

21st July 2011

The Secretary
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Secretary,

Re: Senate Economics References Committee Inquiry, “ Mechanisms and Options for the Development of a Robust Capital Market for Social Economy Organisations”

Thank you for the opportunity to make a submission to the committee.

Social Finance is an organization purpose built to bring commercial focussed thinking and acumen to the emerging social financing sector, as any review of traditional market development phases will show the emergence of intermediaries is a significant step in the development of new markets.

We know that in order to attract sufficient private capital to bear on today's long term social issues you need to develop and bring to the market competitive commercial financial products that deliver commensurate financial returns to the pool of investors while also addressing the pressing social priorities that impact most immediately on the public sector budgets.

The market is still in early stages of development, so the market needs much more than just capital. Social Finance sees the following areas as critical areas of activity:

- Stimulating demand for social finance in new sectors that have not yet been exposed to the potential benefits of a new pool of capital
- Seeding the market by actively capacity building all potential market participants particularly to help investees become investment ready
- Working with potential investee parties to increase their execution capacity this includes finding good staff, particularly those able to understand social impacts and financeable investments
- Focused effort on the development of financial products that appeal to investors and investees

- Discussions with regulators and governments to create a suitable environment for investment structures, legal structures, tax incentives
- Potential investor awareness raising in both wholesale and retail sectors including education, development of a market to spread risk, participation by foundations, PAFs.
- The support for the development of more sophisticated measurement of outcomes and benchmarks to enable fair comparisons across areas of interventions

Social Finance's current activity is focused on working with Australian State Governments to deliver a range of Social Impact Bonds to the market.

As the Social Impact Bond product is new (SIB), the existing market of providers is not mature.

The first market phase will test several unknowns

- The appetite from capital markets
- The capability of providers and identification of metrics
- The robustness of structures
- Required changes in procurement models

The clear opportunity presented by SIBs is to bring substantial amounts of new capital to bear on intractable social issues, a fully commercial model where investors attracted by commensurate financial returns to other existing financial products will open up a significant pool of capital, a transfer of the appropriate risk to the private sector and a payment by results approach for Government.

In our current work we have found that many organisations are in principle interested in being involved, however few not-for-profits have the resources or mandate to put capital at risk and are looking for an experienced intermediary to broker the requisite deals and assume appropriate contract risk.

At this stage of the market development process requires a range of negotiated assessments of costs that will be made concrete over time, it makes sense for parties to share in some of the establishment risk, in particular around performance metrics.

Although there has been a relatively short amount of time since the emergence of SIB type financing we have been very encouraged that there is a significant amount of activity within the not for profit sector, they are actively building the new relationships required to operate in this market and we urge all the interested stakeholders to provide continue to engage and develop the potential for this new asset class.