International    |
| Christine Crain, Director                                | SBB Pilot Program, QLD Treasury      |
| Elyse Sainty, Director, Impact Investing                 | Social Ventures Australia            |
| Casey Taylor, Manager, Impact Investing                  | Social Ventures Australia            |
| Alex Oppes, Director, Impact Investing                   | Social Ventures Australia            |
| Michael Lynch, Executive Director                        | Social Ventures Australia            |
| Corene Strauss, CEO                                      | Special Olympics                     |
| Louise Baxter, CEO                                       | Starlight Foundation                 |
| Fiona Kelly, Chief Executive                             | UnitingCare Wesley Bowden            |
| David Couzner, Executive Manager                         | UnitingCare Wesley Bowden            |
| Susan Ball, Manager Grants and Risk                      | Victorian Legal Services Board       |
| Jean Giese, General Manager                              | Volunteering ACT                     |
| Evelyn O'Loughlin, CEO                                   | Volunteering SA & NT                 |
| Jenn Mullin, Senior Executive - Programs                 | White Ribbon Australia               |
| Casey Lim, Director, Corporate Strategy                  | World Vision Australia               |

# Attachment B:

## Members of the Community Council for Australia

Access Australia's National Infertility Network  
Adult Learning Australia  
Alcohol, Tobacco and Other Drugs Association ACT  
Arab Council Australia  
Australian Community Support Organisation (ACSO)  
Australian Conservation Foundation  
Australian Council for International Development, Marc Purcell, CEO (CCA Board Director)  
Australian Major Performing Arts Group, Bethwyn Serow, Executive Director (CCA Director)  
Australian Research Alliance for Children and Youth  
Australian Women Donors Network  
Carers Australia  
Centre for Social Impact  
Church Communities Australia  
Churches of Christ Vic and Tas  
Community Based Support (Tas)  
Community Broadcasting Association of Australia  
Community Colleges Australia  
Connecting Up  
Diabetes NSW & ACT  
Ethical Jobs  
Everyman  
Foresters Community Finance  
Foundation for Alcohol Research and Education  
Foundation for Young Australians  
Fragile X Association of Australia  
Fundraising Institute of Australia  
Good Samaritan Foundation  
Good to Give  
Hammondcare  
Healthy Options Australia, Jody Wright, CEO (CCA Director)  
Hillsong Church, George Aghajanian, CEO (CCA Board Director)  
Justice Connect  
Life Without Barriers, Claire Robbs, CEO (CCA Board Director)  
Lock the Gate  
Mater Foundation, Nigel Harris, CEO (CCA Director)  
Menslink  
Mission Australia  
Missions Interlink  
Musica Viva Australia  
Non Profit Alliance  
Our Community  
OzHarvest  
Painaustralia  
Palliative Care Australia  
Philanthropy Australia  
Port Phillip Housing Association  
Pro Bono Australia  
Queensland Water & Land Carers  
Ronald McDonald House Charities  
RSPCA Australia  
SANE  
SARRAH  
Save the Children, Paul Ronalds, CEO (CCA Board Director)  
Settlement Services International  
Smith Family, Lisa O'Brien, CEO (CCA Board Director)  
Social Ventures Australia  
St John Ambulance  
Starlight Foundation  
Ted Noffs Foundation  
Touched by Olivia  
Uniting Church in Australia, Synod of Victoria and Tasmania  
Variety Australia  
Volunteering Australia  
Wesley Mission, Keith Garner, CEO (CCA Board Director)  
Work Place Giving Australia  
World Vision, Tim Costello, Chief Advocate (Chair CCA Board)  
World Wide Fund for Nature Australia  
YMCA Australia



ABN 76 141 705 599

Level 1, The Realm, 18 National Circuit  
Barton, ACT 2600

T: 02 6198 3435

E: [info@communitycouncil.com.au](mailto:info@communitycouncil.com.au)

W: [www.communitycouncil.com.au](http://www.communitycouncil.com.au)

Twitter: [@ComCouncil](https://twitter.com/ComCouncil)