

Foresters Community Finance

Additional submission to Senate Inquiry into Finance for the not-for-profit sector

Foresters Community Finance is keen to support the exploration for an effective social capital market in Australia. The support is grounded in the knowledge that Australian non-profit organisations, social enterprises and other charities are trapped in a cycle of short term subsistence funding that diverts attention from the mission and impact. Moreover, these organisations face a lack of access and choice for forms of capital that other parts of the Australian market take for granted.

Access to double impact (financial and social return on investment) finance will overcome this trap and shift the market from a linear, program specific, welfare dependent market model to a cyclical, sustainable and impact driven market model.

The three Key Challenges facing the development of a social capital market:

Capital mobilisation: unlocking sources of capital from Private Ancillary Funds, superannuation funds, government, unused savings

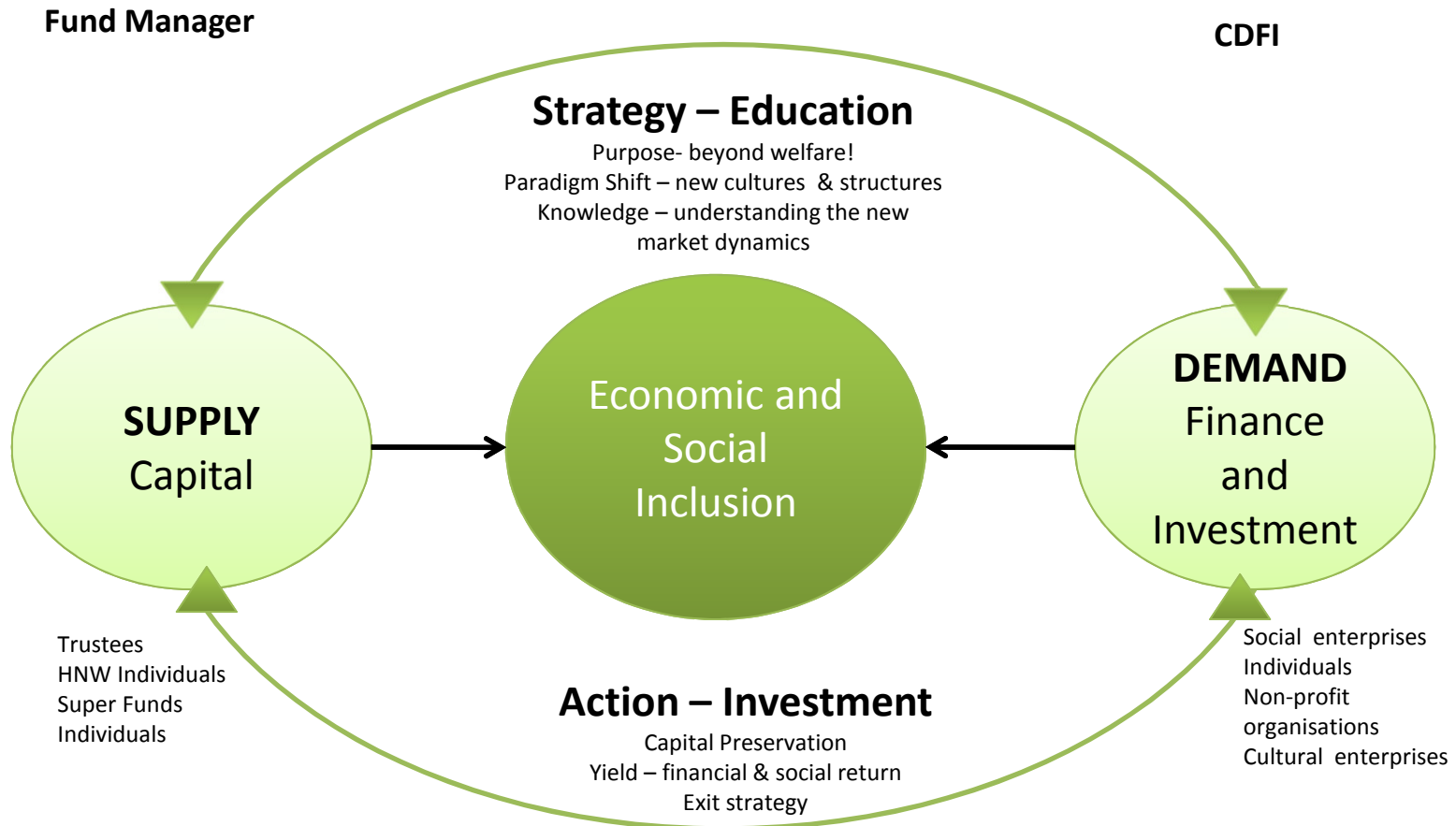
Enabling tax and regulatory environment: a regulatory framework that recognises the blended business models necessary for this market to grow – at present we have either profit or purpose tax and regulatory structures, but nothing that supports profit for purpose strategies. This is true for both the demand and supply side of the equation.

Investment pipeline: endorsing an intermediary market that can direct capital flow from investors to the traditionally financially excluded markets, measure impact and ensure education and engagement with both supply and demand side is active and accurate

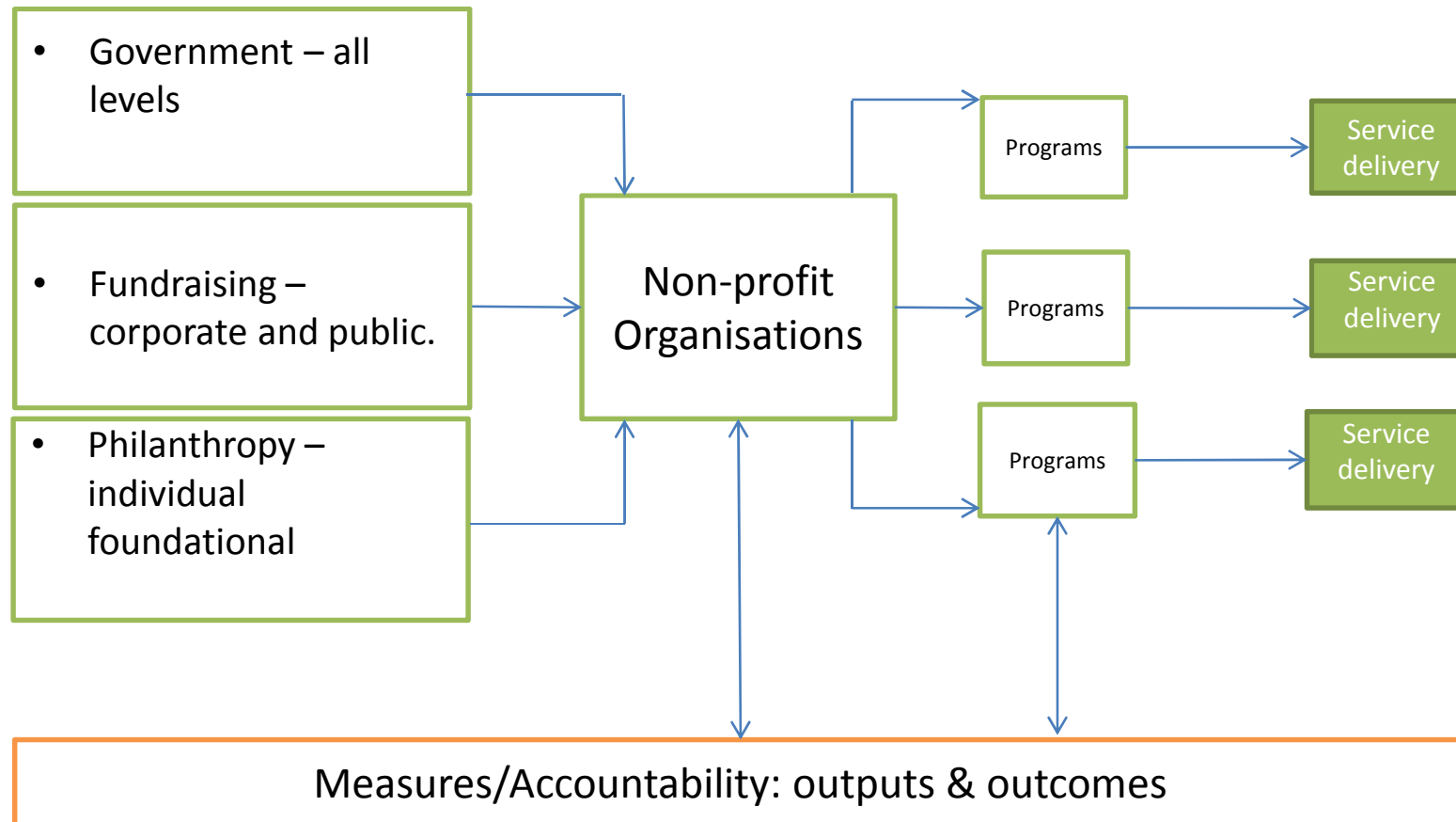
In support of this submission we have included:

- A high level demand supply model of the market and its potential
- An infographic that illustrates existing capital sources
- An infographic that illustrates the result of adding investment into existing model
- An infographic that illustrates the social impact investment model
- Case study commentary based on Foresters 10 principles for the development of a Social Capital Marker
- Recommendations for next steps

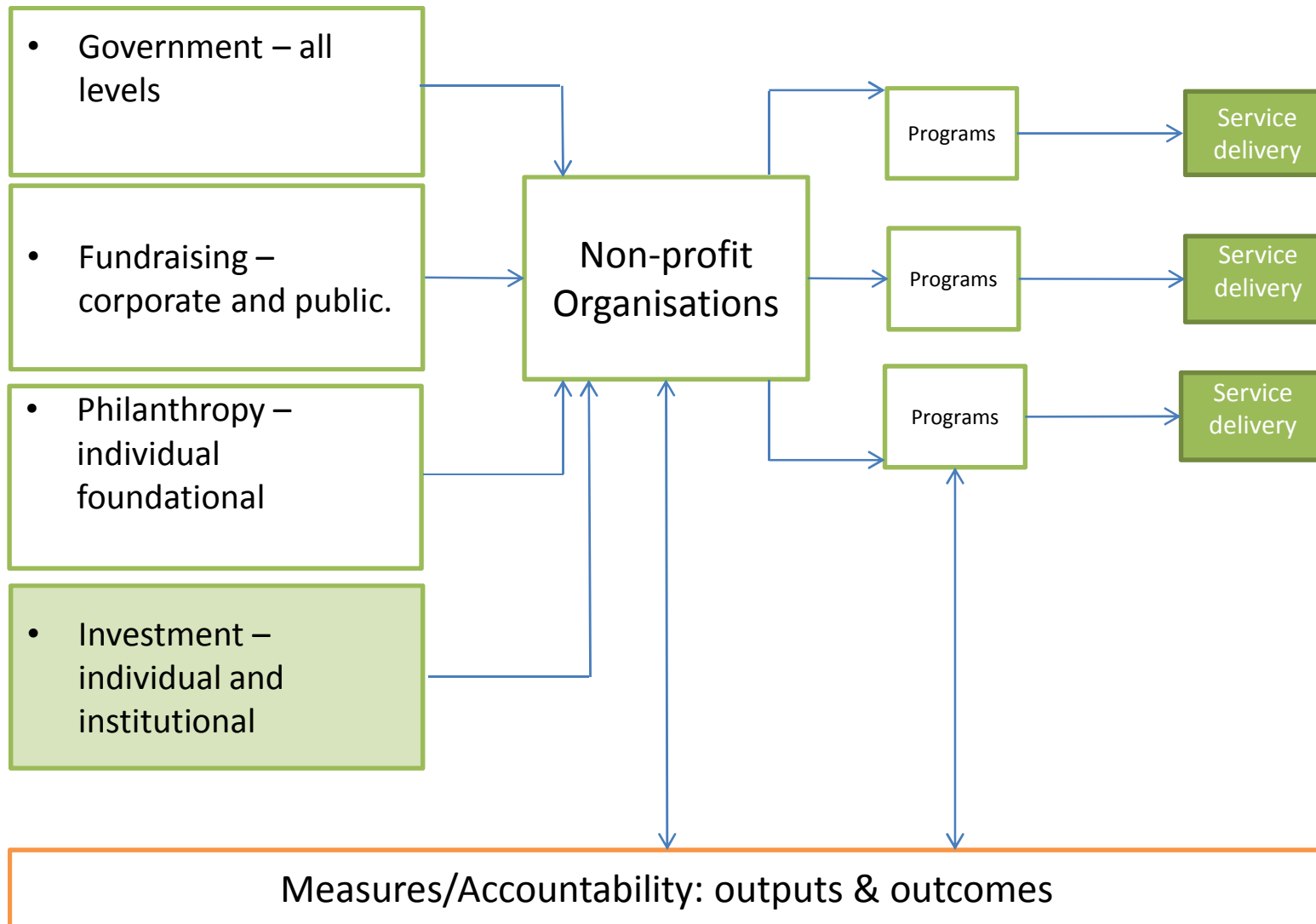
Demand Led Investment



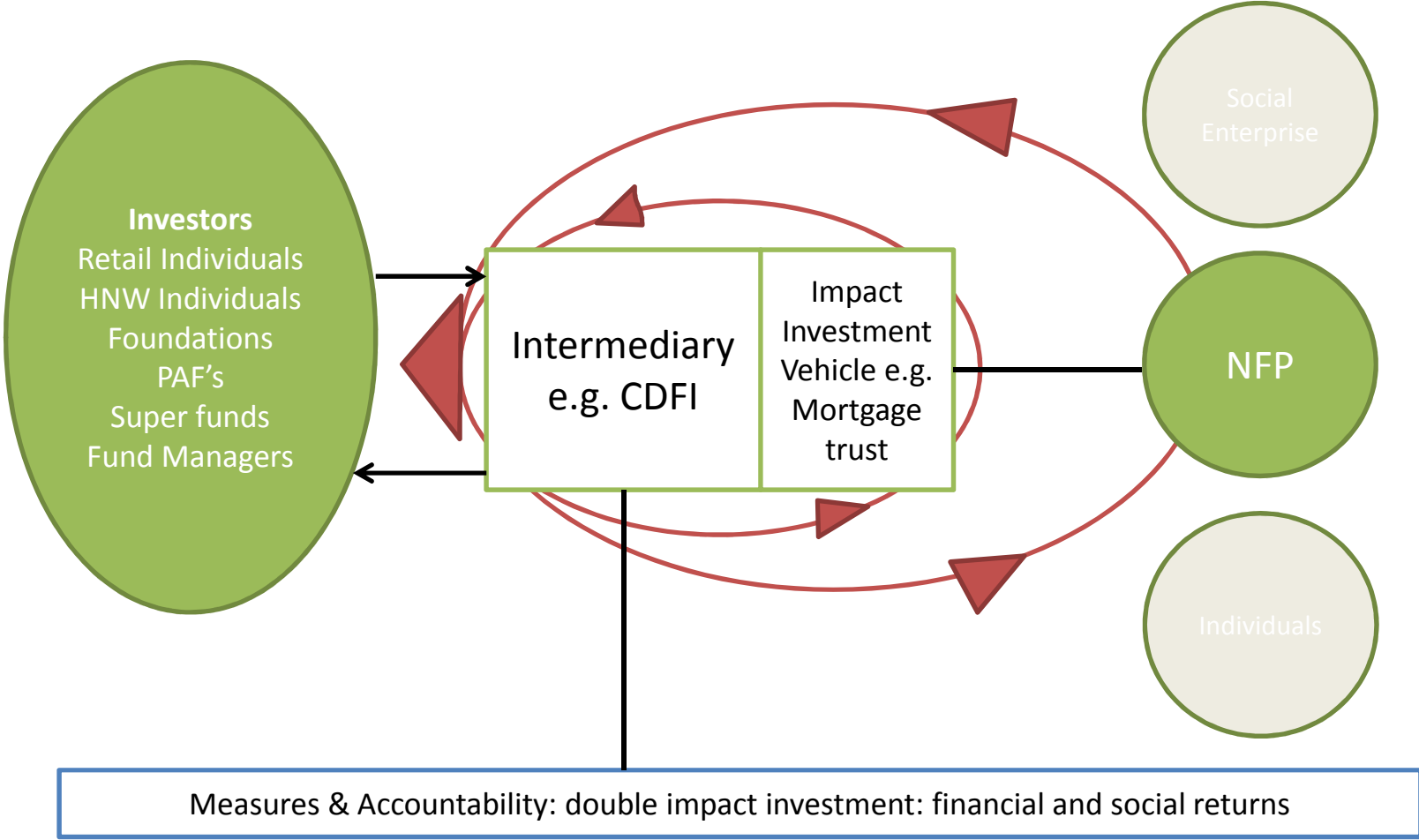
Existing capital sources




Add new capital source - Investment



Social Impact Investment model



 Velocity of capital

Foresters Community Finance Impact Investment case study applying Foresters10 Principles for the Development of a Social Capital Market

Access to new forms of capital

Foresters, through its capacity as a Community Development Finance Institution (CDFI), has been successfully able to provide access to capital for individuals (Fair Finance Australia) non profit organisations (Community Asset Building Program) and social enterprises (Social Enterprise Solutions)

Intermediation in an emerging market

As a CDFI, Foresters has been able to successfully create a bridge between excluded markets and finance and investment markets. This is evident in our a) Fair Finance Australia program where we have access to loan capital from NAB to provide micro finance to individuals experiencing financial exclusion; b) Social Enterprise Solutions provides access to capital for social enterprises and is successful because of private investment from Christian Super and federal government investment from DEEWR.

Blended value or double impact

Underpinning the Social Enterprise Solutions program are two investment funds: Community Impact Investment Fund: Social Enterprise and Social Enterprise Investment Fund. Both these funds provide a financial return on investment AND a social impact return on investment

Market Mechanisms

Foresters holds an Australian Financial Services Licence (wholesale) which enables it to design and deliver investment products to attract investment from institutional and sophisticated investors. The current vehicles are mortgage trusts similar to mortgage trusts elsewhere except for the double impact return.

Foresters Community Finance Impact Investment case study applying Foresters10 Principles for the Development of a Social Capital Market cont....

Education & Engagement

Successful development and implementation of a social capital market will not occur without effective education and engagement of both supply and demand sides of the equation. Foresters has been successful with this to date in regard Community Asset Building (workshops to over 350 non-profit organisations in Victoria and Queensland); Social Enterprise workshops in the pipeline, presentations at Three Pillars national road show; Not Profit Forum Philanthropy Australia forums. Our experience is both the demand and supply side of the equation is ready for to build knowledge and take action to invest (please refer to Demand Led Investment infographic). Change won't happen without education and engagement.

Investment Incentives

A mixed capital model – government and private investment – sits behind Social Enterprise Solutions as does a well designed investment structure through Foresters' Social Investment Australia. Incentives through taxation may facilitate further and future investment – but the investment must preserve capital, generate a financial and social return and provide investors with an exit strategy.

Government Intervention

Active intervention and support from all levels of government ranging from policy to incentives, adds value and gravitas to the social impact investment model and the development of social capital markets for non profits.

Foresters Community Finance Impact Investment case study applying Foresters10 Principles for the Development of a Social Capital Market cont....

Private Investment

In addition to government participation a robust Social Capital Market requires private investment from the retail and wholesale sectors. Currently Foresters is licensed to work with wholesale sector but opening up the retail market will bring volumes more funds into the sector: If the Australian social capital market could attract just 1% of market capitalisation that would release \$13B into the market place. Appropriate education and engagement would need to take place to ensure success.

Measurement

To enable effective reporting on social return requires collection and collation of data on social value; Foresters uses IRIS to provide transparent and consistent social impact measurement that is now recognised worldwide.

Transparency

To attract and retain investors to a social capital market requires a reporting and regulatory framework consistent with the size and risks of the market. Currently Foresters reports through the existing regulatory frameworks but also has established investor reference groups to provide comfort and risk mitigation for our investors.

Foresters Community Finance Impact Investment case study applying Foresters10 Principles for the Development of a Social Capital Market cont....

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Recommendations

- Referencing international markets we must accept that a social capital market is inevitable in Australia – the question is how soon will we get there and how will we innovate to meet our local conditions?
- We should act to establish and appoint an independent task force to take action toward supporting the establishment of this market. The objectives of this taskforce should include:
 - Investigation of incentives that support market establishment and development;
 - Data collection that quantifies financial exclusion across various markets and geographies –supporting the identification of market gaps and opportunities.
 - Support for community development finance and social investment intermediaries both in terms of start up and business development, taking lessons form existing actions (CDFI Pilot and SEDIF).
 - Greater policy and regulatory guidance for trustees to make investments.
 - The further framing of a purpose for sourcing capital from private capital markets.
- This task force should comprise representatives from:
 - The finance sector;
 - The investment markets;
 - Philanthropy;
 - Community finance and social investment;
 - Government;
 - Academia;
 - Innovators; and
 - The non profit sector.
- The taskforce should not be prone to the influence of vested interests and should be capable of engaging both sides of the political divide.