

Scott Morrison endorses social impact investing



Federal Treasurer Scott Morrison is particularly interested in social impact investing. **AAP** by [Jennifer Hewett](#)

It's called [social impact investing](#) and it sounds too good to be true. But the notion of [using capital markets and private investors to help solve social problems](#) – while still making a decent financial return – is gradually moving from the fringes to become a mainstream movement. It's also of increasing interest to governments acutely aware of the need to do things differently to get better results.

NSW has led the way, becoming the second government in the world after Britain to trial [social impact bonds](#) in 2014. These bonds are being used to try to address social issues such as juvenile recidivism and keeping children out of foster care. Under these schemes, the general idea has involved using not-for-profit groups to extend or intensify individual counselling and other services. The return on the bonds is based on measurable improvements.

South Australia, Queensland and [Victoria](#) are now also experimenting to deal with issues such as homelessness, mental health, palliative care, drug and alcohol addiction and Indigenous disadvantage. These are still relatively modest initiatives and experiments on the basis of payment for results.

But given the annual cost of past failures in these areas, even modest percentage improvements potentially frees up scarce funds, to be re-invested or invested elsewhere given the urgent need to get better value for money.

[Many investors are also increasingly interested in addressing broader social problems in ways and amounts that go beyond more traditional corporate philanthropy](#) or more indirect forms of "ethical" investments.

Momentum to scale up

At the moment, there's estimated to be more than \$4 billion in assets under management in the category of impact investing and community financing, for example.

Now the momentum is there to scale up and broaden the fledgling social impact investment market, momentum that appeals to the federal government, as well.

Treasurer Scott Morrison says he is particularly interested because he's found it brings together some of the sharpest minds in the investment community with the best and brightest in social services.

In his view, this provides the "market discipline, financial nous and program experience" to improve service delivery and produce measurable social change.

In an address to the Impact Investment Summit Asia Pacific last week, he cautioned such investment wasn't suitable for every problem but could be extremely useful when "existing policy interventions and service delivery aren't getting the outcomes we want".

Naturally, the inadequacy of existing policy in addressing the growth in social problems adds up to a long – and increasingly expensive – list. And trying to prevent further problems rather than funding "cures" is usually more cost-effective.

It's also why various reviews from the 2015 McClure report into the welfare system to the Financial Services Inquiry led by David Murray said the federal government should explore the development of the social impact investment market and encourage innovation in funding social service delivery.

Budget measures

That led to Morrison's launch of a discussion paper on social impact investing in January, followed by a range of relatively minor budget measures.

These included \$30 million to establish a strong social impact investing market in Australia, some funding assistance for various trials by state governments and attempts to bolster a British-style form of long-term investment market in affordable housing. The government is also experimenting with social impact investing as part of its aid program in Asia-Pacific.

"Our support is about assisting the sector to be a true investment vehicle; we are not merely providing another form of grant funding," Morrison said. "We are swimming between the flags here. Social impact investments will only go ahead where we reasonably expect them to offer a net benefit and be cost effective."

But he warned there was a long way to go.

"So much of our social services delivery is based on a public delivery mindset and that mindset needs to change if it's going to be effective," he said.

As a former social services minister, Morrison points out he saw government grants going to great organisations all over the country

"But their whole world and business model centred around the grant," he told the summit. "I would love to see these organisations unshackled from that by trying to access different forms of capital.

"It's not going to be right for everybody. But it does mean that those who are able to take advantage of what's happening in this sector will actually free up some of the more traditional sources of public capital for those organisations that can only really operate in that way."

Demand for change seems irreversible

Not much of that sounds too reassuring to a unionised public sector workforce, given the emphasis on private and not-for-profit groups taking on greater roles. But the demand for change seems irreversible.

According to Impact Investing Australia, two-thirds of investors expect impact investing to become a significant proportion of their investments. Those already involved expect to triple the size of those investments within five years.

There's still frustration the pace is not faster and concerns about high transaction costs, regulatory impediments, inadequate data and lack of scale and capacity.

But according to Morrison, the government is putting the necessary building blocks in place to see what works.

He says this means not only dealing with funding but also the practical issues of regulation and arrangements with states and territories.

"The whole point of this is it's not run by government," he said. "It's run by people with great ideas, it's run by organisations, it's run by financial institutions, it's run by large family philanthropic funds, it's run by others. What we can do is our bit – which is not inconsequential – but how quickly it grows and where it grows is up to these broader considerations."