VCOSS
Victorian Council of Social Service

VCOSS BRIEFING PAPER

Impact investing

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What is impact investing?

There is increasing demand for health and community services as the population both grows and ages. As government funding for these services increasingly does not meet demand or expectations, service providers may seek new finance and funding solutions.

Impact investing is one such solution.

Impact investing is committing money to an activity with the intention of making a beneficial social (or environmental) impact in addition to a financial return. This could be direct investment (i.e. ownership of an enterprise or a share of an enterprise) or lending for a social purpose.

Impact investments can be made in social enterprises, for-profit businesses and not-for-profit organisations provided there is reasonable financial return and a social impact. Social impact bonds are a special form of impact investing.

Social Ventures Australia (SVA) manages two impact investment funds:

> *The Social Impact Investment Trust*
> **HESTA**, the superannuation industry fund, committed $30 million towards investments designed to generate both a financial return and a measurable social impact. SVA is the investment manager of the Trust.
>
> *The Social Impact Fund*
> This provides loans and equity investments to Australian social enterprises.

Social Enterprise Finance Australia provides finance solutions to mission-led organisations and helps build their capacity to manage debt and become financially sustainable.

What is it used for?

The impact investing can be almost anything. It has been used for:

- Reducing poverty
- Increasing employment
- Improving access to education
- Establishing a new service
- Improving access to services or providing additional services
- Increasing supply of social and affordable housing.

In 2011 a community health organisation (now **cohealth**) borrowed money from **Social Ventures Australia**'s social impact fund to establish a private GP clinic and to subsidise medical services to low income people.

Impact investing can also provide a source of finance for not-for-profit organisations. For example, **Horizon Housing** is a not for profit community housing provider which operates across 15 local government areas in Queensland and northern New South Wales.

HESTA provided the finance for **Horizon Housing** to purchase the management rights for 995 existing affordable housing properties. Horizon Housing uses any surplus generated from these properties to develop new social and affordable homes.

What are the benefits?

Impact investing seeks a positive social or environmental outcome as well as a financial return.

It can provide an additional source of funding for services that would otherwise not be offered at the same level, or at all.

It is also a source of loans that many not-for-profit organisations struggle to gain from traditional sources.

What are the risks?

The main risk is that the use of private funding and financing will be used to replace essential government funding of community services.

To mitigate the risk, impact investments must be designed to enhance service provision or provide loans, but in a way that does not to replace government funding.

Further reading

- **Impact Investing Australia**
- **Social Ventures**
- **Social Enterprise Finance Australia**

The Victorian Council of Social Service (VCOSS) is the peak body of the social and community sector in Victoria. This briefing paper was prepared by VCOSS Policy Advisor Dev Mukherjee.

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