RETHINKING SOCIAL FINANCE

EVIDENCE AND RESEARCH QUESTIONS

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RETHINKING SOCIAL FINANCE

This presentation brings together three strands of evidence that relate to finance for social enterprise:

i. The supply of impact investment capital in Australia
ii. The barriers faced by social enterprises looking to access capital
iii. Case analysis of social enterprise financing structures

What emerges is a different picture from the dominant narrative

THE MATURING OF IMPACT INVESTMENT

Benchmarking Impact (Castellas and Findlay, 2018)

- Market-size has increased five-fold since 2015
- II 'product' grown from $1.2b in June 2015 to $5.8b in December 2017 – most in 'green bonds'
- If 'green bonds' removed an increase from $300m to $1b over the same period

Suggests a maturation in II and positive growth in the so-called 'win-win' segment

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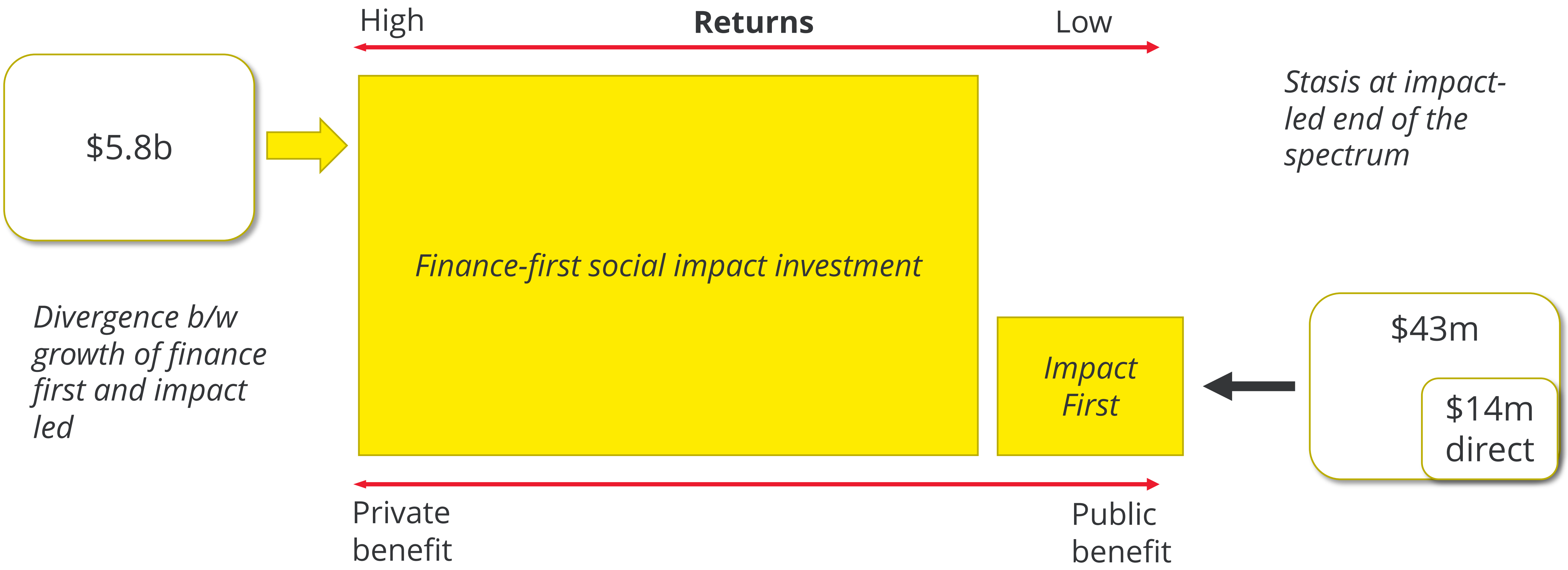
IMPACT INVESTMENT: THE EVIDENCE



Source: *Benchmarking Impact* (Castellas and Findlay, 2018)

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WHAT ARE THE BARRIERS TO IMPACT INVESTMENT FOR SE?

What the evidence says?

MAP for IMPACT
The Victorian Social Enterprise Mapping Project

Social enterprises*:*

- Lower profitability (not efficiency) due to cost of impact
- Conservatism of directors and executives
- Lack (financial) assets

Intermediaries

- Many are finance-first – or partial-finance first
- Enterprise-focused intermediaries becoming more (not less) scarce
- Participants underestimate complexity (and cost)

Investors:

- Unrealistic return expectations (generated by fiduciary obligations)
- At the expense of impact

Structure level:

- Blended and layered
- High transaction costs
- Requirement to measure impact
- Low (or no) returns
- Need for patient (and concessionary) capital

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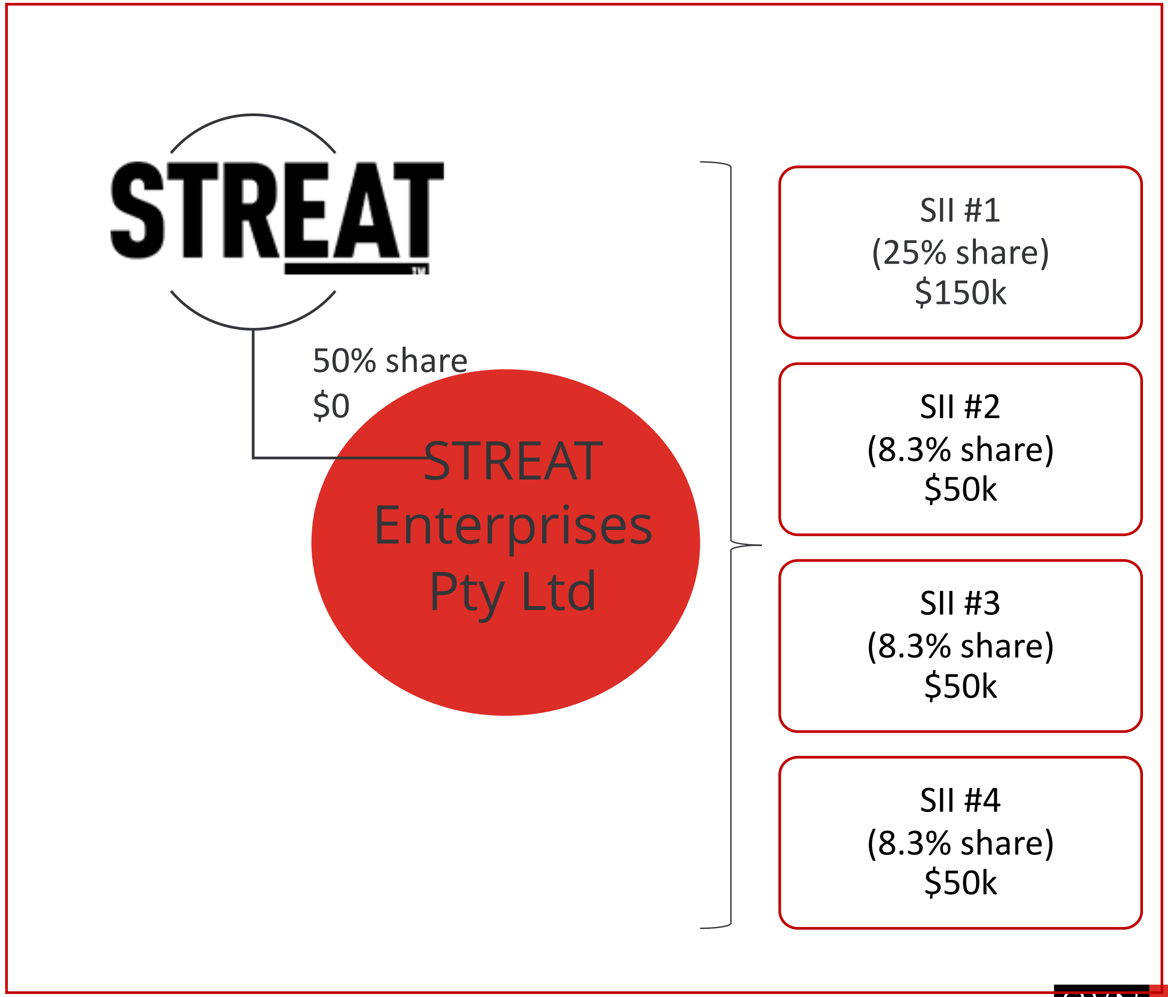
A CASE EXAMPLE – STREAT ENTERPRISES

- Devised as a finance-led impact investment 2 years into STREAT's establishment to purchase 3 businesses
- 2012: 4 Impact Investors with an expectation of 7-12% annual returns on their equity capital ($300k total)
- Debt accrued to STREAT Ltd due to businesses underperforming
- Ultimate closure of 2 of the 3 business acquired
- 2019: initial ~30% repayment of principal after conversion to debt/quasi equity; wind-up of Pty Ltd structure – effectively making the investment patient and concessionary



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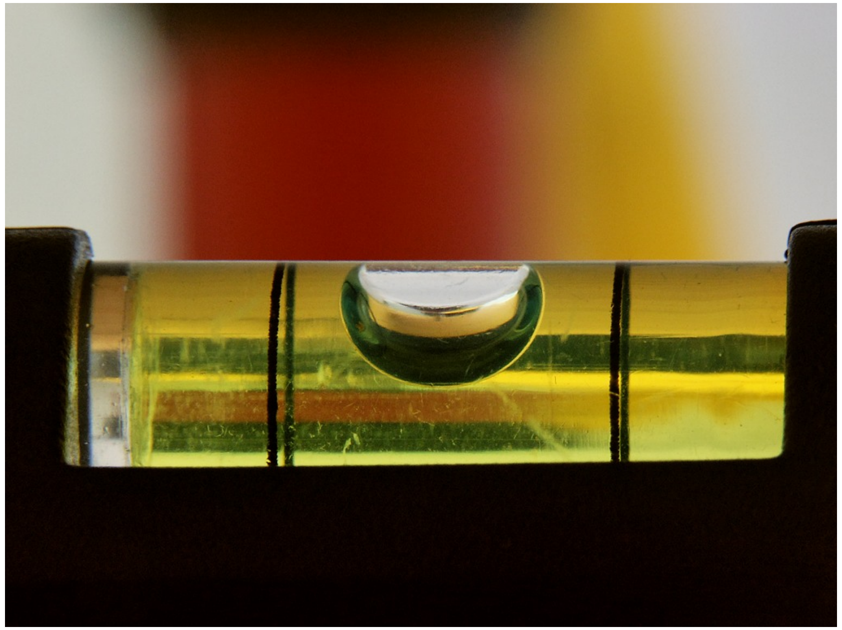
A CASE EXAMPLE – STREAT ENTERPRISES

Why?

- Little else available
- A starting assumption of the suitability of finance-led impact investment (supply-led)
- Underestimation of transaction costs
- Underestimation of complexity of execution
- Dominance of ‘finance logic’ ahead of ‘impact logic’
- Misalignment of investor and investee interests/motivations (complexity of intermediation)
- Questionable whether the outcome would have been positive if not for subsequent philanthropic capital and concessionary finance into STREAT Ltd



Boundary-spanning capital finding its own level

THE SE REALITY IS BLENDED & LAYERED

Tender FUNERALS

wpi WOMEN'S PROPERTY INITIATIVES

100 Story Building

Vanguard LAUNDRY SERVICES

STREAT

CQ CULTURAL CONSULTING

Habitat for Humanity® Australia

renew AUSTRALIA

positive charge

the integrated medical centre

SUSTAIN COMMUNITY HOUSING

CO DESIGN STUDIO

goodstart early learning

J2SI JOURNEY TO SOCIAL INCLUSION

THE SE REALITY IS BLENDED & LAYERED

- The reality is that social enterprise funding is a jigsaw puzzle (different forms, different funders) in which impact investment is a (possible) piece
- SEs are, in the main, piecing the puzzle together themselves – and keeping it together
- Each funder tends to talk about their own piece – not their role in the overall picture
- SEs (and funders) often highlight the Impact Investment piece (legitimisation?)

As a result, the narrative under represents the role of impact-led, concessionary and blended/layered social finance, which often underpins impact investment

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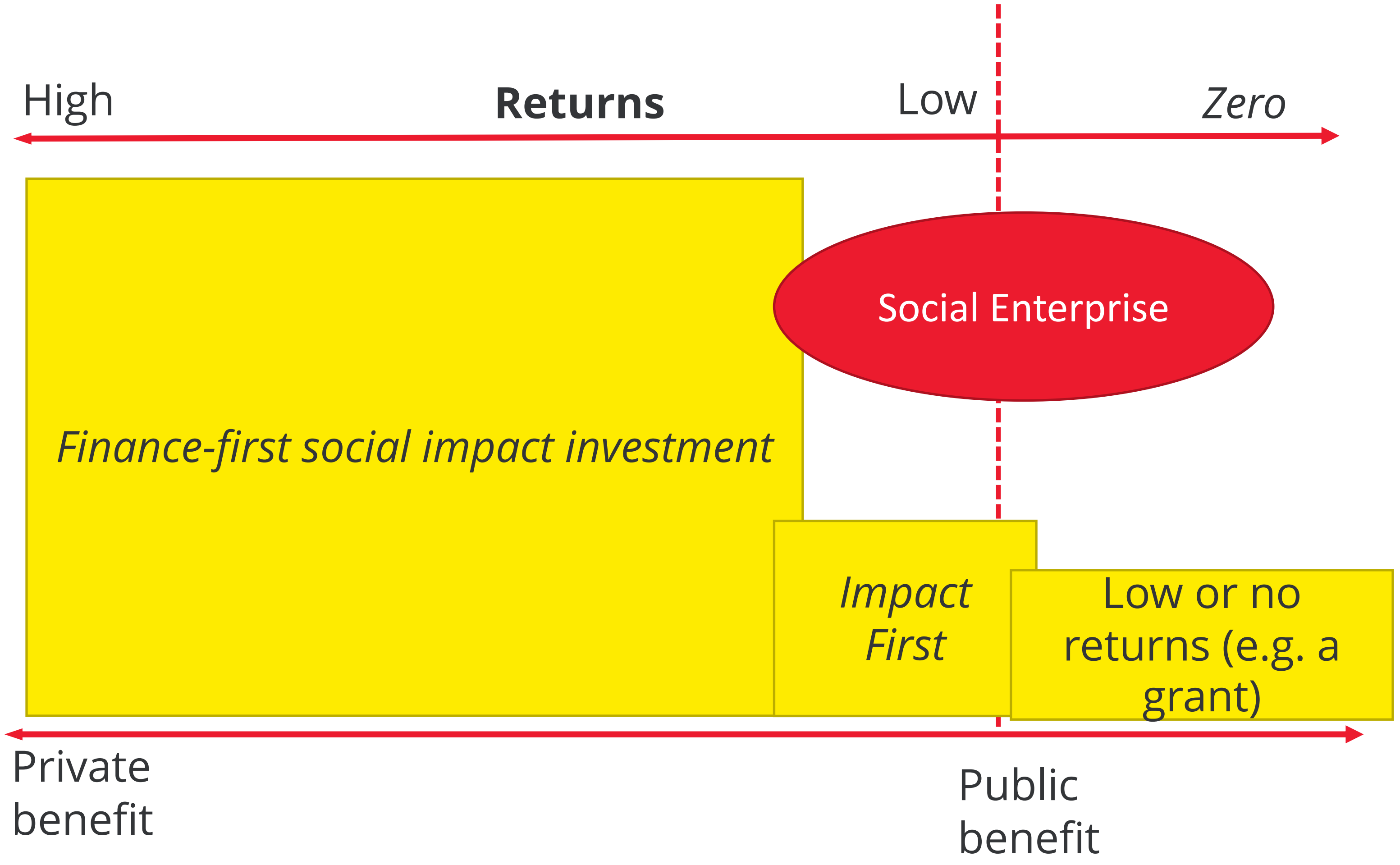
THE SE REALITY IS BLENDED & LAYERED

Very few social enterprises able to access/absorb pure, finance-led *impact investment*

In reality, social enterprises often require blended and layered *social finance*



THE SE REALITY IS BLENDED & LAYERED

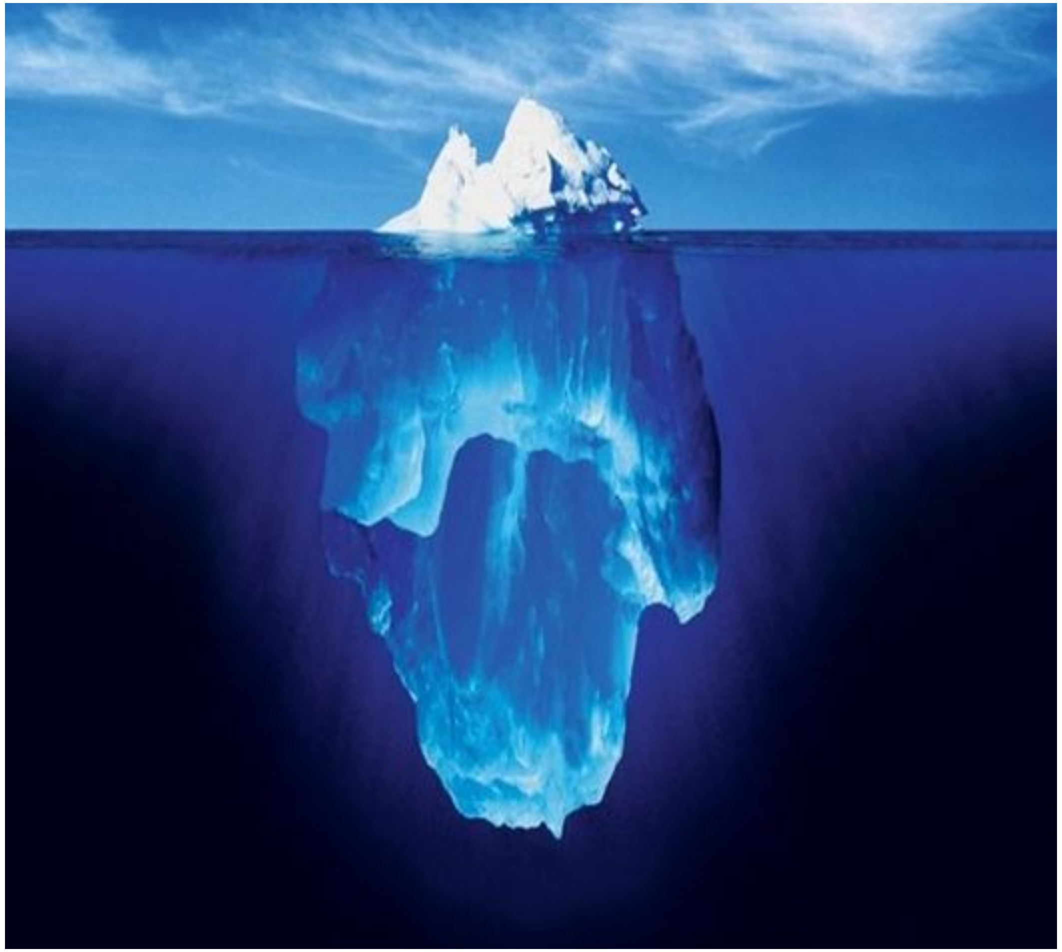
If we continue to talk about one part of the jigsaw puzzle we will:

- Create confusion by mislabeling social finance (for social enterprise) as ‘impact investment’
- Set expectations that are unrealistic
- Design finance mechanisms that are not appropriate
- Create policy initiatives and settings that don’t reflect what is needed

The consequences: not advancing social enterprise and not optimising the social impact that could be generated

HOW DO WE RETHINK SOCIAL FINANCE FOR SOCIAL ENTERPRISE?

- There is a need to understand and 'unearth' what is really happening in social enterprise financing
- How do we *better* enable blended, layered social finance?
- What is the role of intermediation in this emerging field; how is it supported given the transaction costs of high-complexity, bespoke structuring?



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