

A globe is partially visible in the background, showing the Atlantic Ocean and parts of North and South America. A white measuring tape is coiled in the foreground, with the numbers 18, 19, 20, and 30 visible. The background is a solid green color.

Measuring social outcomes has little impact

Australia needs a social investment market to unlock creativity in the sector, a conference hears.

Story by NICHOLAS TAYLOR

Source: Eric Michaud/istock

For social enterprises that deliver significant community outcomes through traditional business models there is little to no benefit in identifying and quantifying the precise level of social impact, says one industry leader.

Speaking at the recent conference hosted by the Centre for Social Impact (CIS) in Melbourne Investing for Impact, director of the Sustainable Business Network and chair of Sustainalytics, Glen Saunders, vigorously opposed calls by other participants – including the conference organiser Cheryl Kernot – to report on the social return on investment.

“I really don’t agree”, Kernot said during question time, “with your assertion that social ROI is not worth doing. For many social entrepreneurs, being able to demonstrate what good their programs are doing is the only path to securing the right funding”, she said.

Acknowledging the need to source grant funding and explicitly demonstrate how social enterprises differ from profit-maximising businesses, Saunders bluntly told invited guests that “social ROI never contributes to development – it just generates reports”.

Industry leaders such as the Netherlands-based Triodos Bank, which Saunders advises, have turned to making public each and every loan made on behalf of the bank. This is far more effective, Saunders said.

“Far more important than codifying how to measure social impact is increasing the level of transparency of what you are doing,” he said.

Where social enterprise can be most useful is by facilitating an effective implementation of social services such as housing, education and access to finance, which have historically been provided by the state or charitable organisations.

Professor Peter Shergold, CSI CEO, had highlighted in his opening address how it was increasingly common for the not-for-profit sector to deliver social services to ordinary Australians rather than state or federal government.

“Social enterprise does not replace charity or government, but it does augment them,” Saunders said.

His comments also echoed those of assistant federal treasurer, Senator Nick Sherry, who spoke at length about both the role and limits of modern government. (See box).

“Governments can not address all the social problems facing Australians,” Sherry said.

Australia is seeing a growing trend of government choosing to supplement the efforts of community-based charities and social enterprises, as well as creating a favourable tax and regulatory environment for private funders.

According to data provided by Givewell, governments have historically contributed around half of charities’ annual total cashflows. An increasing number of social enterprises are obtaining seed funding from government grants such as the \$650 million Jobs Fund announced in 2009.

“This government creation of private ancillary funds (PAFs), regulated by the Australian Taxation Office, is expected to boost the

sector from \$2 billion in the same way similar regulation has led to a dramatic rise in the pool of funds held in superannuation,” Sherry said.

Drawing on examples across Europe, the US and the developing world, Saunders argued that what separated social enterprise from business was how it treated profit.

“Social enterprises are usually income-generating, sometimes profit-seeking, but never profit-maximising,” Saunders said.

Citing BancoSol in Bolivia, which was formed more than 20 years ago, Saunders said its cooperative approach had resulted in a 70 per cent share of the micro-finance market there.

Quite simply, social enterprise must look to produce profit; however, it is what this is used for that is key.

“In this way, to businesses they look like charities, and to charities they look like an ordinary business.”

Saunders, who also chairs Prometheus Finance, has vast experience in social investment having been the UK CEO of Triodos Bank.

To Saunders, social investment means that loans or equity provided usually, but not always, leads to some return – a problematic issue for many mainstream financial institutions such as banks and superannuation funds.

“In a way, the mainstream pension funds, even those in the (UN) Principles for Responsible Investment, have nothing to do with impact investing,” Saunders said.

The particular problem for superannuation funds, according to Saunders, is that they are more legally constrained than other entities.

A property fund with a direct social impact

Australia's assistant treasurer, Nick Sherry, launched the Social Impact Property Fund on 14 April as part of Social Investment Australia (SIA), a wholly owned subsidiary of Foresters Community Finance.

The fund will provide wholesale investors with direct exposure to risk-managed, quality properties, accommodating qualified, community sector organisations that make a positive social contribution to their communities.

"SIA was created to address failures in existing capital markets and provide sustainable futures for Australia's not-for-profit sector," SIA executive director Peter Aubort said.

"It is unique in that it will provide long-term property leases to community sector organisations and build their capacity to purchase the property at lease maturity, while providing a target return of 5.5 per cent to investors in the fund," Aubort said.

SIA will invest in commercial property in metropolitan and major regional centres located in Queensland, New South Wales and Victoria.

The properties will be used by community sector organisations as their office premises from which they will deliver a range of services.

"SIA is providing Australian investors with an opportunity to provide organisations who deliver community health, legal, domestic violence protection, migrant assistance, youth services, services for people with a disability, families at risk and aged services with stable tenure in quality premises that are easily accessible by communities in need," Goldman Sachs JBWere Philanthropic Services executive director Christopher Thorn said.

"Constrained by the British system of trust law and a proper purpose, they have full commercial-return expectations not consistent with what we would call social investment," Saunders said.

However, he noted that mainstream investment funds were starting to take a leap into funding social enterprises such as cleantech, micro-finance, and timberland.

Saunders acknowledged earlier comments by Tim Macready, chief investment officer of Christian Super, highlighting how his super fund had been actively pursuing investments in this space since 2006.

"Alternative assets such as social infrastructure, micro-finance and sustainable agriculture are where we are making most investments in this area," Macready said.

What Australia needs, according to Saunders, is an intermediary between the investment markets and capital to the social enterprises on the street.


"Australia needs an ecosystem – a social investment market – to unlock creativity," Saunders said.

With more superannuation and investment funds signed up to like-minded initiatives such as the UNPRI and considering the enormous scale of the mainstream investment market,

Australia is in an enviable position to become a major leader rather quickly.

"The key is not funds and players, or even structures, but the presence of intermediaries who can bring them all together," Saunders said.

While the Australian social investment market is in such an early phase, it has one core advantage over its North American and European cousins.

"We all made a lot of mistakes when first doing this overseas, but a lot of lessons were learned," Saunders said, "so Australia can leverage these learnings and move ahead far more quickly." 

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