Social Impact Investing

Good Shepherd Microfinance Response to Australian Government Discussion Paper

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Dr. Vinita Godinho
General Manager – Advisory
Good Shepherd Microfinance
Level 11, 350 Queen Street, Melbourne, VIC, 3000
T 03 9495 9602 | M 0430 281 085
vgodinho@gsmicrofinance.org.au

Table of Contents

Background: Good Shepherd Microfinance & Social Impact Investing **2**

Role of the Australian Government in Social Impact Investing **4**

Consultation Questions 1. to 4. .... **4**

Capability, culture & risk 4

Access to capital and sustainable social business models 5

Investor Expectations 6

Consultation Question 5. .... **6**

Consultation Question 6. .... **7**

Social Pricing Model 7

Consultation Questions 7. & 8. .... **8**

NILS, StepUP & other micro-credit products 8

Micro-enterprise Development 8

Micro-insurance 9

Home-ownership and affordable housing 9

Financial Inclusion Action Plans (FIAPS) 10

Consultation Questions 9. & 10. .... **10**

Australia's Social Impact Investing Principles **11**

Consultation Question 11. .... **11**

CASE-STUDY: Applying the Social Impact Investing Principles to the Financial Inclusion Action Plan (FIAP) program. 11

Reducing Regulatory Barriers **12**

Consultation Questions 12. to 29. .... **12**

Background: Good Shepherd Microfinance & Social Impact Investing

Good Shepherd Microfinance is Australia's largest microfinance organisation, successfully delivering a suite of people-centred, affordable financial products and services for people on low incomes, for over 35 years. Our aim is to enable clients to realise their own economic wellbeing, so that they can move away from financial stress and crisis, towards stability, resilience and self-reliance. Social Impact Investing can help us to scale our efforts to promote financial inclusion, and achieve our aim of reaching one million Australians through a broader funding base.

We thank the Australian Government for releasing the very comprehensive 'Social Impact Investing Discussion Paper January 2017' (the Discussion Paper) and welcome the opportunity to be involved in continuing debate on this important topic. As identified in the Discussion Paper, social impact investing offers a genuine potential opportunity to address the unmet needs of the more than three million adults experiencing financial exclusion[1], who are unable to access mainstream financial services. The higher financial stress they face poses significant risks to them and their families. The flow-on effects of dealing with ongoing financial crises also result in broader social and economic costs for the wider Australian community.

Good Shepherd Microfinance believes that individuals and families living on low incomes can make sustainable and responsible financial decisions, if they have access to the right resources and are protected from exploitative lending arrangements. We work with 263 accredited community organisations in 670 locations across Australia, and a range of close partners across government and business, in order to do this. Our award-winning programs which have been designed to fill gaps in the market, and serve the needs of those who are excluded, include the following:

- No Interest Loan Scheme (NILS): a community-based program providing access to fair and safe credit (up to $1,200);
- StepUP: low interest loans for personal or household purposes, offered to people on low incomes in partnership with NAB (from $800 to $3,000);
- AddsUP: a matched savings incentive ($500) delivered in partnership with NAB, to help people on low incomes develop financial independence;
- Debt Deduct: a pilot program designed to work as a circuit breaker addressing the immediate need for debt relief through no-interest consolidation loans of up to $2,000, and the support of a financial counsellor;
- Good Insurance: innovative affordable, simple and effective insurance policies for people on low incomes, delivered through Australia's biggest insurance companies; and
- Good Money: community finance stores delivering financial services in Victoria, South Australia and Queensland (opening soon) in partnership with NAB and State Governments.

Our core purpose i.e. addressing the unmet needs of Australians experiencing financial exclusion, is an important priority policy area for the Australian Government[2] yet our evidence-base shows that we are able to reach only a fraction of the total demand. Social impact investing can therefore offer us a vehicle for significantly scaling up our ongoing efforts to

[1] Centre for Social Impact for National Australia Bank, 'Measuring Financial Exclusion In Australia', April 2014.
[2] Australian Government 'Social Impact Investing Discussion Paper' January 2017.

provide safe, affordable and appropriate financial support, as well as diversifying our funding sources.

As the Discussion Paper clearly identifies, a key factor enabling the success of social impact investing is the availability of robust, reliable and longer-term data. Good Shepherd Microfinance has successfully captured a growing evidence-base on the performance of our well-known inclusive finance programs. The following is a snapshot of how we enable greater economic and social inclusion for our clients:

• 400,000 clients and their families have been positively impacted through Good Shepherd Microfinance programs.

• **StepUP** low interest loans are available at 35 sites across Australia, with over 13,000 loans approved. StepUP loans generate social and economic benefits valued at more than twice the total cost of the program (the ratio of social and economic return is $2.68 for every dollar invested in the program with a cumulative value of approximately $19.5 million).

• Our highly awarded **No Interest Loan Scheme** (NILS) has reached more than 181,000 people with repayment rates consistently above 95 per cent. For every dollar invested in NILS, a social and economic return of $1.59 is created. Despite 94 percent of NILS clients living under the poverty line, 82 percent experienced a net improvement in economic outcomes such as savings in food and utilities expenses, greater financial independence and resilience.

• **Good Money** currently located in Geelong, Dandenong and Collingwood (Victoria) and Salisbury (South Australia) provide financially excluded locals with access to microfinance products, financial counselling and other community services in a comfortable and secure retail environment. 97 percent of Good Money clients felt more positive about the future and 97 percent felt valued.

• **Good Insurance** works with two of Australia's biggest insurance companies to create affordable, simple and effective insurance policies for people on low incomes. Strong corporate partnerships have resulted in the co-creation of two new accessible products – 'Essentials by AAI' in partnership with Suncorp and 'Insurance 4 That' with IAG.

• The **Financial Inclusion Action Plan** (FIAP) program, delivered in partnership with EY, the Centre for Social Impact and the Australian Government, harnesses the power of business, government, community and academic institutions to combat financial exclusion in Australia, especially for women. The program supports participating organisations to develop Action Plans containing specific actions which they can take to promote increased inclusion and resilience for vulnerable groups. Economic modelling shows that by working together over the next 10 years, the FIAP program can enable large numbers of people to progress away from financial crisis and hardship, towards stability, income generation and longer term resilience; as well as contribute towards a GDP uplift of $2.9 billion, government savings of $583 million and increased household wealth of $11.8 billion p.a.

The evidence thus clearly indicates that our ongoing work enables people to build assets and engage in community life, and also supports pathways to education and employment. In addition, independent evaluations of our microfinance products have shown that more than four out of five clients experience a net improvement in social and economic outcomes[3] and that financial inclusion is a critical support to economic growth.[4]

Good Shepherd Microfinance is therefore ready and willing to take the next step on the journey to scaling up our programs through diversified funding sources, by engaging with key stakeholders in the social impact investing market.

[3] Centre for Social Impact, 'Life Changing Loans at No Interest: An Outcomes Evaluation of Good Shepherd Microfinance's No Interest Loan Scheme (NILS)', March 2014

[4] Assumption note: 7 per cent of excluded segment move up one segment, SPP, May 2014

Role of the Australian Government in Social Impact Investing

Consultation Questions 1. to 4.

1. **What are the main barriers to the growth of the social impact investing market in Australia? How do these barriers differ, from the perspective of investors, service providers & intermediaries?**
2. **What do you see as the future for social impact investing in Australia: for example, can you foresee the development of new structures for social impact investing?**
3. **Are there any Australian Government legislative or regulatory barriers constraining the growth of the social impact investing market?**
4. **What do you see as the role of the Australian Government in developing the social impact investing market?**

Using the definition in the Social Impact Investing Discussion Paper (the Discussion Paper), Good Shepherd Microfinance is a service provider, being the 'organisation or enterprise delivering the intervention and providing a service to the client group'[5]. Our responses to the above-mentioned four questions are based on our perspective as a Not-For-Profit (NFP) service provider interested in entering the social impact investing market, and are grouped by key themes. We recognise that these may not be the only barriers to growth of the market in Australia, yet have focused our responses on barriers that we have experienced.

Capability, culture & risk

Traditional NFP business models operate on grant and donations-based structures i.e. where funds typically come from government and philanthropic sources to implement programs with strong social, economic and environmental outcomes for clients. Over the past five years there has been a growing desire by government, NFP and social impact investors alike for NFP organisations to diversify income streams and adapt to more self-sustaining models, including establishing of corporate partnerships, setting up social enterprises and exploring opportunities for social impact bonds and investment funds.

One of the challenges identified in the Discussion Paper is the lack of investable opportunities. We believe one of the reasons for this challenge is the lack of time, resources and investment required to 'try, test and learn' from innovative ideas that support the building of an evidence base of what does and does not work. New skills are required by NFP boards, management and staff, to support the move towards future NFP business models, which can successfully underpin these investable opportunities.

Organisations such as Impact Investing Australia and Philanthropy Australia have acknowledged this challenge, having recently launched their Impact Investment Ready Discovery Grants for NFP organisations to 'explore pathways towards financial sustainability and prepare for future impact investment through capacity building'.[6] Good Shepherd Microfinance applauds these organisations for their innovative work in developing the capacity of the NFP sector and encourages the Australian Government to further support these efforts

[5] Australian Government 'Social Impact Investing Discussion Paper' January 2017.

[6] https://impactinvestingaustralia.com/media-releases/new-grants-help-not-profits-businesses-explore-attract-impact-investment/

by increasing the seed funding available for this purpose. We believe this support will assist in aligning the key elements of social impact investing as noted in the Discussion paper i.e.

- Leveraging private capital;
- Taking a 'try, test and learn' approach to trialling innovative ideas; and
- Increasing the focus on outcomes and evaluation[7].

As part of this approach, it is important to consider where the NFP sector is currently at, and provide sufficient time and support for sector-wide capacity-building, in order to build the capabilities and experience required to develop investment-ready models.

Innovation is key to creating such models however with innovation comes increased risk. This often presents a barrier to entry for established NFP organisations, as the consequences of failure are often of a larger scale than those faced by smaller start-up organisations. We believe there is an opportunity for the development of risk-sharing frameworks across all stakeholders including the Australian Government, to reduce this barrier to entry for NFP organisations. Additionally, organisational cultures will need to transform to support the notion that when appropriate, a surplus can be generated from NFP service delivery, and delivered to investors as a financial return.

Good Shepherd Microfinance believes there is the opportunity for the Australian Government to support NFP organisations through investment into seed funding grants, capability building and risk sharing, to encourage the development of more investable opportunities. We would welcome the opportunity to be a part of future discussions related to these opportunities.

Access to capital and sustainable social business models

Current regulation and legislation is limiting the creation of sustainable social business models. NFP organisations with Deductable Gift Recipient (DGR) status are prohibited from 'distributing profits or gains to individual members.[8] Consequently, in order to access investor capital, NFP organisations must adopt more complex and costly structures. As mentioned in the Discussion Paper, putting these structures in place is 'unreasonably expensive'[9], which ultimately impacts on the NFP organisation's ability to develop sustainable investable models, while still providing strong social, economic and environmental outcomes for clients. Inversely, organisations that are structured as a social enterprise are unable to make use of the tax benefits associated with DGR status, which increases their operating costs and consequently their ability to create sustainable impactful business models.

Good Shepherd Microfinance believes that changes to these regulations to provide greater support of innovation and scale could have a large impact on reducing financial exclusion in Australia. Providing financial products to people on low incomes is costly, while at the same time, people on low incomes have a limited capacity to support the costs attached to the business models of traditional financial products that provide a financial return to investors. Our research shows that our largest program, the No Interest Loan Scheme (NILS) is only reaching 6 percent of the market demand[10] and we see great potential to increase scalability through innovation and impact investing in low cost financial products. Yet this would only be possible through business models that do not require a trade-off between accessibility and

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[7] Australian Government 'Social Impact Investing Discussion Paper' January 2017.

[8] https://www.ato.gov.au/non-profit/getting-started/endorsement/deductible-gift-recipient-(dgr)-endorsement/types-of-dgrs/

[9] Australian Government 'Social Impact Investing Discussion Paper' January 2017.

[10] Centre for Social Impact, 'Life Changing Loans at No Interest: An Outcomes Evaluation of Good Shepherd Microfinance's No Interest Loan Scheme (NILS)', March 2014

impact of outcomes for financial returns. The current regulations around both NFPs with DGR status and social enterprises, restrict the sector's ability to do this.

Good Shepherd Microfinance encourages the Australian Government to support structures & regulatory frameworks that both provide NFPs with DGR status easier access to capital, and allow similar tax benefits to social enterprises as those provided to NFPs, in order to promote the exploration and creation of sustainable business models that would otherwise not be possible. There are overseas examples in the United States and recently in Italy, where a separate corporate structure has been created, to support and encourage the establishment of 'benefit corporations,' which legally acknowledges and includes the contribution of benefit to society, employees and the environment as part of their corporate charter.[11] We think there is potential for a similar structure to be established in Australia, which could be further encouraged through favourable tax incentives, or access to establishment capital at discounted rates.

Investor Expectations

The Discussion Paper highlights anecdotal evidence that social impact investors in Australia 'expect higher returns than their overseas counterparts'.[12] Our conversations with industry experts have been consistent with this statement. We believe the gap between the first two segments of Figure 5 in the Discussion Paper (Spectrum of Investing) is large, and we think there is an opportunity for a hybrid type investor model to be inserted between these two segments. This could be made available through low-return social impact bonds or other funding models, however we do not at present have the expertise to further expand upon such models. We encourage an expansion of models between traditional philanthropy and social impact investing with market rate returns, that could support investment in activities that generate a positive social or environmental impact return with a low-to-moderate rate of financial return.

Consultation Question 5.

5. Do you see different roles for different levels of government in the Australian social impact investing market?

We believe that the Australian Government plays a pivotal role in supporting and leading the development of the social impact investing market by supporting the development of investable activities that create social impact, ensuring legal frameworks and regulatory structures reduce barriers to entry and also through providing seed investment for promising opportunities. We also see the opportunity for State and Territory Governments to co-fund and co-invest, when the impact is directly related to an area of their responsibility.

Our No Interest Loan Scheme (NILS) program is a prime example of different levels of government coming together to invest in an opportunity that delivers an indirect return on investment, whereby significant social and economic value is created by the delivery of the program. Our research found that 'the Federal Government achieved a social return of $5.27 for each dollar of funding provided, and the state governments combined achieved a social return of $7.06 for each dollar of funding provided'.[13]

[11] http://www.bcorporation.net/

[12] Australian Government 'Social Impact Investing Discussion Paper' January 2017.

[13] Centre for Social Impact, 'Life Changing Loans at No Interest: An Outcomes Evaluation of Good Shepherd Microfinance's No Interest Loan Scheme (NILS)', March 2014 p66

Models that include involvement with different levels of government would need to specify upfront how financial returns are divided between investors. This would be the case not just between governments, but also with other investors.

Many of society's complex or 'wicked' problems require intra and inter-sector collaboration, supported by innovative financing models. These holistic solutions require contributions from not only Federal and State Governments, but also multiple investors and service providers from both the profit and NFP sectors. Establishing these partnerships requires strong governance, shared social purpose and effective data collection to support outcome efficiencies and, where appropriate, a financial return. The Financial Inclusion Action Plan (FIAP) program is an example of this type of approach. We welcome the opportunity to further discuss aspects of roles and approaches that could be adopted by the Australian Government.

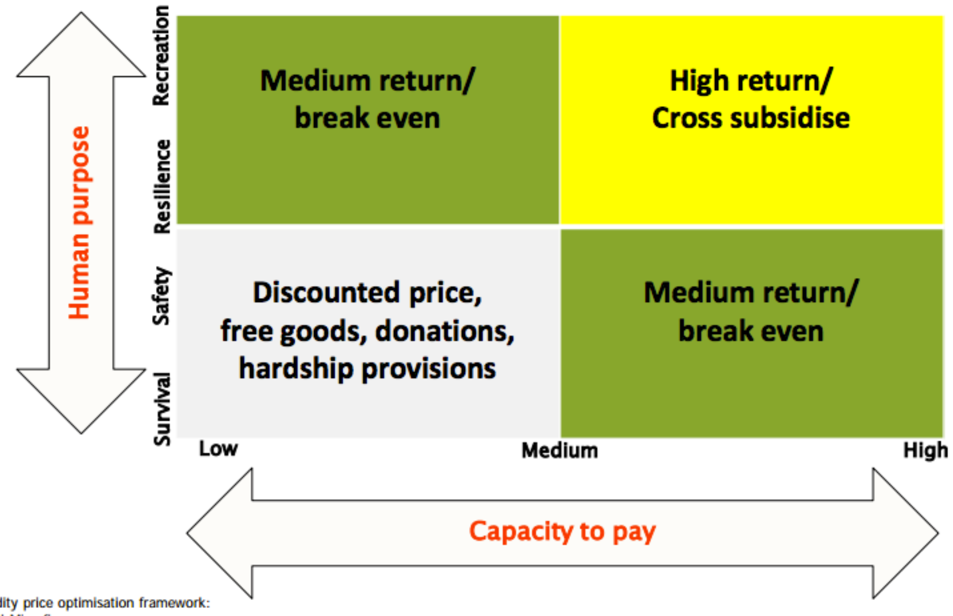
Consultation Question 6.

6. Are there areas where social impact investment funding may generate more effective and efficient policy outcomes than direct grant funding?

Good Shepherd Microfinance believes that there are some social problems and/or target cohorts that will always require direct grant funding to ensure the most effective and efficient outcomes. Simultaneously, there is great potential to explore opportunities where social impact investing could play a role in cross-subsidizing the cost of these direct grand funded programs.

As an example, we are in the process of developing a discussion paper to elicit responses on a potential Social Pricing Model that would provide essential basic needs (e.g. basic water needs or buying a new fridge) at very low prices for people on low incomes, that could be cross-subsidised by others using the same set of goods or services for luxury or leisure purposes (e.g. filling a pool or paying for a holiday) as per the diagram below.

Social Pricing Model[14]



Social commodity price optimisation framework:
Good Shepherd Microfinance

[14] http://goodshepherdmicrofinance.org.au/assets/files/2016/06/Employment-and-education-panel-C20.pdf

We believe that this Social Pricing Model applies to financial products. The three million financially excluded adults in Australia do not represent a homogenous mass. We believe that there is great variation in the need (or human purpose) for financial products, and in the capacity of individuals to pay for these. We welcome the opportunity to explore these concepts and approaches, and debate the role that social impact investing can play in developing innovative models, in order to promote financial inclusion and resilience in Australia.

Consultation Questions 7. & 8.

7. **What Australian Government policy or service delivery areas hold the most potential for social impact investing? Are there any specific opportunities you are aware of?**
8. **Are there opportunities for the Australian Government to collaborate with State and Territory Governments to develop or support joint social impact investments?**

As identified in the Discussion Paper, Good Shepherd Microfinance agrees that there is great opportunity to apply social impact investment to meet the needs of three million adults in Australia, who are currently unable to access mainstream financial products and services. We believe that it is important for the Australian Government to support innovation and exploration in this area as 'financial inclusion is a key prerequisite for economic participation and productivity.'[15] Our research finds that 'a reduction in financial exclusion could be associated with an improvement in employment and income, which could reduce government spending on welfare by $845 million, healthcare by $1.8 billion and criminal justice by $38 million'.[16]

Internationally, financial inclusion products and services have proven very successful at attracting social impact investments, making up nearly three fourths[17] of total impact investing. Yet these models cannot be directly 'lifted' and implemented within Australia due to many reasons, such as lower economics of scale and the higher costs of setting up a small business. We believe there is scope to further explore and develop microfinance offerings that offer investable opportunities for the Australian context, building on the Australia Government's longstanding support to microfinance, through support for Good Shepherd Microfinance, Community Development Financing Institutions (CDFIs) etc. We would welcome opportunities to explore social impact investing options for the following:

NILS, StepUP & other micro-credit products

As mentioned earlier, our NILS program is meeting only 6 percent of current demand. In contrast, the number of people accessing payday loans grew 80 percent between 2005 and 2015[18]. Good Shepherd Microfinance believe there is opportunity to explore social impact investing opportunities to develop and scale sustainable micro-credit products to meet the market demand. In particular, technology-enable models can help to expand and/or adapt current offerings to cater for the differing needs and capacity to pay, represented across the financial exclusion spectrum.

Micro-enterprise Development

Social impact investing could also help us to scale a pilot Micro-enterprise Development Program we are currently developing with the South Australian government. Whilst the initial

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[15] EY for Department of Social Services for the Prime Minister's Community Business Partnership, Social Impact Investing Research, 2016, p 32
[16] SPP, Microfinance, Inclusion and Economic Growth, Good Shepherd Microfinance, Melbourne, June 2014, p 5
[17] https://www.cgap.org/sites/default/files/Brief-Where-Do-Impact-Investing-and-Microfinance-Meet-June-2013.pdf
[18] Digital Financial Analytics Women and Payday Lending, Good Shepherd Microfinance, Melbourne, 2016

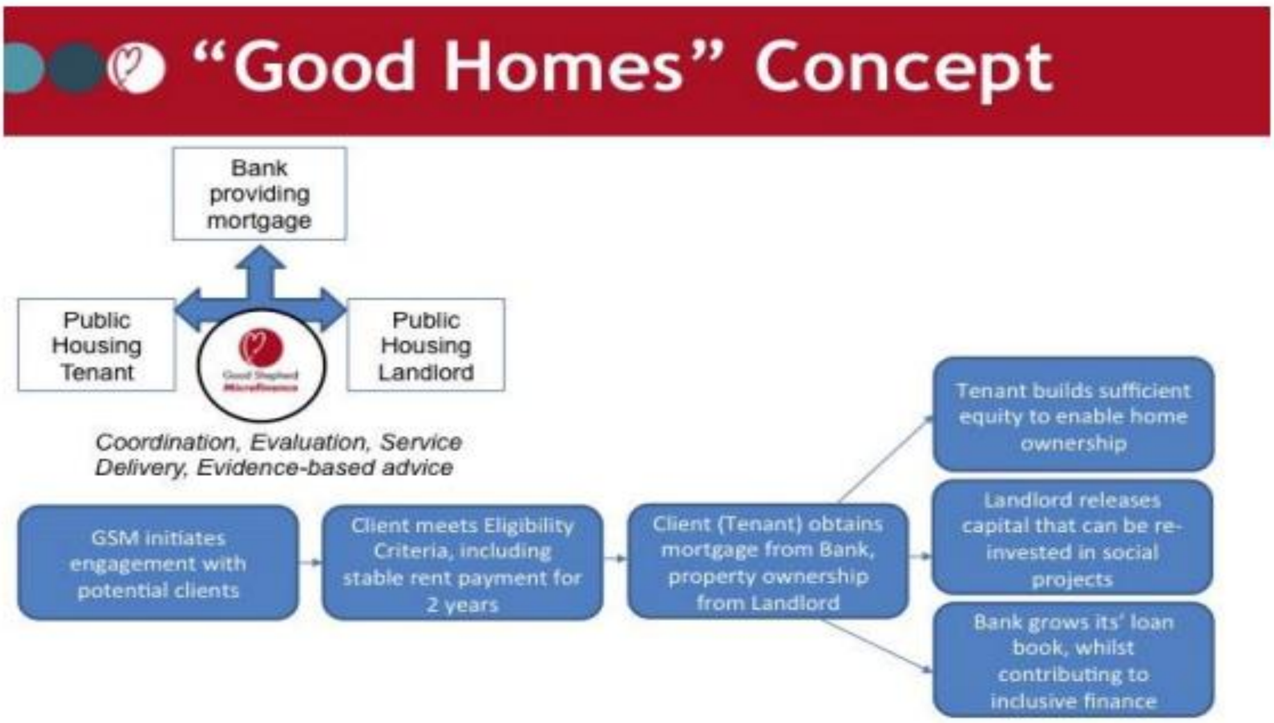
pilot focuses on no or low interest loans, we will also explore the capacity for clients to repay low to moderate interest bearing loans. The program provides loan capital to establish or expand very small businesses, coupled with targeted business skills training and support services. Early indications are that there is a potentially sustainable business model, albeit based on low rates of return, which we would like to invest in developing further.

Micro-insurance

Since 2013 we have been researching and developing products to cater to the 1.5 million people who are currently excluded from general insurance.[19] With large numbers of non-insured or under insured in Australia, we believe there are opportunities to expand our impact in this space and explore innovative models, such as the model used by B-corp Lemonade in the USA, a social mission driven business that are capitalising on technology to offer low cost insurance and pay claims in three minutes.[20]

Home-ownership and affordable housing

We believe there is opportunity to explore home ownership, access to affordable public and private housing, and quality rental properties through social impact investing. One such opportunity would be to enable some public housing tenants to transition to home ownership. This will enable liquefaction of public housing and government assets and free up resources, which can be re-directed to support other homelessness initiatives. In our recent submission to the Australian Government's Affordable Housing Working Group, we outline a specific model that could be funded with social impact investing funds.[21]



[19] http://goodshepherdmicrofinance.org.au/assets/files/2017/02/090217-Letter-to-Senate-Inquiry-RH.pdf
[20] https://www.lemonade.com/
[21] http://goodshepherdmicrofinance.org.au/researchreports/australian-governments-affordable-housing-working-group/

Financial Inclusion Action Plans (FIAPS)

The Financial Inclusion Action Plan (FIAP) program, led by Good Shepherd Microfinance since 2015 on behalf of the Australian Government, forms part of the 2014 G20 commitment to develop national Financial Inclusion Action Plans for each member-state. This program aims to realise inclusive growth for individuals, families and communities, through the collective actions of organisations across industry, government, academia and civil society. Robust evaluation and quality assurance form part of the program design, to ensure that program objectives are met, and an evidence-base developed which can inform future policy and action.

The FIAP program design acknowledges that by committing to undertake practical actions which promote financial inclusion and resilience for their clients, staff, suppliers and wider community partners, FIAP organisations will enable significant numbers of vulnerable Australians to improve their participation in the economy, achieve their financial goals and build resilience to future shocks. Economic modelling undertaken by the program demonstrates that the shared benefits from this program will flow to all sectors; hence we propose a shared investment approach for the future scaling up the FIAP program, so that all sectors can contribute to achieving the FIAP program objectives (see Case Study).

We would welcome the opportunity to discuss any of the above examples with the Australian Government in more detail.

Consultation Questions 9. & 10.

9. **What are the biggest challenges for implementing the public data policy in the social impact investing market? What can the Australian Government do to address these challenges?**
10. **Are there opportunities for the Australian Government to form data sharing partnerships with State and Territory Governments, intermediaries and/or service providers?**

We agree with the Discussion Paper's comments regarding the importance of robust data collection to prove results and ensure evidence-based decision-making yet also acknowledge the complexities involved in collecting data, defining metrics and attributing outcomes. Our experience with the FIAP program is a clear demonstration of this, as we are working with EY and the Centre for Social Impact to build a robust impact evaluation and quality assurance framework, which will ensure that the program is able to track changes and impacts at the individual, organisational, sector and population level. We agree that cross-sector partnerships combined with a strong governance approach are vital to ensuring collaboration and consensus, including the metrics that should be used, as well as processes for data sharing that will ultimately allow for longer-term outcomes to be measured.

The newly introduced DSS Data Exchange reporting requirements present an opportunity to track long term changes for client cohorts across a variety of interventions. Yet we also agree that there is much complexity in this space, hence solutions require sustained commitment from investors (including the Australian Government) to build the evidence-base on the long terms outcomes of specific investments.

Australia's Social Impact Investing Principles

Consultation Question 11.

11. Feedback on the four proposed Principles for social impact investing.

We believe that the four proposed principles for social impact investing i.e. value for money; robust outcomes-based measurement and evaluation; fair sharing of risk and return; and a deliverable and relevant social outcome; are appropriate and sound. These are the four areas which any social impact investment proposition should consider. We have utilised these principles in the accompanying case-study in which we demonstrate how the Financial Inclusion Action Plan (FIAP) program led by Good Shepherd Microfinance on behalf of the Australian Government, meets all four of these proposed principles for social impact investing. We welcome the opportunity to explore how the FIAP program can move from a 'try, test and learn' approach, towards a viable social investment opportunity.

CASE-STUDY: Applying the Social Impact Investing Principles to the Financial Inclusion Action Plan (FIAP) program.

We arrange the following discussion relating to a proposed model for social impact investing to scale-up the FIAP program, in the order of key questions that must be answered before developing such a model:

Priority Policy Area: Meeting the unmet needs of those who are Financially Excluded

Primary Responsibility: Australian Government

Potential Investors: Government, Private Sector including Academia, Charitable foundations and Philanthropist Investors.

Principle 1 - Value for Money

Principle 2 - Robust Outcomes-based Measurement and Evaluation

Principle 3 – Fair Sharing of Risk & Return

Principle 4 – A deliverable and relevant social outcome

Economic modelling undertaken for the FIAP program shows the following benefits will accrue from the program, should the actions of the FIAP organisations be emulated across the wider economy over a longer-term horizon:

1. Enhanced financial inclusion and resilience for large numbers of people, including the 3.3 million who are financially excluded, their families and local communities. For example based on the client reach of the Trailblazer organisations, economic modelling projects that investing in a Growth Option allows the program to reach 10.4 million people, 16.3 million under a Scale Option, and 22.2 million under a GameChanger Option.

2. The actions taken by FIAP organisations will enable 'economic mobility' (i.e. move people away from financial crisis and hardship towards stability and income generation) – for the Growth Option this is estimated as $593k p.a., $770k for the Scale Option, and $790k for the GameChanger Option.

3. FIAP Trailblazers' actions will also enhance 'resilience' (i.e. the ability to recover from financial shocks) to the tune of $369k p.a. for the Growth Option, $479k for the Scale Option, and $491k for the GameChanger Option.

4. The improvement in financial inclusion and resilience across significant numbers of people will also contribute towards increased household wealth of $11.8 billion for the Australian economy.

5. The combined actions taken across multiple sectors will also generate government savings of $583 million, particularly through reduced spending on welfare, health and criminal justice.

6. The realisation of economic benefits associated with the FIAP program will also drive a GDP uplift of $3.11 billion p.a. for the Growth Option, $3.14 billion for the Scale Option, and $3.17 billion for the Game Changer Option.

Given a relatively modest investment of $800k from the Australian Government towards the initial phase of co-designing and implementing this program with 30 Trailblazer organisations, the evidence shows that the program represents excellent value for money.

Robust program evaluation and quality assurance for the FIAP is being undertaken in partnership with the Centre for Social Impact (University of New South Wales) and EY. Both organisations bring significant expertise in measuring and evaluating the socio-economic impacts of systemic change, and providing robust assurance on the quality of program deliverables. As part of the program design[22], a Theory of Change has been developed for the FIAP program, clearly articulating the short-term, medium-term and long-term intended outputs, outcomes and impact of this innovative program.

As the economic modelling undertaken for the FIAP program shows, the long-term benefits (returns) from undertaking such a program flow to all participating sectors i.e. government, business, academia and the civil society. A 'shared funding' model incorporating social impact investment along with other forms of investment, would therefore be appropriate for future efforts to scale up the FIAP program, reflecting that the risk and funding burden are fairly apportioned amongst these sectors.

Reducing Regulatory Barriers

Consultation Questions 12. to 29.

Good Shepherd Microfinance has been exploring potential opportunities for social impact investment to support our suite of people-centred products and services, in particular to expand the scale of our programs, such as the FIAP case study above. Whilst we are new entrants to this field, our comments below reflect conversations we have had with industry experts, whilst seeking advice on how our programs could become 'investable' opportunities.

As mentioned previously, current regulation and legislation is limiting the creation of sustainable social business models. NFP organisations with Deductable Gift Recipient (DGR) status are prohibited from 'distributing profits or gains to individual members.[23] Consequently, in order to access investor capital, NFP organisations must adopt complex and costly structures. As mentioned in the Discussion Paper, putting these structures in place is

[22] Good Shepherd Microfinance 'Collective Actions, Leading Change' 2016.
[23] https://www.ato.gov.au/non-profit/getting-started/endorsement/deductible-gift-recipient-(dgr)-endorsement/types-of-dgrs/

‘unreasonably expensive’, which ultimately impacts on the NFP organisation’s ability to develop sustainable, investable models, while providing strong social, economic and environmental outcomes for clients. Inversely, organisations that are structured as a social enterprise are unable to make use of the tax benefits associated with DGR status, which increases their operating costs and consequently their ability to create sustainable business models.

In addition, our conversations with experts also supported points referenced in the Discussion Paper regarding Private Ancillary Funds (PAFs), highlighting them as an important investor class for social impact investing projects. Feedback on potential barriers include the current guidelines, which require a PAF to meet the ‘sophisticated investors’ test. These could make it difficult for some PAFs to invest in our programs. In some cases although the individuals investing in the PAF would meet the ‘sophisticated investors’ requirement, the PAF itself may not. It would therefore be useful if the government could provide more flexibility in the current PAF guidelines, allowing them to invest more freely in social impact programs.

Likewise, our early discussions with superannuation fund managers have also indicated that some superannuation funds would be interested in investing in our programs, but are unsure whether such a social impact investment would meet the ‘appropriateness’ test in place for superannuation trustees. Again, more clarity on this would be beneficial for potential investors as suggested in the Discussion Paper.