Analysis Policy Economy Australian economy

Making an impact: Why Chalmers is backing social investing

Many experts are keen on the Treasurer's wish to push companies, governments and investors together but others say there are better ways to improve wellbeing.

John Kehoe [/by/john-kehoe-j7gcg] *Economics editor*

Feb 3, 2023 – 4.04pm

When Treasurer Jim Chalmers unveiled his "values-based" capitalism model last week, one of the central pillars of his plan was impact investing – or governments, businesses and investors working together to deliver better social outcomes.

Chalmers, inspired by former Macquarie banker Michael Traill, an Australian pioneer of social impact investing and an adviser to successive governments, wants to expand impact investment to achieve wellbeing improvements in society and financial returns for investors.

Treasurer Jim Chalmers has set out his vision for Australia's economy. **Alex Ellinghausen**

According to Traill, impact investing uses "business and market discipline" to tackle "entrenched social issues" while delivering "ethical, risk-adjusted and long-term" returns to investors. Globally, impact investment has helped deal with homelessness, employment, mental health, disability care, social housing and aged care.

Facing a constrained federal budget, Chalmers sees an opportunity to use

Measurable social outcomes such as getting the jobless into work, housing the disadvantaged and improving people's health, can be rewarded by government payments. At other times, the investments can be profitable, such as from building social housing for people funded by the National Disability Insurance Scheme.

The model potentially saves governments from directly funding and running the services, while generating other long-term benefits such as more working taxpayers and fewer demands on the welfare and justice system.

The NSW government was an early mover in 2013, under then treasurer and former banker Mike Baird, who helped establish the state's first social impact bond [https://www.afr.com/markets/debt-markets/unitingcare-burnside-takes-first-nsw-social-benefit-bond-to-market-20130327-ilruc]. The "Newpin" social benefit bond raised $7 million from private investors to fund a program that helps parents build positive relationships with their children and break the destructive cycle of family relationships that lead to abuse and neglect.

The specific measurable goal of the program was to return children from foster care to their families, with returns to investors determined by this rate. In 2020, the Newpin Social Benefit Bond reached maturity after seven years of operation and partnership between Uniting – which delivered the services, Social Ventures Australia and the NSW Department of Communities and Justice.

Newpin can be expanded under the Albanese government, in concert with businesses and investors.

Michael Traill will advise the federal government on social impact investing. **Louise Kennerley**

"We're encouraged by the Treasurer's statement because there is a real growth in demand for impact investment from investors," she says. "But the investible opportunities haven't grown in line with that."

disadvantage-20230129-p5cg9w]. A key recommendation by Traill's taskforce is for the government and banks to jointly establish a "wholesaler" to invest in enterprises and projects with a focus on socially disadvantaged communities.

Over time, the joint fund would aim to mobilise capital from other investors including superannuation funds, and industry participants believe it could deliver risk-adjusted returns of about 5 per cent annually.

The big banks have expressed in-principle support to consider seed equity funding for a social impact investing "wholesaler", which may require $200 million of private funding, potentially to be matched by a similar amount from the federal government [https://www.afr.com/companies/financial-services/big-four-may-back-400m-social-impact-investment-bank-20221024-p5bs9j].

The model borrows from the UK. In 2012, it set up Big Society Capital with £400 million from dormant bank accounts and £200 million from four shareholder banks – Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland.

The initiative was started by the Labour Blair/Brown governments under the "third way" philosophy, which attempts to reconcile the right's belief in markets and the left's interest in social policies. The Conservative government led by David Cameron implemented what Labour began.

The UK impact investment market has since grown to an estimated £8

Tony Blair's government was behind the initiative for the "third way" philosophy. **AP**

Ben Smith, a British national who moved to Australia last year to head impact investing at the Paul Ramsay Foundation, worked for more than a decade in that field in the UK with foundations and investors.

"I saw the market evolve with foundations, new investors and government intervention," Smith says. "In Australia, I think there is a huge opportunity for organisations to work together to capture the momentum generated by

Chalmers says he will try to expand the role for impact investing. “Across the social purpose economy, in areas such as aged care, education and disability, effective organisations with high-quality talent can offer decent returns and demonstrate a social dividend – but they find it hard to grow because they find it hard to get investors.

“Right now, the market framework that would enable that investment in effect doesn’t properly exist,” Chalmers writes. “It’s no accident that these strategies typically involve an element of partnership.

“This is partly a reality of our fiscal position – the federal budget is deep in debt and under pressure – so the options for large, broad new programs are limited,” he adds.

“But it’s also a purposeful choice – we want to change the dynamics of politics, towards a system where Australians and businesses are clear and active participants in shaping a better society.”

Yet, not everyone is convinced that governments should be relying more on the private sector and philanthropists to deliver social outcomes.

Australia Institute executive director Richard Denniss says Chalmers’ essay does a good job of identifying the challenges for the government such as climate change and income inequality.

"The private sector has made enormous profits out of aged care and child care, and the superannuation funds need to generate a commercial rate of return for any asset they invest in."

Denniss says Chalmers has probably been attracted to the model because of the budget pressures the Albanese government is facing. Instead, Labor should dump the $254 billion stage three personal income tax cuts to better fund government services, rather than promoting "financialisation", he says.

University of NSW economics professor Richard Holden fears that social impact investing could result in a trade-off between social returns and people's superannuation balances for retirement. "Are we going to commandeer people's retirement savings and have the government define social priorities with them?" he asks.

He also has concerns about the calculations for how investors are paid to meet social targets. "In the corporate sector, if you give people a whole lot of KPIs [key performance indicators], they game the system," Holden says.

Social Ventures Australia's Thomas says ensuring there is good data and measurement is crucial. "Having data to measure the outcomes is very important to ensure the savings are linked closely," she says. "The returns to investors go up and down depending on the outcome of the program."

Liz Cameron-Smith leads the Australian arm of the Foyer Foundation, "It's so much more than having a roof over your head," Cameron-Smith says. "It's a deal between young people and staff to help them work towards their life goals.

"There's about an 80 per cent success rate in young people moving into stable accommodation on exit, which is pretty significant."

"I believe the private sector has a really important role to play. I don't believe that means we're taking responsibility away from government, but instead we should be working to a model where the government, private and social sector have responsibility to create the outcomes society needs."

A report commissioned by the Foyer Foundation from Accenture Economic Insights estimates that on a per-person basis, Foyers create an average of $84,000 in added benefits for the government from participants working and paying taxes and savings on welfare, housing and health costs.

Foyers also create $89,000 in added benefits for state governments through the avoided social housing, state health and justice costs, the report says. "This means for every additional $1 spent on Foyers, Foyers generate an additional $6 in value for governments," Accenture notes.

The Foyer Foundation largely relies on philanthropy and donations, but wants to use impact investment to help it reach 50 Foyers by 2030. Under the plan, impact investment would use private capital for funding upfront building costs with investors benefitting from owning the property over the long term. The government would help fund the continuing service costs.

Traill says Foyer's record is impressive and it is a "poster child example of something that needs to attract larger chunks of capital to scale".

John Kehoe

Economics editor

John Kehoe is Economics editor at Parliament House, Canberra. He writes on economics, politics and business. John was Washington correspondent covering Donald Trump's election. He joined the Financial Review in 2008 from Treasury. *Connect with John on Twitter. Email John at jkehoe@afr.com*