The rise of social impact investing

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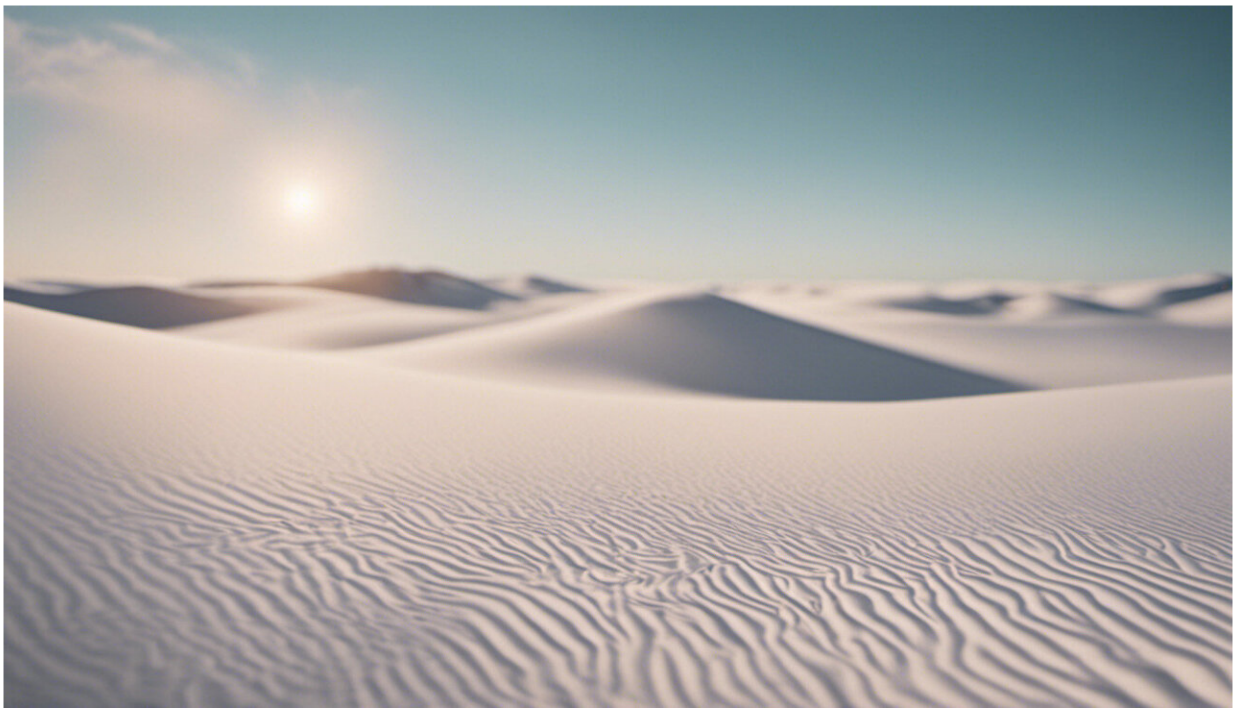

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Governments, communities and industries are grappling with issues such as climate change, inequality and social justice – and how to mobilise more funding to tackle these issues. One possible solution is impact investing.

Impact investments are designed to achieve a measurable social/environmental return and a financial return. Private investors and individuals, funds, businesses, philanthropists and governments can make investment decisions through this approach.

Submissions to the government's discussion paper on social impact investing closed at the end of February. Treasurer Scott Morrison said this paper was a step towards implementing a recommendation of the Financial System Inquiry.

Where did the idea come from?

Impact investing emerged in 2007 out of global discussions on how to mobilise more capital to tackle societal problems.

Reports by the Rockefeller Foundation in 2010 and the World Economic Forum in 2011 increased global awareness of the approach.

The reports argued impact investing was emerging for several reasons. These include:

- The scale of social and environmental problems facing the world today is beyond the scope of any government budget.
- More capital needs to be directed toward tackling social and environmental problems.
- New business models are demonstrating it is possible (and increasingly profitable) to achieve financial and social/environmental returns. These are supported by new corporate forms.
- Investors are increasingly interested in divesting from fossil fuels and other socially/environmentally detrimental businesses and industries. They are also investing in firms and organisations that are "doing good".
- Generational change is occurring in the philanthropic sector, where millennials heading family funds are bringing a different

value set and approach.

Globally, it is estimated the impact investing market will be worth between US$650 billion and US$1 trillion in the coming decades.

How is it being used in Australia?

It is estimated the Australian impact investing sector will be worth A$33 billion by 2022.

There are already many examples of impact investing across sectors. These include:

- loans and debt guarantees (more than A$4 million) for community-owned windfarms in regional Victoria;
- investment in the construction of commercial and environmentally sustainable properties; and
- mixed investment of loans, guarantees and philanthropy to establish and scale affordable funeral services.

Australia also has several social impact bonds already in the market. In New South Wales alone there are three bonds in the areas of family services and juvenile justice.

In its discussion paper, the federal government sought advice on:

- the role of government in incentivising or co-funding investments;
- identifying potential regulatory barriers to be removed; and
- identifying what intermediaries or structures are needed to connect supply and demand.

It is expected the feedback will finalise the proposed principles for social impact investing for the government, and determine what actions are needed to help build a social impact investment market for Australia.

The future of impact investing

Market infrastructure is emerging to support the growth of impact investing globally. Examples include the creation of measurement and rating systems, and platforms to connect supply and demand such as social stock exchanges.

These online platforms educate enterprises, standardise impact measurements and list investment opportunities for potential (and often accredited) impact investors.

Additionally, new legal structures are emerging for "hybrid" businesses seeking social and financial returns. In the US, these include the L3C (Low-Profit Limited Liability Company), the Benefit Corporation and the Flexible Purpose Corporation.

Debates are under way about whether Australia also needs new corporate structures, tax incentives for investors, and a social stock exchange to catalyse more investment in affordable housing, renewable energy and social services.

In this nascent market, defining and measuring impact is an inherent challenge. Impact investing certainly isn't the panacea for the world's problems. But it is one way to mobilise additional capital to tackle some social and environmental problems.

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