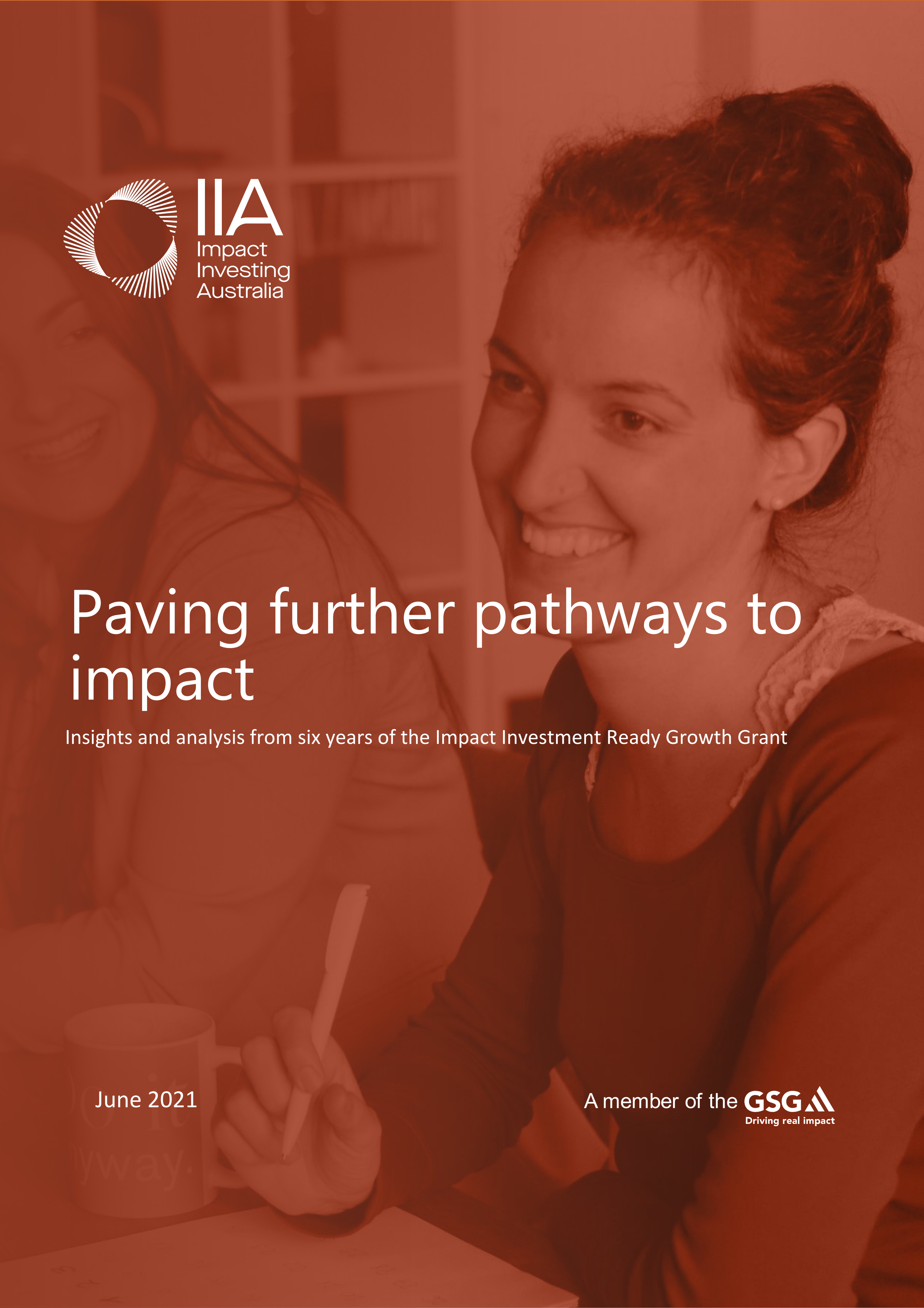

Impact Investing Australia

Paving further pathways to impact

Insights and analysis from six years of the Impact Investment Ready Growth Grant

June 2021

A member of the GSG
Driving real impact

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Executive Summary

Australia's social enterprises (SE) have long been working towards a better future. There are an estimated 20,000 social enterprises (SEs) in Australia. Social enterprises are businesses (either profit or not-for-profit) which primarily exist to fulfil a social or environmental purpose. 7,000 of these are employment focused SEs targeting people who experience the greatest barriers to employment including people with disability, young people and women experiencing disadvantage. [i]

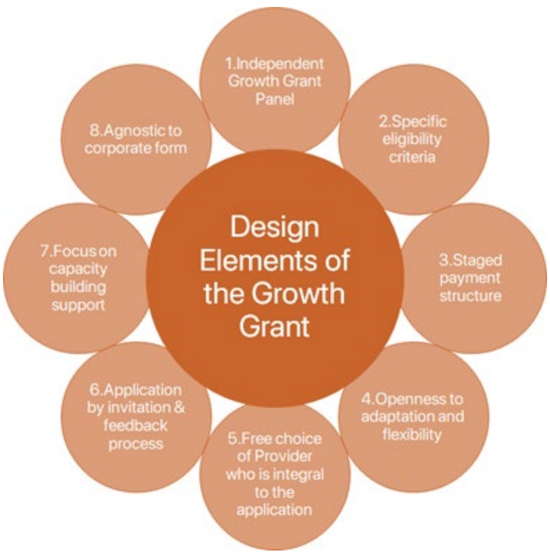
COVID-19 (COVID) has been a constant companion in the writing of this report. COVID has created many hardships for the country and the SE sector has not been immune, but for some it has also brought opportunity. Many SEs are small-to-medium enterprises (SME) that a have public facing trading business and were deeply affected by the lockdowns. Others reviewed their business models and pivoted or made changes to improve their resilience and sustainability. Yet others found themselves well positioned for present conditions and are experiencing exponential growth.

Through the ups and downs over the last six years, the Impact Investment Ready Growth Grant program (Growth Grant), has continued to support the SE Sector. To date, it has distributed $6.8 million in growth grant funding to 69 SEs resulting in capital raising of over $143 million. In addition, the Growth Grant underwent our own COVID-related pivot and created a $30,000 Resilience Grant to further support the sector. Resilience Grants were awarded to 18 SEs for a total value of $535,500. In the spirit of collaboration and sector development, initial learnings from our work were shared in 2018 and in this current report, our more recent experience: learnings, data and new inspiring stories are examined.

The Learnings

The original objective of the Growth Grant was to address three gaps: The social enterprises' capacity and funding gap, the intermediaries' sustainability gap and the investors' pipeline gap. The program design elements of the Growth Grant consider these gaps (**Figure 1**). Our Learnings consider the rationale for, and effectiveness of each element and we outline actions that could be taken to improve program outcomes.

Figure 1: Design Elements of the Growth Grant



Source: Impact Investment Australia, 2021.

Table 1 shows our findings from experience and data in running the program. The recommendations focus on the changes to **the program** that could be made to improve its reach and efficacy.

Table 1: Findings from Growth Grant program design and recommended program adaptations

Findings	Recommendations
Heavy skew toward grant recipients in the eastern states (i.e., Victoria, NSW). This reflects disproportionate market maturity and intermediary capability in these areas.	**Consider national Provider incentivisation to target other states**. This could be incorporated into existing grant funding.
A number of funds designed to invest in SEs have applied to the program but did not qualify. These funds are very important to market development in terms of enabling more diversified investment and encouraging a broader set of investors.	**Consider extending the Sector Readiness Fund (SRF) to support SE funds to do capital raising**.
Issues of capacity sometimes make it challenging for SEs to negotiate appropriate terms with their Provider.	**Establishment of an arrangement with a legal firm to enable SEs to seek advice in relation to Provider contracts**. (This could be pro bono or low bono with funds put aside from the SRF grant pool to enable this).
A number of SEs with predominantly environmental impact continue to try to access the SRF program.	**Consider an arrangement with ARENA or an alternative aligned funder** for a small pool of grant funds into a program aligned with the SRF (managed by the Growth Grant) which could be **cost effectively applied to SEs with an environmental lens.**
A significant amount of capacity sits within the operational team and the expert panel of the Growth Grant however operational funding constraints restrict the amount that this can be leveraged.	**Consider a review of the limited operational funding** of the program to enable additional resources **for the provision of further capacity building support particularly for those SEs that are unsuccessful at the EOI stage** (particularly due too early stage). Care would need to be taken in more of a mentor type model so as not to crowd out intermediaries.
SEs often need to employ additional internal resources to support their capital raising efforts. The Growth Grant program is currently directed to external resource provision with limited funding to cover internal resourcing constraints.	**Increase the cap on internal resource provision to enable SEs to do more backfilling if required.** A cap would still need to be applied and the internal resource provision very specifically acquitted.

The Data

The Data draws on the results of two surveys of Growth Grant recipients and their Providers conducted over the course of Growth Grant program. Together with the data collected by Impact Investing Australia (IIA) it provides further insights into what may be missing in the ecosystem more broadly, looks at case studies and makes recommendations for further sector developments. The findings in **Table 2** have similarities to those identified against the design elements of the program. The recommendations focus however on the eco-system rather than program-based changes.

Table 2: Findings from Data and Recommendations for Ecosystem development

Findings	Recommendations
Heavy skew toward grant recipients in the eastern states (i.e., Victoria, NSW). This reflects disproportionate market maturity and intermediary capability in these areas.	Consider further incubator/accelerator program support for other state-based programs. This has worked particularly well in NSW with the Social Impact Hub run Scaling Impact program. Consider further support of market builders both within states and nationally. Those raising awareness or building social investment market tools or resources are typically chronically under funded. The Connect Fund established by Access and the Barrow Cadbury Trust (Case Study) is an example of where this market support has driven the sector forward.
Most unsuccessful Applicants are too early. There is a clear gap in support of these early-stage enterprises.	Development of an Early-Stage Foundation similar to the Access Foundation for Social Investment in the UK (Case Study) which provides early-stage grants, loans, capacity building and mentorship. The grant with mentorship aspect is similar in concept to the programs run by the Nathan Cullen Foundation and the Myer Innovation fellowship (Case Study). This foundation could potentially be a partnership between the Government and philanthropy, although would need to be agnostic to corporate form (i.e., both for-profit and not-for-profit). Per the Access Growth Fund this could also be an effective mechanism to encourage blended financing models for early-stage support.
A number of funds designed to invest in SEs have applied to the program but did not qualify. These funds are very important to market development in terms of enabling more diversified investment and encouraging a broader set of investors.	In the first instance new Social Impact Investing (SII)funds need early stage working capital for establishment. This capital could potentially be provided by an Early-Stage Foundation through a program such as the Access Connect Fund. The establishment of an Impact Investment Wholesaler in a partnership between the Australian Government and financial institutions could support the provision of seed capital to new and emerging SII funds. (Extensive detail on how this wholesaler could work is provided in our pre-budget submission Parts 2 and 3).
There is a hurdle to the use of blended finance in for-profit	Government has a role to play in supporting the development of blended finance models in the for-profit for-purpose sector.

Findings	Recommendations
structures. Grants from foundations are constrained by only being available to not-for-profits with deductible gift recipient (DGR) status.	The establishment of a grant fund (potentially as a complement to an impact investment wholesale fund) could facilitate the development of this market. Additionally, consideration could be given to extending PBI concessions and grant making to non-DGR recipients where impact can be substantiated. This latter aspect could be accomplished as a one-off through an exemption for the Early-Stage foundation.
With the new contract opportunities created through social procurement frameworks in states such as Victoria, a need has been identified to support SE contract readiness. Contract readiness may but does not necessarily require investment readiness.	The next generation Early-Stage Foundation built on the experience of the Growth Grant should include grant funding for contract readiness. This complementarity in the investment readiness and contract readiness can be drawn from the UK in its establishment of the Investment and Contract Readiness Fund. What this fund's evaluation does however make clear is that while some of the capacity building requirements between investment readiness (IR) and contract readiness (CR) (e.g., social impact measurement and management and financial modelling) are similar, CR requires very specific skills in tendering and bid writing. Linked to contract readiness is social procurement policy. We have seen some strong examples of the effectiveness of this in the Victorian context and see the opportunity as significant for a Commonwealth-based social procurement framework.
Impact measurement and management capacity building is a challenge. This is for both SEs and Providers with many mainstream Providers still developing expertise in this area. SEs often struggle to identify metrics and there are often gaps in processes and culture which put at risk impact integrity and delivery. Many accelerator and incubator programs focus largely on business model fundamentals and sustainability and may not include impact training.	Consider funding for more bespoke training/capacity support that targets specific impact aspects (e.g., organisational structure, culture and diversity considerations, impact measurement, management frameworks and related process design). These could be made available to both SEs and Providers as appropriate. This could also be included in a more holistically focused Early-Stage Social Enterprise Foundation in recognition that bespoke capacity support including impact capacity development is often required on the path to a SE investment or contract readiness.

The most significant of the gaps discussed above are around contract readiness and earlier stage SE support. Not every SE requires or is capable of attracting investment to grow in the first instance. For many, they need to build capability through early-stage support to shore up a sustainable impact-driven business model before seeking capital. For others, investment may follow the securing of a contract, but the first key step is the contract. The skills required for contract preparation while having some areas of commonality with those for investment readiness also require significantly different expertise.

The case study of Access – the Foundation for Social Investment provides an example of the kind of organisation that could be established in the Australian context as the next iteration of the Government's SRF program.

The Stories

This section is built from a series of interviews with Growth Grant recipients, Providers and our panellists. It shares their experiences, challenges and perspectives on what it takes to get investment ready.

Key insights included:

- the importance of a good Provider and coach to enable learning from someone who has been through the journey
- having the strength to stick to mission despite potential financial pressure to deviate
- start with a problem and find a solution not the other way around
- impact well measured and managed is critical as a determinant of success and a differentiator for investors
- think collaboration and not competition.

Conclusion

We hope this report will provide some insight into our experiences of running the Growth Grant over the last six years. We have met extraordinary social entrepreneurs over that time. Some of these entrepreneurs have not gone on to be successful simply because the current state of the ecosystem could not meet their needs.

The Growth Grant has one more year to run with its current funding envelope from the Department of Social Services' Sector Readiness Fund (SRF). In our view, the best thing for the sector would be the replacement of the SRF with a more holistic organisation similar in construct to the Access Social Investment Foundation in the UK. The Australian version could similarly be a partnership between the Government and philanthropy to create an organisation that funds and co-ordinates capacity building, early-stage investment and social investing infrastructure. Importantly as an early-stage SE wholesaler, Access is a co-ordinator of other sector actors rather than a replacement for them, hence building intermediation and sector collaboration and development. We need this for Australia and the social impact it could create.

In addition, we would encourage governments (national and state) and large-scale institutions to consider how they could support social enterprise development through their purchasing policies. In particular considering a percentage allocation to social procurement which would assist social enterprises to grow their revenue, sustainability and impact.

There is no doubt the social enterprise sector is worth growing and supporting. Social enterprises have an essential role to play in the broader economy with many of them operating in job-intensive business areas. Their mission-driven focus means, like for example Knoxbrooke Enterprises during COVID, they create and maintain jobs at times when traditional businesses may cut them. In addition, many social enterprises such as Refugee Talent have innovated new ways of discovering, and matching talents to the right jobs, thus contributing to skills development and the improvement of labour force outcomes. Their innovative approaches, pave the way for new job opportunities – take Hireup, with now over 200+ employees, a great technology-based example in the disability space.

Finally, social enterprises are often microcosms of the world they want to see, promoting aspects such as gender equality and diversity. In the UK, this is true of their leadership, with 40% led by women and 34% having minority representation in their leadership teams. It is also true of their workforce, with 44% employing those who are disadvantaged from the labour market: ex-offenders, homeless, military veterans, those with learning and physical disabilities, and many more to whom others simply do not give a chance. This is also true of where they work: one third operate in the most deprived areas in the UK.[ii]

Most importantly, at the core of any successful social enterprise is strong social impact AND a sustainable business model. Nurturing and growing these businesses are necessarily key steps on the path to a better future.

The Growth Grant at a glance

In its 6+ years, the Impact Investment Ready Growth Grant has distributed….

$6.8m
of **grant funding** to…

69
Impact driven organisations…

..at an average **grant size** of
$98,438
to work with…

46
Capacity building Organisations.

22
Grantees have **successfully raised**…

..a total of
$143.1m

..at a median grant leverage of
22x.

The total expected capital raised of all grantees is
$173.2m.

Source: Impact Investing Australia, 2021.

Introduction

Social enterprises have long been working toward a better future. There are an estimated 20,000 social enterprises (SEs) in Australia. Social enterprises are businesses (either profit or not-for-profit) which primarily exist to fulfil a social or environmental purpose. 7,000 of these are employment focused SEs targeting people who experience the greatest barriers to employment including people with disability, young people and women experiencing disadvantage.[iii] Social enterprises are estimated to generate up to 3% of GDP and employ 300,000 Australians.[iv] According to a recent Westpac Foundation CSI Swinburne Report, employment focused SEs are more effective than mainstream employment services; at least if not more efficient than their purely commercial counterparts; produce high social returns and are financially sustainable.[v] The SE sector has an incredibly important role to play in helping address our social and environmental issues, but this is not without its challenges.

A Brief History of this program

The Impact Investment Readiness Fund was established by Impact Investing Australia in March 2015. The fund was co-designed with The Difference Incubator and received staged seed funding of a total of $1.75 million from National Australia Bank (NAB).[1] The main objective was to enable mission-driven organisations[2] to access capital by bridging the gap between their needs and investors actively seeking impact investment opportunities. In February 2017, the Impact Investment Readiness Fund was rebranded as the Impact Investment Ready Growth Grant (Growth Grant). In the Australian Government's 2017/18 Budget, $8 million was allocated to a Sector Readiness Fund (SRF) within the Department of Social Services portfolio. IIA went on to win a tender in 2018 to administer $7 million for the Sector Readiness Fund as part of the Growth Grant program.

In 2021, IIA made a major adaptation to the Growth Grant program due to the impact of COVID on many Social Enterprises. At this time, with DSS approval, a proportion of the SRF balance was deployed into Resilience Grants. This program adaptation provided grants of up to $30,000 and enabled by pre-approved Providers helped social enterprises navigate their way through the impacts of COVID on their businesses.

In light of COVID and the introduction of the Resilience Grants, the deployment period for the SRF monies has recently been extended to June 2022.

[1] Seed funding of $1 million, later increased to $1.75 million

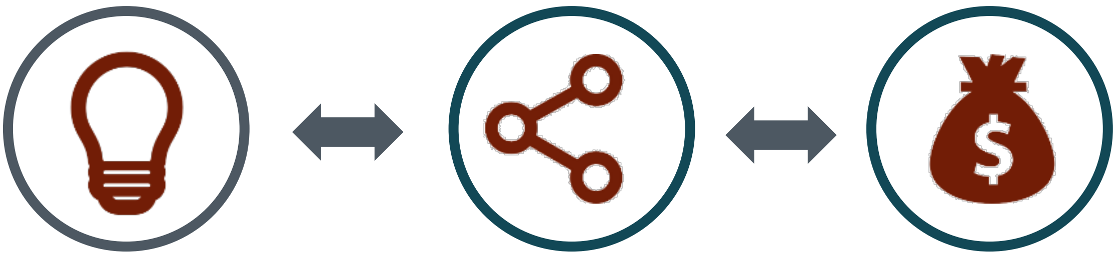
[2] While the definition of "social enterprises" may be used differently across the ecosystem, the terms "mission-driven business" or "impact-driven business", both for-profit or not-for-profit, are used interchangeably with "social enterprise" for the purpose of the Australian Advisory Board strategy

Objectives of the Growth Grant

The Growth Grant is designed as a holistic market development initiative. It addresses three fundamental market gaps (**Figure 2**):

- **Funding gap for mission-driven organisations**. There are many impact-driven organisations in their growth stage that have a sustainable and replicable business model and the potential to secure investment. These organisations often need professional advisory support to get investment ready and engage with investors but struggle to fund such advice.
- **Capacity gap for intermediaries**. An increasingly large number of professional advisors (Providers[3]) want to support and work with mission-driven organisations. The fees available for capacity builders are currently insufficient and make it difficult to support a business model focused on work with such organisations.
- **Pipeline gap for investors.** A growing number of investors want to invest in direct deals that have a positive impact on society and generate a financial return. There remains a lack of high-quality, values-aligned investible impact deals in Australia.

Figure 2: Market Gaps targeted by the Growth Grant



Innovators' Funding Gap

Mission-driven organisations cannot fund the advice they require to go from validation to investor readiness.

Action: Provide funding for high-quality capital raising support.

Intermediary Gap

There are not sufficient fees available for Providers looking to specialise in advising impact businesses.

Action: Deploy funds for intermediaries into the ecosystem.

Investors' Pipeline Gap

Investors are experiencing a lack of values-aligned impact deals.

Action: Help to build the pipeline of high-quality deals.

Source: Impact Investing Australia, 2020.

About this report

Over the past six years, the Growth Grant has supported many extraordinary organisations that have a significant impact on the lives of people, our communities and the environment. While the ecosystem for impact businesses and mission-driven organisations has come a long way, there is still much unrealised potential to better support businesses that do good and do well.

Impact Investing Australia has gone through a dynamic learning journey in managing the Growth Grant. In the spirit of collaboration and sector development, initial learnings were shared in 2018 in the IIA report *Paving Pathways: A Review of the Impact Investment Ready Growth Grant*. In this report, the more recent experience of the Growth Grant: learnings, data and new inspiring stories are examined. It is hoped this will continue to pave the way for broader, deeper and better support for mission-driven organisations on their way to investment readiness and scale.

The report is divided into 3 parts:

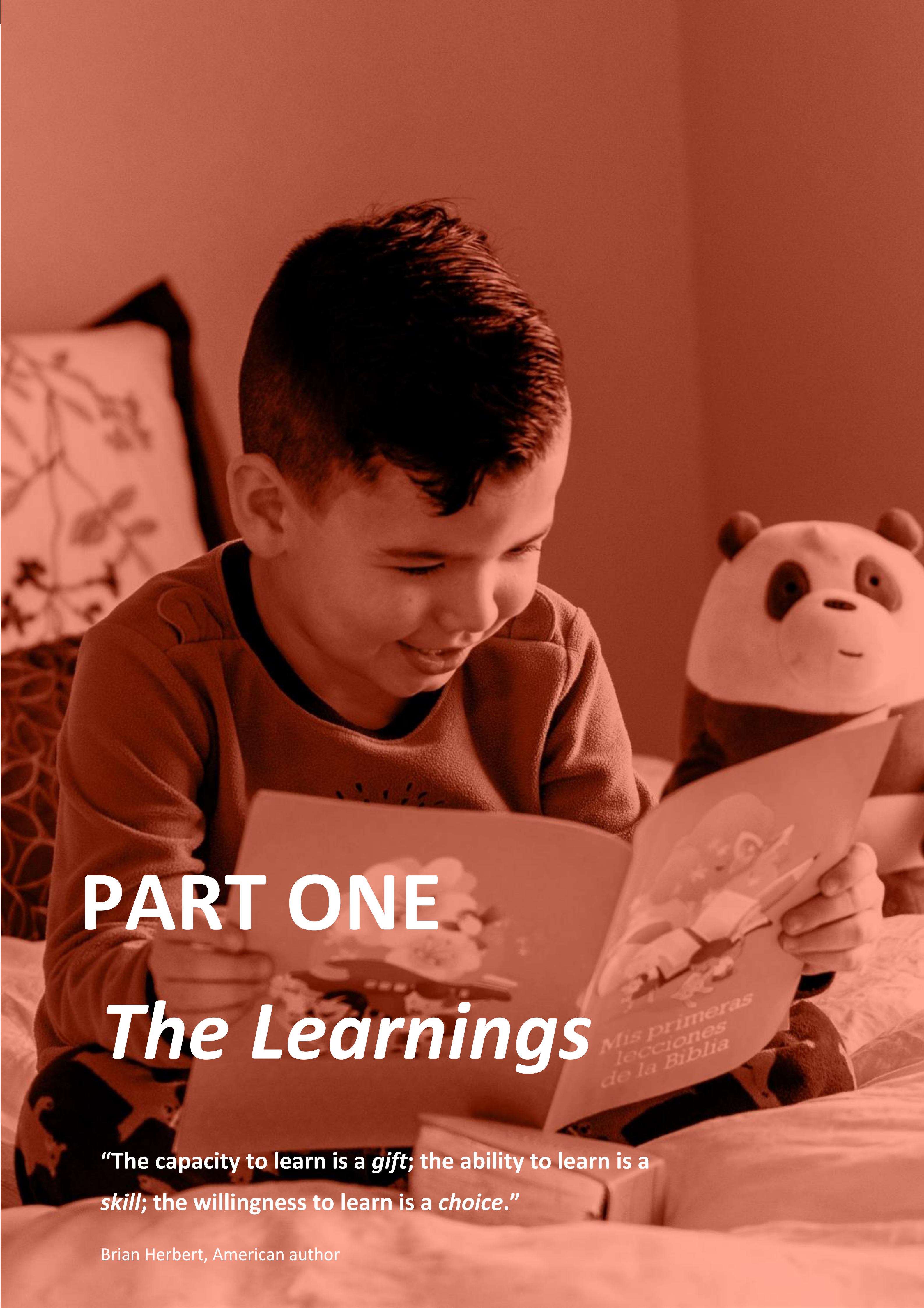
PART 1: The Learnings provides insights into the program design elements of the Growth Grants, shares key learnings from Impact Investing Australia's experience and outlines actions that could be taken to improve program outcomes.

PART 2: The Data draws on the results of two surveys of Growth Grant recipients and their Providers conducted over the course of Growth Grant program. Together with the data collected by IIA it provides further insights into what may be missing in the ecosystem more broadly, looks at case studies and makes recommendations for further sector developments.

PART 3: The Stories are derived from a series of interviews with grant recipients, Providers and our panellists. It shares their experiences, challenges and perspectives on what it takes to get investment ready.

This report is targeted for use by a variety of stakeholders, including:

- **impact-driven businesses and not-for-profits who** want to better understand the process to achieve investment readiness
- **investors**, especially foundations, high net worth individuals, family offices and other private investors, **with interest in direct investment in impact businesses**
- **capacity builders and intermediaries** who are, or are looking towards, working with impact-driven businesses and support mission-driven organisations for better societal outcomes
- **national and international organisations or governments** who want to establish a similar program and/or initiative and are seeking learnings from other markets and experiences.



PART ONE

The Learnings

"The capacity to learn is a *gift*; the ability to learn is a *skill*; the willingness to learn is a *choice*."

Brian Herbert, American author

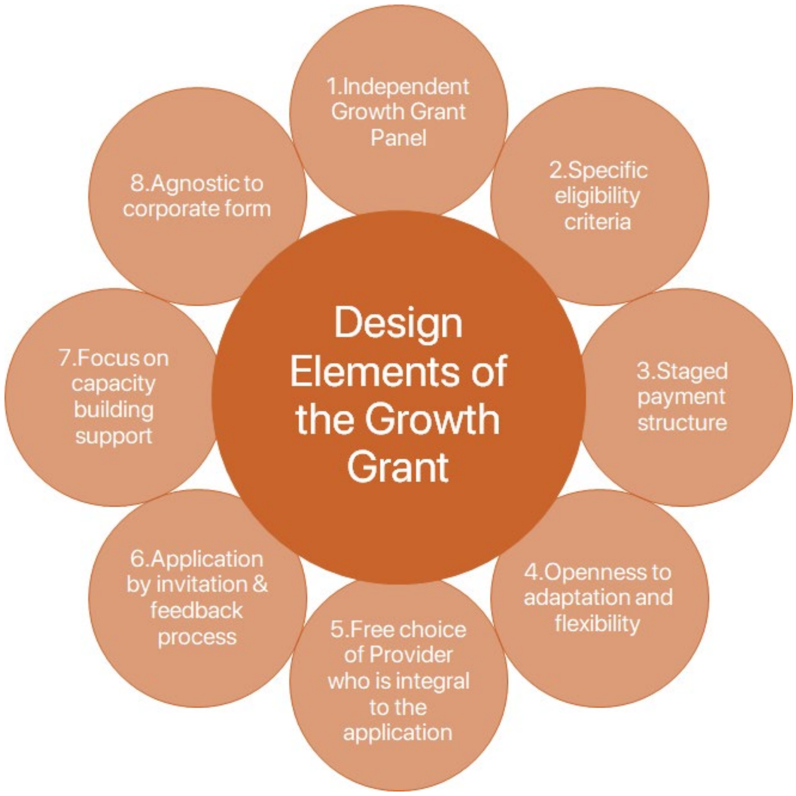
Market builders are always looking for what the market needs next to help it scale and grow. IIA has worked hard to retain a level of flexibility in the Growth Grant process to deliver strong outcomes in a dynamic and adaptive way. PART ONE looks at the evolution of the design elements of the Growth Grant, considers what has worked well and offers recommendations for how mission-driven organisations could be better supported by the program.

The Learnings

The Growth Grant focuses on **investment readiness** and Part one of our discussion on learnings will consider its key design elements (**Figure 3**). In particular, how these have evolved over time to incorporate or own experience and market feedback on what could be improved to deliver on the program's objectives.

Key Design Elements

Figure 3: Design Elements of the Growth Grant



Source: Impact Investing Australia, 2021.

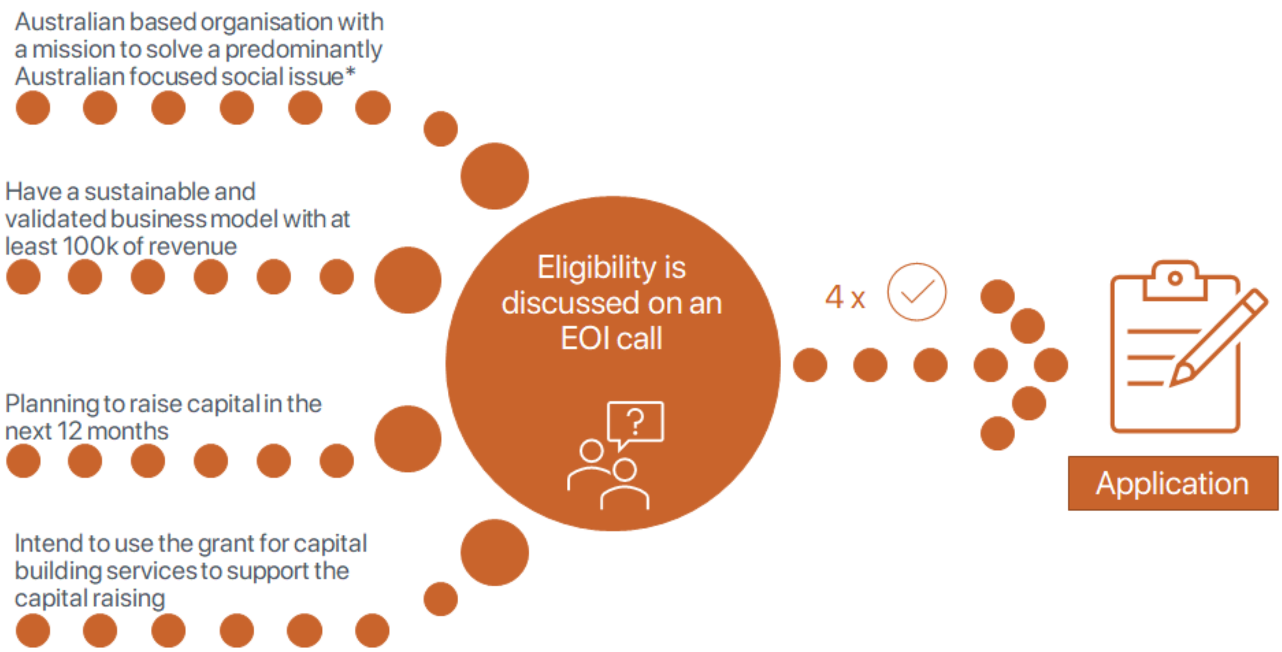
Element 1: Independent and Diverse Panels

Starting at inception with only one panel, the expansion of the program required a movement to two x six-person panels in November 2018. These panels assess eligible Applicants and make recommendations for grant approval. Ten of the panel members are independent and together bring diversity in ethnicity, demographics, gender and areas of expertise. The wide range of perspectives delivered through this approach has brought rigorous and holistic discussion to the selection process. These panels which also enable strong governance and equity are a critical success factor for the program and we continue to explore how we can build on the diversity elements.

Element 2: Clear Eligibility Criteria

While it is important to make the criteria clear, it is equally important not to make it too tight. The criteria (**Figure 4**) have evolved over time to ensure Grantees have the best chance of raising capital and delivering on the impact requirements of the program.

Figure 4: Eligibility Criteria for the Growth Grant



Source: Impact Investing Australia, 2021.

As asterisked above, the impact criteria were tightened in 2018 to align with the approved impact areas of Department of Social Services' Sector Readiness Fund (SRF). This has created challenges for organisations that are impact driven but not within the areas specified. Environmental impact for example is an exclusion that disqualifies many Applicants. Under the SRF criteria, Indigenous social enterprises (SEs) are explicitly called out whereas these where implicitly included as part of the other categories in the former criteria set (**Figure 5**).

Figure 5: Change in Impact Criteria with the SRF

Source: Impact Investing Australia, 2021.

Element 3: Staged Payment Structure

The first 70% of the Grant is paid upon Grant approval. The remaining 30% is payable only if the target capital is raised within the target time period. This staged payment structure was modelled on the approach of the UK Investment and Contract Readiness Fund. The benefit of this approach is that Providers have an incentive to remain committed through the capital raising process and to complete it within a given time period. This has also helped with compliance around submitting impact frameworks and other requests across the program.

Element 4: Openness to adaptation and flexibility

There is no question the ability to maintain flexibility has been constrained by government contract requirements and associated "oversight". Notwithstanding the program has evolved to take account of external factors and learnings. A new type of grant, known as a "Resilience Grant" was introduced in January 2021. These grants were targeted at SEs experiencing financial stress as a result of the coronavirus pandemic. The Resilience Grants of up to $30,000 were designed to assist SEs in accessing pre-approved Provider services to support the continuation of their impactful businesses and create future opportunities for participation in the social impact investing market.

Element 5: Free Choice of Provider who is integral to the Application process

Impact Investing Australia as a market building organisation does not wish to recommend or endorse Providers at the expense of others who may be new or less well known in the market. Our website lists Intermediaries and Providers operating in the market for informational purposes. The primary Provider (there can be more than one Provider) is key to the ultimate success of a Grantee's capital raising and a strong relationship between the Grantee and their Provider is in most cases a critical success factor. As such, we see it as important that Applicants select their Providers themselves based on their individual needs and "personality fit". The panel evaluation process includes due diligence on Provider credentials and expertise. While we have never explicitly rejected an Applicant based on their Provider choice, we have cautioned several Applicants that appointing a Provider as a pathway to securing this grant is unlikely to deliver a successful outcome. Most Grantees who have secured capital have had a good relationship pre and post grant and capital raising with their Provider.

Element 6: Application by Invitation and a feedback process

As described in **Figure 4**, organisations who want to apply for a Growth Grant first submit an Expression of Interest (EOI) through a brief online questionnaire. A subsequent call with the potential Applicant serves to evaluate whether the basic eligibility criteria are met. Only organisations which meet these criteria are then invited to apply. Less than 20% of EOIs proceed to the application stage (more details on this in part 2). Since the EOI screening was introduced at the beginning of 2017, applications have decreased in quantity and improved significantly in quality. This has improved the efficiency of the program and reduced the time wasted by SEs in completing a lengthy application process when they do not meet the key grant criteria.

The EOI interview provides the first feedback mechanism around pre-qualifying criteria for those interfacing with the Growth Grant program. Invited Applicants who do not proceed to interview are also given feedback on why they were unsuccessful. Final stage Applicants for the Grant are given feedback as part of I post interview process. This may be done in the form of an additional interview if the panel deems this may be helpful to the SE (or as requested by the Applicant). Unsuccessful Applicants have the right to appeal decisions or, as is more often the case, re-apply in a subsequent round once they have addressed the areas of feedback.

We believe this mechanism of early screening and ongoing constructive feedback has significantly improved the efficiency of the program and resulted in better outcomes for the SEs involved.

Element 7: Focus on Capacity Building Support

The Growth Grant funds are used to pay for the capacity building support that the Grantee needs. This encapsulates a broad range of support from financial modelling to a framework for impact measurement and management or corporate advisory around capital raising structures. The focus on capacity building support has the objectives of building the skills within the SE and supporting Providers to build their own sustainable business models. Practice has shown that to date this approach has been helpful for Providers however there have been consistent requests from SEs to allow an additional allocation (currently less than 10%) to backfill SE internal costs. Many SEs under-estimated the drag of a capital raising on key management time and would have been greatly assisted if a higher percentage of the Grant could have been used to bring on additional internal resources to support the process.

Element 8: Agnostic to Corporate Form

The Growth Grant is agnostic to corporate form and therefore open to both for-profit and not-for-profit organisations. Interestingly this aspect is one of the things that some people in the SE ecosystem find the most challenging philosophically. In some circles, the perception of "profit" is diametrically opposed to doing good. Our track record shows otherwise. Typically, our most successful and impactful Grantees are for-profit for-purpose organisations which have the ability to raise patient equity from investors who are values aligned with their purpose. Central to the business models of these organisations is their impact. This is not to say that not-for-profits have not been successful, but they have been more constrained in the nature of the capital they raise which is often a combination of grant and deferred interest debt.

Broader Lessons Learnt and adaptations made in running the Program

Market Uncertainties around Capital Raising

The pathway to investment is unique to each enterprise and seldom linear. The experience of successful Applicants has shown that capital raising is contingent not only on the actions taken by the enterprise, but by externalities in the market. This was particularly evident through the experience of COVID, as discussed in more detail below.

In assessing applications, the panel considers a range of potential scenarios based on the information presented and makes associated recommendations as to the likelihood of the enterprises raising capital based on the suite of services being delivered by the selected intermediary. There are differing degrees of certainty for each application. For some applications, there are key steps in the capital raising journey which act as indicators or decision points and can provide greater confidence of the likelihood of success.

Adaptation

To mitigate the risks of uncertainty without unfairly ruling out otherwise suitable Applicants, where deemed appropriate by the panel, a phased grant payment approach is implemented. This phased approach means that in some cases Grantees received their initial payment of 70% in split stages, each contingent on the achievement of associated externally driven hurdles.

The Impact of COVID

There is no doubt the COVID pandemic had a significant impact on the sector in 2020. 20 of the 29 active Grantees indicated they were negatively affected by the impacts of the pandemic. In addition, intermediaries (often social enterprises themselves) reportedly supported for-purpose organisations to respond to the impacts of COVID, often for little or no fee.

Intermediaries described their own new and exacerbated challenges resulting from COVID, including:

- **financial stability:** intermediaries continue to help social enterprises understand what capital they can sustain, despite the fact many SEs cannot pay for their services
- **delayed payment for services:** COVID-related uncertainty caused projects to lag or caused roadblocks
- **difficulty brokering new relationships:** many investors and foundations tended to focus on existing relationships rather than being prepared to support new opportunities.

Adaptation

1. **Sector support:** IIA negotiated with the Department of Social Services (DSS) for a COVID-related pivot diverting a major portion of the SRF for our newly established Resilience Grant program. The Resilience Grants focused on providing intermediary support to help for-purpose organisations affected by the impacts of the COVID pandemic to potentially secure investment. A group of Providers were screened and pre-approved by IIA to assist with the vetting and evaluation of Applicants to the program (similar in part to the model used to disperse loans by the Access Foundation - see Case Study). These Providers used a defined set of criteria and helped pre-vetted Applicants complete a much simplified Application form. Responses to this form were evaluated against the eligibility criteria by the IIA team with panel oversight. The nominating Providers for Applicants evaluated as suitable, were requested to attend the Resilience Grant panel meeting to address any outstanding questions around eligibility with respect to the criteria. The first round of the Resilience Grant was run in February 2021. A total of $535,500 in Resilience Grants were awarded to 18 successful Applicants. Applications for this program have now closed.

2. **Existing Grantees:** Most existing Grantees to the Growth Grant program sought extensions to the capital raising period. IIA reviewed each request and granted an extension to the maximum possible timeframe of 18 months. DSS subsequently agreed to extend this to 24 months in exceptional circumstances.

Findings and Recommendations to further develop the SRF program

Table 3 shows our findings from experience and data in running the SRF program. The recommendations focus on the changes to **the program** that could be made to improve its reach and efficacy.

Table 3: Findings from Growth Grant program design and recommended program adaptations

Findings	Recommendations
Heavy skew toward grant recipients in the eastern states (i.e., Victoria, NSW). This reflects disproportionate market maturity and intermediary capability in these areas.	Consider national Provider incentivisation to target other states. This could be incorporated into existing grant funding.
A number of funds designed to invest in SEs have applied to the program but did not qualify. These funds are very important to market development in terms of enabling more diversified investment and encouraging a broader set of investors.	Consider extending the SRF to support SE funds to do capital raising.
Issues of capacity sometimes make it challenging for SEs to negotiate appropriate terms with their Provider.	Establishment of an arrangement with a legal firm to enable SEs to seek advice in relation to Provider contracts. (This could be pro bono or low bono with funds put aside from the SRF grant pool to enable this).
A number of SEs with predominantly environmental impact continue to try to access the SRF program.	Consider an arrangement with ARENA or an alternative aligned funder for a small pool of grant funds into a program aligned with the SRF (managed by the Growth Grant) which could be cost effectively applied to SEs with an environmental lens.
A significant amount of capacity sits within the operational team and the expert panel of the Growth Grant, however operational funding constraints restrict the amount that this can be leveraged.	Consider a review of the limited operational funding of the program to enable additional resources to provide further capacity building support to particularly those SEs that are unsuccessful at the EOI stage (particularly due too early stage).
SEs often need to employ additional internal resources to support their capital raising efforts. The Growth Grant program is currently directed to external resource provision with limited funding to cover internal resourcing constraints.	Increase the cap on internal resource provision to enable SEs to do more backfilling if required. A cap would still need to be applied and the internal resource provision very specifically acquitted.

PART TWO

The Data

"It is a capital mistake to theorise before one has data. Insensibly one begins to twist facts to suit theories rather than theories to suit facts."

PART TWO focuses on data analysis. It explores the Grantees' and Providers' experience with the investment readiness process. Using this and key datapoints collected by IIA, recommendations are made as to how market gaps can be addressed for the sector.

The Data

Evaluation Methodology

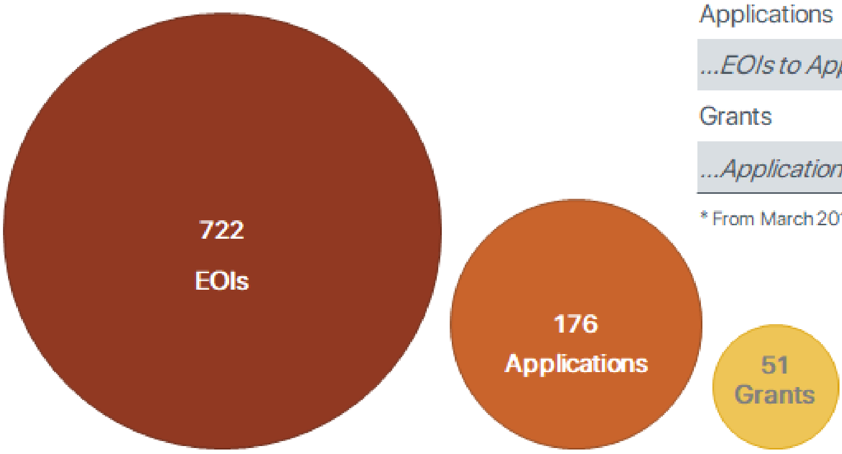
Data for the Growth Grant evaluation was gathered from specifically designed surveys for Grantees. This data is an amalgamation of our initial survey and a follow up last year. Internally generated numerical data tracking key performance metrics of the Growth Grant and data from application forms complements the surveys.

At the time of the survey, 29 grants had been approved under the SRF funding of the growth grant. This has now increased to 40.

EOIs, Applications and Grants

EOIs were more formerly introduced into the program from March 2017. Over the last two years, while the EOIs for the program have grown so has the quality of the candidates, the experience of the Providers and the pool of grant capital that is time bound in its deployment. This has resulted in a decline in the ratio of EOIs to Applications meaning it is **more likely** those going through the EOI process will be invited to apply. The quality of the Applicants and the rigour of the panel process does however remain high with the ratio of grants to Applications falling over the period. Indicating that the competitive nature of the process and the need to ensure public funds are deployed with maximum efficacy makes it **less likely** that those invited to apply will be awarded a Grant. (**Figure 6**)

Figure 6: Growth Grant EOIs, Applicants and Grantees



	DSS	NAB*	Total
EOIs	576	146	722
Applications	149	27	176
...EOIs to Applications	*3.9x*	*5.4x*	*4.1x*
Grants	40	11	51
...Applications to Grants	*3.7x*	*2.5x*	*3.5x*

* From March 2017

Source: IIA Growth Grant data to March 2021.

Allocating a proportion of the overall SRF to the Resilience Grant has reduced the pool of capital available for the Growth Grant while demand continues to grow. We can therefore expect the application to grant ratio to continue to widen. Competition for the Growth Grant will increase and many potentially deserving social enterprises will not be successful in being awarded grants and consequently will not receive the capacity building support they desperately need. IIA has long been advocating to the Government for a more holistic and long-term solution to support the sector and we outline this approach in our recommendations in the later part of this section.

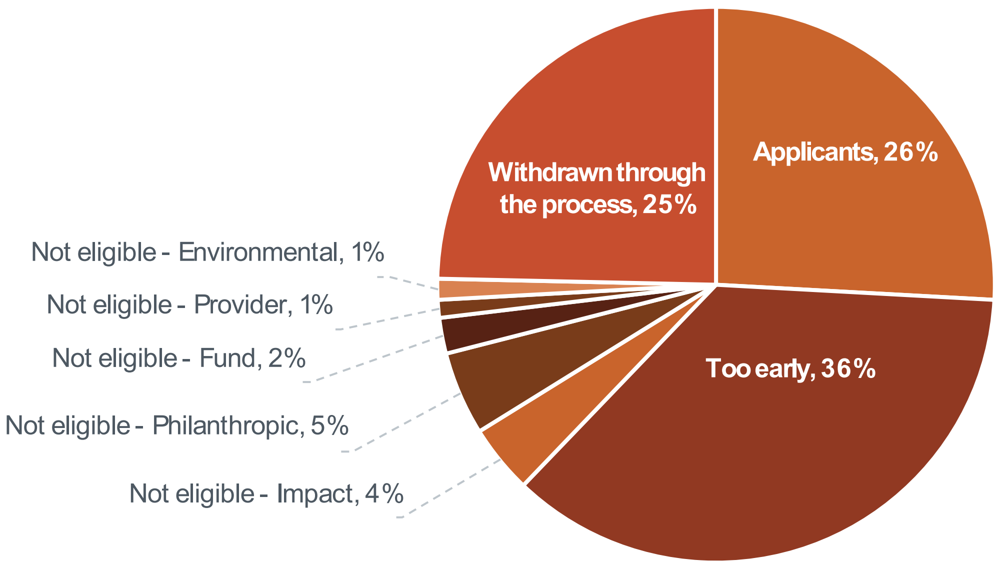
Reasons for unsuccessful grant

Figure 7 below shows the outcomes of the eligibility screening of the Expressions of Interest (EOI) received for the Growth Grant. It shows the reasons EOI Applicants failed to proceed to Application and not successful in being awarded a Grant.

Lodging applications are resource-intensive for SEs and their Providers. A revenue hurdle of greater than $100,000 was introduced in FY19 to try to limit EOIs from SEs that were likely to be assessed as ineligible due to their early stage of development, from progressing to lodging an application. Detailed analysis on applications did however suggest some Applicant SEs were still too early in their maturation to be awarded a Grant. Other reasons applications were assessed as unsuccessful included insufficient or non-eligible impact and philanthropic rather than investment capital requirements.

Overall, what this identified was the gap in support of earlier stage SEs and the need for a program that supports their needs prior to investment readiness and capital raising.

Figure 7: EOI Outcomes



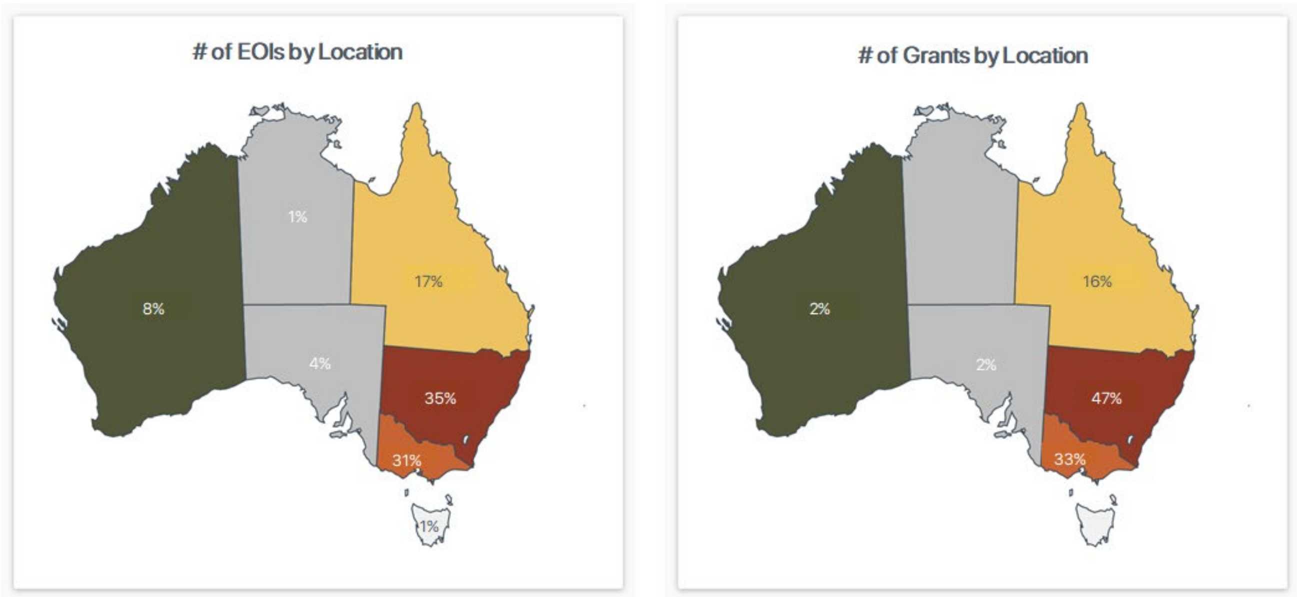
Source: IIA Growth Grant data to May 2021.

Grantees

Grantees by State

Since March 2017, the Growth Grant program has received a total of 722 EOIs.
Figure 8 shows, the highest concentration of EOIs is evident in NSW (35%), followed by Victoria with (31%) and QLD (17%). The other states of Australia account for very few of the EOIs. Interest has increased in WA (8%) and SA (4%) from 2019 which may suggest awareness of the availability of the Grant is increasing in those areas. It may also indicate that the start-up ecosystems within those states are maturing.

Figure 8: Grantees & EOIs by State



Source: Impact Investing Australia, data comparison from March 2017.

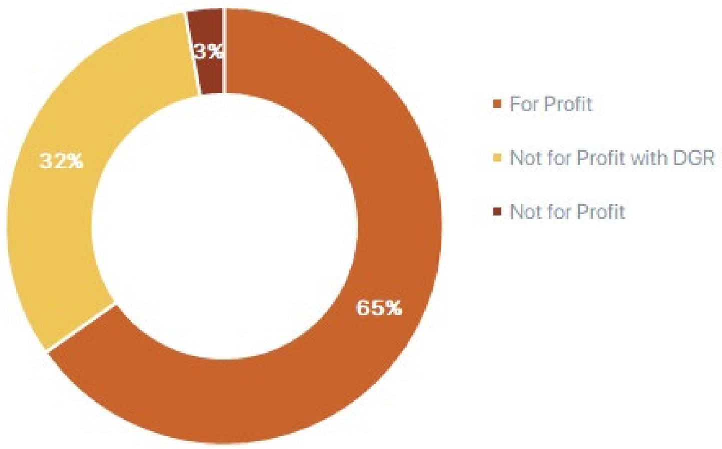
Conversion rates from EOI to grants appear much higher in NSW (47%) than Victoria (33%) and Queensland (16%) with WA having a particularly low success rate. Core reasons for EOIs not going forward to application include: too early stage, Provider relationships are not well established, or the impact delivered by the SE is environmental (post November 2018 with the DSS grant). In the case of the Provider relationship, there was frequently not a large enough length of time for the organisation expressing interest to be able to form a Provider relationship before the round they had applied for was set to start. The broader issue in states like WA and SA was that the state-based Provider market was relatively thin so in some cases SEs were forced to go with Providers they did not know in other states.

Where possible, IIA encourages mission-driven organisations to develop a Provider relationship ahead of time/closure of the application date. Our website was modified last year to provide a list of and links to Provider websites. We do not make recommendations in relation to Providers as discussed above.
Impact Investing Australia will also, on request, make available a list of Providers who have previously had experience with the Growth Grant.

Grantees by Corporate Form

Figure 9 shows the breakdown of Grantees by corporate form. As in the preceding section, the Growth Grant is agnostic to for-profit or not-for-profit structures. We do however note the challenges of not-for-profit entities in raising capital which tends to be within existing corporate structures and therefore restricts the type of capital an entity can raising largely to debt and grant funding. For some this relates to their tax status as DGR entities or charities for others this appears driven by notions that purpose is compromised by the "for-profit" nomenclature.[3] While innovative structures are available such as the BOLD in the Xceptional Case Study, it is clear that organisations presenting to the Growth Grant are more often at a stage requiring long-term patient capital and that not-for-profit structures are often disadvantaged in securing this.

Figure 9: Grantees by Corporate Form



Source: Impact Investing Australia, 2021.

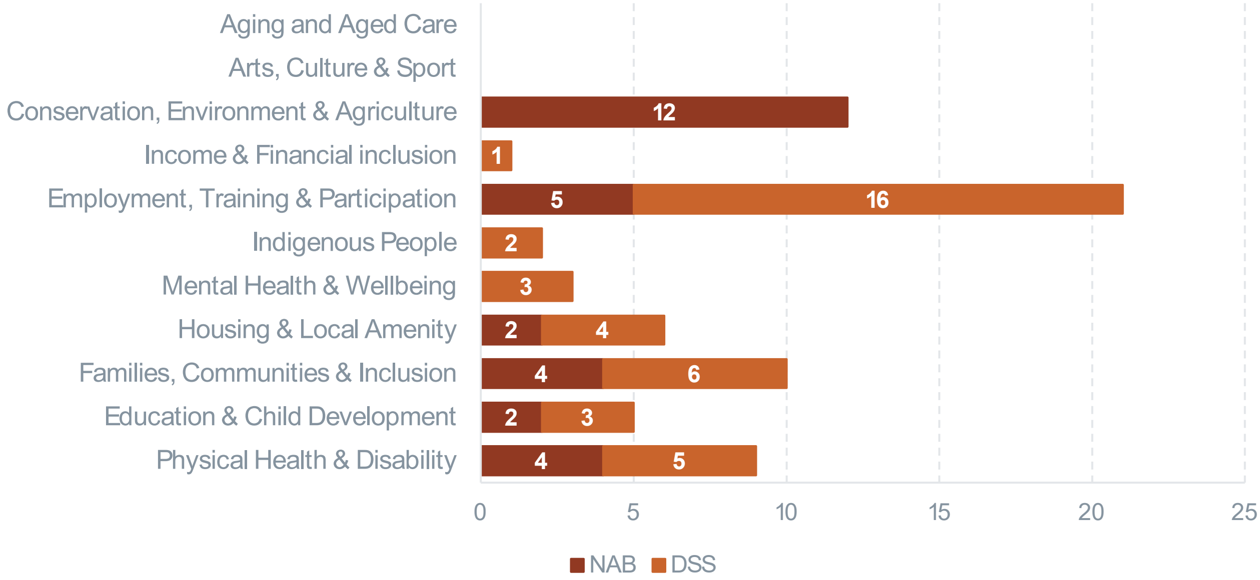
Grantees by Impact Area

Figure 10 shows the outcome areas of Grantees from the beginning of the Growth Grant program in 2015. As discussed above *Conservation, Environment and Agriculture* was excluded as a category from the DSS program. This has left a significant gap in the market due to the increasing awareness of climate change and the growing number of mission-driven organisations that have emerged to address this challenge. *Employment, Training, and Participation* is the most common outcome area among Growth Grant recipients. This in part reflects the applicability of this area to both not-for-profit and for-profit structures.

Many SEs also target *Physical Health and Disability*, reflecting the emergence of new service and housing investments in response to the policies reforms under the National Disability and Insurance Scheme (NDIS).

[3] We note here that the organisations for-profit or not-for-profit are seeking where possible to maximise funds (surplus or profit) directed towards impact. The difference is in the capital structures not the intentionality for impact.

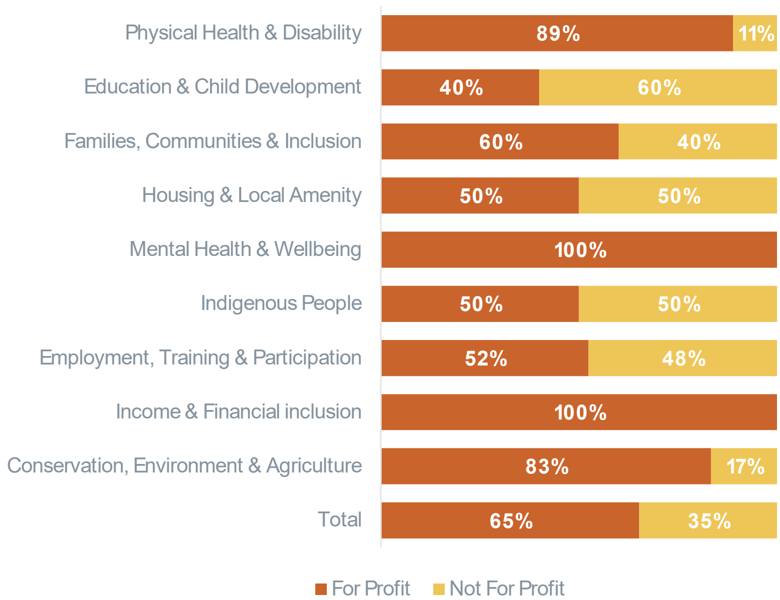
Figure 10: Grantees by Impact Area



Source: Impact Investing Australia, 2021.

The Growth Grant has a higher number of for-profit entities. **Figure 11** shows these have tended to skew to certain areas particularly *Mental Health and Wellbeing*, *Physical Health and Disability* and *Conservation*. The highest area for Grantee impact overall is *Employment, Training and Participation*. This has a relatively even split between for-profit and not-for-profit participation.

Figure 11: Grantees by Corporate Form and Impact Area

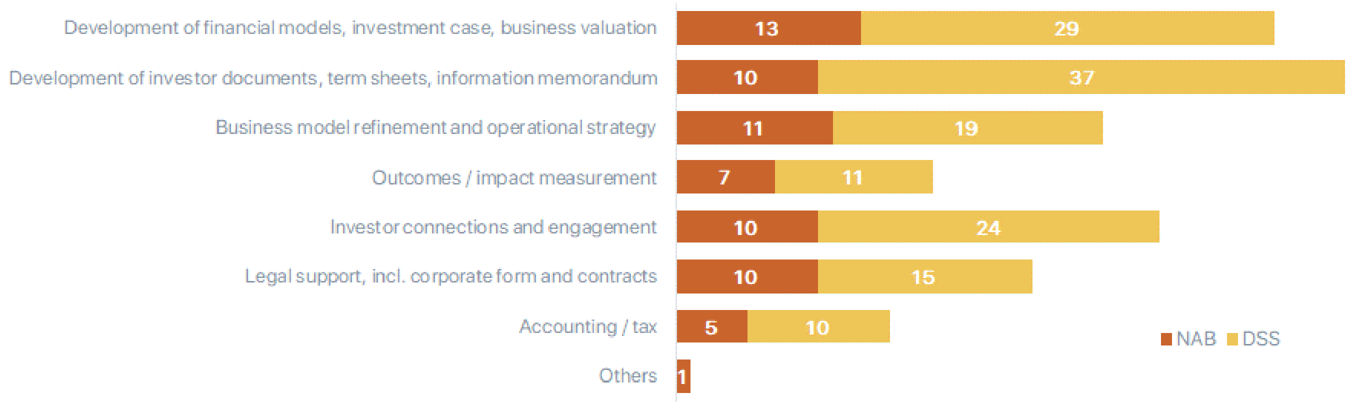


Source: Impact Investing Australia, 2021.

Grantees Capacity

Figure 12 indicates the types of Provider services which have been contracted by Grant recipients since the inception of the program. The most popular services include the *Development of investor documents, term sheets, information memorandums*, with a total of 47 organisations requiring this type of investment readiness support.

Figure 12: Grantee – number of services by type



Source: Impact Investing Australia, 2021.

The demand for services relating to the development of *Outcomes/impact measurement* frameworks was lower than for other services. This was not consistent with our assessment of Applicants' need for these services. Our observation is that this is a relative gap in capacity among SEs. A number of Applicants were unsuccessful in being awarded a Grant because they were not able to demonstrate any meaningful approach towards measuring the impact of their efforts. *Impact Measurement* was also one of the highest ranked skills that Grantees (who clearly demanded this service) indicated they gained as a result of participating in the Growth Grant. A common explanation for organisations not prioritising the measurement of impact is that organisations believe this can happen at a later date.

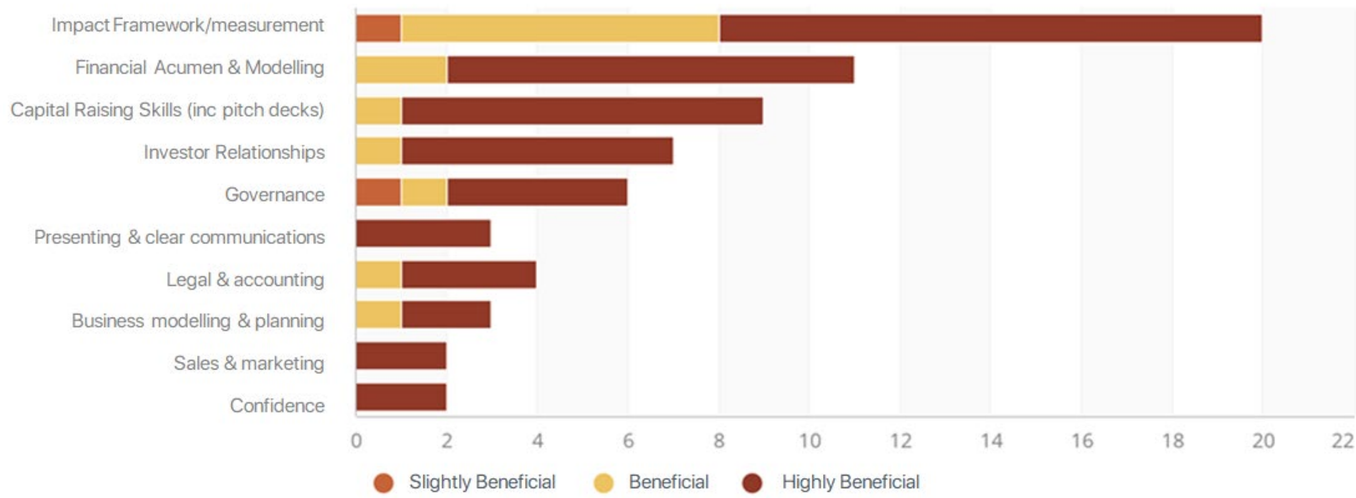
Some investors, as noted by Energy Renaissance, were not as interested, or motivated by the impact framework as they were by the financials. This could vary however by investor and in different impact/outcome areas.

Although the demand for every type of service has seen an increase over the course of the Growth Grant, the largest increase seen was in the contracting of services for the development of investor documents, term sheets and information memorandum. This may be attributed to the maturation of impact investing in Australia, the growing experience and sophistication of Providers and SEs applying for the Growth Grant and the expansion of investor types to more commercial realms.

Over time we would expect to see further maturation in the impact integrity requirements of investors and funders and as such greater need for capacity building in more sophisticated measurement requirements.

Figure 13 shows the types of skills reported by Grantees as a result of participating in the Growth Grant. *Impact measurement* was ranked the highest and most beneficial skill from both Grantees and Providers. This reflects a broad gap in knowledge and consistency towards impact measurement. The second highest was *financial modelling and acumen*. AbilityMade Founder Johan Du Plessis provided some insight into the immense value of financial modelling skills, sharing that one of the most difficult parts of their investment raising journey was the delays caused by investor due diligence affecting their sales pipelines and ability to remain clear with their financial figures.

Figure 13: Grantee Skills developed and level of benefit[4]



Source: Impact Investing Australia, 2021.

[4] Refers to number of Grantees who recognised they developed these skills – a number of Grantees developed more than one skill.

As part of the 2020 survey, Grantees also listed a number of services where they could have benefited from further support. These are listed in **Table 4** below.

Table 4: Additional Capacity building that would have benefited Grantees

Business	Finance	Impact	Investors
Legal support	More support around financial modelling, testing and valuation	Impact measurement tools and implementation	Investor relations
Strategic planning and development	Business valuation		Understanding in more detail the requirements of impact investors
Commercial expertise	Detailed capital offering options and how to access		Public speaking coaching
Product expertise e.g., software	Developing corporate three ways finance models		
Recruitment knowledge/on-boarding/people management			
Industry connections			
Risk management			
Commercial expertise			
Communications and strategy – political and philanthropic			
Peer support			
Branding and marketing advice			

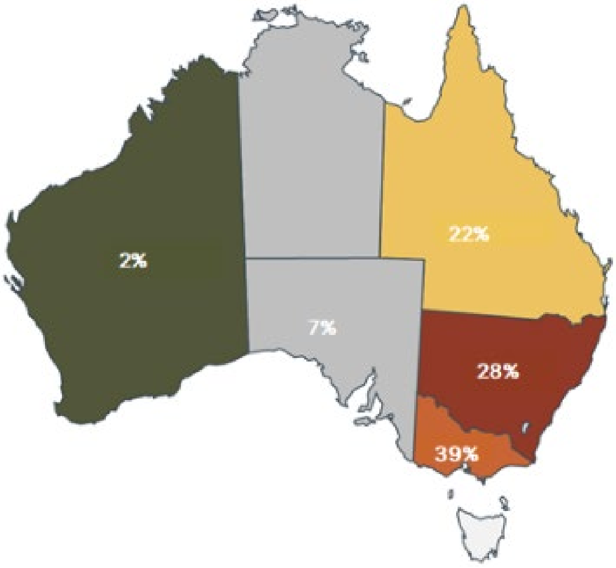
Source: Impact Investing Australia, 2021 from Growth Grant survey data.

Providers

Providers by State

Figure 14 shows the geographic distribution of Providers in Australia. It does not double count those Providers that have been involved with more that one grant who make up 13% of the total. A number of these multi-grant Providers reside in NSW hence explaining the disparity between the number of Grantees in that state being the highest (44%) with only 28% of Providers. Victoria is the state with the highest number of Providers (39%) with most of these being single grant Providers only.

Figure 14: Providers by Location



Source: Impact Investing Australia, 2021.

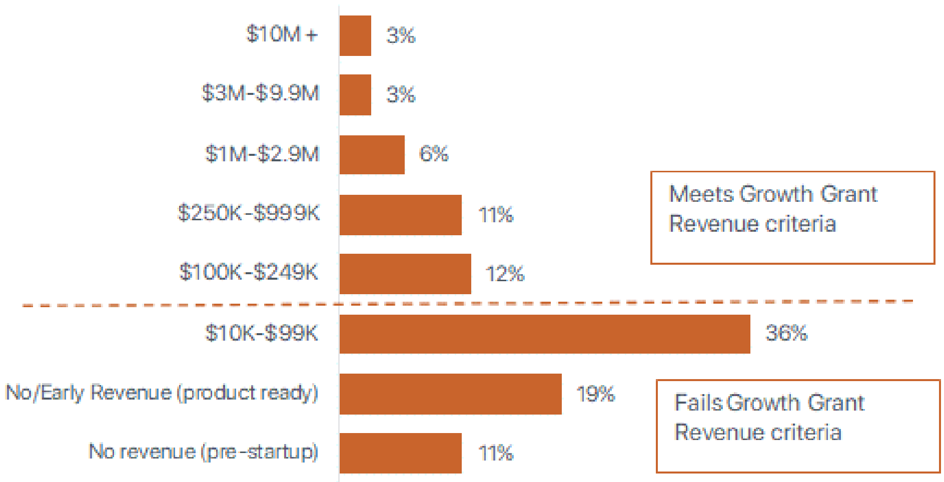
Over time a number of larger Providers have been involved in Grantee applications. These include Boston Consulting Group, Deloitte, KPMG and Minter Ellison. Initially these larger Providers focused on specialist legal or accounting services, but this has now expanded to fuller service offerings as their in-house capacity has grown. For the most part however, specialist impact intermediaries have been the main group of Providers with their main operating model being to employ full-time staff. Examples include *Impact Generation Partners*, *Social Ventures Australia, The Difference Incubator* and *Social Enterprise Finance Australia*. Other Providers such as *Social impact Hub* have adopted more flexible operating models with a few key employees and a broader body of "alumni" consultants to draw on as needed.

The best outcomes for SEs often see a longevity of engagement and a "mentor" type role between the Provider and their earlier stage clients. While Providers can and do work successfully across States, *Chrysalis Advisory* in SA being a great example, this can be more challenging particularly for smaller or less experienced Providers.

The recurring theme across both the Grantee and Provider data is the relatively low number of Grantees and

Providers in WA. The state-based specialist Provider in WA is *Impact Seed*. *Impact Seed* as part of the WA Social Enterprise Council ran a survey late last year to better understand the nature of the WA market. Preliminary findings from the 173 respondents show a relatively immature market with only 35% of SEs at the stage where they would be eligible for Growth Grant participation, **Figure 15**.

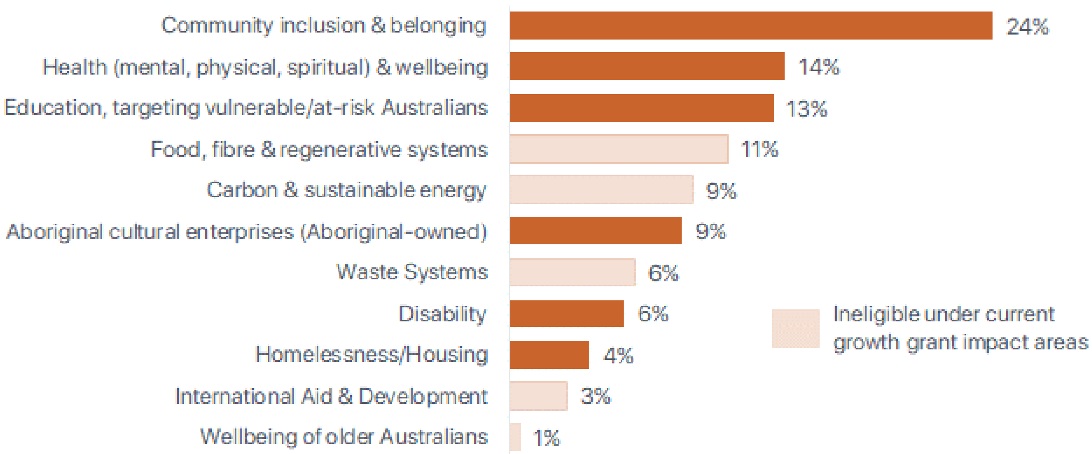
Figure 15: Revenue level of WA Social Enterprises



Source: IIA Adapted from data for Impact Seed and WASEC survey.

In relation to impact areas as found in other states, many SEs primarily focus on environmental impact or in impact areas that do not qualify for the Growth Grant. On this basis 30% would not qualify for the Grant, **Figure 16**.

Figure 16: Impact areas of WA Social Enterprises



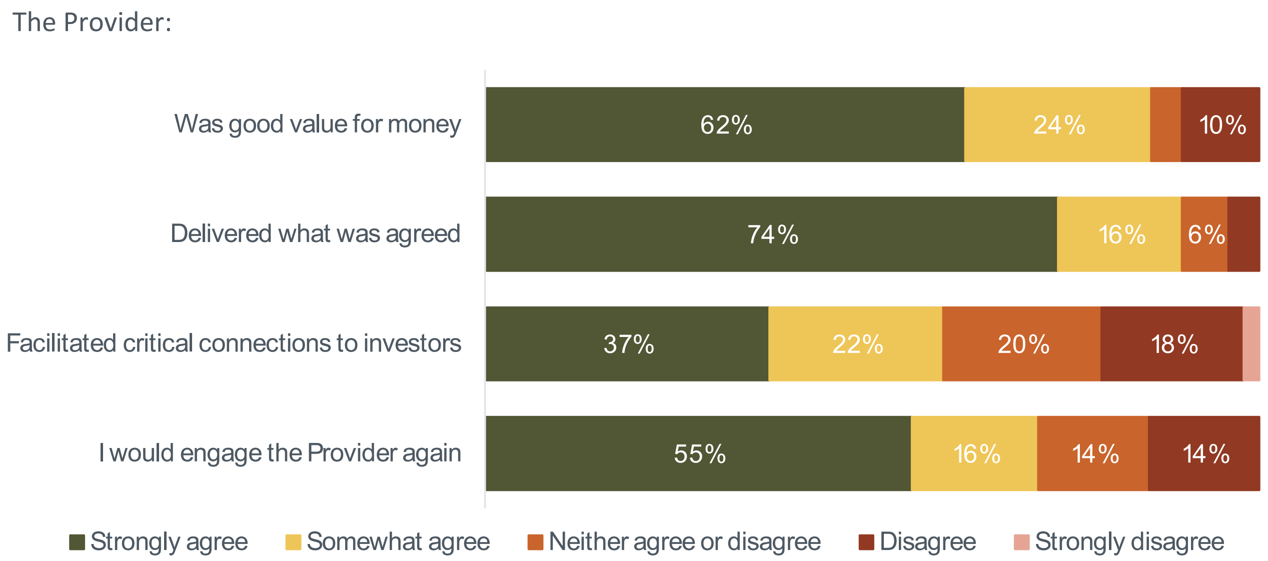
Source: IIA Adapted from data for Impact Seed and WASEC survey.

It becomes even more evident in less mature markets like WA that to support the ecosystem, earlier stage support is desperately needed. We address this in more detail in our recommendations.

Providers Results

Figure 17 shows the responses of 50 Grantees and their level of satisfaction with the investment readiness services of their Providers. Most Grantees36 strongly agreed or somewhat agreed that their Provider was *good value for money* and delivered what was agreed. Where this was not the case, reasons included Provider staffing and availability issues, relative experience levels of the SE compared with the Provider and a breakdown in the SE/Provider relationship. This underpins the importance of selecting the right Provider for an organisation's stage of development and needs, as well as ideally establishing a solid relationship before applying for a Growth Grant.

Figure 17: Grantee satisfaction with Provider outcomes



Source: Impact Investing Australia from survey data.

An important aspect for Grantees as noted above was connections to investors. While the majority of Grantees surveyed agreed the Provider had delivered this service, 45% did not. Of the organisations which have successfully raised investment and responded to the survey, 77% agreed that their Provider facilitated critical investor connections. This suggests the importance of this aspect of capacity building and support in capital raising success. This was consistent with feedback provided by mission-driven organisations such as AbilityMade, who shared that their Provider was instrumental in helping them to develop their outcomes framework, as well as facilitating critical investor connections.

The most successful Providers seem to combine experience in investment readiness, a strong network of aligned impact investors, an understanding of the specific needs of mission-driven organisations, and a commitment to the organisations they support beyond the close of the capital raising.

Our observation from survey findings and our experience running this program is that in the earlier stages SEs need more bespoke services such as financial modelling, business strategy development support, impact management and measurement frameworks or legal and accounting services. As organisations progress down the path to capital raising a more holistic approach and a broader set of services are needed to become investment ready. The Growth Grant provides the latter support, however at this stage there is very little assistance in the ecosystem for these earlier service requirements particularly as they may relate to areas like contract readiness.

Key Findings

A number of gaps in the market have been identified as set out in **Table 5**. Unsurprisingly these gaps are relatively consistent with those experienced in other international markets.

Table 5: Key Findings and Recommendations for further sector development

Findings	Recommendations
Heavy skew toward grant recipients in the eastern states (i.e., Victoria, NSW). This reflects disproportionate market maturity and intermediary capability in these areas.	Consider further incubator/accelerator program support for other state-based programs. This has worked particularly well in NSW with the Social Impact Hub run Scaling Impact program. Consider further support of market builders both within states and nationally. Those raising awareness or building social investment market tools or resources are typically chronically under funded. The Connect Fund established by Access and the Barrow Cadbury Trust (Case Study) is an example of where this market support has driven the sector forward.
Most unsuccessful Applicants are too early. There is a clear gap in support of these early-stage enterprises.	Consider development of an Early-Stage Foundation similar to the Access Foundation for Social Investment in the UK (Case Study) which provides both early-stage grants, loans, capacity building and mentorship. The grant with mentorship aspect is similar in concept to the programs run by the Nathan Cullen Foundation and the Myer Innovation fellowship (Case Study). This foundation could potentially be a partnership between the Government and philanthropy, although would need to be agnostic to corporate form (i.e., both for-profit and not-for-profit). Per the Access Growth Fund this could also be an effective mechanism to encourage blended financing models for early-stage support.
A number of funds designed to invest in SEs have applied to the program but did not qualify. These funds are very important to market development in terms of enabling more diversified investment and encouraging a broader set of investors.	In the first instance new SII funds need early stage working capital for establishment. This capital could potentially be provided by an Early-Stage Foundation through a program such as the Access Connect Fund. The establishment of an Impact Investment Wholesaler in a partnership between the Government and financial institutions could support the provision of seed capital to new and emerging SII funds. (Extensive detail on how this wholesaler could work is provided in our pre-budget submission Parts 2 and 3).

Findings	Recommendations
There is a hurdle to the use of blended finance in for-profit structures. Grants from foundations are constrained by only being available to not-for-profits with DGR status.	Government has a role to play in supporting the development of blended finance models in the for-profit for-purpose sector. The establishment of a grant fund (potentially as a complement to an impact investment wholesale fund) could facilitate the development of this market. Additionally, consideration could be given to extending PBI concessions and grant making to non-DGR recipients where impact can be substantiated. This latter aspect could be accomplished as a one off through an exemption for the Early-Stage Foundation.
With the new contract opportunities created through social procurement frameworks in states such as Victoria, a need has been identified to support SE contract readiness. Contract readiness may but does not necessarily require investment readiness.	The next generation Early-Stage Foundation built on the experience of the growth grant should include grant funding for contract readiness. This complementarity in the investment readiness and contract readiness can be drawn from the UK in its establishment of the Investment and Contract Readiness Fund. What this fund's evaluation does however make clear is that while some of the capacity building requirements between investment readiness (IR) and contract readiness (CR) (e.g., social impact measurement and management and financial modelling) are similar, CR requires very specific skills in tendering and bid writing. Linked to contract readiness is social procurement policy. We have seen some strong examples of the effectiveness of this in the Victorian context and see the opportunity as significant for a Commonwealth based social procurement framework.
Impact measurement and management capacity building is a challenge. This is for both SEs and Providers with many mainstream Providers still developing expertise in this area. SEs often struggle to identify metrics and there are often gaps in processes and culture which put at risk impact integrity and delivery. Many accelerator and incubator programs focus largely on business model fundamentals and sustainability and may not include impact training.	Consider funding for more bespoke training/capacity support that targets specific impact aspects (e.g., organisational structure, culture and diversity considerations, impact measurement, management frameworks and related process design). These could be made available to both SEs and Providers as appropriate. This could also be included in a more holistically focused Early-Stage Social Enterprise Foundation in recognition that bespoke capacity support including impact capacity development is often required on the path to a SEs investment or contract readiness.

The most significant of these gaps in terms of new policy is around contract readiness and earlier stage SE support. Not every SE requires or is capable of attracting investment to grow in the first instance. For many, they need to build capability through early-stage support to shore up a sustainable impact-driven business model before seeking capital. For others, investment may follow the securing of a contract, but the first key step is the contract. The skills required for contract preparation while having some areas of commonality with those for investment readiness also require significantly different expertise.

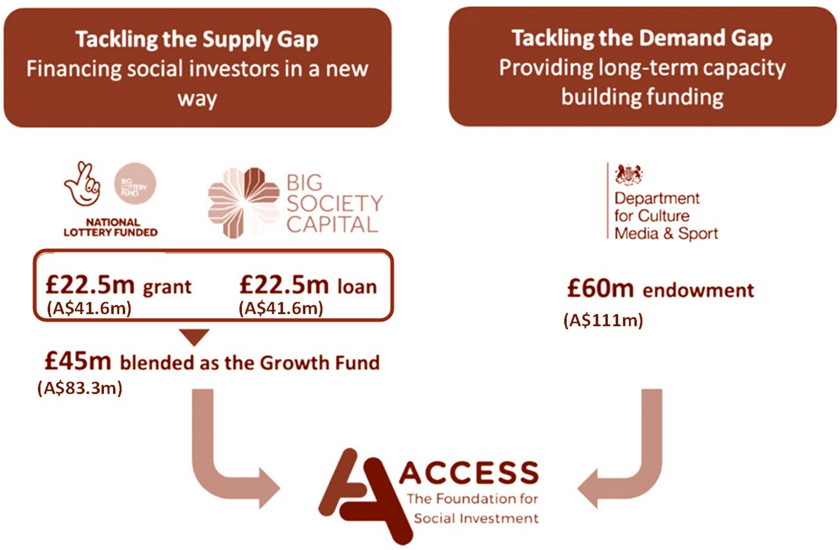
The case study of the Access Foundation provides an example of the kind of organisation that could be established in the Australian context as the next iteration of the Government's SRF program. This need to support early-stage social enterprises has already been picked up by the Australian Government as part of the Women's Economic Security Package, with $13.9 million being directed to support Indigenous women to start social enterprises, improving their safety and economic security. This initiative could be designed to lay the building blocks for a wider policy remit supporting broader early-stage social enterprise development.

Case Study: Access – The Foundation for SI

Access – The Foundation for Social Investment, Access, supports charities and social enterprises to sustain or increase their impact, by improving their financial resilience and self-reliance.

Access was set up in England in 2015 by three partners (the UK Cabinet Office, the Big Lottery Fund now the National Lottery Community Fund and Big Society Capital). It was initially tasked with developing programs to stimulate both demand for social investment funded through a £60 million (A$111 million) endowment from the UK Government and the supply of appropriate finance. Its supply side capital managed through the growth fund is a blend of grant funding from the Big Lottery Fund and debt from Big Society Capital. Across both these aspects of its work Access seeks to use grant subsidies to help build the social enterprise market. Access has an expected life of 10 years.

Figure 18: Access' initial mandate: tackling the supply and demand gaps



Source: Access Foundation website accessed 21/06/2021.

In its first four years Access focused on the components of demand and supply and the ways in which it could stimulate these aspects of the market. We examine its approach and findings below.

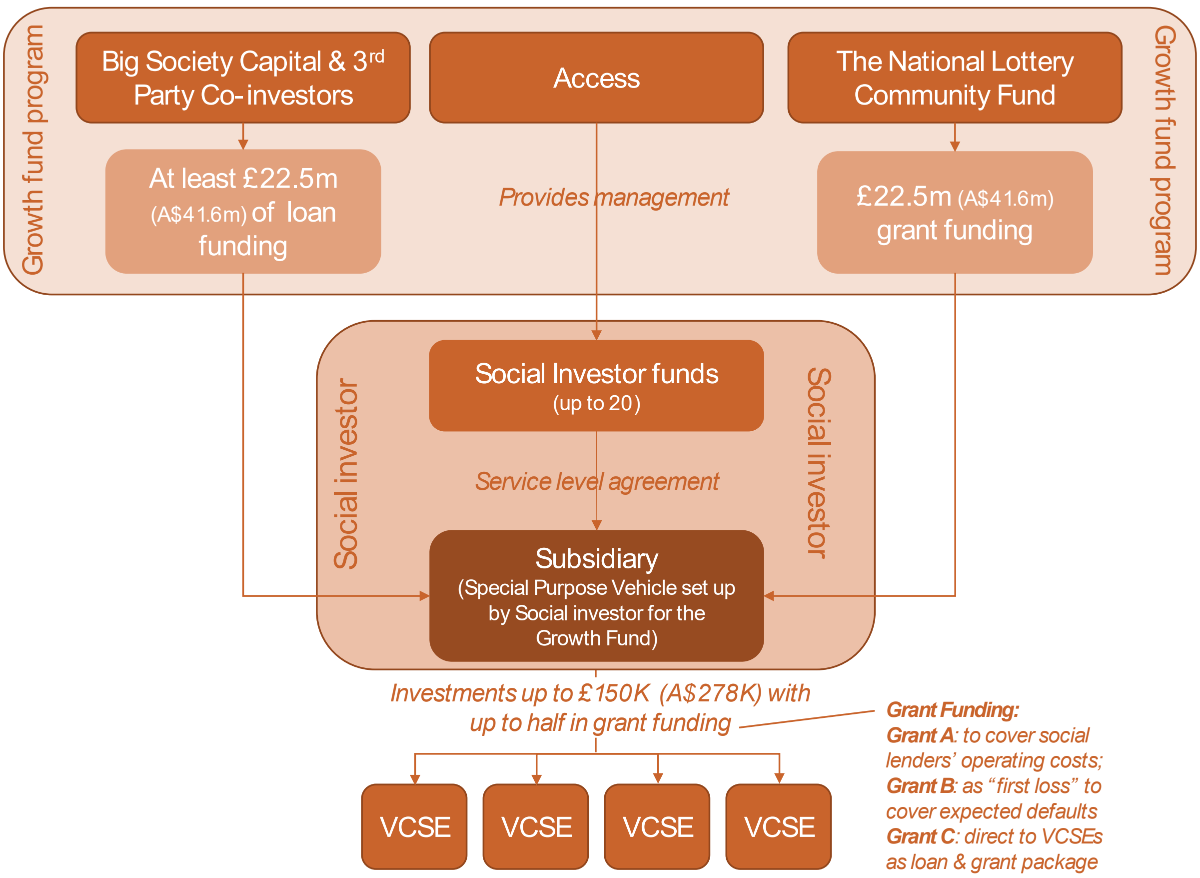
Addressing the Supply Gap

The Growth Fund

Prior to the launch of the Growth Fund, surveys from the UK market[vi] had identified that a gap in the supply of funding still existed for smaller loans (<£150,000, A$278,000) with suitable terms, such as needing to be unsecured.

The Growth Fund was set up by Access as a fund of funds to address this gap. It was aimed at Voluntary, Charity and Social Enterprise Sector organisations (VCSEs), in their early stages of growth or to those looking to sustain their activity, as well as to organisations whose risk profile or trading history would normally exclude them from both the social investment as well as commercial loan market. **Figure 19** shows the structure of the growth fund, a combination of grants and loans with the loan component repayable to Big Society Capital at an interest rate of 5%.

Figure 19: The Flow of Capital of the Growth Fund



Source: Access Initial Evaluation Report (IIA adapted).

By the time the Growth Fund's portfolio was fully committed in 2018, it had seeded 16 funds across 15 social investors totalling £50 million, (A$92.5 million). The majority of these were new investors, spread around England, offering a range of efficient approaches, innovation and reach into the sector. By the end of 2018, nearly 250 loans had been made; to social enterprises (more than half with turnover less than £250,000, (A$463,000)); at the right funding sizes (average investment size was £64,000, (A$118,000)); for the right purposes (to support the development of trading activity); in almost all parts of England. The program was responsible for nearly 30% of all social investments made that year. Excluding the Growth Fund, the median investment size in the market was £250,000, (A$463,000) and was increasing.

Figure 20 shows the most recent statistics for the Growth Fund. The Growth Fund is now invested through 14 intermediaries and has made investments to 545 SEs. Most of the investment has gone to scaling up existing activity, sustaining business as usual (through COVID) and refurbishment.

All 11 of the social investors interviewed as part of the initial evaluation report for the Growth Fund expressed their interest in either carrying on their work as social investors or acting as a pathfinder for others to follow after the Growth Fund. Their collective view was that providing loan and grant packages of below £150,000 (A$277,556) is essential to the VCSE sector.

Addressing the Demand Gap

Following an extensive consultation, Access took a three-pronged approach to its initial capacity building with the launch of the Impact Management Program, Access' support for Good Finance and the establishment of the Reach Fund.

The Impact Management Program

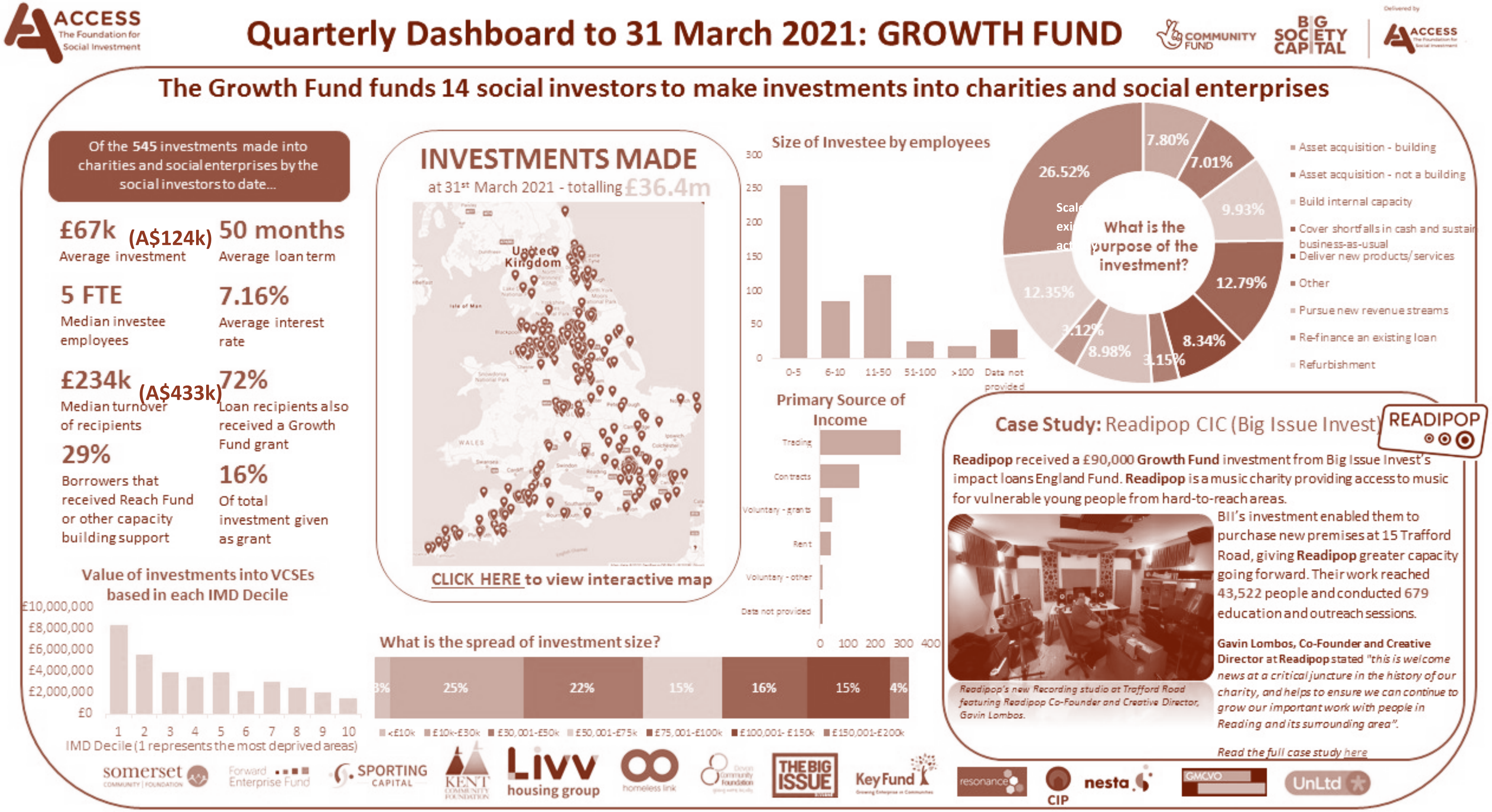
The Impact Management Program ran from 2016 to 2019 and offered support for charities and SEs looking to develop their capacity to measure, report, grow and potentially 'get paid for' their impact. A partnership led by New Philanthropy Capital delivered this program which was co-designed by the sector to ensure it was user-friendly and reflected organisations' needs. The program provided tools, resources, held events and had a grant pool of £1.8 million to support charities and SEs who were seeking investment or contract opportunities and looking for support with impact management.

While the program is still being extensively evaluated, the question it raised was whether a lack of impact management capacity is really a major contributor to charities and social enterprises raising investment, especially when compared to the need to develop a sound revenue model. Our experience in running the Growth Grant program is while impact management is important it is only one of many factors determining investment readiness and is best combined in a more holistic program offering.

Support for the Development of Good Finance

To address the major challenges experienced by charities and social enterprise in navigating the market, Access supported the development of Good Finance in partnership with Big Society Capital. In the first three years the website and events reached over 74,000 users and detailed nearly 80 investors and advisors.

Figure 20: The Growth Fund – Key Statistics

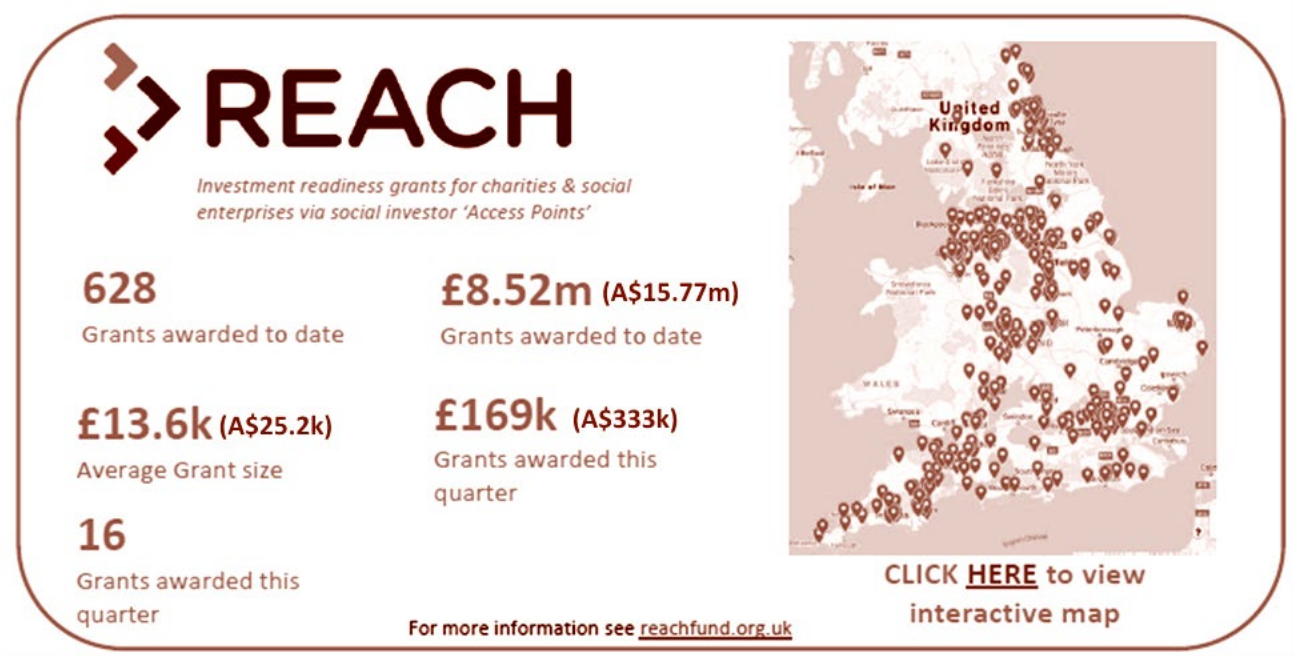


Source: Access Foundation website accessed 21/06/21.

The Reach Fund

The **Reach Fund** was launched in 2016 to help charities and social enterprises who would like to take on investment but need some specific support to do so. The design of the program was informed by several previous investment readiness programs and aims to give VCSEs as much control as possible in shaping their investment readiness plan with direct input from the investors. Social Investment Business was selected to run the program which has now awarded over 628 grants or £8.52 million, (A$15.77 million) at an average grant size of £13,600, (A$25,200), **Figure 21**.

Figure 21: Reach Fund – Key Statistic March 31, 2021



Source: Access Foundation website accessed 21/06/2021, adapted IIA.

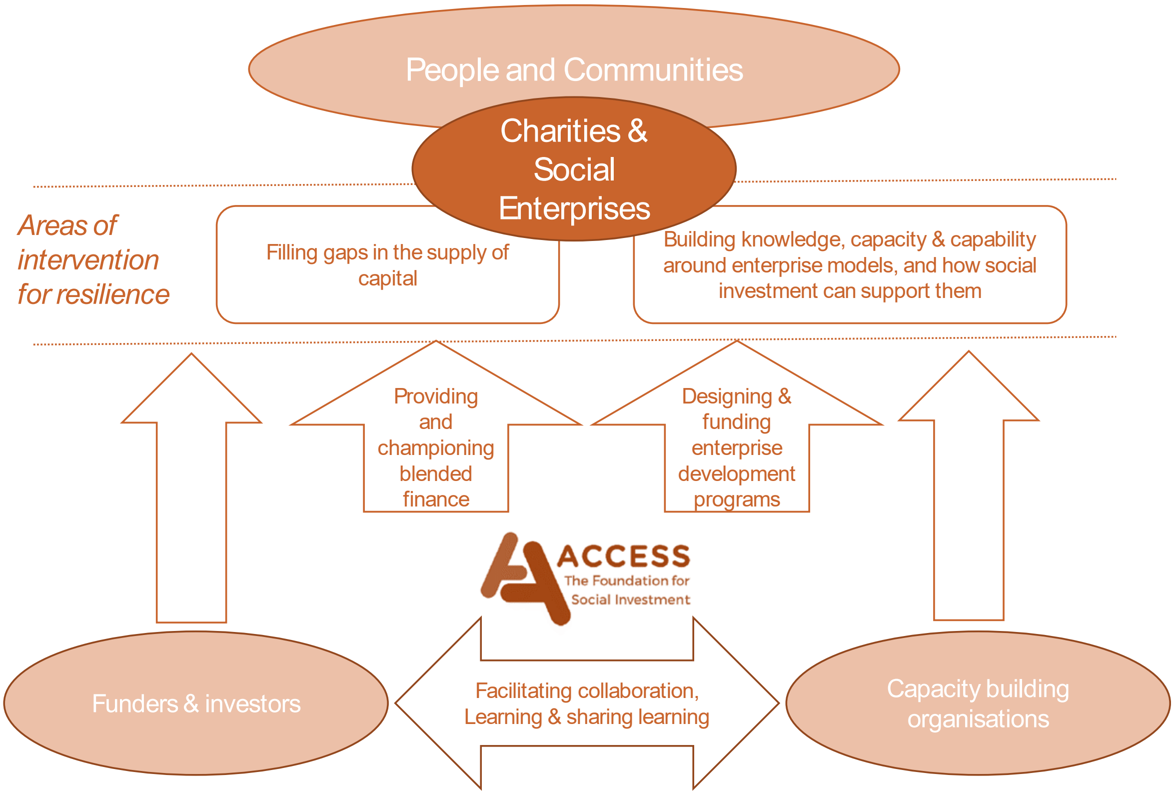
The Connect Fund

In 2017, **The Connect Fund** was established in recognition of the importance of market builders and infrastructure. This program is a partnership between Access and the Barrow Cadbury Trust using 10% of the endowment to support social investment sector infrastructure. This includes building networks, products and tools. To date, £2.4 million, (A$4.4 million) of grant funding has been awarded to: local infrastructure organisations (32%); social Investment intermediaries and advisors (38%); and network/membership organisations (30%). Almost 4,000 hours of enterprise development support has been delivered, 2,130 VCSEs have been reached directly and 241 new networks, collaborations or partnerships have been formed. Our recommendation for a similar vehicle for Australia can be found in our pre-budget submission (2021) Part 4, Recommendation 5.

Access Pivot

In early 2018, based on learnings from its previous strategy, Access reframed its theory of change from a focus on demand and supply to one focusing on the role enterprising activity can play in sustaining the resilience of charities and SEs, **Figure 22**.

Figure 22: Access – Reframing of Strategic focus



Source: Access Strategy Plan 2018-23 (IIA adapted).

As part of this pivot and reframed theory of change Access identified three board stages of organisational development as the focus of its interventions: earlier stage enterprise development, investment readiness and the provision of smaller scale blended finance. While continuing with the Growth Fund, the Reach Fund and the Connect Fund, Access launched two new initiatives: the Local Access fund and the Enterprise Development Program.

Local Access Fund

Local Access provides development finance for place-based initiatives in disadvantaged geographies, aiming to build more resilient and sustainable social economies in those regions. It is funded by £10 million, (A$18.5 million) of dormant bank accounts money and a £15 million (A$27.8 million) loan from Big Society Capital.

In January 2020, the first six regions were chosen to participate in the program. In each place, a partnership has come together and developed a widely shared vision for the growth of the social economy. These partnerships are unique to each place, but commonly represent social enterprises, local authorities and local sector infrastructure organisations. The program will deliver even more patient and long-term investment products than have been available from the Growth Fund. It will incorporate that fund's learnings, especially in the context of place-based investment.

> "We have learned from our work over the last five years that developing viable enterprise models in charities and social enterprises is a key way to build resilience. It is also a precondition of being able to utilise social investment."
>
> Seb Elsworth, Chief Executive, Access – The Foundation for Social Investment

The Enterprise Development program

Targeted at early-stage enterprise development with £40 million of funding over five years. The Enterprise Development program pilot (2019) targeted two sectors: youth and homelessness. It has now been extended to mental health; equality, environment and black and minority communities. Each sector has a lead with deep sector-specific knowledge and expertise. The two streams of the program include: 1) Grant funding administered by Social Investment Business and 2) Learning run by the School of Social Entrepreneurs. This two-pronged approach to support is designed to help SEs get new ideas off the ground, transition to new enterprise models, or grow existing ones.

As the data in this report has demonstrated the Growth Grant has been a hugely beneficial initiative in the Australian SE ecosystem. However, the Access Foundation case study demonstrates the benefits of a more holistic approach to SE development that meets these organisations where they are in terms of maturity and needs.

These international examples support Impact Investing Australia's long-held **recommendation that the Australian Government develop a broader and multi-function SE growth fund ($40 million) similar to the Access Foundation in the UK which is co-funded with philanthropy and/or corporate sponsorship ($20 million) and provides capacity building, mentorship, contract readiness support and earlier stage capital (eg. grants, concessional loans, equity) for SEs prior to the point at which they can raise more commercial investment.** This could also support earlier stage impact investment fund design with an arm like the Connect Fund.

The value to a SE of good support along the way is perhaps best demonstrated by the example of Hireup in the following case study.

Photo courtesy of Hireup

Case Study: Hireup & the Myer Foundation

The Myer Innovation fellowship was launched in 2014 and was built on a similar model to the Nathan Cummings Foundation Fellowship in New York. Supported by the Myer Foundation and the Sydney Myer fund, the Myer Innovation fellowship program offers funding to support exceptional leaders with breakthrough ideas. The area of leadership supported by the fellowship must be in education; poverty and disadvantage; sustainability and environment; or human, civil and legal rights. Like the Access Foundation, the Myer Innovation Fellowship brings together grant funding and capacity building to support its fellows. It includes:

- **a funding component** – up to $150,000 across 12 months, $120,000 for the development of the ground-breaking idea into a sustainable plan for action, and $30,000 for expenses
- **a capacity building component** – fellows have access to a support panel (experts able to help with the development of the proposed idea), Myer networks, Myer family members and program staff with relevant subject area expertise and use of The Myer Foundation board room. The additional $30,000 for expenses can be used for contracting of external expertise.

To date 24 fellowships have been awarded.[vii]

The for-profit and for-purpose online platform Hireup was built off the back of the NDIS. It seeks to revolutionise the way people with disability find, hire and manage support workers by harnessing technology and connecting people with shared interests. Still a relatively young SE, Hireup has navigated the path to scale and grow. Jordan O'Reilly, one of the co-founders of Hireup, was a recipient of a Myer Innovation Fellowship which provided both funding and mentorship at the early stages of the company's development.

Ultimately this enabled a connection to the intermediary, Impact Generation Partners, and receipt of an Impact Investment Ready Growth Grant to help support the capacity building for Hireup's first capital raising. Jordan and his co-founder and sister Laura O'Reilly have since gone on to win several other awards. Hireup now has over 200 employees and has made 60,000+ support connections, resulting in 7.5 million hours of support and savings to its users of $70.1 million.[viii]

The Hireup story is an impressive one. There are however only three Myer Innovation Fellowships awarded each year and many hundreds of applications. Establishing an Early-Stage Foundation like the Access Foundation could support hundreds of social enterprises with both investment funding and intermediary sourced capacity building over a 10-year period. Like the Growth Grant this would support both SEs and related intermediary market development.

Developing Capacity in SE Contract Readiness

We have discussed at length the benefits of moving SEs toward investment readiness, but a number of these organisations also need to be contract ready to enable them to become sustainable and grow. New contracting opportunities for SEs are growing. This has been driven by increased demand for contracts that deliver both economic and social value in public social procurement and within the private sector.

Contract readiness support is required by SEs to be better prepared to successfully compete for and deliver public, private and non-profit contracts. **Contract readiness means the ability to effectively identify, tender and manage contracting opportunities with the public and private sectors.**

Photo courtesy of Vanguard Laundry Services (Purpose Enterprises).

Vanguard Laundry Service (VLS) now part of Purpose Enterprises is an example of an organisation which participated in the Growth Grant and needed to be contract ready before becoming investment ready and successfully raising capital. VLS operates a commercial laundry in Toowoomba employing people who are long-term unemployed and living with mental illness.

According to Founder, Luke Terry, there was a "*clear sequence to the funding*" the first part of which was the anchor contract with St Vincent's Hospital[ix].

VLS had the support for contract readiness from Social Ventures Australia. Alex Oppes, who led SVA's work has commented that when they were first approached VLS "*was not yet established".* SVA helped with building a financial model and contributed an early grant to hire a specialist consultant. They were also involved in guiding the negotiations on the contract. Typically, SVA would not be involved at such an early stage but they "*knew Luke very well and banked on the contract.*"[x]

The principles that informed the Access Foundation were built on previous case studies and experience including from the UK Investment and Contract Readiness Fund (ICRF). This demonstrated that support for contract readiness can drive SEs to the next stage of growth and support the demand for social value. One such example was FCMS, a UK SE providing urgent health and wellbeing services that had been previously unsuccessful in securing a large-scale contract. Using a £50,000 ($A93,000) grant from the ICRF, FCMS was successful in securing an £8 million (A$15 million) contract. While FCMS had a good track record in service delivery, they felt the ICRF-funded support made a "phenomenal" contribution on the financial modelling aspect of their bid, making it more robust and detailed.[xi] Efficacy of the contract readiness component of the ICRF was high with every £1 spent on contract readiness delivering on average £23 in unlocked contract wins.[xii]

Contract readiness also cuts across another aspect of impact investment, Social Impact Bonds (SIBs). SIBs require significant technical assistance in the tender process and often involve high transaction costs. This can act as a deterrent to already highly stretched social sector organisations and specialist intermediaries to provide the services to enable bidding into these contracts. Support through a well-designed contract readiness program could ease this burden and encourage participation. Support for technical capabilities and capacity building to help SEs secure contracts drives scale, with or without the related need for investment.

The support mechanism for contract readiness through an early-stage SE fund could largely mirror that of the existing Impact Investment Ready Growth Grant while recognising that a specialist panel would need to be appointed to assess contract readiness and the technical assistance required. This reflects a finding in the evaluation of the UK ICRF that often SEs seeking contract readiness support needed a discrete piece of technical support while those seeking investments required longer and more substantial support. This suggests contract and investment readiness support need to be assessed differently to each other. Recognising they are often interlinked and considering cost efficiencies, it is recommended that a contract readiness program be run in the same fund vehicle as an investment readiness program.

Adopting Social Procurement

The final key area which could significantly support the social enterprise sector is in the establishment of social procurement policies. While often this is thought to be the domain of governments there are other larger scale procurers such as tertiary institutions or major corporations that could also consider social procurement as part of a shared value approach.

Social procurement occurs wherever purchasing is purposefully linked to a social objective.[xiii] It is distinguished from conventional procurement by its recognition of the additional social value arising from buying from for-purpose suppliers. It is broadly defined as the acquisition of a range of assets and services, with the aim of intentionally creating social outcomes.[xiv] This can be:

- **directly:** buying goods and services directly from social enterprises, and
- **indirectly:** purchasing from mainstream suppliers, with requirements to deliver social and/or sustainable outcomes. This could be by using invitation to supply or inclusion clauses in contracts or requiring involvement of SEs through the supply chain (e.g., as subcontractors).

Leveraging Government's buying power

The Australian Government is a large-scale procurer of services and products. The last financial year (2019-20), the Australian Government published 81,174 contracts on AusTender worth a combined value of $54 billion.[xv]

The Australian Government already has experience in leveraging its buying power through other measures designed to leverage Government procurement for targeted outcomes. For example, encouraging participation of small and medium enterprises more broadly through:

- the commitment to source at least 10% of procurement by value from small and medium Enterprises (SMEs), and
- an additional commitment to source at least 35% of contracts valued up to $20 million from SMEs.

As a result of these combined measures, the value of contracts sourced from SMEs reached 25.2% in financial year 2019-20.

Other examples where the Australian Government has leveraged its procurement including through the following:

Indigenous Procurement Policy (IPP)

A mandatory procurement policy for Australian Government portfolios is designed to leverage the Australian Commonwealth's annual multi-billion procurement spend to drive demand for Indigenous goods and services, stimulate Indigenous economic development and grow the Indigenous business sector. Targets are set at 3% of the number and 1% of the value of Commonwealth and portfolio accessible contracts. Since 2015, the IPP has generated over $3.5 billion in contracting opportunities for Indigenous businesses. This has involved over 24,470 contracts awarded to more than 2,140 Indigenous businesses.[xvi]

Workplace Gender Equality and Procurement

Under the Workplace Gender Equality Act 2012 (the Act) non-public sector employers with 100 or more employees in Australia must supply a letter of compliance with their tender submission or prior to contracting with the Australian Government. The Workplace Gender Equality Agency maintains a list of non-compliant organisations who may be excluded from tendering or securing grant financing from the Government.[xvii]

Further details of state-based social procurement policies can be found at **Appendix 1**.

The impact of a good social procurement policy can be seen for one of our Grantees, Knoxbrooke Enterprises.

A not-for-profit SE, Knoxbrooke, through its disability services organisation, Yarra View Nursery (YVN) provides employment to people with intellectual disabilities. YVN assists people to realise their full potential in a supported employment environment, giving them skills, confidence and opportunity.

Photo courtesy of Knoxbrooke Enterprises.

Knoxbrooke has won contracts to supply plants for several government projects including: *Mernda Rail Project; Western Program Alliance; Southern Program Alliance* and *North East Program Alliance*.

> "Victoria's Social Procurement Framework has been critical for the growth and sustainability of Yarra View Nursey and has enabled the empowerment and development of people living with disability."
>
> Scott Buckland, GM Knoxbrooke Enterprises

In 2020, Knoxbrooke provided employment and training services to over 150 people living with a disability. Over 150,000 hours of paid employment was provided alongside 7,000 hours of accredited training and 5,000 of onsite work-based training.[xviii]

The definition of what constitutes a social enterprise in the context of a social procurement policy is important. The definition needs to be inclusive and encompass both for-profit and not-for-profit entities that are delivering social outcomes. It must not however be so broad that the policy loses its substance and intentionality. A hurdle requirement could be a formal articulation of the for-purpose nature of the entity within its constitution.

The power in purchasing for government, large organisations and institutions is clear. Constituencies and consumers are now demanding more transparency around this reflected in changes in regulation such as the Modern-Day Slavery Act requiring businesses to monitor, report and address risks of modern slavery in their operations and supply chains. Moving to consider the social and environmental implications of purchasing policies is becoming more important and formalising the inclusion of SEs in considerations will be of benefit to both the SE sector and the purchasers.

PART THREE

The Stories

“The truth of the powerful and irresistible story illustrates in a way data can’t begin to capture. It’s the stories that make you understand.”

Carl Sessions Stepp

In PART THREE, we bring life to the stories behind the data. We interviewed four social enterprises, two Providers and some of our panel members who shared their insights and experience around reaching investment readiness, raising capital and scaling impact.

Xceptional is a technology service company that offers employment opportunities for people with autism, harnessing their strengths to provide software testing to companies.

Only 34% of autistic people currently find work, yet many autistic people have highly desirable skills for tech companies looking for people with enhanced pattern recognition and sustained concentration. Xceptional founder Mike Tozer set about empowering autistic people by tapping into these skills.

Mike had witnessed the barriers his sister Sarah had faced finding and maintaining employment and wanted to create a workplace where she and other autistic people could utilise their skills and feel supported.

“I knew Sarah would be a great employee, but she was struggling to find a work. She has an amazing memory and follows instructions with incredible determination.”

The Grant

Using the Growth Grant, Mike engaged Jess at the Social Impact Hub who gave him and his team the support they needed to develop financial models, an impact metrics framework and investment memorandum.

> "We quickly learned there was more to finance than a profit and loss statement. Our advisors helped with forecasting and financial modelling which we are now using across our business to help with planning."
>
> Mike Tozer, Founder – Xceptional

The Investors

At the end of 2019 after multiple rejections and countless setbacks Mike was ready to give up. "It's not Silicon Valley here. It just doesn't work like that." But he was not prepared to make trade-offs for a big capital injection, believing "investors had to accept our mission."

With support from Social Impact Hub, they took their sound business model and developed a compelling investment memorandum and set about finding investors with shared values.

Then with the backing of Impact Investment Group (IIG), Xceptional secured $100,000 in equity and $500,000 through a loan vehicle which incentivises businesses to grow their social impact.

Under the agreement, interest rates are tied to the level of social impact delivered by Xceptional and repayments are a share of revenue. Xceptional has business and financial incentives to achieve, and the loan reduces based on the scale of their social impact.

Using Xceptional as the test case, IIG has developed and launched this new financing tool – Beneficial Outcomes Linked Debt (BOLD) – to reward businesses who are achieving a strong, positive social impact.

Intrinsically linking the cost of debt to social outcomes like this is a big shift.

Adapting to COVID-19

The Xceptional team acted swiftly to ensure their staff and clients felt supported during the lockdowns associated with COVID-19 – implementing new processes and managing workloads remotely.

Many of their people prefer to work from home, so they embraced it and prepared a guide for employers who were managing the transition with autistic workers.

Rapid change like this can be difficult, especially for autistic employees so the Xceptional team is doing all it can to minimise the stress and confusion in an already difficult time.

> “This shift to remote working will be a big step forward for many neurodiverse people, especially in the longer term when things settle down.”

The Impact

Xceptional has scaled up and expanded into recruitment services, placing people in roles from data analytics to cyber security. This expansion was driven by customers who were keen to access the skills of this previously untapped resource for their own workplaces.

Mike and his team are already seeing the positive impact of their business, creating meaningful careers, independence, and better social wellbeing for over 400 people with autism.

Xceptional continues to grow and achieve commercial success but its primary focus is on delivering positive outcomes for people living with autism. “The more we get it right for the people we support, the more the organisation will grow, and I believe that is a great thing.”

Impact area	Grant	Capital raised	Leverage
	$70,000	$600,000	8.5x

Insights from the Intermediary

Q&A with Jess Roth, Social Impact Hub

You have supported several investment ready Grantees. What is the most important contribution you make to their journey to grow their business and scale their impact?

There are so many ways we help social enterprises prepare for investment. We use our networks to open doors and secure investors but most importantly we ‘have their backs’ throughout the journey as they grow their business and scale their impact.

What are three things an impact-driven business needs to tick off before they are ready for investment?

Three of the most important things are a clearly articulated and demonstrated positive impact, a business structure and model able to scale and sustain impact through growth, and an understanding of the nature and size of the investment needed.

What are the characteristics of an investable enterprise?

In addition to the usual features of investability (potential to generate impact and financial returns, good governance, and a great team), an investable enterprise often conveys an 'X factor' – something that makes investors believe in the enterprise's vision and in the enterprise's capacity to deliver on the vision.

There is often a sense of excitement about the enterprise – a sense of right people, right model, right impact, and right time. Many industries are going through rapid transformation and others are ripe for disruption – the entrepreneur needs to convey why this is the right time for their solution.

What do you look for in selecting clients to work with?

That X factor! Plus, we look for entrepreneurs who are contributing to creating the world in which we want to live. We need to believe that we can help them become investable and successfully secure investment. We also look for entrepreneurs who are willing to listen, take advice and work collaboratively.

You helped Mike and his team at Xceptional get impact investment ready. How did you go about preparing them and how long did it take to raise the capital?

We helped Xceptional with their business plan, governance, forecasting, building their theory of change and their capital strategy, introducing them to impact investors, finalising the documentation for investors, and ultimately successfully raising equity and debt through a unique debt instrument – the BOLD (Beneficial Outcomes Linked Debt). This instrument ensures Xceptional is incentivised to scale impact.

Raising investment almost always takes longer than forecast. It took eight months to get in principle investor commitments, and then another three months to close the deal.

Many of the enterprises you work with have been impacted by COVID-19. How have you helped them adapt to survive, and for those who can, embrace opportunities?

In April 2020 we partnered with the Westpac Foundation and Social Traders to launch a pro bono business support program for social enterprises impacted by COVID-19.

We have matched over 50 social enterprises with volunteers who have been able to provide support with everything from pivoting products or services to respond to the crisis, to developing online capabilities, effectively leading, and managing people, and revising strategies to respond to emerging opportunities.

Case Study: Circle In

Circle In is an employee engagement platform designed to support working parents, enabling them to feel connected, engaged and supported.

The platform was the brainchild of Jodi Geddes and Kate Pollard who shared similar experiences of disconnection to their workplace and a lack of confidence when they returned to work after having children.

Juggling children and a career can be stressful. Recognising this Jodi and Kate went about finding a way that people returning to work would not be subjected to diminished work and pay opportunities and employers could retain their talent and encourage diversity among senior ranks.

Once they had validated the gap in the market Jodi and Kate established a platform to help address barriers for working parents and their employers and in 2017 Circle In was launched.

The Learnings

Jodi and Kate had worked in large corporations in senior roles, which provided them with a good commercial grounding, but it did not fully prepare them for the journey ahead.

"It was all unknown, everything was new – new terminology, new lawyers, new governance documents, new financial models, but that's how you learn."

The co-founders found a mentor, another founder several years ahead of where they were and learned from him. "You need to learn from someone who's been through the journey."

The appointment of an independent financial advisor was another important milestone. "Our financial advisor coached us through the process and acted as an all-important independent voice."

With their mentor and financial advisor in place Circle In secured their legal team, using their grant money to appoint lawyers with the expertise they needed in capital raising. The team helped them with their term sheets and governance issues and made the capital raising process relatively painless.

One thing Jodi was not prepared for was the loneliness that can arise for founders as they raise capital. "Everything is commercially sensitive and highly confidential, so we found ourselves unable to talk to anyone. It's actually a very lonely experience."

> "You have to be okay with jumping into the unknown and getting comfortable with being uncomfortable."
>
> Jodi Geddes, Founder – Circle In

The Investors

Circle In quickly sparked the interest of investors with their big brand client sand savvy co-founders.

Circle In has successfully raised $1.5 million backed by Australian venture capital firm Our Innovation Fund and are already on their third capital raising in just three years.

"We knew how important it was to sign-up well-known clients early on. We secured L'Oréal and Medibank as our founding partners who provided a level of credibility that you just can't buy."

Jodi likens the experience of raising capital to entering a relationship. "It comes down to a gut feeling and wanting to work towards the same vision." But doing due diligence on investors is also important. Jodi would often ask them if they had invested in female founders before. "They're interviewing you, but you're also interviewing them."

Potential investors will first look to the founders, so it is no surprise that with Jodi and Kate's experience and professionalism they have investors actively seeking them out. Just recently they were approached by an investment company who had been keeping an eye on their rapid growth.

Jodi and Kate continue to talk to their investors every couple of days.

> "We're not even raising at the moment, but you never close the door on an investor, and you should always keep conversations open."

The Impact

Circle In is building inclusive workplaces but Jodi and Kate hope that the broader impact of their platform will mean more females will stayed connect, feel supported and take on leadership positions.

Collecting, measuring and interpreting data about their impact is key to driving change.

"Data is king as it allows us to assess the broader impact of what we're doing, both from a community and business perspective."

Adapting to COVID-19

COVID-19 has transformed workplaces globally with remote and flexible work arrangements expected to last long after the pandemic. For many parents, these changes have added complexity as they balance work and family life, often with limited support from their workplace and the added pressure of home-schooling children.

There is a silver lining for many parents, as this transformation may also lead to greater flexibility in the longer term.

> "COVID has forced us to have conversations and think about new ideas and new offerings that we would never have thought of."

Circle In took just 48 hours to respond to the needs of their clients during the initial stages of the pandemic. "Within two days we delivered a COVID hub across all of our clients' platforms with a range of content for them."

We're in amazing shape and ready to take on the next race, knowing what we've learned now from the past year." Jodi's excited by scaling their business and passionate about the Growth Grant. "It really enabled us to secure investment. We are global now with a team of 18, 30 companies and a presence in the US and UK. None of this would have been possible without the capital raising."

circlein.com

Impact area	Grant	Capital raised	Leverage
	$139,700	$1.5m	11X

Insights from the Intermediary

Q&A with Jess Colgan, Y Impact

You have supported several investment ready Grantees. How do you ensure the knowledge and skills you bring to them are embedded into their businesses?

We work across multiple facets of a business, from strategy and finance to operations and help founders understand the effects of their decisions on success.

A fear of finance is common, so we do all we can to de-mystify forecasting and demonstrate it is simply a business' story in numbers. We then develop a plan and a narrative that is appropriate, actionable and real for that business.

How important is outcome and impact measurement to an enterprise's investability?

By their very nature social enterprises have identified a problem, a market and a solution to create positive change. Their social impact is their innovation and where the business derives its value.

Measuring social outcomes ensures the true value of the business can be captured, even if it does not immediately transfer to the balance sheet.

Impact measurement helps investors and partners understand the problem and map progress over time.

Commitment to an impact measurement framework enables constant evaluation of operations, staying close to beneficiaries and customers, constantly asking questions and regularly adjusting to create better, stronger solutions. Successfully scaling impact increases the value to beneficiaries, which ultimately creates a financial return to investors.

When you help an organisation better understand and measure its impact do you find they can deliver greater impact within their current operation? Explain why?

Impact measurement provides a feedback loop that helps an organisation stay in touch with its customers and beneficiaries. It highlights what is going right and what can be improved.

For our founders, measuring impact gives them the opportunity to reflect and understand the true value of their hard work. They are constantly working to achieve their mission and measuring their impact is exactly what they need to stay motivated.

You supported Circle In to raise capital. They have grown rapidly and have an enviable client list. How do you choose which enterprises to work with and how early can you tell which ones are likely to succeed?

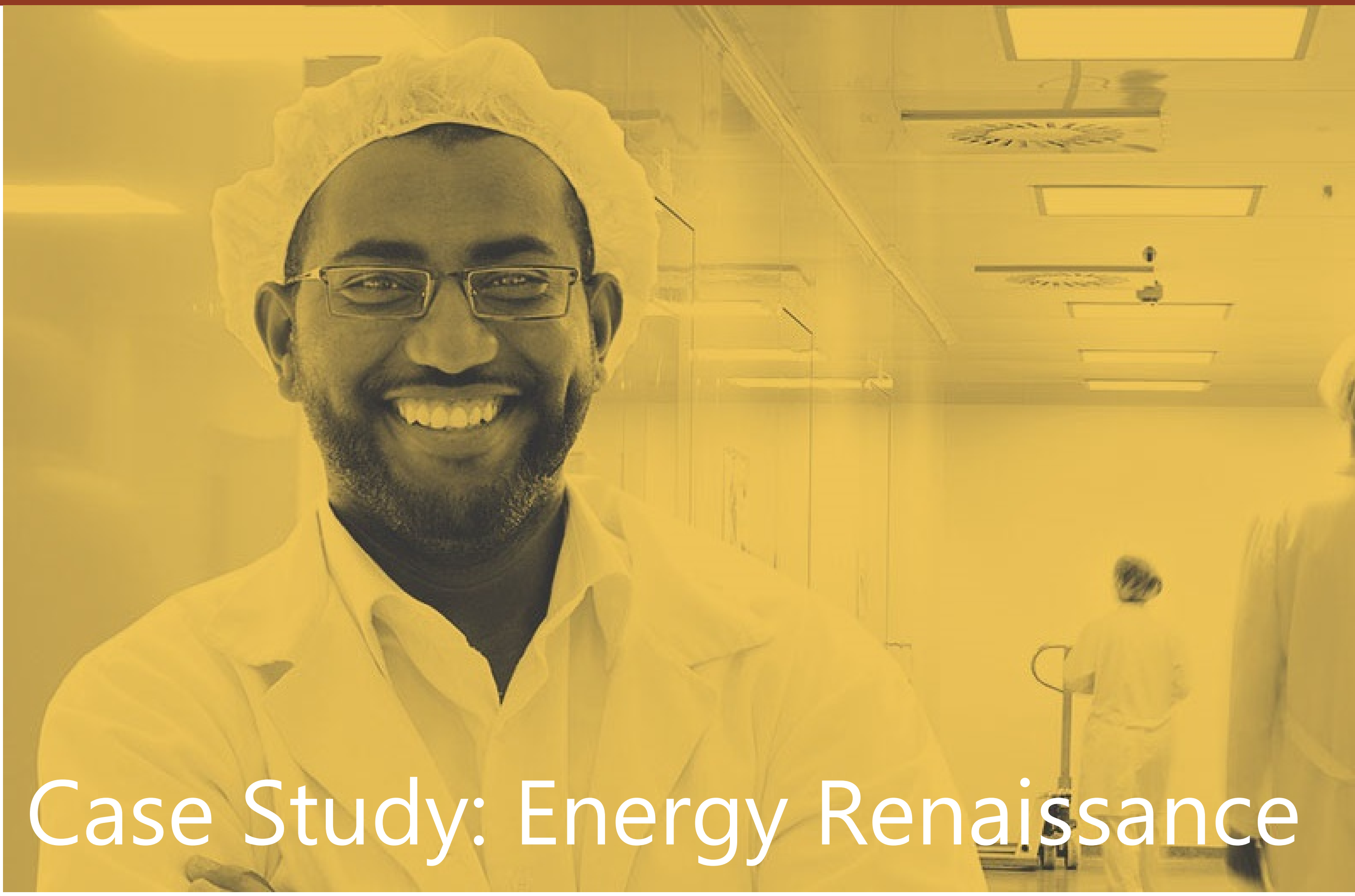
The founders we connect with have an innate understanding of their chosen area of impact, often through their lived experience. Founders like Jodi and Kate at Circle In are bounding with energy and exuberance and have the connections to make change happen.

The enterprises we work with are open and willing to learn and often have a strong business model that can withstand the scrutiny of multiple stakeholders. Most importantly, they have already decided they need additional support and are ready to make a commitment.

History shows that crises have been pivotal in fueling innovation. Have you seen evidence of this during the pandemic? What types of new enterprises are likely to develop and thrive as a result of this disruption to our economic 'normal'?

There are huge opportunities for our clients in childcare and education services. One of our clients has moved its programs to a digital format, grown its client list by 300%, expanded across four countries and attracted the interest of two serious investors.

Flexible work environments and investment in childcare and aged care will drive inclusion in the workforce and inclusive workplaces ensure a greater representation of people who can shape how we live, work and interact. We also hope for greater investment in renewable energy and climate change initiatives which will create jobs and grow new areas of the economy.



Case Study: Energy Renaissance

Energy Renaissance design, manufacture and sell lithium-ion batteries optimised for hot climates using industry leading technology and home-grown intellectual property.

They are well underway in accelerating their vision for a clean energy future though advanced manufacturing and the production of Australian made batteries in a facility which will employ around 1,200 Australians. With their commitment to local manufacturing and local materials, Energy Renaissance will also create thousands of indirect jobs where they are most needed.

Clean energy projects such as this one are expected to generate nearly three times as many jobs per dollar invested as an investment in a fossil fuel project.

The Beginning

The founders came together with a mission to tackle climate change. They were working in different businesses and industries and found themselves talking regularly about their concerns for the planet.

> "We made a pact to stop talking about climate change and start doing something about it."
>
> Mark Chilcote, Managing Director – Energy Renaissance

Initially they were not sure how they were going to take action, but after plenty of research they settled on the manufacture of lithium batteries which they will be producing in a purpose built, multi-million dollar production plant near Newcastle, NSW.

The Impact

In addition to the inherent benefits of renewable energy and regional job creation, Energy Renaissance has actively sought to broaden its impact by introducing Indigenous employment and training as part of its core business operations.

In previous workplaces, Mark found Indigenous employment programs often falling short.

> "Casual or short-term employment opportunities can be damaging as that job can suddenly be taken from right under your feet."

Mark saw other instances where businesses had taken on apprentices with brilliant results. He used these experiences to design a fully integrated Indigenous training and employment program. His commitment to Indigenous opportunity extends to the business' preference for Supply Nation service and product suppliers.

The Learnings

Early on in their journey, Energy Renaissance had considered manufacturing offshore. But after extensive research they concluded it was no more expensive to set up operations at home. Mark and his team are now vocal proponents of advanced manufacturing in Australia. There have been plenty of skeptics. At the beginning of Energy Renaissance's capital raising journey investors initially showed reluctance, fearing the cost of labour would be prohibitive and the skills of the workforce a barrier to manufacturing locally. But Energy Renaissance's willingness to take risks has enabled them to broaden their impact and stay true to their vision.

Mark believes the real 'Achilles' heel' of onshore manufacturing costs is productivity. To address this, the team at Energy Renaissance is committed to creating a culture where people feel valued and proud. From office furniture to flexible employment conditions, including the ability of two working parents to exchange hours, they are striving to make their business a place people want to work.

> "We're now encouraging other businesses to reduce their reliance on Asia for manufactured goods and instead utilise the skills of Australian university graduates."

The Grant

In 2019 after three years of self-funding, the co-founder's sort expertise to raise additional capital. The Growth Grant enabled them to team up with Faraday Associates who helped secure their first $4 million in funding.

Mark described the Grant as a 'critical enabler', allowing them to engage the experts they needed to raise that money. Faraday Associates provided Energy Renaissance with support to develop their financial model and a narrative that would appeal to investors.

They also helped get investors to the table that Energy Renaissance would not otherwise have met and have created a framework that can utilise for future capital raisings.

The Investment

Mark and the team at Energy Renaissance have personally seen over 500 potential investors. They have raised $4 million and are in the process of raising a further $25 million.

Prior to COVID-19, one of the biggest challenges was convincing investors of the merits of manufacturing onshore. Now, people are starting to understand.

> "Everyone loves the idea of advanced manufacturing in Australia, but getting them to invest in it is more difficult."

COVID-19 has catalysed a shift in investor attitudes and governments are starting to recognise the need to support advanced manufacturing to stimulate local industry and create jobs.

In an independent economic impact analysis undertaken by Energy Renaissance, its regional NSW project alone can create up to 720 direct and indirect jobs.

renaissanceone.com.au

Impact area	Grant	Capital raised	Leverage
	$140,000	$4.1m	29.3x

Case Study: AbilityMade

AbilityMade uses 3D technology – a purpose-built instantaneous scanner to custom make orthotics for people with a disability.

Co-founder, Johan Du Plessis, resigned from his executive job to find more purposeful work in the disability sector. It was here that he learned of the long wait times endured by people needing splints and braces, with some children missing out altogether on equipment that could improve their mobility.

His grandfather had suffered from polio as a child which had unnecessarily deprived him of an education. Removing the opportunity for his grandfather to fulfil his dream of becoming a lawyer led to suffered and financial disadvantage that impacted his grandfather and in turn Johan's father. "This injustice has always motivated me."

As a disability support worker Johan met children whose mobility had been limited by inferior equipment, many boring the scars of poorly formed plastic casts, a process which had seen no innovation in 50 years.

Johan teamed up with Mel, a passionate 3D printer and started advocating for change.

> "Roughly 1.2% of the population needs this equipment, which equates to 100 million people, yet only about one in 10 have access to it."
>
> Johan Du Piessis, Co-founder, AbilityMade

Without access to orthotics, disabled children are often confined to their homes – excluded from participating and locked into poverty and isolation.

After identifying plenty of opportunities for improvement Johan and Mel took on the challenge of finding solutions – creating AbilityMade and setting about testing, validating and manufacturing lower-limb orthotics with 3D printers to deliver the best-possible patient outcomes.

The Learnings

Initially Johan and Mel maintained their 'day jobs' which reduced the financial pressure.

Their first capital raising was via a crowdfunding campaign which raised $100,000 plus $500,000 from philanthropists. They then leveraged this blended finance to demonstrate impact and create additional investment opportunities.

With the help of an incubator, they built their business structure and other fundamentals. Then using the Growth Grant, they engaged Jess Roth at the Social Impact Hub to develop an impact framework which was crucial to measuring impact and securing additional investors.

The Investment

AbilityMade has now successfully raised $1,475,000 but like most social enterprises they found the capital raising process long and complex. Despite having a good number of investors in their network, the commitments they had from them were just half of what they needed.

> "The first investors were a perfect fit; they really know us. But there were not enough to get us over the line. We needed to go and find more investors and that is when it gets really tricky."

It was a challenging time, with only two team members and one of them out for six months focused on capital raising. "We got to the point where we were two weeks away from having to shut the doors. We were out of money."

Then Daniel Madhavan CEO at Impact Investment Group provided an innovation solution which enabled AbilityMade to access funding that would normally only be available for DGR1 companies. "This was really critical to early success and gave us credibility."

The team are now working on building a sustainable business so they can grow their impact.

"Our investors have skin in the game, they hold our hands. Like we're all in this together."

The Impact

By empowering allied health professionals, AbilityMade has reduced waiting times and bridged geographical divides to give isolated children access to life-changing equipment.

The social impact framework developed with Jess and her team has enabled AbilityMade to measure the patient experience including waiting times, manufacturing turn-around times and the cost of equipment.

AbilityMade now train health professionals in remote locations. Patients who would otherwise miss out are now getting their scan locally and having it assessed by an orthopaedic specialist in the city over a video call. The orthotics are sent back for fittings.

"We need to be sustainable first but once we are, we will find other ways to make an even greater impact."

abilitymade.com

Impact area	Grant	Capital raised	Leverage
	$139,700	$1.5m	11X

Insights from our panelists

Q&A with Anthony Bohm, Corinne Proske, Bruce Campbell, Usman Iftikhar, Rohan Workman and Katherine Leong

Grants are decided on by a panel of independent experts who have deep knowledge of the social enterprise sector. They provided some helpful insights.

What are investors looking for in a social enterprise?

For us, it is a combination of people, purpose and profit. We look for passionate and experienced founders or management teams. We value proven execution capability. Clarity of purpose and the ability to articulate and systematically measure impact is core. Evidencing impact is becoming a clear differentiator between investment opportunities. Finally, we invest in businesses where there is a mutually reinforcing relationship between impact and profit. **Anthony Bolm**

Investors are looking for a scalable business that provides both financial and impact returns in the future. This does not mean that the returns do not need to be commercial. The business must excel at both and be prepared to grow. **Corinne Proske**

Investors are looking for a business model that works but also has impact. For an enterprise to have sustainable impact it must have the impact integrated into everything including its brand. That is, its customers and staff must be attracted to the enterprise because of the impact. An increase in sales must link directly to an increase in impact. Its leaders must be passionate about the impact being targeted. **Bruce Campbell**

How important is impact measurement in attracting investors and scaling impact?

The old saying goes: 'if you can't measure it, you can't manage it'. This is especially true for impact businesses. In early-stage businesses we do not necessarily expect complex impact measurement metrics, but we do want to see a clearly articulated impact hypothesis and a strong theory of change that articulates how the business will meaningfully and purposefully move the key impact metrics**. Anthony Bolm**

Impact measurement is crucial for any social enterprise, not only to attract impact investment but also objectively knowing if their social change projects are worthwhile. **Usman Iftikhar**

It is not enough to say that you are providing a social benefit – you really need to be able to identify the benefits you are making, measure them and monitor them. It is impossible to start with all the answers – it will take time to develop them – but you will separate yourself if you can provide more sophisticated insights into how you intend to measure the benefits you make and then use that information to guide your decision making. **Rohan Workman**

What have you learnt from your time in impact investing?

The impact investing sector is evolving rapidly. Over the last five years we have seen a seismic shift in attitudes to impact investing – from a hyper-niche 'fringe' community seeking concessional market returns to now being seen as a mainstream investment thematic that delivers higher returns and lower volatility. This is mobilising capital and creating more opportunities for social entrepreneurs. **Anthony Bolm**

The bar is high for social enterprises as the business model is complicated and requires a lot of creativity to find the balance. If done well, the process usually results in a well thought through business model and a clarity of purpose which sets social enterprises (and their funders) apart. **Katherine Leong**

What is one piece of advice you would like to give to social entrepreneurs?

My key advice to social entrepreneurs is to use the systems thinking approach of understanding the social problem and the root causes of it, who the players are and design strategic interventions rather than re-invent the wheel. And remember collaboration rather than competition. **Usman Iftikhar**

Focus on the issue you are trying to address and make sure your business model is sustainable at scale. **Katherine Leong**

Keep dreaming, keep innovating so we can solve some of complex challenges facing our planet. A great business can make money and have a positive impact. **Corinne Proske**

How important is storytelling to attract and retain the right investors?

Storytelling helps investors understand the business, the vision and the impact. Investors will often pursue businesses in impact areas they are passionate about and are attracted to people with a passion (and a good business plan!). **Corinne Proske**

What are the characteristics of a scalable enterprise?

The fundamentals of a scalable social enterprise are the same as all scalable businesses: solid commercial idea; strong business model; passionate and experienced management team; plus, a clear purpose and impact. **Katherine Leong**

Many founders try to pursue growth at all costs and while initially this may lead to increased usage or revenue it normally ends poorly. Make sure you really know what your value proposition is first and why your customers use your product. Then make sure the unit economics stack up so that growth does not pull the company apart. Research shows that those who spend more time on customer discovery and raise smaller amounts of money at smaller valuations tend to grow more in the long run than those that do not. **Rohan Workman**

History shows that crises have been pivotal in fuelling innovation. Have you seen evidence of this during the pandemic? Are we likely to see exciting new enterprises capitalising on this disruption to our economic 'normal'?

I hope so! This pandemic has shown how quickly we can collectively learn new behaviours and adapt so there are plenty of opportunities. A great example is the way we are now embracing telehealth. The follow-on benefits of accelerating this will last longer than this pandemic. **Katherine Leong**

If you can adopt the mindset that you will make it through this, that you are resilient and that you are positioning yourself to take advantage of the opportunities that will present themselves then you have won half the battle. Many will be bunkering down in survival mode and just will not see the opportunities that are there. **Rohan Workman**

Conclusion

We hope this report has provided some insight into our experiences of running the Growth Grant program over the last six years. We have met extraordinary social entrepreneurs over that time some of whom have not gone on to be successful simply because the current state of the ecosystem could not meet their needs.

The Growth Grant has one more year to run with its current funding envelope from the Department of Social Services' Sector Readiness Fund (SRF). In our view, the best thing for the sector would be the replacement of the SRF with a more holistic organisation similar in construct to the Access Social Investment Foundation in the UK. The Australian version could similarly be a partnership between the Government and philanthropy to create an organisation that funds and co-ordinates capacity building, early-stage investment and social investing infrastructure. Importantly as an early-stage SE wholesaler, Access is a co-ordinator of other sector actors rather than a replacement for them, hence building intermediation and sector collaboration and development. We need this for Australia and the social impact it could create.

In addition, we would encourage governments and large-scale institutions to consider how they could support social enterprise development through their purchasing policies. In particular considering a percentage allocation to social procurement which would assist social enterprises to grow their revenue, sustainability and impact.

There is no doubt the social enterprise sector is worth growing and supporting. Social enterprises have an essential role to play in the broader economy with many of them operating in job-intensive business areas. Their mission-driven focus means, like for example Knoxbrooke Enterprises during COVID, they create and maintain jobs at times when traditional businesses may cut them.

In addition, many social enterprises such as Refugee Talent have innovated new ways of discovering and matching talents to the right jobs, thus contributing to skills development and the improvement of labour force outcomes.

Their innovative approaches pave the way for new job opportunities; Hireup with now over 200+ employees being a great technology-based example in the disability space.

Finally, social enterprises are often microcosms of the world they want to see promoting aspects such as gender equality and diversity. In the UK, this is true of their leadership, with 40% led by women and 34% having minority representation in their leadership teams. It is also true of their workforce, with 44% employing those who are disadvantaged from the labour market: ex-offenders, homeless, military veterans, those with learning and physical disabilities, and many more who others simply do not give a chance to. And it is also true of where they work: one third operate in the most deprived areas in the UK.[xix]

Most importantly, at the core of any successful social enterprise is strong social impact AND a sustainable business model. Nurturing and growing these businesses are necessarily key steps on the path to a better future.

Appendix 1

Examples of Social Procurement Policies around Australia

Australian Government jurisdictions are engaging to varying extents in dedicated social procurement. As **Table 6** indicates, Victoria is the most advanced in policy development and implementation in this area.

Table 6: State Government Approaches to Social Procurement

Government Jurisdiction	Related Policy
Victoria **buyingfor.vic.gov.au**	The Victorian Government launched the first whole of government social procurement approach and framework in Australia in 2019. The approach seeks to expand and standardise social procurement through all public procurement activities. The framework has 10 objectives with associated measurable outcomes. The 2020 Annual Report highlighted progress against each of these objectives. With a total spend of $135 million and engagement of 459 social benefit suppliers the program is helping overcome the barriers some people face to finding work – disability, disadvantage, or other social factors. [xx]
Queensland **www.forgov.qld.gov.au**	The Queensland Government Procurement policy requires those purchasing for government to use their "*best endeavours to do business with ethically, environmentally and socially responsible suppliers*." [xxi] This includes the following: ▪ ensuring social procurement forms part of the specific procurement objectives, and ▪ including social procurement clauses in tenders or contracts that are proportional and that enable suppliers to fulfil their social benefit obligations.
NSW **www.procurepoint.nsw.gov.au**	The NSW Government Public Procurement Policy includes a focus on sustainable procurement which "*focuses on spending public money efficiently, economically and ethically to deliver value for money on a whole of life basis. Sustainable procurement extends the assessment of value for money beyond the sourcing process, considering benefits and risks to the organisation, the community, the economy and impacts on the environment.*"
Western Australia **www.wa.gov.au**	The Western Australian Government has established policies and social procurement initiatives to support supplier diversity via contracting with Aboriginal businesses and Disability Enterprises.

Endnotes

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