

Social Impact Investing

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Discussion Paper
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Executive Summary

Based on seven years of designing innovations in the social sector, The Australian Centre for Social Innovation (TACSI) believes impact investing can play a significant role in improving outcomes for Australians.

The opportunity to source private sector funding and investment, broaden the responsibility and accountability for social outcomes, and to adopt approaches that ensure funding is directed at 'what works', should strengthen responses to our most challenging social issues.

However, the benefits of impact investing will not automatically materialise. For impact investing to affect social outcomes it must be accompanied by measures that actively support improvement in the social solutions to be invested in. TACSI's experience suggests there are two key ways this improvement could be realised.

Firstly, current solutions are often silo-ed and manifest as a series of fragmented programs or services, yet we know many social problems are inter-generational, and closely wedded to issues of employment, health, and education. By acting as a convener of portfolios of social impact investments directed at *systems* innovation, the government could ensure funding addresses key gaps, enabling meaningful and sustainable improvement in people's lives and a better financial return on investment.

Secondly, TACSI has observed that social policies, programs and services are rarely tested for efficacy before implementation. To optimise the effect of impact investment and manage the risk of unintended negative consequences, TACSI recommends the government incentivises investors, or directly funds, the capability of organisations (including government agencies) charged with delivering social outcomes, to design and test programs before they are scaled. Our experience also suggests that purposefully supporting 'lead innovators' and open-sourcing of innovation offers the opportunity to accelerate and broaden the base of social problem solving.

TACSI supports the principles for social impact investing as set out in the discussion paper but believes they can be made stronger in four main ways: explicit reference to improvement in people's lives as the overarching objective; providing for solutions that extend the existing evidence base; more emphasis on co-designing solutions with people who would be the target of interventions; and, more emphasis on building innovation capability.

TACSI's work in the areas of education, youth unemployment, affordable housing and consumer-directed care, support the discussion paper's identification of these areas as early opportunities for impact investing. With an approach that emphasises system responses, co-design and testing of solutions, we are optimistic more opportunities can be found.

About The Australian Centre for Social Innovation

The Australian Centre for Social Innovation (TACSI) is an independent not-for-profit social enterprise. We have 50 staff who work on projects in every State and Territory and we are connected to a global network of innovation organisations, including through the Social Innovation Exchange (SIX).

TACSI partners with government, not-for-profits, philanthropy and business to develop and spread innovations that change lives. We believe that the best solutions to the problems we're trying to solve come from working with the people who are facing those challenges.

Our method

TACSI has developed an innovation process to bring the rigour of the scientific method to social problem solving. Our co-design process helps teams collaborate 'in-the-office' to make their assumptions about solutions explicit, and then refine their assumptions through testing 'out-of-the office' with end users, financial supporters, and other stakeholders. We draw on tools from design, business and social science.



Family by Family was co-designed with families in South Australia and is now spreading across the country. The program has won a NAPCAN award for innovation in child protection and an Australian International Design Award for Service Design.

Introduction

There's little doubt about the need for new approaches and solutions to a number of intractable social problems. The statistics are compelling:

- as many as 1 in 4 children may be experiencing abuse and neglect¹
- evidence suggests there is a strong intergenerational transmission of maltreatment with up to 90% of children who experienced abuse and neglect passing it on to their own children²
- One-third of Australians in unpaid caring roles have been classified as having 'severe' or 'extremely severe' depression³
- Single people living on the age pension could afford only 2.1% of rental properties in a 2016 study by Anglicare Australia⁴
- An imprisonment rate per 100,000 ATSI population of 2,346 compared with just 154 per 100,000 people for the non-indigenous population⁵
- 45% of people with disability in Australia are at risk of poverty⁶.

Dig deeper into these statistics and it becomes clear that the nature of the social issues which Australia and many other nations are grappling with are intergenerational and closely wedded to issues that affect the ability to participate in society, such as employment, health, education and housing. We also know that many complex social problems are systemic and structural rather than just individual or place-based.

However, the responses to intractable social problems are typically singular services or programs that have undergone limited testing and have been *designed for* rather than *designed with* people in the target populations. Opportunities are missed to generate insights that could enable responses to keep pace with the dynamic nature of social problems and harness latent resources in the people facing the biggest challenges.

In designing solutions with government, not for profit and philanthropic organisations, TACSI has taken a 'discover, try, test, learn' approach. We use the insights gained from people facing the biggest challenges to generate ideas, put

¹<http://www.unisa.edu.au/Media-Centre/Releases/2016-Media-releases/Child-first-focus-could-see-SA-lead-the-world-in-child-protection/#.WLdaGRJ96qA>

² Intergenerational transmission of maltreatment, Adam Tomison, <https://aifs.gov.au/cfca/publications/intergenerational-transmission-maltreatment#aus>

³ Position Statement, Carers Recognition, Helping Hand, <http://www.helpinghand.org.au/wp-content/uploads/2012/07/Positioning-Statement-Carers-Recognition2.pdf>

⁴ Rental Affordability Snapshot, Anglicare Australia, 2016, p5, <http://www.anglicare.asn.au/docs/default-source/default-document-library/rental-affordability-snapshot-2016.pdf?sfvrsn=7>

⁵ ABS, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4517.0~2016~Main%20Features~Imprisonment%20rates~12>

⁶ Poverty in Australia, ACOSS, 2014, p27, http://www.acoss.org.au/images/uploads/ACOSS_Poverty_in_Australia_2014.pdf

those ideas through a rigorous innovation process to design effective solutions, and work with our partners to spread those solutions. TACSI sees opportunity to take this approach with impact investing, ensuring that it supports outcomes rather than just a different form of capital to fund social problem-solving.

With reference to practical innovation work TACSI has undertaken, this submission sets out the benefits of complementing social impact investing with the above approach, ways impact investing principles could reinforce this, and suggests opportunity areas for investing.

Social impact investing: benefits and challenges

One of the main benefits social impact investing offers is the opportunity to engage a broader range of interests and resources in social problem-solving.

For example, the *Aspire* social impact bond supports the Adelaide-based Hutt St Centre to address homelessness in partnership with private sector investors and community housing providers including Common Ground Adelaide and Unity Housing. Similarly, the Benevolent Society bond in New South Wales has connected the not for profit sector with institutional investors the Commonwealth Bank and Westpac.

TACSI's own experience in exploring the impact of Australia's ageing population in *The Innovation Age* project (see Appendix 1), has discovered the potential for a range of government, commercial and peer-to-peer solutions to address the looming issues of affordable housing and social isolation for baby boomers. Social impact investment that brings the resources from each of these to bear in a coordinated manner could catalyse a broader systems innovation that provides for meaningful and sustainable improvement in people's lives and better financial returns on investment.

However, coordinating impact investment to have this effect remains a major challenge. Families that interact with the statutory child protection system, for example, may need to address issues of low levels of education, drug abuse and employability. Interdependencies between these issues mean that any single intervention in any one of these areas is likely to be insufficient to effect lasting change. Equally, only considering interventions at the level of the family, rather than the broader social and community context in which that family lives (e.g. place-based disadvantage) may leave the family exposed to risk factors that constrain the effectiveness of service-based interventions.

Without addressing this systemic nature of many social issues, the risk for impact investment is that it simply directs funding into interesting and novel interventions that do little to shift social outcomes and may even reinforce a cycle of service dependence and lower quality of life. Investments should be scrutinised to mitigate risks that they may exacerbate existing problems. Conversely, if impact investing can be coordinated to address the multiple and connected factors driving social issues and structured to complement government spending on universal services, especially in areas of employment, healthcare and education, it will have a much greater chance of changing social outcomes for the better.

A related challenge for social impact investing is to ensure the supply of interventions that deliver an acceptable 'impact rate of return' for people targeted by interventions and the broader community, as well as a fair rate of return for investors.

Fundamental to this is the application of rigorous process for designing and testing interventions. When James Dyson created his vacuum cleaner, he famously made 5,127 prototype versions before going into production; each one helped him get closer to an effective and efficient solution. Social policies and programs are more complex than vacuum cleaners but they are rarely tested before implementation, leading to an ongoing pipeline of responses that fail to change social outcomes.

For example, TACSI's *Rethinking Restoration* work, which focuses on children in out of home care, has identified that over the past decade Australia has seen 39 inquiries, reviews and Royal Commissions¹ dedicated to finding better ways to protect children against abuse and neglect. Additional spending in response to these enquiries, however, has yet to make an impact that could be considered proportional to the investment.

With spending on social purposes in Australia estimated at \$510 billion per year² the potential to substantially shift outcomes with a more rigorous approach to design and testing is there. Development of the social impact investment market could provide the catalyst for a more widespread application of innovation processes that stage-gate investment decisions based on impact, delivering greater effectiveness and efficiency for the social purpose spending overall.

¹<http://www.childabuseroyalcommission.gov.au/documents/8-1-previous-inquiries-in-tor-new-logo.pdf>

² Australia's Social Purpose Market, page ii, The Centre for Social Impact, April 2016 http://www.csi.edu.au/media/uploads/127037316_Social_Purpose_Market_v5.pdf

Social impact investing: the role of government

Given the major challenges TACSI has identified for impact investing, coordinating investment to catalyse systems innovation, and ensuring there are interventions that are adequately designed and tested before being scaled, we see two main roles for government.

Firstly, government could act as a convenor of portfolios of social impact investments. These portfolios could be constructed to ensure available impact investment funding was directed at key system gaps or failures and would complement existing government and other forms of investment directed at reducing systemic or structural issues that act as barriers to achieving outcomes at scale.

This portfolio approach would help to overcome the challenge of “narrow application of social impact investing” that the discussion paper has identified. TACSI is familiar with a range of international approaches, including those taken by the McConnell Foundation (Canada), European Commission and UK Government that could inform the government’s role in this regard.

Secondly, government could be a more purposeful funder of innovation capability in a way that supports the development of investment-attractive and impact-attractive interventions. This responsibility could also be shared with impact investors so that interventions were capable of being adjusted more effectively throughout the life of an investment by ‘innovation-capable’ providers.

TACSI also believes the government could consider ways to support capability building sector-wide through means other than just universal capability building programs. There are two particular projects TACSI has undertaken that offer insight into this.

In our *NDIS Readiness and Beyond* project we identified that support for ‘lead innovators’ - organisations specialising in exploring beyond the bounds of existing evidence - could be beneficial. We considered that not every disability services provider needed to be at the ‘cutting-edge’ and creating market defining services. Support for a relative handful of these specialists could yield a new wave of impactful and investable interventions.

To complement a capability investment in lead innovators, government could also consider requirements for the open-sourcing of innovations. In August 2016, TACSI open-sourced its *Weavers* program - a peer-to-peer model for supporting carers. This approach helps to spread interventions that create impact rather than them being tightly-controlled proprietary responses. By allowing ready adaption and

adoption the base for effective change is broadened and accelerated. The government could explore whether public investment in lead innovators could be accompanied by measures that provided for open source innovation.

It is also worth making explicit that the government itself will need to build a capability to interact with the social impact investing market to ensure effective social problem-solving.

Principles for social impact investing

TACSI supports the principles for social impact investing as set out in the discussion paper but recommends they be strengthened by:

1. *An overarching statement of objectives that explicitly refers to the ultimate outcome sought, that is, a positive change in people's lives.* This will mitigate some of the limitations of proxy measures for 'value for money' and 'outcomes', encourage relevant qualitative measurement, and build a richer picture of the effect of social impact investments.
2. *Acknowledging the tension between generating more impactful investments and a reliance on the "existing evidence base" to assess proposed interventions (Principle 4, p23).* This tension might be ameliorated by providing for some social impact investments (e.g. those that support 'lead innovators') to be supported by an appropriate qualitative base. For example, TACSI's projects will often seek to discover 'positive deviants' - people who, despite the odds being stacked against them, find ways to achieve improvements in their quality of life. Understanding the characteristics and contexts of people in these circumstances can provide insights that generate new and scalable interventions. Similarly, there could be provision for at least some impact investments to be structured to purposefully move interventions through funding 'gates' at the discovery/insight, design, trial and spreading stages to generate a pipeline of ideas that progress from 'innovation to impact.'
3. *Including in the assessment of "an intervention likely to achieve outcomes", the extent to which the proposed social impact investment has been designed with people from the target population.* This will mitigate the risk that interventions are based on untested assumptions, could exacerbate existing problems, and in TACSI's experience, unlock latent resources in target groups. For example, TACSI's *Family by Family* program - a peer-based support program - was designed and is delivered in conjunction with families who have experienced substantial challenges. Rather than families who have experienced tough times being seen as liabilities, their experiences are a valuable resource for families currently in hardship.
4. *Requiring social impact investments to have a robust innovation plan that enables interventions to be successfully iterated over the life of the investment.* This would include a plan to ensure innovation capability is in place or developed and a process for stage-gating iterations is set out to ensure appropriate investment and social impact returns.

Social impact investing: potential areas of opportunity

TACSI agrees that the areas outlined in the discussion paper represent early opportunities for impact investing.

Below we have outlined just some of the TACSI projects that relate to these areas and which could inform government and investor decision-making about successful interventions in these areas.

Family by Family

Family by Family is a peer-to-peer program that draws on the experience and resilience within communities – we find and train families who have been through tough times, match them with families who want things to change, and coach the families to grow and change together. Family by Family is now operational in four sites in Adelaide, has expanded to Mt Druitt in western Sydney, and has supported more than 400 families. Independent evaluations have evidenced the success of the program and modelling has shown for every \$1 spent on the program it saves a further \$7.

A Family-Friendly Australia

Based on its experience in areas of child protection, out of home care and related areas, TACSI has begun to build a national innovation network to give more families the opportunity to thrive. This work takes an approach to reform that is focused on creating five “helpful conditions” and five “helpful supports” to shift outcomes currently being generated by ‘the system’.

The Innovation Age (‘beyond bricks and mortar’)

Funded by the The Wicking Trust, TACSI is exploring a new generation of policies, support and services with, and for, Australia’s baby boomers. Our initial focus is on housing, especially for those in difficult social or economic circumstances. We currently have six prototype solutions (see Appendix 1) that, in different ways and in partnership with different stakeholders, could help boomers to age well by providing a stable home.

Weavers

Weavers is a peer-to-peer model supporting carers to address the significant challenges of caring for a loved one. Weavers are people with personal caring experience. They are recruited, trained, and connected with carers in their community. The model was co-designed with carers, undergone larger scale demonstration in metropolitan Adelaide and has now been open-sourced. Recent coverage on Weavers can be found at www.australianageingagenda.com.au/2017/02/08/initiative-support-family-carers-residents-will-change-lives/.

NDIS Readiness and Beyond

Funded by the Fay Fuller Foundation, TACSI worked with The Difference Incubator (TDi) and 18 service providers to explore what it meant to be NDIS ready, what supports would best help providers to accelerate readiness without cutting corners, and how we could realise the ambition of the NDIS. The research identified five key questions that when answered in sequence could provide a new route to readiness appropriate for a consumer-directed care market. The research report is available at <http://tacsi.org.au/project/ndis-readiness-and-beyond/>

Further information

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Appendix 1 - The Innovation Age: Project Outline

The Innovation Age is a multi-year initiative (in partnership with JO & JR Wicking Trust managed by Equity Trustees) aimed at accelerating the next generation of services, supports and policies that enable all Australians to age well.

We are tackling this big objective through 3 interconnected streams of work:

1. **Rethinking Home as we Age:** Co-designing and testing next generation services, supports and policies around home and housing
2. **Collective Innovation:** Building a national impact network of innovators and innovations from across sectors with the shared vision of ageing well for all Australians
3. **Scaling Solutions:** Testing what it takes to scale good innovation, starting with open sourcing our own solution Weavers - peer to peer support for family carers.

There are 4 big systems issues we are focussing on:

1. Lack of policies that offer secure and sustainable tenure for people as they age
2. Systems that build in loneliness and isolation through a hyper focus on bricks and mortar
3. Market failure: policy change that can help to provide a stable and sustainable home when home ownership is not an option
4. Decline and deficit narrative about ageing leads to a focus on needs not contribution.

There are 6 concepts we are prototyping:

1. **Reliable Rental:** testing new policy clauses for Residential Tenancy Acts that focus on increasing security of tenure, sense of ownership and sustainability of tenure.
2. **Coalition of Social Landlords:** testing whether a group of socially minded private landlords can be mobilised - renting at fair rates and conditions to fellow baby boomers who are living on low incomes.
3. **Sharing Our Space:** testing a home sharing platform specifically focussed on linking older people who wish to share - both those who have a home with spare bedrooms, and those looking for sharing opportunities.

4. Tiny Homes, Big Community: test whether it is possible for tiny homes to be desirable, viable and sustainable and what forms of community it takes to ensure this.
5. Roost: addressing social isolation through and with people who identify as lonely by tapping into their skills that may currently be under-utilised and by tapping into commercial channels - not just welfare channels - to connect people.
6. Wall of Me: testing ways people's identities can be made visible to create a foundation for person-centred care in residential aged care facilities.