A Literature Review Exploring Opportunities for Place-based Impact Investment in Australia

PLACE-BASED IMPACT INVESTMENT IN AUSTRALIA

Written by Ingrid Burkett, Knode, April 2012

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THIS REPORT IS A COLLABORATION BETWEEN:

Australian Government
Department of Education, Employment and Workplace Relations

nab

Mission Australia

JBWere

DEPARTMENT OF EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS (DEEWR)

Australian Government
Department of Education, Employment and Workplace Relations

DEEWR's strategic policy objectives are to contribute to a productive and inclusive Australia. This work highlights opportunities to increase investment in under-invested communities to promote regeneration and jobs and to develop and diversify the market for investments, which target strong social as well as economic outcomes. DEEWR has also led development and implementation of Australian Government initiatives in impact investment, in particular the Social Enterprise Development and Investment Funds (SEDIF), which have also sought to increase appropriate finance available to under-served markets – social enterprises – and provide a catalyst for development of impact investment in Australia. Thanks to Ingrid Burkett for her thoughtful work and to our partners National Australia Bank, JB Were and Mission Australia.

NATIONAL AUSTRALIA BANK (NAB)

nab

National Australia Bank is a major financial services company with 25,000 employees in Australia and provides quality products and services, fair fees and charges, and relationships built on the principles of help, guidance and advice. Core to NAB's corporate responsibility agenda is a commitment to build stronger communities with the provision of financial services for all Australians, including those that may financially excluded from mainstream banking.

MISSION AUSTRALIA

Mission Australia

Mission Australia's involvement in this project stemmed from an organisational drive towards finding new and innovative ways to create a fairer Australia.

JBWERE

JBWere

JBWere is pleased to be involved with this project as part of our commitment to supporting the philanthropic and not-for-profit sectors in Australia. Our Philanthropic Services business works with public and private businesses, not-for-profit enterprises, Governments, and philanthropic clients to develop innovative ways to put funding into the community via a variety of social investment alternatives.

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Contents

GLOSSARY OF ACRONYMS

ABS	Australian Bureau of Statistics
AHURI	Australian Housing and Urban Research Institute
CDFI	Community Development Finance (or Financial) Institution
CDVC	Community Development Venture Capital
CITR	Community Investment Tax Relief (UK)
CRA	Community Reinvestment Act (USA)
DVC	Developmental Venture Capital
DEEWR	Department of Education, Employment and Workplace Relations (Australia)
ESOP	Employee Share Ownership Plan
ICIC	Initiative for a Competitive Inner City (USA)
IPO	Initial Public Offering
IRR	Internal Rate of Return
NfP	Not-for-Profit Organisation
NMTC	New Market Tax Credit program (USA)
NRAS	National Rental Affordability Scheme (Australia)
PE	Private Equity
PEA	Priority Employment Area (Australia)
SEDIF	Social Enterprise Development Investment Fund (Australia)
SME	Small to medium sized enterprise
VC	Venture Capital

Executive Summary

INVESTMENT WITH IMPACT *AND* RETURNS

Impact Investment refers to a class of investments that intentionally seek to generate both positive social impacts and financial returns. Internationally research suggests that the potential market for Impact Investment could be as big as $500 billion within the next decade.

As investors continue to demand more ethical, responsible and sustainable investment options, Impact Investment is set to become attractive to a growing number of retail investors in addition to attracting more institutional and wholesale investors. Place-based Impact Investment seeks to generate positive impacts in Australia's underserved communities ***and*** financial returns for investors.

PAGE 12–16

GROWING GEOGRAPHIES OF OPPORTUNITY

Internationally there is widespread recognition of the role that investment can play in halting and reversing decline at critical points or thresholds of a community's development. It can both prevent further decline and it can play a part in restoring positive development in communities.

In effect, investment can help to grow economic opportunities for people and communities to develop pathways out of decline and disadvantage. It is particularly important for helping to drive business growth, and thereby job retention and creation, which can help to reverse the spiral of under-investment and lead to the creation of geographies of opportunity.

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FILLING GAPS AND OPENING CHANNELS TO CAPITAL

Ensuring that businesses can thrive and grow in underserved communities is one key way in which to create and retain jobs in place. Access to capital is crucial for businesses to survive and thrive, particularly in a difficult economic environment. In Australia the vast majority of finance accessed by SMEs is bank finance, and there few well developed alternatives in place. This has led to a growing supply-gap for SME capital. A demand-side gap has also been identified, with capacity issues often limiting options beyond debt capital. Place-based Impact Investment could fill these gaps, generating opportunities for businesses to develop and grow in place, leading to retention and creation of jobs, economic opportunities for residents and stronger, more dynamic local economies.

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SIGNIFICANT POTENTIAL MARKET IN AUSTRALIA

There are a growing number of examples of Impact Investment in Australia, and as the market is in its infancy, there are key opportunities for ‘first movers’ in this field. The potential market for Impact Investment in Australia is significant. Current examples have focussed on investments into clean-tech industries, affordable housing, social enterprise, and the social services sector.

Opportunities exist to extend the reach of Impact Investment into areas such as community regeneration and regional development. This report opens up discussion of Impact Investment beyond the social sectors, looking to how it can generate economic opportunities in Australia’s underserved communities.

PAGE 17–19

NEW FOCUS ON PLACE-BASED IMPACT INVESTMENT

‘Place’ is an increasingly important lens for policy, innovation and investment. Place-based Impact Investment presents an opportunity to prevent and reverse cycles of decline in Australian communities. It brings to the table new analyses and new capital, and also opportunities to create a new regeneration story in communities that have been most affected by economic restructuring.

Place-based Impact Investment focuses on those communities at risk of decline, and those underserved by labour-market opportunities, capital access and market development. In so doing it seeks to create positive social impact, whilst also opening new market opportunities for investors.

PAGE 20–25

IN AUSTRALIA’S UNDERSERVED COMMUNITIES

In Australia, disadvantage has a postcode. While many in Australia are experiencing unprecedented high standards of living, some areas have experienced significant declines, particularly related to economic restructuring of industries such as manufacturing. Such places are often subject to under-investment or are overlooked as potential sites of investment opportunity.

A key threshold indicator for locational decline and disadvantage in Australia is persistent and concentrated joblessness. Areas of entrenched joblessness are more likely to experience cycles of under-investment that can lead to community disadvantage.

PAGE 30–37

CREATING AND RETAINING JOBS IN PLACE

One way to prevent and reverse decline in Australian communities is to focus on creating and retaining quality jobs based in and around underserved communities. This not only creates direct impacts for residents of those communities, it also has multiplier effects which can contribute significantly to local development and regeneration. SMEs employ half of Australia’s workforce and are the largest creators of new jobs. Therefore to address decline and disadvantage, SMEs have an important role to play. This report argues that one approach to Place-based Impact Investment in Australia is to create channels for greater investment in businesses based in underserved communities

PAGE 38–41

INCREASING THE FLOW OF INVESTMENT INTO PLACE

The practice of Place-based Impact Investment centres on ***how*** investments can be structured and channelled to reach underserved communities whilst generating both an impact and a return for investors. In overseas contexts this has been supported through the development of enabling policy frameworks; the emergence of specialist financial intermediaries such as CDFIs; and by growing and diversifying the supply of capital.

In Australia there are existing and emerging developments in all these areas, and therefore there are opportunities for ‘first movers’ to take up these opportunities and develop a Place-based Impact Investment market.

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HARNESSING SIGNIFICANT OPPORTUNITIES

Place-based Impact Investment has significant potential to develop and grow in Australia. It represents an opportunity to grow a new investment market and attract investors to proposals that offer both financial returns and positive impacts for communities.

It creates an opportunity to develop real pathways out of decline and disadvantage for people in Australia’s most underserved communities. It offers opportunities for new cross-sector partnerships that draw on the strengths of each sector. And it has the potential to intersect investment and innovation to generate real and lasting solutions to some of our most persistent social issues.

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Introduction

This literature review explores the potential for a new approach to investment that focuses on revitalising communities, creating jobs and building economic opportunity. Similar approaches have been used widely in the US and the UK [see Thornley, 2010]. Investors ranging from banks and superannuation funds to foundations and individuals have invested in funds that are creating quality jobs and economic opportunities in underserved and under-invested communities and generating a viable financial return. The thesis of this work is that similar funds could also provide new opportunities for investment and community regeneration in Australia.

We use the term 'Place-based Impact Investment' to describe this new approach. *Place-based* because there is a focus on community, particularly those communities where there may be underserved markets. *Impact investment* because this term is gaining international currency to describe the developing market of investments that seek intentional and explicit social or environmental impacts as well as financial returns.

There are two key reasons why such a new approach presents an opportunity in Australia:

> ***There is a need for investment in communities which have chronically lacked investment or are undergoing significant change through, for example, economic restructuring*** — and
>
> ***There is potential to develop new markets and areas of economic activity in a period where some traditional investment markets are harder to access and less predictable.***

Impact investment is not new in Australia. There have been a number of impact and social investment initiatives and relevant examples are provided in *Section One*. What is new is a focus on place: on growing dynamic local businesses that will create opportunities for employment, generate economic multiplier effects and contribute to improving the economic position of underserved communities. This report looks particularly at how private investment could grow and develop small to medium sized businesses (SMEs) in these communities.

In this report we recognise both opportunities to learn from some very promising initiatives overseas, and that Australia is a different context and a different market. We explore how the Australian context and market differs, and how, in turn, these differences may shape investment structures and opportunities.

This report seeks to open further dialogue and debate about how Place-based Impact Investment could develop in Australia.

1

Section One of the report provides an overview of Impact Investment, an emerging asset class that is focussed on generating positive social impacts *and* achieving a financial return for investors.

2

Section Two explores how 'place' has become an innovative focus for Impact Investment, and particularly for creating opportunities in underserved communities. This section examines the idea of Place-based Impact Investment, and explores how private investment could help shift the decline of these communities over time. It then examines what defines underserved communities in Australia and concludes that persistent joblessness is a key indicator of decline, particularly in those areas that have borne the brunt of economic restructuring over recent decades.

3

Section Three outlines how Place-based Impact Investment could prevent decline and/or revitalise already disadvantaged areas through targeted investment in local businesses that have the potential to contribute to economic regeneration and job creation

4

Finally, *Section Four* examines some key elements that need to be considered in developing Place-based Impact Investment in Australia, and explores what can be learnt from policy, practice and research in other contexts, notably from the US and UK. The report concludes with an exploration of what this means for how such investment could develop in the Australian context.

A companion volume to this report explores specific *Building Blocks for Action* in the initiation and development of Place-based Impact Investment in Australia.

SECTION ONE

1

The International Growth of Impact Investment – Social Impact *and* Returns

IMPACT INVESTMENT refers to investments that intentionally generate social impacts in addition to delivering financial returns to investors. They differ from philanthropy (where no financial returns are expected) and from Socially Responsible Investment (where negative impacts are avoided but positive impacts are not necessarily generated). Impact Investment is an emerging investment asset class internationally.

IMPACT INVESTORS have a range of intentions and expectations, from an objective to optimise the financial return of investments (Financial First); to an objective to optimise the impacts generated from investments (Impact First). Impact Investments are structured to ensure that both impact and returns are generated; and can be layered to incorporate different types of investors and differing emphases on objectives of impacts and returns.

A MARKET for Impact Investment is emerging and being created in Australia. Investor appetite is growing and some estimate that the market size for Impact Investment in Australia is up to $10 billion. Currently Impact Investment in Australia is focussed on the social services sector, housing and on sustainability agendas, however there is potential for this to extend to include community economic development and small business.

1.1 IMPACT INVESTMENT – AN OVERVIEW

Impact investing is a term with a relatively short history. Developed by the Rockefeller Foundation in 2007, it has since been explored further by a growing number of investment practitioners and intermediaries. ‘Impact investment’ refers to a class of investments that are ‘intended to create positive impacts beyond financial returns’ [O’Donohoe et al, 2010;p5].

More specifically:

> *‘impact investments* ***provide capital, expecting financial returns,*** *to businesses (fund managers or companies) designed with the intent to* ***generate positive social and/ or environmental impact’*** [O’Donohoe et al, 2010;p7] (emphasis added).

The practice of Impact Investing is, however, much older than the term. Organisations such as Community Development Finance Institutions (CDFIs) have pioneered work in this area for decades.

Impact Investment is different from purely philanthropic initiatives. Most Impact Investment seeks financial returns in addition to generating social impacts. And it differs from 'socially responsible' investment, in that it focuses on how investment can ***intentionally generate*** *positive social impacts* rather than only screening out potentially negative impacts.

1.1.1 The Spectrum between Grants and Commercial Finance

Impact Investment creates a link between mainstream capital markets and the generation of social impact, opening potential for large-scale investment capital to be channelled into addressing some of the world's most intractable social issues[1].

Impact Investments can generate a range of financial returns: some may be comparable to commercial transactions [Bridges Ventures and Parthenon Group, 2010]; others may be 'sub-market' financial returns. Actual returns are determined through the overall balance and relationship between social purpose and financial risk/return in a given transaction [see for example, Rubin, 2009, 2010]. *Figure 1* illustrates the range of return-impact relationships and where Impact Investment fits into the spectrum.

In addition, Impact Investments offer a range of potential impacts targeting different social issues as the following examples show.

- Investing in ambitious, high-growth small businesses located in under-invested communities, with the aim of creating jobs for people living in these areas [see for example, Bridges Ventures in the UK, *www.bridgesventures.com*];
- Using private investment to undertake 'green' redevelopment of housing in low-income communities with the aim of improving living conditions, health and sustainability in these areas [see for example, JPMorgan's Urban Renaissance Property Fund in the US, *www.jpmorganchase.com*];
- Supporting the development of Indigenous businesses through technical assistance and investment to build their sustainability and capacity to employ [see for example, Cape Fund in Canada, *www.capefund.ca*];
- Investing in property that can accommodate not-for-profit organisations and, over time,

1 — Though Impact Investment is growing rapidly in the Global South, this report will cite only examples developed in the Global North, as the contexts and markets of the Global South are vastly different to the US, UK, Europe and Canada which are more comparable to Australia. In addition, though globally Impact Investment is focussed on positive social *and/or* environmental impacts, in this report only those investments focussed on positive social impacts will be explored.

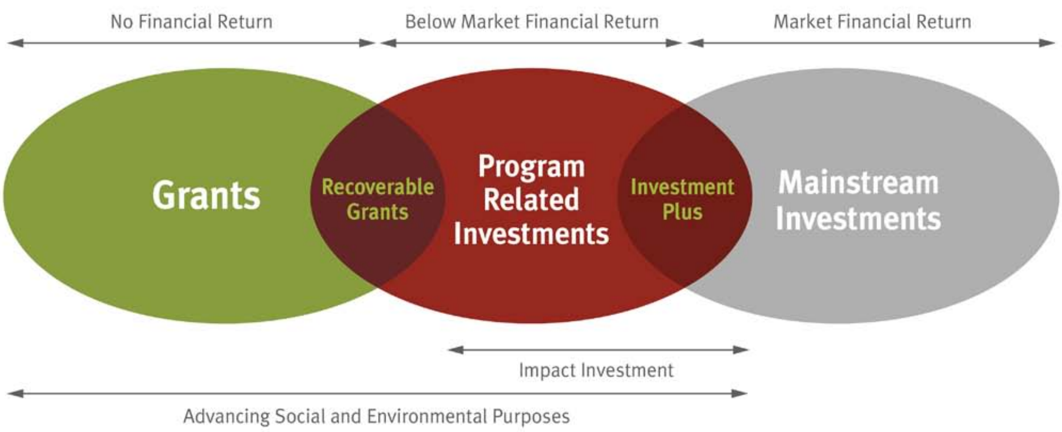

Figure 1

A spectrum of possible returns in advancing social purposes through investment

Source – Esmee Fairbairn Foundation, 2005

* *Program-related investments are investments are made from a foundations income or capital with the primary aim of advancing charitable purposes.*

help them to build their asset base and thereby grow their sustainability, enabling them to deepen their impact [see for example, Social Investment Australia, Social Impact Property Fund I, *www.socialinvestmentaustralia.com.au*];
- Using private investment to build the stock of affordable rental housing [see for example, the National Rental Affordability Scheme (NRAS) in Australia, *www.national rentalaffordabilityscheme.net.au*];
- Supporting the development of social enterprises and social businesses through social impact investment, loans and capacity building [see for example, SEDIF, Social Enterprise Development and Investment Fund, in Australia *www.deewr.gov.au/Employment/Programs/SocialInnovation/SocialEnterprise/Pages/SEDIF.aspx*].

1.1.2 Impact Investment as an Emerging Asset Class

There is potential for Impact Investment to emerge as a new and distinct asset class. Some argue that this is already occurring [O'Donohoe et al, 2010;pp.24–29] and suggest that this recognition will be a *'key catalyst in driving (Impact Investment's) institutional growth'* [p.9].

This is because institutional investors often include investments from a range of recognised asset classes in constructing their investment portfolios to maintain a level of diversification and therefore an appropriate spread of risk and reward. Therefore, if Impact Investment becomes a recognised asset class it is more likely that it will be included in a broader range of investment portfolios.

Impact Investment is increasingly recognised as developing the following hallmarks of an asset class:

- A unique set of investment and risk management skills that involve the capacity to understand and assess social impact, in addition to generating financial returns;
- The emergence of organisational structures that seek out and accommodate this unique skill-set;
- The development of industry organisations and associations, and the growth of training and education structures that specifically focus on the skills involved in Impact Investing; *and*
- The evolution of standardised metrics, benchmarks and/or ratings enabling monitoring and reporting of both financial and impact performance.

There are significant opportunities ahead for Impact Investment, particularly as capital markets increasingly recognize the limitations of focusing on financial returns alone. There are also challenges ahead and much work to be done to realise the establishment of an asset class and development of a market. As Freireich and Fulton [2009] argue, there are also the dual dangers that Impact Investment will either be too hard (where investors give up because lack of clarity means they cannot understand this type of investment) or it will be too easy (where the definitions become so loose that the meaning of social impact is diluted). However, they also proffer solutions based on ensuring a commitment to 'precision, rigour and reflection' as the field develops and grow [Freireich and Fulton, 2009;p.6].

The greater the clarity that can be developed around Impact Investment, the more likely it is to reap the benefits of its development as a separate asset class and for tapping into what Freireich and Fulton argue is a potential global market 'as big as $500 billion within the next decade' [2009;p5]. Recent research suggests that the top five critical challenges to the growth of the Impact Investment industry are:

- Lack of track record of successful investments;
- Shortage of quality investment opportunities;
- Inadequate impact measurement practice;
- Lack of innovative deal/fund structures to accommodate portfolio companies' needs; *and*
- Lack of common vernacular for talking about Impact Investing [Saltuk et al, 2011;p.7].

1.1.3 Impact Investment Products and Structures

An assortment of investment vehicles and structures is also developing in the Impact Investment market. Different vehicles represent different blends of risk and returns that are expected and achieved.

The instruments utilized range from: direct debt and equity investments; to vehicles such as funds and real estate; to new sector specific products such as social bonds. The product is

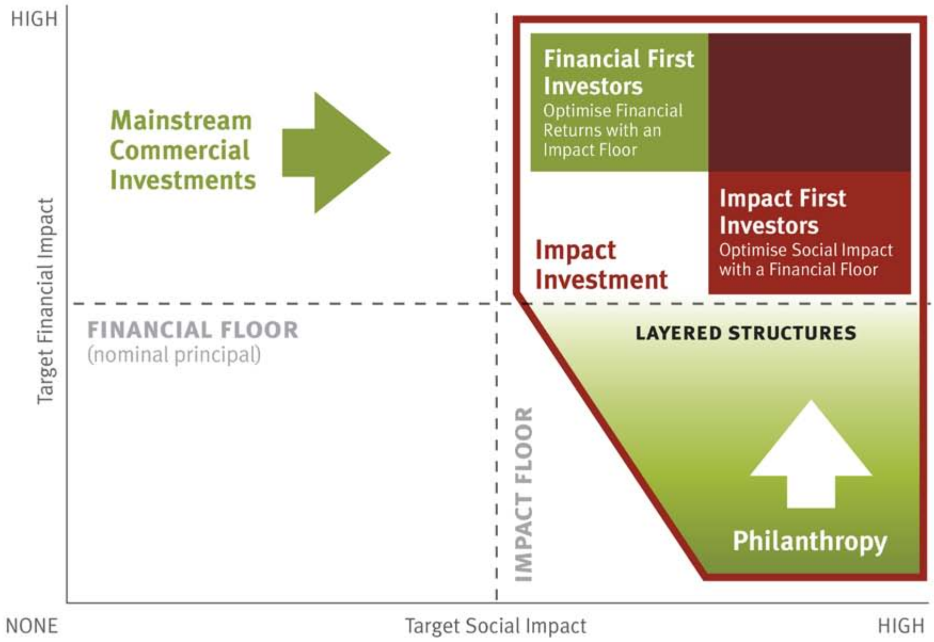

Figure 2
Segmenting the Impact Investment Investor Market
Source – Freireich and Fulton, Monitor Institute, 2009, p.33

one mechanism to adjust the risk and return ratio and therefore price and yield, just like any other investment.

Freireich and Fulton [2009] from the Monitor Institute argue that this market is attracting investors who value both financial and social returns, but may value them differently. They suggest that a distinction can be made between two groups of investors: 'Financial First' and 'Impact First' investors, and that these groups can be segmented further, as illustrated in a matrix depicted in *figure 2*. What has become clearer as Impact Investment develops, however, is that the same investor can actually view potential investments from either of these perspectives too. So, rather than just defining 'segments' of investors, 'Financial First' and 'Impact First' can also represent different lenses that an investor may use at different times or with different pools of capital.

Importantly, this diagram also points to possibilities for investments to be structured to attract investors with different priorities into the same opportunity. That is, within one transaction, different investment opportunities can be created through distinguishing 'layers' of investment that accept a different balance between social impact and financial return. This has been termed a 'layered cake deal' [see Neelakantan, 2011] or a 'Yin-Yang' deal [Freireich and Fulton, 2009]. The layering of capital from investors with different priorities is not new; it has been done with a focus on risk and return in commercial debt structures where some investors take a subordinated position in return for higher yield. Using similar approaches to adjust the financial return in relationship to the social impacts sought is an important structural innovation in Impact Investment. By attracting investors with different motivations to the one transaction, it has the capacity to build both the scale and reach of such investments.

A recent Australian example of such layering is the Good Start deal in which a consortium of not-for-profits formed a company to purchase the ABC Learning Centres [see *www.goodstart.org.au*]. Senior bank debt was complemented with 'social notes' which accepted less security and a lower than market rate of financial return for comparable risk based on the expectation of the social impact that would be generated.

The balance between impact and returns depends on a number of factors, including:

- The objectives and expectations of the investor;
- The investment instruments used;
- The ability for an investor to price risk in the context of both commercial and impact information;
- The nature of the social impact that is sought and to what degree it can be attributable to the investment;
- The weighting given to social value (and what degree of compromise on social value is acceptable to both investor and invested entity);
- Whether there is a 'tipping point' at which the financial return diminishes the social impacts that are possible;
- The commercial potential of the investment target and the costs of achieving the impact target;
- The complexity or 'wickedness' of the social issues that are targeted through the investment;
- The potential of investments to achieve scale, which influences their capacity to generate returns.

Mapping the relationship between impact and return in Impact Investment increasingly requires a blend of skills focussed not only on how to deliver financial returns, but also how to optimise impact.

1.1.4 Role of Government and Policy

Thornley et al [2011;p.8] have mapped policy interventions that can support the initiation, development and growth of Impact Investment. They argue that there are three aspects of Impact Investment that can benefit from policy, legislative or regulatory level interventions:

- ***Supply Development*** – incentivising and/or mandating a supply of capital, particularly from private sector sources, to generate impact;
- ***Directing Capital*** – helping to focus the flow of capital towards particular impact targets such as underserved communities;
- ***Demand Development*** – helping to ensure that investment targets have access to opportunities to develop their capacities and become 'investment ready'.

Governments can also play a catalytic role in building and shaping the market through different mechanisms, including funding, data collection and provision, and thought leadership.

1.1.5 Place-based Impact Investment

There are a range of precedents internationally for Place-based Impact Investments. An analysis of these approaches is the focus of *section 2* of this report.

1.2 THE EMERGENCE OF IMPACT INVESTMENT IN AUSTRALIA

Australia has a rich history of approaches that generate social and economic value. Cooperatives and mutuals for credit, insurance and trade have played an important role in shaping communities and the way we do business. Further, there has been a growing interest in Impact Investment over recent years. This has been evident in practice as well as an emerging body of literature ranging from exploration of social investment generally [see for example, Charlton, 2009]; to investment into social enterprise [see for example, SEDIF, 2010; Burkett, 2010]; social bonds [see for example Shergold et al, 2011]; non-profit finance [see Burkett, 2011] and other applications of private investment to the generation of social impact [for example see, Lawson et al, 2009 who explore private investment into affordable housing; Gunya, 2007 who examine private investment to address Indigenous disadvantage]. Much of the work to date has been focussed towards the 'Impact First' end of the continuum, though some have asked what role 'profit' and more commercial investments should play in this landscape [see for example, Charlton, 2009; JBWere, 2011].

Figure 3
Mapping Impact Investment Practice in Australia

Any attempt to map Impact Investment initiatives in Australia needs to recognise that this field is nascent, and the market for such investment is still being created. It is therefore important to be clear about whether initiatives represent models for funds or products in the market, or whether they are examples of one-off deals (which may also be significant, but would not necessarily be replicable in building the overall market for Impact Investment). Like many emerging markets, there are also numbers of potential models and initiatives, and a myriad of ideas and plans that may be well developed but not yet implemented in practice. *Figure 3* maps out the emerging field of Impact Investment practice in Australia using these categories.

Though there has been important and innovative involvement from non-profits, intermediaries and mainstream financial institutions in the development of Impact Investment to date, significant growth of practice in Australia over recent years has been catalysed by government.

In the last few years the Australian Government has funded the National Rental Affordability Scheme (NRAS) (with joint funding at State level); the Social Enterprise Development Investment Fund (SEDIF); and the Community Development Finance Institutions Pilot (CDFI Pilot), and all are shaping the Impact Investment landscape in Australia. What is also critical to understand about these initiatives is that each has been designed with the intention that any government 'investment' or grant will leverage an equal or greater amount of private capital to ensure that generation of social impact is adequately resourced.

Government has had the effect of stimulating early stages of market development and supporting a testing of the market [DEEWR and PMC, 2011]. In this way government has helped the Impact Investment market in Australia to take its first steps, and heeded the advice of O'Donohoe et al [2010;p.46] that 'someone needs to go first' [cited in DEEWR and PMC, 2011]. As the Senate Economic References Committee [2011;p.234] argues, this has played a significant role in laying the foundations for the field of Impact Investment:

> *'Government does have an important role in catalysing the market and the NRAS, CDFI pilot and SEDIF initiatives are exemplars of (a) 'going first' approach'.*

In Australia, the clearest link between private investment and social impact has centred on the housing market. Given that private rental housing is critical in the overall housing market in Australia [see for example, Randolph, 2003], it is significant that initiatives such as NRAS have begun to link private investment to social impacts in this market. Of course there have also been examples of Impact Investment in relation to development in Clean Technology and Green technology [see for example Hepburn Wind), some of which have social impacts in addition to environment impacts [for example, Hepburn Wind is located in a relatively underserved regional area and it is highly likely that this initiative will have multiplier effects in the local economy of that region].

1.2.1 Extending the range of Social Impact Delivery

Much of the dialogue about the role of Impact Investment in Australia has focussed on the not-for-profit sector and social enterprise, as depicted in *figure 4*.This reflects in part the focus of such entities on social mission. However, it also reflects the fact that access to finance for and efficient utilization of capital by these organisations remains an underdeveloped part of the capital market [see for example, Productivity Commission, 2010; Burkett, 2011; Senate Economic References Committee, 2011]. As this figure suggests, however, the range of entities that can participate as 'social impact deliverers' needs to be seen through a broader lens if Impact Investment is to reach its potential. Internationally the creation of social value across the above spectrum is clearly recognised. As Emerson highlights:

> *'All organisations, whether for-profit or not, create value that consists of economic, social and environmental value components'* [Emerson in *www.blendedvalue.org*].

Of course the nature of the value created and its impact differ along the spectrum, both within each type of entity and across them. Overseas the social contribution of business, and particularly small business is almost universally acknowledged and is the subject of much research [see for example, Glaeser, 2010; Edmiston, 2007]. In Australia, the social contribution of business (including

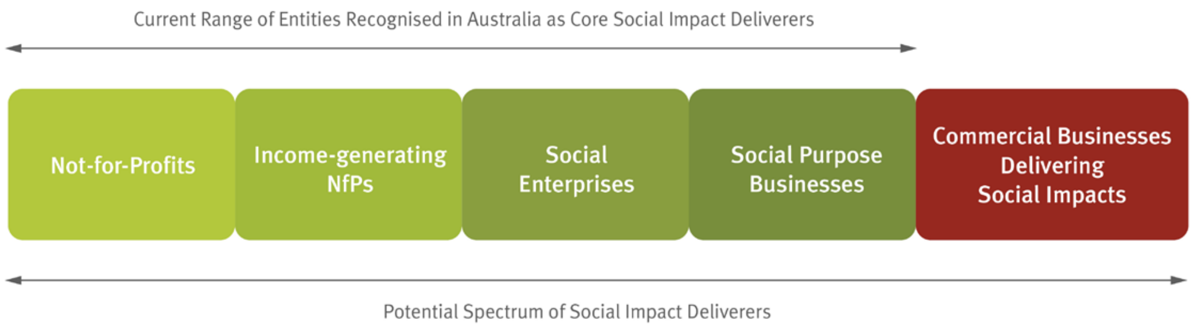

Figure 4
Extending the link between social impacts, social entities and impact investment

small business) has received some attention [see for example, DEEWR and PMC, 2011; Zappala and Arli, 2010; Cronin et al, 2001; PriceWaterhouseCoopers, 2007], although business has more often been associated with economic than social policy [see Smyth, 2010 for an analysis of the disjuncture between social and economic policy and its impacts in Australia]. There is, of course, recognition that Australian businesses create jobs, and that investing in entities such as micro-enterprise, particularly in underserved markets (eg. in Indigenous communities) could generate significant social impacts. However small business has received little direct attention within social impact research and social policy more broadly.

A wider lens is needed to explore the full scope of Impact Investment in Australia. This includes a broader exploration of the nature of social impact and the entities that can deliver it (and that therefore could be the targets of Impact Investment); and an extension of the types of investment and other enablers that could ensure that social impact can be achieved across the spectrum. Currently the focus of Impact Investment in Australia is centred on housing, the social service sector, and environmental and clean-tech business. A wider lens could extend this focus to include regional development, community economic development, Indigenous business development and SME development.

1.2.2 Potential of the Impact Investment market in Australia

Because the Impact Investment market in Australia is still very much in its infancy, the investor appetite for such investment is still being tested. Some commentators consider it could be substantial and have used the size of the mainstream managed investment market to approximate a potential market for Impact Investment in Australia of around $10 billion [see Shergold et al, 2011; Freireich and Fulton, 2009]. These estimates are, however, based on global models that include development investment in the Global South (an Impact Investment market that exceeds the potential of that in the Global North). It may also be helpful to look to benchmarks such as the socially responsible investment market in Australia, which has grown to $15.79 billion over the past decade [Responsible Investment Association Australasia, 2010;p.14].

A pragmatic reference point for estimates of the size and the timeframes it may take to reach scale in the Australian Impact Investment market may be found in early products and initiatives in this market.

For example, NRAS[2] was initially considered to be undersubscribed, but recent clarifications and innovations (particularly relating to clarification of the tax implications of not-for-profit investments and developing opportunities for retail investment) have meant that investment in the scheme has grown. In addition, returns appear to be commensurate with or above market rate (according to a recent report, company investors in NRAS can expect returns for houses over all holding periods of 24% IIR (ie.Internal Rates of Return)) [DHS, 2010;p22]). There were certainly some initial teething issues, and there are still questions being raised about the impacts over time as investors seek to exit to realise further returns [see for example, Lawson et al, 2009]; and the incentives for institutional investors to engage [see Senate Economic Reference Committee, 2011]. However, overall, NRAS could well stimulate confidence in Financial First Impact Investment in Australia into the future.

Some other Impact Investment practitioners, particularly those seeking to attract investors who are willing to accept low market or lower than market returns, have suggested that other financial incentives would help to stimulate or at least accelerate uptake in what is currently a very cautious investor market (personal communication from various impact investment stakeholders). Experience in Australia and internationally indicates that participation by government is a significant factor in attracting investment into the market. Also, careful analysis of the financial returns and the risk levels, and the creation of a social value proposition are all important for attracting investors [see for example, SEDIF, Bridges and Parthenon, 2010]. As Shergold et al [2011;p26], argue, the creation of an Impact Investment market in Australia will depend on building a track record, investor confidence, and the interest of a wide range of investors – which suggests some ‘chicken and egg’ challenges ahead for this asset class.

2 – The National Rental Affordability Scheme is focussed on addressing the shortage of affordable rental accommodation in Australia. It is a supply-side intervention that offers investors tax-free financial incentives when they purchase NRAS properties through entities such as private developers or not for profit housing providers that build, sell and manage NRAS dwellings. It is expected that NRAS will supply up to 50,000 affordable rental houses across Australia (35,000 by June 2014 and an additional 15,000 thereafter).

SECTION TWO

2

Growing Geographies of Opportunity – Place-based Impact Investment

CERTAIN COMMUNITIES in Australia and internationally have experienced a spiral of under-investment leading to decline and disadvantage over time. Place-based Impact Investment is focussed on preventing and/or reversing under-investment in such communities. In so doing such investment aims to generate both social impacts (eg. increased employment opportunities for residents) and financial returns for investors.

IN AUSTRALIA a key indicator that communities are at risk of entering a spiral of under-investment is persistent joblessness. Disadvantage has a postcode due to a combination of structural changes (eg. restructuring of industries), demographic trends (eg. employment status, education and income) and commercial shifts (eg. decline in commercial activity and investment in an area).

ACCESS TO capital can play an important role in underserved and under-invested communities by helping to build wealth and well-being; create job opportunities; grow prosperity at individual, household and community levels; and address disinvestment. In other words, access to capital can help to grow opportunities for people and communities to develop pathways out of poverty and disadvantage.

2.1 A PLACE-BASED FOCUS FOR IMPACT INVESTMENT

Impact Investment may focus on achieving direct impacts for particular groups of people (eg. social bonds that target reducing recidivism). It may also have a broader and more indirect focus (eg. property investment which secures long-term accommodation for community based not-for-profit organisations). This is illustrated in *figure 5*.

One focus of Impact Investment that has gained attention overseas is *place-based investment*. This focuses on generating impacts in particular geographic localities, and more specifically, in what are termed ‘underserved and under-invested communities’.

Figure 5
A Matrix of Impact Investment Focus and Direction

The notion of under-invested communities is helpfully illustrated on a spectrum with growth areas at one end and communities where disadvantage is entrenched at the other [see *Figure 6*].[3]

A range of factors can trigger decline or distress. These may include economic restructuring over time or quite sudden changes such as closure or withdrawal of centres of industry and employment. This is considered further below.

Across literature and research the term 'underserved' is generally used in connection with communities in three different but related ways.

- ***Employment opportunities:*** Communities that are increasingly challenged by labour market changes, with higher than average unemployment rates and where vulnerable industries or old-economy industries dominate (for example, where manufacturing

3 – This figure should not be interpreted as suggesting that the process of decline is necessarily linear, nor that all communities necessarily follow a set path of decline. What it does illustrate is that there are stages before a community becomes 'disadvantaged' that can represent points of intervention.

Figure 6
Some of the key stages identified in literature examining the process of decline in neighbourhoods

industries have been clustered). These communities are thus said to be underserved by employment opportunities.

- ***Capital access:*** Research internationally suggests that many entrepreneurs and businesses in underserved communities have less access to capital (both debt and equity capital) than their peers in other communities. Further, there can be a draining out of capital from communities experiencing decline, and capital access can deteriorate as investors begin to bypass communities. Therefore these areas are said to be underserved in relation to capital access [see Lynch and Rho, 2011; Rubin, 2010] and they are also described as 'under-invested'.

- ***Market development:*** The business use of the term 'underserved' relates to an area that, for structural, information or other reasons has been overlooked or undervalued by investors, but which represents a potential opportunity for market development.

This section explores the flows of investment into and out of underserved communities, examines how this has been approached overseas, particularly in the US and UK, and what 'under-investment' may therefore mean in Australia.

2.1.1 Under-invested or Underserved Communities

The term 'under-invested communities' originated from the Social Investment Taskforce in the UK in 2000. The work of this task force linked up the flows of public and private capital into and through communities, and argued that when flows are restricted or are too concentrated on particular kinds of capital then, over time, this can lead to locational decline and disadvantage:

> *'Under-invested communities suffer from a spiral of multiple disadvantage. Industries that were previously major employers have collapsed, leading to loss of employment, incomes, wealth and purchasing power. In such circumstances, it is often the case that private sector investment dries up and that even those financial resources available within a community are spent outside it. Confidence collapses and, with it, the climate for enterprise. In some poor communities ... as much as 75 per cent of the cash in circulation may come from ... Government. The result can be an intransigent form of welfare dependence, where the state confines its contribution to providing a minimum level of income and social services, but ignores wealth creation'* [Social Investment Taskforce, 2000;p10].

This last point highlights a need for solutions that focus not only on increasing incomes and enhancing service delivery in underserved areas, but that actually tackle issues of wealth and well-being—that is, how people and communities can increase opportunities for asset development and establish real and lasting pathways out of poverty and disadvantage. Used in this way wealth building is *'an important dimension of social equality'* [Marks et al, 2005;p48].

Although the term was coined in the UK, the notion of 'under-investment' has evolved from a long history in other jurisdictions. In the US, the central concept has been 'disinvestment' focussed in particular on neighbourhood regeneration programs and inner-city economic development policies developed over almost half a century. This work highlights the interconnections between social and economic factors that lead to decline in communities, and that, in turn, are related to 'areas of concentrated poverty' [Carter and Polevychok, 2006]. Both people-based and place-based factors have been linked to neighbourhood decline with cited causes including social, demographic, economic, financial and physical attributes of communities [see Galster et al, 2000, 2003; Carter and Polevychok, 2006; Orfield, 1998].

According to researchers these factors tend to reinforce one another, potentially leading to a spiral of decline, which pushes out those who are 'doing better' (including businesses) and pulls in others who are not doing so well [see for example, Galster, 2010]. So, as Carter and Polevychock [2006;p27] argue:

> *'poverty pushes away businesses and middle-class families ... (and) as neighbourhoods become dominated by joblessness, the residents become isolated from middle-class society and the private economy'*

In turn this requires greater levels of government and philanthropic resources as private services disappear. In other words, through the process of disinvestment, public investment is 'crowded in' and private investment is 'crowded out'. This is illustrated in *figure 7*.

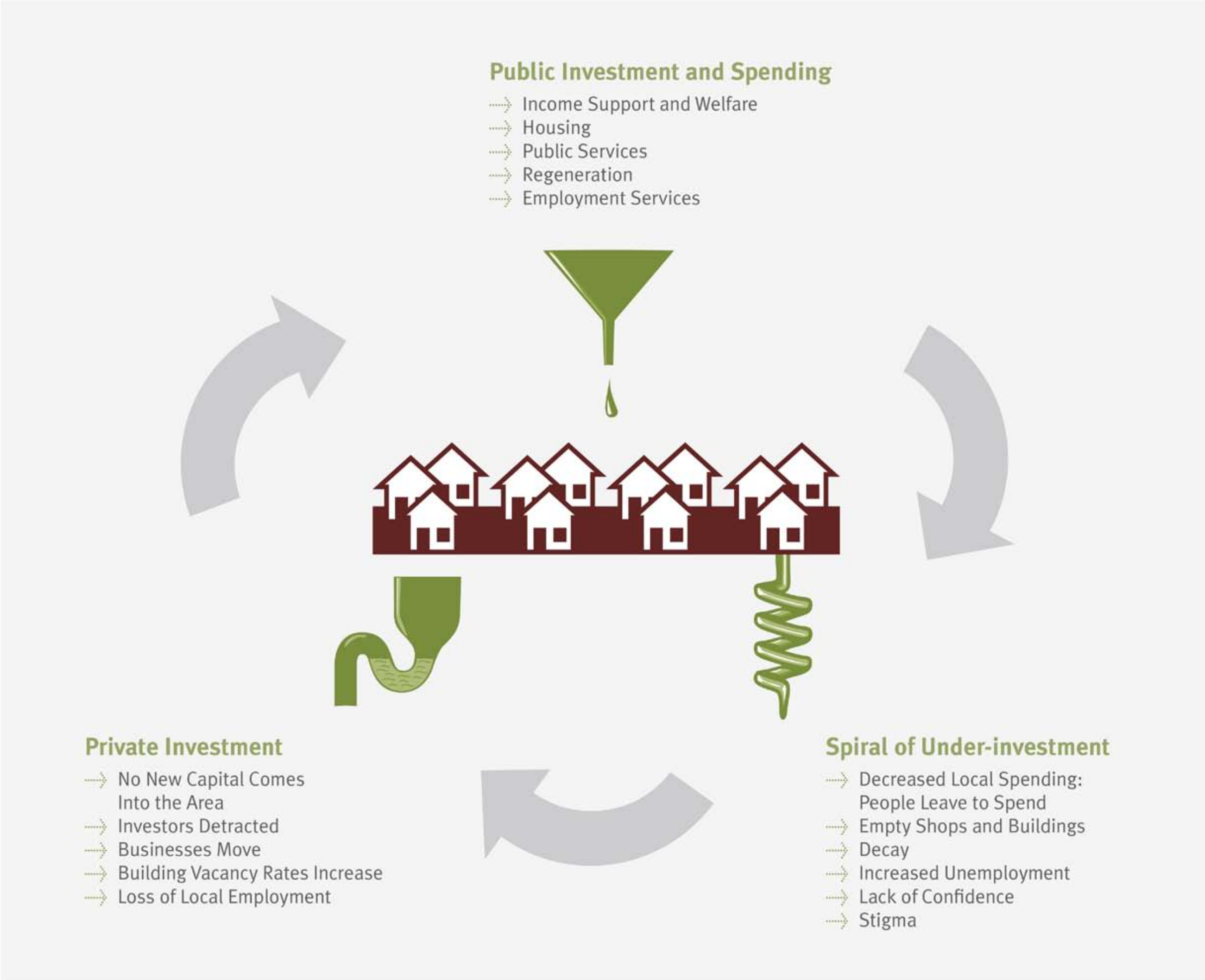

Figure 7

Under-invested communities: as private investment dries up, public investment needs to increase, but does not necessarily lead to the creation of wealth

Meanwhile, the capital that drains out of the declining regions often flows into those regions that are growing or are on an upward cycle:

> *'In economies where regional development is highly uneven, expansion in growing areas typically drains capital from declining regions. High rates of investment in expanding areas increase employment and purchasing power, and this, in turn, further tends to increase investment in a multiplier fashion'* [Bates, 2006;p.6].

Researchers in the US have developed a number of threshold indicators for both urban and rural areas which can alert policy makers and planners to levels of decline in communities and create opportunities for addressing decline before a community starts to spiral into entrenched disadvantage [Carter and Polevychok, 2006].

The development of typologies and concurrent indictors which can be used to track, map and plan around social, demographic and economic shifts in communities is an important part of the exploration of disinvestment in the US. For example a number of researchers in the US have found that:

> *'when poverty rates exceed thirty percent (ie. thirty percent of the population of an area living in households below the poverty*

line), neighbourhoods have great difficulty sustaining the economic and civic institutions essential for a healthy community. Poor education, joblessness, teen parenthood, discrimination, and crime all reinforce one another in these high poverty neighbourhoods, creating a vicious cycle of distress' [Wilson, Jargowsky, Turner and Hayes, in Carter and Polevychok, 2006;p.34].

Figure 8 provides an overview of some threshold indicators that have been identified as contributing to decline and under-investment in the US. The nature of the actual triggers and the indicators underpinning them are, of course, contextual in nature. Therefore, threshold indicators relevant to any decline of Australian communities need to be examined in this context. Further, it is important to recognise the structural overlays that impact on decline in localities, particularly economic restructuring [see for example, Fenton et al, 2010].

'there is agreement that economic development involves both the restructuring and growth of an economy to enhance the economic well-being of people that live in a particular place. While jobs are often the means to this end, experts agree that key outcomes are rising income and wealth. The process of economic development involves combining the labour, capital and technology found in that place in innovative ways that lead to rising economic welfare' [Drabenstott, 2006;p.117]

Recently the decline of many rural and regional communities in the US has again come to the fore, raising questions about disinvestment in these contexts [see for example, Cohen, 2011]. The complexity of disinvestment in heterogenous rural contexts is highlighted, with some authors arguing that there are multiple 'rural Americas' that face different social, demographic and economic issues, making a 'one-size-fits-all policy' inappropriate [see particularly Hamilton

Figure 8

Key 'trigger' or 'threshold' categories and the range of investments that can halt and reverse community decline and disinvestment

2.1.2 Under-investment in Rural and Regional Communities

Although disinvestment literature has focussed predominantly on urban areas, there has also been some exploration in the US on regional and rural economic development, and here too research and practice indicates that:

et al, 2008]. Hamilton et al [2008;p.6] use census and other socio-economic and demographic data to suggest four key 'types' of rural communities in the US: amenity-rich; declining resource-dependent; chronically poor; and amenity/decline communities. The need for exploring under-investment in heterogenous rural and

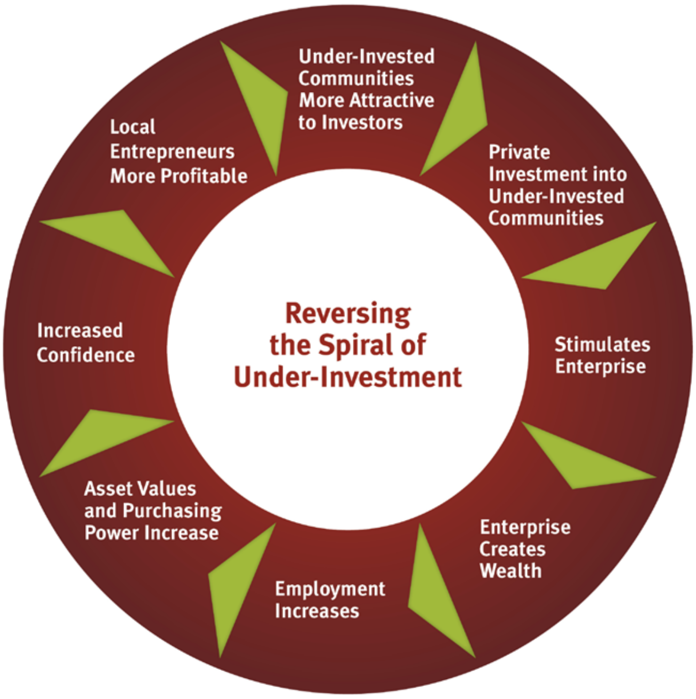

Figure 9
How the Spiral of Under-investment could be reversed
Source – Social Investment Taskforce, UK, 2000, p.8

regional contexts very much resonates with the situation in Australia though of course the indicators and experiences of decline may differ in this context.

2.1.3 Reversing the Cycle

It not only stands to reason that investment or 'reinvestment' would play a leading role in addressing under-investment and disinvestment, but practice has demonstrated this to be the case. In the US there is widespread recognition of the role that investment and greater access to capital can play in preventing, halting, and reversing decline by:

- Building the prosperity and well-being of individuals, households and whole communities;
- Creating opportunities for escaping poverty;
- Addressing disinvestment and attracting in a range of investors and investments.

The Initiative for a Competitive Inner City (ICIC) in particular, has championed practice and research examining the most effective ways to combat the spiral of decline that has affected many inner city areas in the US. Much of their work has demonstrated the *'critical role that capital plays in driving business growth and job creation in inner cities', and that 'access to capital is likely part of the solution to address the slow business growth and job creation in economically distressed urban communities'* [Lynch and Rho, 2011;p7].

This has, over some decades, resulted in the development of a close link between community and economic development, and the evolution of initiatives such as Community Development Corporations, Community Development Finance Institutions and Community Development Venture Capital Funds. This has also been supported through US Federal Government policies such as the Community Reinvestment Act [1977], the New Markets Tax Credit program, the Small Business Investment Corporation (SBIC) program and the CDFI Fund (all of which are explored further in *section 4*).

In the UK 'under-investment' has become a focus of policy responses, particularly initiatives recommended by or developed out of the work of the Social Investment Taskforce. Bridges Ventures is one example of a practice initiative that emerged out of recommendations of this taskforce, and it has since raised a number of funds directing investment to the most disadvantaged communities in the UK. The focus has been on identifying and mapping under-investment, integrating social and economic responses, and stimulating private investment in addition to targeted public investment.

In both the UK and the US it is increasingly recognised that it is critical to understand not only what leads to under-investment, but what the triggers for reinvestment, regeneration and revitalisation in a particular area may be so that decline can be halted or reversed. In the UK the Social Investment Taskforce examined how investment into local enterprises could provide one such trigger for reinvestment [see *figure 9*].

Though this diagram focuses on the ways in which private investment can stimulate enterprise development in underserved communities, Impact Investment can also play a role in:

- Stimulating development of affordable housing in particular localities;
- Addressing intractable local issues (eg. through social bonds);

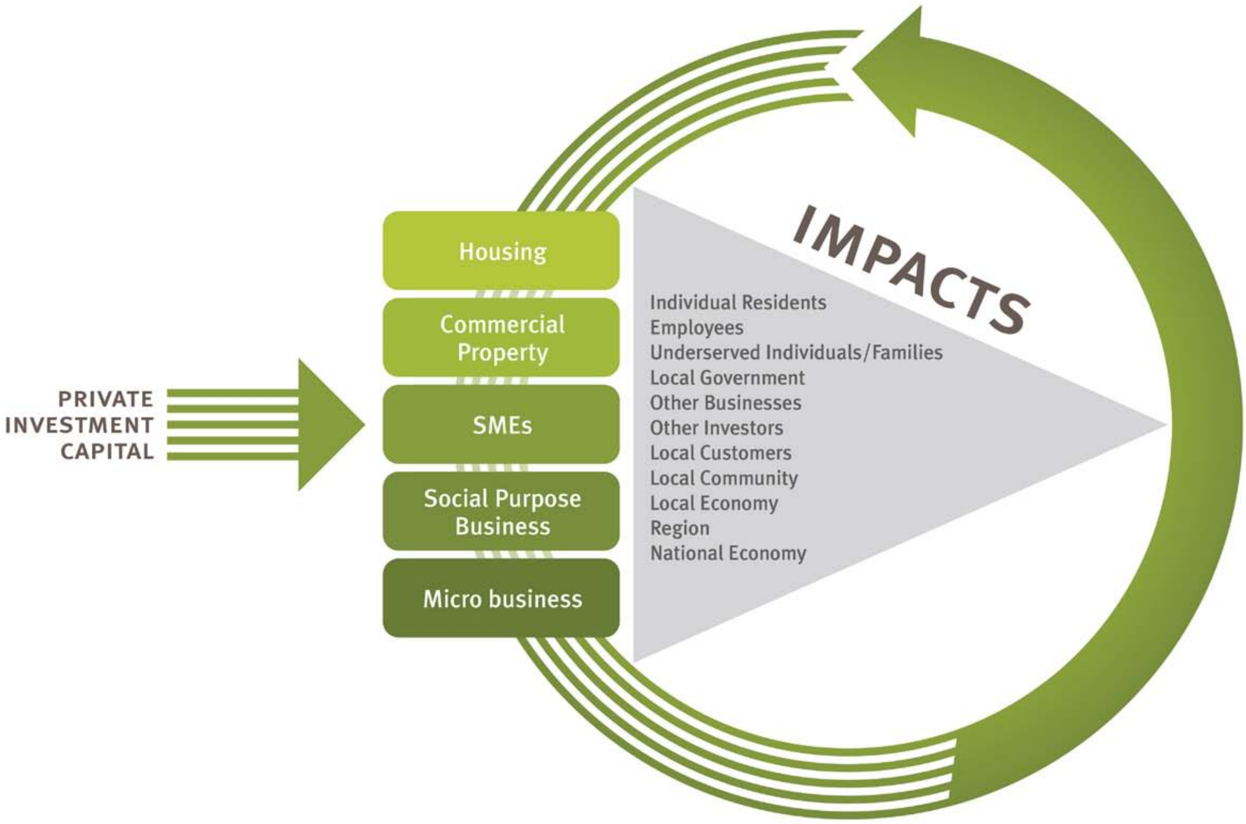

Figure 10

Impact Investment targets and the potential flow of impacts to various parts of underserved communities

- Crowding-in private investment through a focus on acquiring commercial properties in low-income areas;
- Facilitating skills development and education opportunities in lower-skilled areas; and/or
- Providing capital to micro-enterprises and social enterprises to stimulate entrepreneurship and transitional employment opportunities in underserved communities.

Figure 10 illustrates the arenas into which private investment capital in underserved areas could be directed, and the potential flow of impacts that could stem from such investment. As Impact Investors such as Bridges Ventures in the UK suggest, private investment into underserved communities not only has direct impacts but also generates multiplier effects that have a range of indirect benefits across localities and regions [Bridges Ventures Impact Report, 2010, 2011].

2.1.4 Striking a Balance between Social and Economic Need and Opportunity

The development of Place-based Impact Investment as a facet of addressing under-investment has not proceeded without some controversy and debate. The debate in many respects centres around balancing social and economic need with an investment framework that includes returns to investors. Some commentators argue that under-invested areas are actually 'emerging markets' and represent crucial new opportunities for astute investors seeking financial returns. Others argue that the social need in these areas is so significant that real impact will necessarily require a sacrifice or subsidisation of financial returns.

The truth perhaps lies in notions of balance and recognition that not all under-invested communities are the same nor at the same position on the spectrum [see *figure 6; page 21*].

The history in other jurisdictions suggests there are opportunities in under-invested areas, but they are not some kind of investment nirvana and like all investments they require careful analysis. Also, investment initiatives need to be carefully targeted and the balance between social impact and financial return needs to be carefully assessed. Place-based Impact Investment may not always require subsidisation and neither will it be a silver-bullet for all the issues facing disadvantaged or declining regions.

Those commentators who think underserved communities represent crucial new market opportunities argue that these areas:

> *'…should be viewed as markets that are rich in economic opportunities, (which) could be best harvested by the private sector, leading to profits for the private sector and economic prosperity for community residents'* [Porter, in Rubin, 2010;p.182].

From this perspective underserved communities are, effectively, emerging markets, that could present financial rewards for private investors, and in turn, private investment could contribute to capital access and economic development in these communities. The reason why such communities face under-investment, according to these analyses, lies predominantly in 'information asymmetries', and:

> *'(a) lack of robust data on the markets. Without comprehensive, reliable demographic and financial information, financial decision makers, business leaders and public policy officials are unable to price risk and evaluate opportunities effectively'* [Yago et al, 2007;p15].

This perspective builds particularly on the work of Michael Porter (from the Harvard Business School). Porter argues that revitalising and reversing the disinvestment faced by underserved communities requires business development and the opening up of capital flows in these areas [see Porter, 1997; 2003]. In particular, Porter [1995; 1997] argues that underserved communities suffer from capital constraints – that businesses operating in these areas cannot access sufficient debt and, more specifically, equity capital that could enable them to grow and thereby contribute to local economic development. Further, he proposes that market forces need to be brought to bear on such investment rather than relying on what he sees as ineffectual 'artificial inducements, charity, or government mandates' [1995;p56].

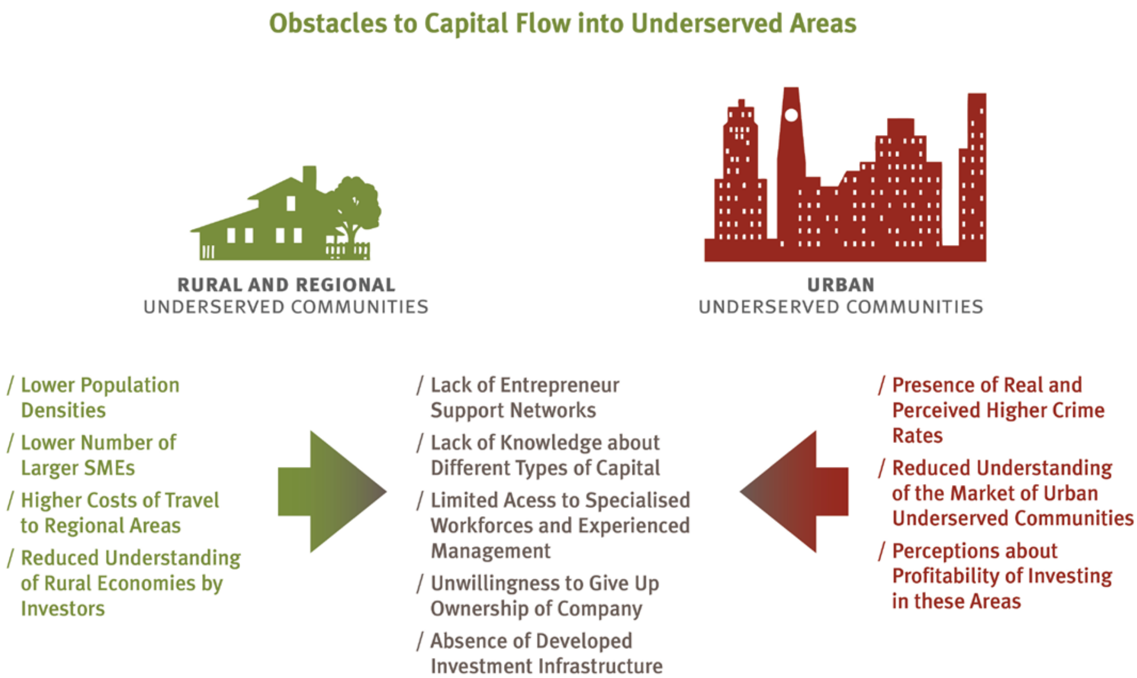

Figure 11
Obstacles to Capital Flow into Underserved areas
Source – Based on data from Rubin [2010]; Barkley and Markley, [2001]; Boston and Ross [1997]

This work has been further developed by the Initiative for a Competitive Inner City (founded by Porter) and others influenced by Porters' ideas [see for example the Milken Institute]. Though it has stimulated a great deal of corporate and government interest, the work is also heavily critiqued for its almost singular focus on the role of the private sector in the revitalisation of underserved areas [see for example, Bates, 1997; Harrison and Glasmeier, 1997; Rubin, 2010].

The critiques focus on the need for a cross-sectoral approach to addressing issues of capital access and revitalisation, and the importance of acknowledging differences between underserved communities rather than seeing them as one homogenous group, or seeing solutions as interchangeable between different areas [see particularly Rubin, 2010]. They argue that there are structural and ideological obstacles (in addition to information asymmetries) that block the flow of capital into underserved areas. Some of these obstacles in both rural and urban underserved communities are outlined in *figure 11*.

None of the critiques of Porters work deny that there is a lack of access to private investment capital in many underserved communities. What they highlight is that the issues faced by these communities cannot be redressed purely by the private sector nor only by redressing information asymmetries. Similarly, there is a recognition that public investment and focus on social issues alone are not sufficient to regenerate communities, as Seidman [2004;p.1] highlights:

> *'after widespread reinvestment in inner-city housing, cities and community-based organisations have learned that housing development alone is not sufficient to rebuild communities and strengthen local economies. A healthy commercial district is essential'.*

All sectors need to come together to turn around decline and disinvestment in communities. In successful examples of Place-based Impact Investment overseas this is evidenced by the fact that very often the investment process is actively supported by private investors, government (at all levels) and not-for-profit organisations and foundations. In addition, they highlight the need for a systemic approach to revitalisation in underserved communities, whereby Impact Investment is seen as one dimension of a broader approach connected to wider, structural changes that need attention alongside private investment [see case studies in appendix 1 and also in the accompanying '*Building Blocks for Action*' report].

Access to capital, is one key dimension of reversing under-investment rather than the only response. Systemic approaches are needed [Weissbourd, 2010;p.4] to address what can be seen as 'spatial market failures', whereby:

> *'specific places experience under-investment and inadequate provision of spatial public goods, including safety, education, transit, community identity, political networks, and the spatial externalities of geographically linked housing and labor markets'* [Crane and Manville, 2008;p.3].

In the Australian context, recent work has also highlighted the links between different parts of the system. For example, in Victoria a recent report identified links between affordable housing, health and employment, and argued that efforts to build more opportunities for employment would ultimately not succeed in addressing community decline if these other links were not considered in the process [see Mallet et al, 2011]. Similarly, research examining the effects of job creation policies on disadvantaged communities in Western Sydney in the 1990s found that:

> *'provision of a wide range of transport and social infrastructure is at least as important as business investment in determining sufficiency of access to employment for residents of Sydney's outer suburban areas'* [Fagan and Dowling, 2005;p.80].

Figure 12 outlines this systemic approach, which builds on and from the Social Investment Taskforce model of reversing under-investment in the UK.

Adding an investment framework to more traditional social responses to the issues faced by underserved communities opens opportunities for wealth generation and asset creation. This helps us to see beyond welfare to the opportunities that exist for creating pathways out of place-based disadvantage and decline.

Figure 12
A systemic approach to reversing the spiral of under-investment

2.2 TOWARDS UNDERSTANDING ‘UNDER-INVESTMENT’ IN AUSTRALIA

Indicators of community decline and disadvantage clearly differ according to context. For example, Gregory and Hunter [2003;p.5] argue that there are differences in how ‘distressed’ neighbourhoods are defined and identified in Australia, as opposed to in the US or UK:

> *‘In Australia the notion of distressed areas is not generally associated with the physical decay and decline of areas but more with the growth of joblessness’*.

Interestingly, however, most research in Australia has not focussed on processes of decline or distress, but rather on what distinguishes those areas that could already be said to be ‘disadvantaged’.

Further, in Australia concepts of ‘under-invested communities’ and of ‘disinvestment’ have not been widely used. There was some exploration of the movement of private investment out of communities in the 1990s when bank closures, particularly in poorer, rural and regional communities led to consideration of the need for rebuilding community economies [see for example, Jennings, 1991]. There has also been some research about attempts to attract private investment into more disadvantaged communities in the form of land and industry development [see Dodson and Berry, 2004]. Others have borrowed the term from overseas without providing specific examples of disinvestment in Australia [see Warr, 2006; O’Connor et al, 2001]. Meanwhile, some recent writings on place-based housing agendas [Jacobs et al, 2011], suggests that ‘under-investment’ (particularly in relation to social housing communities) could be a future research area in the Australian context.

The lack of research into decline, distress, under-investment and disinvestment possibly stems from the history of the Australian welfare state, where much emphasis is placed on ‘need’ and ‘disadvantage’ in relation to government and not-for-profit welfare interventions in localities. By contrast, as indicated above, there has been little exploration or tracking of the role of the private sector, and more particularly of private investment in areas that are categorised as ‘disadvantaged’.

Therefore, although there is much anecdotal evidence of the flight of capital in these communities, there is very limited empirical evidence in Australia and research on disadvantaged localities thus provides the starting point for considering notions of decline, distress and disinvestment in this context.

The connection between disadvantage and locality has long been known about and studied in Australia [see for example, Baum et al, 1993; 1999; 2002; 2006, 2009; O’Connor et al, 2001; Randolph, 2004; Swan, 2005; Vinson, 1999; 2007]. At its most compelling, it has been noted that, in Australia, disadvantage has a postcode [Vinson 1999; 2007; Swan 2005]. Shifts have occurred over the past three decades so that disadvantage is now not only geographically based, but research suggests that certain spatial concentrations of disadvantage are also increasingly enduring [Vinson, 2007]. According to some researchers, this ‘geographic polarisation’ is a relatively recent phenomenon in Australia, and can be linked to a widening economic gap that means that, ‘the poor are increasingly living together in one set of neighbourhoods and the rich in another set’ [Gregory and Hunter, 2003;p.6].

Addressing such notions of growing disparities between communities – the ‘haves’ and ‘have nots’ and the implications this has for social cohesion lay at the heart of the work of the Social Investment Task Force in the UK [2000-2010] and Social Finance Task Force in Canada [2010].

2.2.1 Unemployment as a Threshold Indicator of Locational Disadvantage in Australia

Despite the low levels of unemployment nationally in Australia over recent years there are certain localities where unemployment (and particularly youth unemployment) has remained much higher and more concentrated. In addition, disadvantage in some localities where there are higher concentrations of jobless households and intergenerational unemployment, has been difficult to shift over time [see Hayes et al, 2008].

Vinson [2007] found that there is an enduring and entrenched concentration of disadvantage in Australia, with the most disadvantaged 3% of Australia’s localities having at least twice the rate of unemployment and long-term unemployment, and also figuring highly on other indicators of

disadvantage. Baum and Mitchell [2009;p2] highlight the persistent nature of some pockets of unemployment:

> *'Even during the recent boom times our cities endured disadvantage 'hot-spots' as individuals in particular suburbs have been unable to successfully negotiate the labour market'.*

They argue that many of these areas reflect broader changes of economic restructuring in 'old economy' or 'rust-belt' regions [Baum and Mitchell, 2009; Baum, 2006]. This has consequences at individual, household and community levels.

A number of studies have suggested that people living in localities where there is a high concentration of unemployment, are more likely to be out of work than similar people living elsewhere [see Bill and Mitchell, 2005; Buck and Gordon, 2004; Dorling, 2001]. This 'area effect' is particularly pertinent for young people living in disadvantaged communities, as Vinson [2007;p.22], (drawing on the work of O'Regan and Quigley [1998]) argues:

> *'young people living in urban areas in which they have limited residential contact with the non-poor are less likely to be employed'.*

This also has an ongoing effect on residents chances of employment, and on their other socio-economic outcomes, as Baum and Mitchell [2009;p2] argue:

> *'This spatial concentration has resulted in an increase in multiple disadvantages and acts to further limit the opportunity of people living in these disadvantaged places'.*

Research has also pointed to the link between health and locational disadvantage – with people in these areas having reduced life expectancy at all ages, and higher levels of chronic health issues. In addition, there appears to be a higher concentration of people with disabilities living in more disadvantaged areas [Australian Institute of Health and Welfare, 2009].

Finally, there are of course wider community impacts such as pressure on social services, detraction of private enterprises who could provide employment and social stigmas attached to particular places [see for example, Warr, 2006; Baum and Mitchell, 2009].

Employment interventions into such areas usually focus on improved training for job seekers, providing incentives to local employers, and/or support for developing pathways towards employment (such as intermediate labour market programs and social enterprises). These have been characterised by Bates [2008] as 'people-based approaches' to addressing unemployment. He argues that, though a necessary part of an effective response, such approaches alone do not necessarily shift entrenched locality-focussed unemployment, as:

> *'effective training (like education) increases one's options in the labour market; it enhances ones' mobility ... people move to opportunity'* [p.9].

So, as Baum and Mitchell [2009] highlight, some localities and regions remain unemployment 'hot spots' and others are employment 'cold spots', which points to the continued inequity of employment growth over recent years. Further, it appears that growth of employment opportunities in other parts of a city or region do not necessarily shift the joblessness rates in distressed and disadvantaged areas [see Gregory and Hunter, 2003; Fagan and Dowling, 2005].

According to Bates [2008] and others what is needed is greater attention to place-based approaches that look at the systemic nature of locality decline, and explore local economic innovations, particularly local business development, which can generate employment in place.

2.2.2 Other Potential Threshold Indicators of Decline in Australia

While concentrated unemployment is a key indicator of decline and disadvantage in Australia, there are other indicators that could help policy makers track and assess communities entering into decline or further down the spectrum to disadvantage.

Broadly, the research outlined below points to three key emphases in the analysis of disadvantage, summarised in *figure 13*.

- ***Focus on structural changes*** – seeing disadvantage as part of broader economic shifts and restructuring and labour market trends (such as the decline of manufacturing in Australia) and linking household data to these shifts;
- ***Focus on identifying demographic trends*** – seeing disadvantage as reflected in concentrations of household and demographic data (particularly around employment, education and income), and then drawing broader social implications from this;
- ***Focus on commercial trends and shifts*** – seeing disadvantage as linked to shifts of commercial interest and investment in a local area (this is not possible to see in Census data, but may be possible to determine from other ABS statistics, such as SME numbers over time, though this seems not to have been the focus of research in Australia to date).

The identification of similar factors impacting on decline have created the foundations for initiating Place-based Impact Investment in other jurisdictions.

A number of frameworks exist for measuring and/or ranking place-based disadvantage in Australia. The most widely used is the Socio-Economic Indexes for Areas (SEIFA) which consist of four indexes: Index of Relative Socio-Economic Disadvantage; Index of Relative Socio-Economic Advantage and Disadvantage; Index of Education and Occupation; and Index of Economic Resources [Pink, 2008;p1]. The Index of Relative Socio-Economic Disadvantage

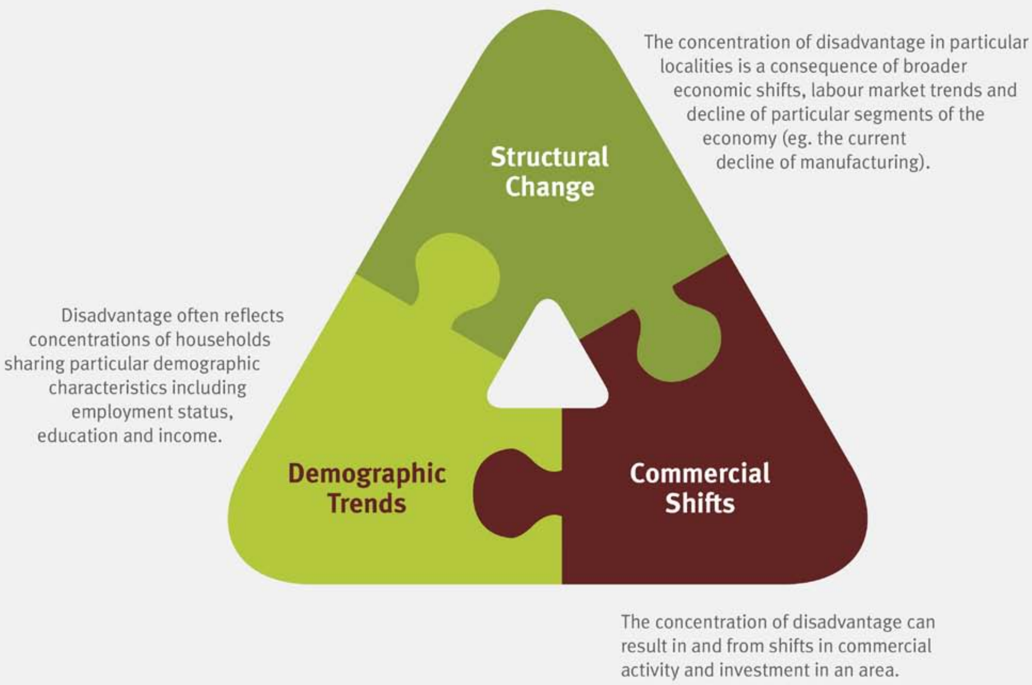

Figure 13
Three key analysis lenses that signal decline and disadvantage in Australia

is used more frequently as a general measure of disadvantage in Australia using variables across a broad set of socio-economic dimensions including income, education, employment, occupation and housing variables.

Another framework has been developed by Baum and his colleagues [Baum, 2006; Baum et al, 2006; Baum and Mitchell, 2009], who have analysed a broad range of variables that characterise levels of advantage and disadvantage in Australian urban settings. Using a clustering methodology across these variables they have constructed a typology of advantage and disadvantage in Australian cities, which could inform an assessment of under-investment in this context. *Table 1* outlines Baum's [2006] typology.

According to this typology, the indicators that distinguish what Baum refers to as 'advantaged' and 'disadvantaged' localities centre particularly on the proportions of:

- Workers in new and old economy industry sectors (eg. technology vs manufacturing);
- Labour force participation rates;
- Levels of adult and youth unemployment;
- Single Parent Households;
- People with low education;
- Below average incomes and wage levels;
- Financial and mortgage stress.

ADVANTAGED

DISADVANTAGED

Baums' Locality Type	Characteristics
Extremely advantaged new economy localities	Highest proportion of workers in new economy sectors, highest proportion of educated professionals, highest average wage. Below average levels of persons employed in vulnerable occupations and with low education levels. Below average levels of youth and adult unemployment.
Middle-class suburban localities	Above average wage levels, new economy workers and educated professionals. Middle suburbs, doing well on measures of affluence.
Gentrifying / population change localities	Mostly inner-city areas, characterised by gentrifying activities, population changes. Highest proportion of population movement, below average percentage of home owners. Above average wage levels, educated professionals and new economy workers.
Peri-urban localities	Extensions of metropolitan areas, mixture of agricultural and consumption driven localities, above average proportion of people employed in vulnerable occupations, low educational attainment, low levels of educated professionals and new economy workers, below average labour force participation and wages, but with low levels of non-earner households, single-parent families and low proportions of public housing tenants.
Working-class battler localities	Characteristics of disadvantage, such as low-incomes, but relatively good labour force participation and low concentration of disadvantaged families. Above average proportion of people with low education, below average wage levels, below average levels of youth and adult unemployment.
Battling family-mortgage stress localities	Battling mortgage belt, with concentrations of disadvantaged families. Above average proportions of mortgage stress, non-earner households and single parent households, proportion of vulnerable occupation employment and below average: wage, proportion of educated professionals and new economy workers.
Old-economy extremely disadvantaged localities	Highest proportion of workers in old economy industry sectors, above average levels of youth unemployment, non-earner households, single parent households, below average incomes, above average proportion of people with low education, below average labour force participation rates.

Table 1

Characteristics of Baum's Locality Typology

Source – Baum [2006; pp.6–32]

Baum's [2006] analysis incorporates labour market and structural indicators of disadvantage. Other Australian researchers have focussed on household level indicators, and overseas the indicators of decline focus on both these, and often also include commercial indicators. *Table 2* compares sets of indicators in Australian, British and Canadian research.

This table highlights two very important points about how disadvantage is defined and how this could shape an understanding of thresholds of decline in Australia.

First, it is clear that there are different emphases in the measurement of locality-based disadvantage and decline in Australia, even if all the research draws on similar data (ie. ABS Census Data in Australia). In addition to arguing for the development of commercial indicators of decline and disadvantage in Australia, it is particularly important to note the frameworks that link structural changes to disadvantage, especially in the current environment where there is a discussion nationally about the future of Australian manufacturing industries. As Gregory and Hunter [2003;p.18] demonstrate in their analysis of the links between labour market changes over time and the persistence of disadvantaged localities:

> *'job loss was spread unevenly across (collection districts) and fell disproportionately on areas where manufacturing employees live; this is to be expected given the initial employment pattern. The interesting point is the spatial nature of the persistence of joblessness... The persistence of the geographical dispersion of unemployment arises because of the combination of the industry pattern and geographic location of the lost jobs'* [Gregory and Hunter, 2003; p18].

Second, it is also clear that there are no internationally 'standardised' frameworks for measuring disadvantage, though many of the frameworks use the same or very similar basic indicators. This is important to note in the current context as any attempt to build Place-based Impact Investment would need to decide on a particular framework to use for determining in which localities they were to invest and why. So, for example, Bridges Ventures in the UK uses the IMD (Indicators of Multiple Disadvantage) framework on which to make assessments

Index of Relative Socio-Economic Disadvantage (SEIFA)

2006 Australian Bureau of Statistics

- % People with stated annual household equivalised income between $13,000 and $20,799
- % Households renting from Government or Community organisation
- % People (in the labour force) unemployed
- % One parent families with dependent offspring only
- % Households paying rent less than $120 per week (excluding $0 per week)
- % People aged under 70 who have a long-term health condition or disability and need assistance with core activities
- % Occupied private dwellings with no car
- % People who identified themselves as being of Aboriginal and/or Torres Straight Islander origin
- % Occupied private dwellings requiring one or more extra bedrooms
- % People aged 15 years and over who are separated or divorced
- % Employed people classified as Machinery Operators and Drivers
- % People aged 15 years and over who did not go to school
- % Employed people classified as Low Skill Community and Personal Service Workers
- % People who do not speak English well
- % Occupied private dwellings with no internet connection
- % Employed people classified as Labourers
- % People aged 15 years and over with no post-school qualifications

Key Baum Indicators [Baum, 2006] Focus on Structural Analysis (Urban Focus)	**Key Vinson Indicators** [Vinson, 2007] Focus on Household Analysis (Urban and Rural Focus)	**Index of Multiple Deprivation (IMD)** UK Government Focus on Household and Structural Analysis (Urban and Rural Focus)	**Characteristics of Decline** [CMHC, 2001; Carter and Polevychok, 2006] Focus on Commercial, Structural and Household Analysis (Urban Focus)
Socio-economic change – Residential turnover; point changes in labour force participation.	***Health –*** Low birth-weight, childhood injuries, deficient immunisation, mortality, disability, psychiatric hospital admissions, psychiatric patients in community, suicide.	***Health Deprivation and Disability –*** Higher proportion of population who die prematurely, or experiences poor health that impairs quality of life (both physical and mental health) or lives with a disability.	Lower resident socioeconomic status Welfare dependency High-ratio of single-parent families Changing population composition – with in-migration of migrants and immigrants with lower education/skill sets Deterioration of housing stock Aging housing stock Deterioration of real estate market Falling property and rent values Falling rates of home ownership Increase in absentee landlords Declining private investment Decline in public servicing and investment and deterioration of infrastructure Economic restructuring Old economy industries dominant Pessimistic attitude toward neighbourhood Weak community organisations Increased crime (real and perceived)
Occupational Characteristics – Educated professionals, vulnerable occupations.	***Social distress –*** Low family income; rental distress; home purchase stress; lone person households.	***Income Deprivation –*** Large proportion of population where adults and children in income support families (including a range of welfare payments); asylum seekers in receipt of welfare support; proportion of children and older people living in income deprived households.	
Human capital – Low formal human capital (minimum level of education).	***Education –*** Non-attendance at preschool; incomplete education; early school leaving; post-schooling qualifications.	***Education, Skills and Training Deprivation –*** Higher proportion of people with lower education, skills, training.	
Unemployment and labour force participation – Labour force participation, adult unemployment rate; youth unemployment rate; part-time workers.	***Economic –*** Unskilled workers; unemployment; long-term unemployment; dependency ratio; low mean taxable income; computer use; internet access.	***Employment Deprivation –*** Higher proportion of people of working age involuntarily excluded from the labour market.	
Housing – Owner occupiers; public housing tenants; rental financial stress; mortgage financial stress.	***Community Safety –*** Confirmed child maltreatment, criminal convictions, prison admissions, domestic violence.	***Barriers to Housing and Services –*** Lower physical and financial accessibility of housing and key local services – geographical barriers and wider barriers.	
Household / Demographic measures – Non-earner families; single parent families; age dependency; recent arrivals; poor English skills.		***Crime –*** Higher rate of recorded crime in four major crime types – violence, burglary, theft, criminal damage.	
		Living Environment Deprivation – Reduced quality of peoples immediate surroundings – quality of housing, air quality and road traffic accidents.	

Table 2

Overview of different indicators for measuring disadvantage, deprivation and decline (Australia, UK and Canada respectively).

Source – Pink (ABS SEIFA) [2008]; Baum [2006]; Vinson [2007]; UK Communities and Local Government, [2011]; CMHC [2001]; Carter and Polevychok, [2006]

as to where they will invest, but also so that they can establish baseline data from which to monitor and report progress on impacts over time. This is a crucial design question for any Place-Based Impact Investment initiative, and is further explored in the accompanying *'Building Blocks for Action'* document.

2.2.3 Priority Employment Areas

Perhaps the clearest example in Australia of a focus on the types of indicators that could be termed 'threshold' or 'triggers' of decline (and therefore potential triggers for targeting Place-based impact investment) has been in the Federal Governments Priority Employment Areas (PEA). These areas have been identified as 'at risk' of decline (albeit to a particular event, the global recession), on the basis of indicators that have been demonstrated as 'powerful determinants of current and future labour market performance' [DEEWR, 2010]. These indicators are outlined in adjacent box. The PEAs are identified using local government and statistical areas, and move from postcode level of specificity to statistical regions. In effect, they represent clusters of 'at risk' areas around Australia.

The advantage of using the PEA categorisation as a basis for building a Place-based Impact Investment strategy is threefold:

- The PEAs cover many of the areas deemed to be disadvantaged using frameworks such as those designed by Baum [2006] and Vinson [2007], with the exception of some of the rural and remote areas identified by Vinson [see appendix 2 for a comparison of localities included in these three frameworks];
- The PEAs are broader than a postcode area (though they do connect down to postcode level for analysis purposes), so they include a broader cross-section of areas than those deemed to be 'most disadvantaged' in other research such as the Socio-Economic Indexes for Areas (SEIFA) prepared by the ABS;
- The PEAs offer a recognised and standardised framework for identification of underserved areas across Australia.

The risk of using this framework as the basis of determining underserved communities is, however, that it is a policy framework developed for a Federal Government program [Keep Australia Working, DEEWR, 2009]. However this could be addressed by developing the PEA indicators further such that they become a broader basis for the development of trigger thresholds. This would take the indicators beyond the current policy application, and may actually mean that more areas in Australia would or could be identified as at risk of decline than is currently the case.

The application of this PEA framework in the context of designing an Australian Place-based Impact Investment is explored further in the accompanying '*Building Blocks for Action*' document.

Indicators used to identify Priority Employment Areas (PEAs)

- ***High unemployment rate –*** those regions that already face high levels of labour market disadvantage may be recording a high unemployment rate and/or poor employment growth/participation rates;
- ***Pick-up in unemployment beneficiaries since the start of the global recession –*** those regions displaying a notable pick-up in unemployment beneficiary numbers during the global recession and which may be 'at risk' of employment losses and increases in unemployment as the slowdown takes full effect;
- ***Proportion of population on income support –*** those regions that already have a high proportion of their population on Centrelink income support);
- ***Low educational attainment –*** those regions whose population has poor educational attainment levels/low skills); *and*
- ***Industry structure –*** those regions with a high concentration of industries that are likely to exhibit/or are exhibiting a significant decrease in employment (or rise in unemployment) due to the global recession (e.g. those with high concentrations of manufacturing and financial and insurance services, to cite two examples).

Source – DEEWR

3

SECTION THREE

Creating Jobs in Place – A Key Focus for Place-based Impact Investment in Australia

IN ORDER to address place-based under-investment in Australia there is a need to address geographical concentrations of joblessness. This requires not only people-centred responses, but also place-based approaches. Further there is a need for the creation of a job bias towards those areas where joblessness is most concentrated. This requires the creation of new jobs in those areas that are accessible to local residents and it requires investment into critical areas such as education, skill development, and health.

MOST NEW jobs in Australia and internationally are created by and in SMEs. If a job bias is to be created towards areas where joblessness is most concentrated, then SMEs need to be a key part of the strategy. In order to grow and develop, SMEs need access not only to working capital (for survival) and asset-building capital, but also to risk capital (for early stage development), and growth capital (both debt and equity).

THERE ARE both supply and demand gaps in SME finance in Australia. These gaps relate to the availability, cost and access to debt, equity and mezzanine finance, and also to the investment-readiness of many SMEs. Any Place-based Investment initiative needs to address both supply and demand-side gaps. Investing in SMEs also has impacts beyond jobs, with SMEs being important anchors and contributors to local economic development.

3.1 PREVENTATIVE AND RESTORATIVE INTERVENTIONS

Place-based responses to halting and reversing decline and addressing under-investment can be preventative, or restorative, or both. They can focus on communities that are declining, distressed or disadvantaged, or at-risk of any of these. *Figure 14* illustrates how such approaches could align with the spectrum of economic and social 'health' outlined in the previous section.

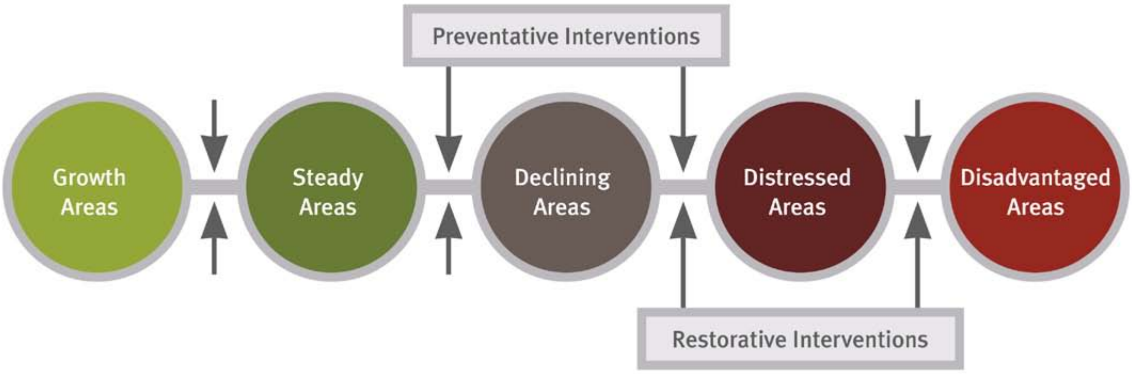

Figure 14
Preventative and Restorative interventions in declining areas

This section will focus on how Place-based Impact Investment could contribute to addressing decline and disadvantage (either as a preventative and/or restorative intervention) through:

- A focus on reversing the spiral of under-investment within a systemic framework;
- The creation of new, quality jobs based in and around declining communities, and the retention of existing jobs;
- The encouragement of dynamic local economic development that could generate and retain wealth, and thereby help build pathways out of decline and disadvantage.

3.2 FINDING AN IMPACT FOCUS WITHIN A SYSTEMIC UNDERSTANDING OF UNDER-INVESTMENT

Figure 12 in the previous section outlined a systemic framework for reversing the spiral of under-investment. From this figure it is clear that place-based preventative and restorative responses to halting decline and addressing under-investment could take a number of forms, and that different impact foci could form the basis for a Place-based Impact Investment approach. In particular, Place-based Impact Investment could focus on generating impacts in relation to any of the following areas which, as outlined in the previous section, are correlated with decline and disadvantage in Australia:

- Employment;
- Education and skills development;
- Health;
- Housing;
- Transport;
- Civil Society and Not-for-Profit organisations.

Indeed, Place-based Impact Investment internationally has developed around these core impact areas. So, for example, Bridges Ventures has developed a focus on education and skills, and on health and well-being, in addition to its focus on generating employment by investing in businesses in underserved areas [see Bridges, 2010 and 2011]. In the US, much Place-based Impact Investment is focussed on housing, and increasingly on ensuring investment into integrated property developments that take account of housing, commerce and transport [through, for example, multi-function transport hubs in underserved areas – see Srivastava et al, 2010].

In the Australian context Place-based Impact Investment could also be explored in relation to all or any of these impact areas. In the current report we have chosen to focus on one of these areas – that is, employment – as it represents a critical factor in preventing and restoring decline in underserved areas.

As joblessness features significantly in indicators of decline and disadvantage in Australia, a focus on building and growing thriving and responsible businesses in underserved communities represents a critical issue for reversing and preventing further decline.

The fact that this report focuses on this impact area in particular is not meant to limit the discussion or scope of Place-based Impact Investment in Australia. Rather, it is hoped that by examining one focus area methodically, a deeper overall conversation about Place-based Impact Investment in Australia will be possible.

3.3 CREATING A *JOB-BIAS* IN UNDERSERVED COMMUNITIES

Research increasingly confirms that regional or national economic growth does not necessarily provide 'trickle down' benefits for distressed or disadvantaged communities. Direct interventions focussed on the provision of employment opportunities and ensuring access to these opportunities for residents, seem to be one of the few ways to address persistent geographical joblessness. So, as Gregory and Hunter [2003;p19] argue:

> *'the unemployment problem cannot be solved by macro policies which do not create a job bias towards those areas... In the absence of some intervention unemployment may continue to persist on a geographical basis'.*

The question, then, is how could such a job bias towards underserved areas be developed, and how should it be targeted? It is clear from a myriad of research that merely attracting big industries or businesses into underserved areas (so-called 'smoke-stack chasing') in the hope that they may create jobs is not a viable, long-term answer [see for example Silberberg, 2008; Fagan and Dowling, 2005]. Therefore, any exploration of how to create a job bias in underserved communities needs to consider not only what types of jobs could be created, but where (in what entities?), how (using what mechanisms?) and for whom (who is going be able to access the employment opportunities?).

In addition, it needs to be recognised that economic restructuring in Australia is an ongoing process, and there are expected to be further declines or at least shifts in particular industries (especially manufacturing) over coming years and perhaps decades. Therefore it is a case of not only growing new jobs, but also safeguarding or retaining jobs in those areas that are experiencing decline due to concentrations of manufacturing and other 'old economy' industries.

In the US, shifts in addressing decline began to occur with the dual recognition of the vital role played particularly by SMEs in job creation, and the realisation that economic development at a local level needs to harness and leverage capital in order to strengthen and grow local business competitiveness in an increasingly bifurcated market [Silberberg, 2008]. This recognition led communities away from seeking exogenous solutions to local economic decline (through, for example, smoke-stack chasing) to exploring the role capital could play in supporting and growing local businesses and building endogenous community economic development solutions.

This realisation has been mirrored in many other contexts and has led to the international acknowledgement that a key way to address joblessness in underserved communities, thereby halting decline and addressing under-investment, is to focus on how to grow and strengthen local SMEs [CFED, 2004]. Further, there is also increasing credence given to the role that capital, and access to capital, can play in local economic development and in particular in SME development [see for example, Seegul et al, 2010]. These realisations have created the catalyst and rationale for Place-based Impact Investment initiatives in contexts such as the US and the UK, and increasingly are doing so in Europe and Canada. This type of approach also has potential for application in Australia.

3.3.1 Linking SMEs and Job Creation

SMEs have an important role to play in employment creation. A number of researchers have found that overall SMEs create more jobs than larger companies [see for example, Neumark, 2008; Barnes and Haskel, 2002]. Halabisky [et al, 2006] found that small firms had the highest net job creation, and that younger and high growth-potential companies (referred to as 'gazelles') were more likely to generate new jobs (though this does need to be tempered with the reality that younger firms are more likely to fail, and may not be able to offer the most favourable employment conditions in their early years [Shane, 2009]).

SMEs are recognised internationally as the largest providers of employment, as an aggregated whole, in most countries, and are the largest providers of new jobs [OECD, 2009], with some estimating that over 70% of net new jobs are in SMEs [Hall, 2010]. In Australia, 'around 99.5% (102,000 businesses) of new employing businesses in 2005–2006 were SMEs' [Next Move Consulting, *www.nextmoveconsulting.com.au*]. In particular, service industry SMEs have created the most new jobs in Australia and in other OECD countries in the last decade [Hall, 2010; Braun, 2007].

In Australia ABS figures show that SMEs employ approximately 7.1 million people, which the Senate Economics Committee estimates represents half of Australia's workforce [2010]. Further, SMEs account for approximately 15% of Australia's GDP [ABS, in Braun, 2007;p10]. However, it is particular kinds of SMEs that have the most potential to actually grow employment. Therefore, in addition to these 'big picture' figures, it is important to understand the nature of the SME market in Australia in order to understand its links to employment and thereby establish a link to Place-based Impact Investment.

3.4 SMEs IN AUSTRALIA

Though there is no standard definition of SMEs in Australia, many people accept the Australian Bureau of Statistics (ABS) definition, which defines small business as having fewer than 20 employees, and an annual turnover of less than $5 million; with a medium sized business having fewer than 200 employees and an annual turnover between $5 million and $25 million.

There are two difficulties with this definition. First, these definitions are beginning to be out of step with international categorisations, which now suggest that a small business could have up to 50 employees, while a medium sized business has between 50 and 250 employees [see for example IRIS definitions, 2011 and official European Union definitions]. Indeed some authors argue that definitions of SMEs should focus not on numbers of employees at all, rather, 'revenue categories' should form the basis of definitions [see Douglas and Friedman-Dixon, 2011]. Further, there are also some discussions internationally about revisions of what annual turnover constitutes a medium sized business, with an upward trend in definitions.

Second, although micro-businesses are often included in the definition of SMEs, it is important in the current context that they are treated as a separate category. For the purposes of this report, a micro-business is one that employs less than five people (including non-employing businesses) and turns over less than $1 million. This last point is important in the Australian context, because almost 90% of SMEs in Australia turn over less than $1 million [ABS, 2011]. In addition, only 40% of businesses in Australia employ staff [ABS, 2011], with most of these employing between one and four people; and 67% of small businesses (including microbusinesses) are home-based [ABS in Braun, 2007], and are therefore limited in their employment capacity.

Given these factors, the definition of SMEs adopted in this report (and the accompanying *Building Blocks for Action* document) is:

> ***An SME has more than 5 and less than 250 employees and an annual turnover of $50 million or less.***

Too rigid a definition of SMEs may, in this context, be counterproductive. What is most important in relation to Place-based Impact Investment is that a business is grounded in and linked to place, and that this connection to place opens up potential for growing local employment.

Con-Foo [2010;p24] outlined some other characteristics of SMEs which are important for targeting Place-based Impact Investment:

- Approximately half of Australian SMEs are family owned and almost 60% of owners of these businesses plan to retire by 2016 [Seet and Graves, 2010];
- Only 10% of SMEs aspire to significant growth; and,
- SMEs have more difficulty than large businesses in obtaining finance.

Based on the available data, while SMEs appear to be distributed across the population centres of Australia, underserved areas that have poor social, economic and business infrastructure, do not have the concentrations of SMEs that exist in wealthier areas [see for example DEEWR report on South-Eastern Melbourne; Fagan et al, 2003; Fagan and Dowling, 2005].

The development of Place-based Impact Investment would benefit from further research exploring the links between SME development and employment. This could be included in evaluation of early Place-based Impact Investment initiatives.

3.5 THE ROLE OF CAPITAL IN CREATING AND RETAINING SME JOBS

If SMEs are to thrive and thereby develop their potential to retain and create more jobs, research suggests that a few elements are essential, including access to capital. This is particularly important in early stages and for growth, which in turn is linked to an SME's potential to both retain and create jobs.

Access to finance for Australian SMEs has been considered in two recent Federal Government Inquiries [Senate Economics References, 2010; and Committee and Parliamentary Joint Committee on Corporations and Financial Services, 2011]. The latter recognised that 'access to finance, particularly to debt funding, is a key part of a strong SME sector' [p.7]. It was also recognised that SMEs seek finance in order to smooth cash flow, enhance productivity, grow, innovate, survive and thereby retain staff.

A global survey recently found that SME access to finance also impacts significantly on their capacity to employ people [Watts, 2009].

Further, according to the CPA:

> *'SMEs facing severe cash flow problems, are almost three times as likely to lay off staff as those SMEs not so affected'* [2010;p.11].

Some forms of capital, particularly working capital, helps SMEs to retain employees and other capital helps to create new employment. Both are important to halting and reversing cycles of decline in communities.

In addition, an SMEs need for capital changes over the lifecycle and size of a company [see Douglas and Friedman-Dixon, 2011]. So, for example, access to working capital can be particularly important for smaller businesses and can play a critical role in the retention of staff during periods of economic stress. For growing companies access to other kinds of capital can be critical in creating new jobs.

Two forms of capital are more likely to help SMEs develop and create more jobs:

- ***Growth Capital*** – which helps established companies to grow and expand their business; *and*
- ***Risk Capital*** – which helps high-growth potential early stage companies to develop their businesses.

Whilst bank finance is a key source of finance for working capital and for capital to build assets in SMEs (through secured loans), bank finance may not be the most appropriate source of funding for growth or risk capital [see for example BIS, 2009]. Such capital is more aligned with 'investment' than with 'banking'.

In addition, banks are generally less likely to engage in 'investment decisions' as opposed to 'credit decisions', and are generally less willing to take on the risk of longer term growth financing [BIS, 2009].

This creates a dilemma in the Australian context, as the vast majority of the finance accessed by SMEs in Australia is bank finance. This dilemma has led some commentators to argue that:

> *'the Australian banking industry, as it is presently structured, is unable to fund the needs of small and medium-sized businesses'* [Gottliebsen, 2010; also quoted in Healy, 2010;p.2].

This is a critical point for consideration in the development of Place-based Impact Investment, and will be further explored in the next section.

3.5.1 SME Access to Capital in Australia

According to the CPA and the RBA, Australian SMEs have few options for accessing capital other than through bank finance. The CPA argues that 'SMEs do not have access to well developed alternatives to bank finance' such as equity markets, corporate bonds and other debt alternatives [CPA, 2010;p.7]. The RBA suggests that it is difficult and costly for most SMEs to raise funds directly from either debt or equity capital markets (through corporate bonds or public listing for example) [RBA, 2010;p.1].

Further, as access to credit tightens, demand has also dropped, with difficult economic conditions leading to reduced confidence amongst SMEs, and therefore less demand for finance though perhaps not less need [see CPA Australia / CGA Canada, 2010]. A recent Sensis SME survey [June, 2011] suggests that 44% of SMEs still feel it is difficult to access finance. This may not, however, be the same as having a loan application rejected. Freel et al [2010;p.2] argue that 'the extent and economic significance of credit rationing to small firms is highly contested', with some studies suggesting that data often includes both those who were denied funding and those that were discouraged from applying.

Following the Global Financial Crisis many commentators have argued that both in Australia and internationally, SME lending has declined, with some suggesting that this is 'in part due to demand (and) in part, evidence would suggest, due to difficulties accessing credit' [Healy, 2010].

Some go so far as to argue that 'there has been a dramatic decline in the number of suppliers of loans to small and medium business' [Gottliebsen, 2010]. The NSW Business Chamber [2011;p.1] argues that the reduction in choice of lenders has significant impacts for SMEs:

> *'This is not a healthy outcome for the small business sector – the deterioration in competition has reduced the accessibility of small business finance and increased the price at which finance is available. Spreads on small business loans have blown out from around 200 basis points to more than 400 basis points, and business credit has now fallen for 25 months'.*

A 'supply-gap' is frequently cited in relation to finance for SMEs [see OECD, 2006; Hall, 2010; NESTA, 2011], and this may not only refer to a gap in access to debt capital. Indeed access to equity capital for Australian SMEs is even more restricted. Finance alternatives to debt are not well understood nor utilised in the Australian SME sector. Recent research suggests that there is not only a gap in the supply of such capital, but also significant demand-side gaps such as a knowledge gap and an empathy gap, with business owners having a limited knowledge of the place of equity capital in business growth, and further, often expressing antipathy towards equity as an option [Seet and Graves, 2010;p.2]. The next section will explore these gaps further.

3.5.2 The Role of Equity Capital

This gap in equity capital is unfortunate as much research internationally points to the important role that equity can play in SME growth and development, with some researchers going so far as to suggest that for SMEs equity capital represents the:

> *'financial lifeblood to encourage job creation, business expansion and innovation'* [Seegull et al, 2010;p.8].

This gap has also been recognised and responded to with the establishment of the Australian Small Scale Offerings Board (ASSOB) which was founded to address the inaccessibility of equity capital in the Australian SME market. Puls [in Parker, 2008;p.1] argues that:

> *'many SMEs believe that the only way to get growth capital is from a bank loan. They don't realise that they can structure a funding proposal along equity lines, selling shares in their company to private investors. It means*

that there isn't a constant drain on revenue from interest payments, and they aren't prey to interest rate changes driven by events beyond their control'.

Debt capital has dominated discussions of SME finance in Australia and there certainly is a role for debt to play in Place-based Impact Investment. However, such initiatives also need to explore what role equity could play in investment that enables SMEs to create more jobs in underserved areas. Debt and equity have different roles to play in a business [see *Table 3*], and the appropriateness and accessibility of both is a critical element of SME development and growth.

What has also become apparent in overseas Impact Investment markets, is that focussing only on debt and equity in their 'pure forms' limits how investment can be structured and delivered to optimise both impact and return. The strengths and limitations of both debt and equity capital mean that it can be more helpful in Impact Investment to consider the spectrum of options between these two investment classes [see *figure 15*], and to structure investments using instruments that are most appropriate and most able to maximise the potential of the investment to generate impacts and deliver returns to investors.

Indeed, both in the UK and the US, Place-based Impact Investment has focussed on structuring investment capital in such a way that: the needs of both investors and the SMEs are met; and the investment is most likely to create more local jobs and economic activity. In both these jurisdictions, Place-based Impact Investment initiatives have explored a range of financial products ranging from debt (through loans); to private equity and venture capital; and a range of mezzanine, quasi-equity and near-equity structures. These mezzanine or hybrid finance instruments have:

'both equity-like and debt-like features: (they) dilute an entrepreneur's ownership less than straight equity, but provide the lender the

	Debt Capital in an SME	Equity Capital in an SME
Roles	Working capital, bridging finance, asset development, mortgages,	Growth, expansion, innovation
Access	Greater emphasis on the track record of the SME, its performance and experience.	Greater emphasis on the growth potential of the SME and the personal skills and qualities of the owner-manager; the industry that the SME sits inside and the location of the SME can also be important considerations.
Advantages	Provided the debt is repaid, there is no transfer of ownership involved in the transaction.	Patient capital – does not require the immediate cashflow to repay; can contribute to improved performance and overall value of the SME over time; can help to grow the company and therefore improve options for employment and innovation.
Requirements	Sufficient cash flow to pay back the debt with interest. High need for liquidity.	Willingness on the part of the owner to transfer some ownership to the equity investor.
Investor Expectations	Fixed interest investment, lower risk profile, with an expectation of steady, regular income over the term of the investment.	Growth investment, high risk but with the potential for higher returns. Longer term investment.

Table 3
An overview of debt and equity in a small to medium sized enterprise.

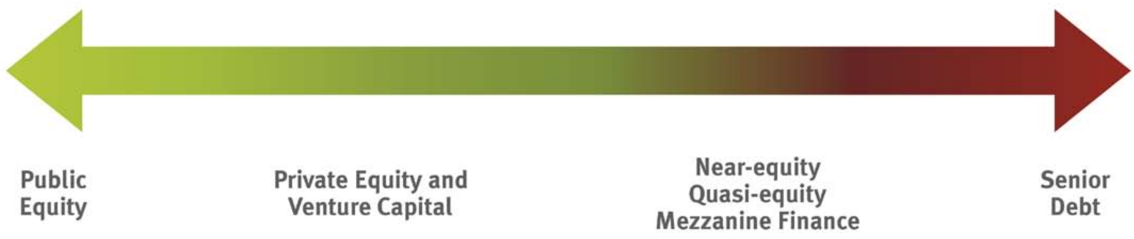

Figure 15
Impact Investment focussed on SMEs in underserved communities needs to explore asset classes and alternatives between public equity and senior debt

> *security (and the potential upside) of a stake in the firm'* [Zeidman, 2003;p.37].

Given that a lack of access to debt and equity (particularly in terms of risk and growth capital) has been identified in Australia's SME sector, it is likely that there is also potential for a range of mezzanine financial products. Though there has been some discussion of mezzanine finance options in the Australian context [see for example, Charlton, 2009; Burkett, 2010], this remains an area that requires further exploration, particularly as it relates to SME financing.

3.5.3 'Capital Gaps' on Supply and Demand Sides

Gaps in the current market for SME finance apply to the demand-side as well as the supply-side [see *figure 16*] [Joy et al, 2011]. This is a critical point – it indicates that as with other areas of Impact Investment, capital alone may not be sufficient to have an impact in underserved communities. Mason and Kwok [2010;p.3] highlight that:

> *'investors are (often) frustrated by the low quality of the investment opportunities that they see and so are unable to invest as*

Supply-Side Gaps

- ***Availability*** – of finance from major lenders has declined [ACCI, 2010].
- ***Choice –*** decline in number and choice of suppliers, especially second tier lenders [Gottliebsen, 2010].
- ***Access*** – particularly to finance beyond working capital (ie. overdrafts and credit cards), and especially to risk and growth capital (ie. long-term capital).
- ***Cost Structure*** – increasing costs of capital for SMEs.
- ***Arms-length Assessment*** – costs of relationship banking have meant that loan assessments are now often made on set criteria rather than detailed assessments of individual businesses.

Demand-Side Gaps

- ***Investability*** – capacity of SME to service debt or develop growth potential to ensure returns to investors.
- ***Investment Readiness*** – capability of an SME in terms of management skills, plans and financial information, presentation of the business.
- ***Knowledge*** – of capital options [Seet and Graves, 2010].
- ***Empathy, willingness or confidence*** – to engage with mezzanine or equity finance options [Seet and Graves, 2010].
- ***Ambition*** – to grow and explore options for growth capital (as Con-Foo [2010] suggests only 10% of Australian SMEs aspire to significant growth).

Figure 16
Supply and Demand-side Gaps in Capital for SME Growth and Development in Australia

frequently or as much as they would like... (There is a) recognition that a supply side approach to address access to finance issues must be accompanied by demand-side initiatives which enhance the quality of deal flow'.

From this perspective, development of a pipeline of 'investment ready' transactions is as important as ensuring that there is adequate access to capital for SMEs. Further there are also questions as to the willingness of some SMEs to explore finance further. For example, despite the importance of capital to SME development, the CPA Australia/Asia-Pacific Small Business Survey [2009] found that only 20% of Australian SMEs had an existing loan, with most relying on owner equity and cash flow for capital. Con-Foo [2010] also estimated that only about 30% of SMEs are willing to take external equity.

Place-based Impact Investment cannot therefore only be focussed on addressing questions of capital supply, but must seriously consider how demand-side gaps can be addressed. There are precedents for this. In Australia and elsewhere Impact Investment focussing on social enterprise has dealt with similar challenges [eg. see SEDIF; Burkett, 2010]. Also, the availability of capital has contributed to generation of innovative business and investment propositions targeting under-invested communities [eg Bridges Ventures portfolio in the UK [Bridges 2010 and 2011]; Pacific Community Ventures in the US. For further information see the case studies in *appendix 2*].

3.6 BEYOND JOBS – SMEs AS CONTRIBUTORS TO BUILDING DYNAMIC LOCAL ECONOMIES

Australian SMEs tend, more than larger or multinational corporations, to be connected to place, and thus play an important role not only in the macroeconomic landscape, but also in relation to local economies. For example:

'small businesses which tend to be independently – and locally-owned often play a vital role in generating and retaining wealth in local economies' [Price Waterhouse Coopers, 2007;p.vii].

This is important in terms of the design of Place-based Impact Investment because it is not only the direct impacts of employment generation that are considered in tracking impact performance, but also the indirect impacts of how such investment contributes to local economic development. These are often referred to in the literature as the 'multiplier effects' of growing and strengthening SMEs through investment [see New Economics Foundation, *www.neweconomics.org*; Civic Economics, *www.civiceconomics.com*].

These indirect impacts relate to:

- The quantum of wages that flow from SMEs into the local economy (through the employment of local people);
- The local spend in the supply chain of an SME which can help to grow other local businesses and thereby contribute to the overall economic development of an underserved area;
- The ways in which strong and growing SMEs can act as an anchor and/or attractor for other businesses into an area, thereby crowding-in more economic activity and potentially generating further jobs and local development [see for example, Moretti, 2010];
- The fact that robust locally based SMEs tend to give more charitable donations locally, thereby helping to strengthen place-based civil society, again adding to the well-being of the local economy.

Further, Seidman [2004;p.1] highlights the role that local businesses play as 'positive attractors' in a neighbourhood:

'commercial districts play a central role in the life of urban neighbourhoods. When vibrant and healthy, these districts attract residents and promote investment. When dormant and distressed, they attract criminal activity and promote disinvestment. The condition of the commercial district shapes a neighbourhood's image and signals its desirability as a place to live, work, play and invest'.

Investing in local SMEs can therefore 'crowd-in' other businesses, potentially contributing to starting positive cycles of revitalisation. *Figure 17* summarises this.

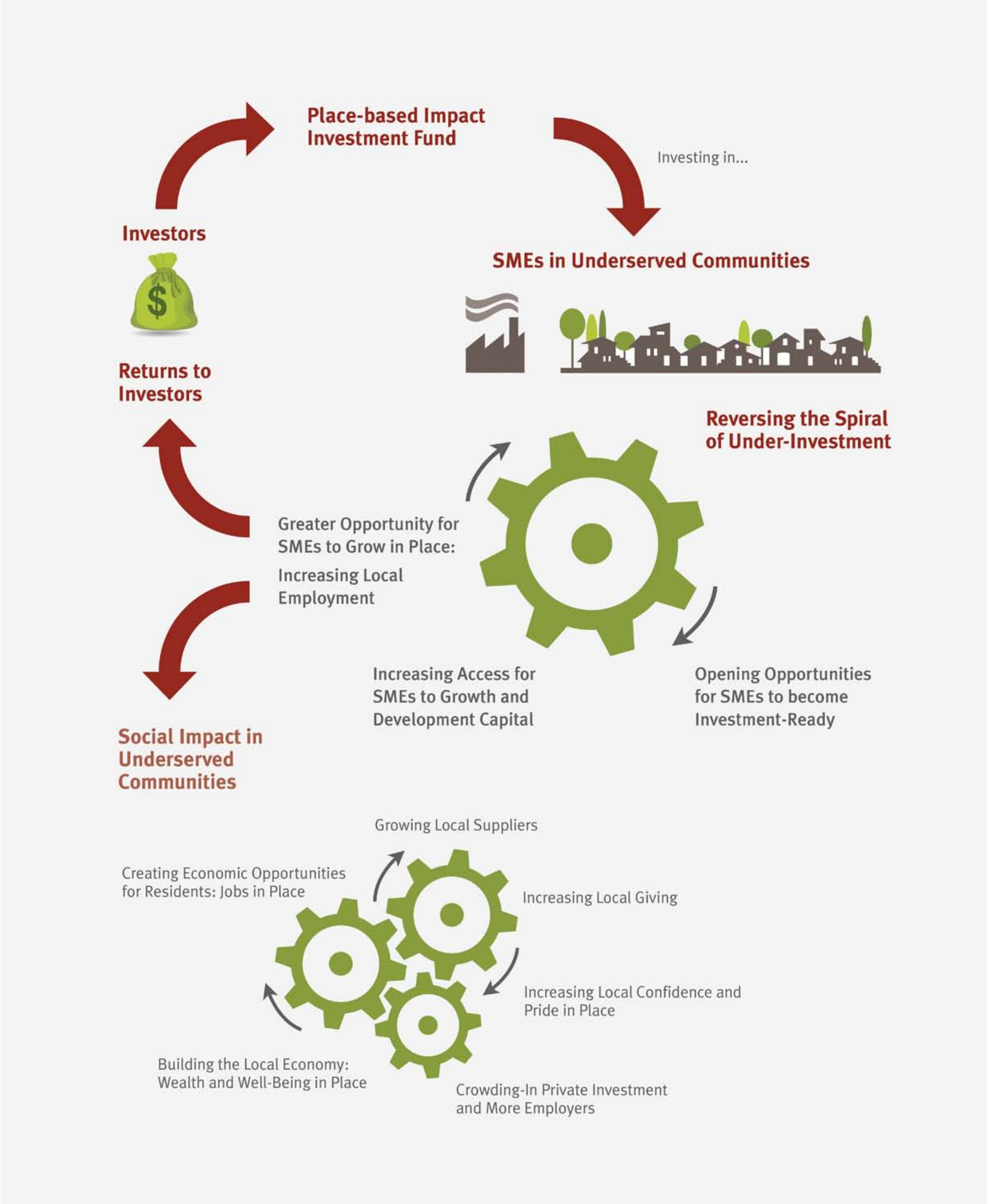

Figure 17

Place-based Impact Investment – working to build positive cycles of revitalisation and regeneration

4

SECTION FOUR

Increasing the Flow of Investment into Underserved Communities – Opportunities and Challenges for Practice

AT THE HEART of Place-based Impact Investment is the design of how investments can be structured and channelled to reach underserved markets and generate both an impact and a return. In overseas contexts this has been supported through the development of: enabling policy frameworks; specialist financial intermediaries such as CDFIs; and, growing and diversifying the supply of capital.

POLICY FRAMEWORKS that support Impact Investment help to: stimulate the supply of capital; direct this capital to underserved markets; and ensure that investment targets in those markets (such as SMEs) are investment-ready. The development of specialist financial intermediaries can help to extend the reach of Impact Investment into underserved markets and ensure that the investment cycle continues to be focussed on both impact and returns.

COMMUNITY DEVELOPMENT Finance Institutions are key intermediaries in Impact Investment, and have achieved significant impacts in overseas contexts. The development and growth of Place-based Impact Investment in Australia will require growing and diversifying the supply of capital for Impact Investment. Particularly important is the development of innovation and engagement across and between investment and philanthropy.

This section explores how Place-based Impact Investment has worked in practice in other jurisdictions and what learnings can be applied in the Australian context.

The analysis here focuses on the key design question for Place-based Impact investment: how to bridge supply and demand for capital in ways that optimise both social impact and financial returns. This goes to the core of Place-based Impact Investment. It is about developing a pipeline of investment proposals that link the ***need*** and ***opportunity*** in under-invested communities with appropriate investment ***structures*** and ***vehicles*** through which investors can participate. This is illustrated in *figure 18*.

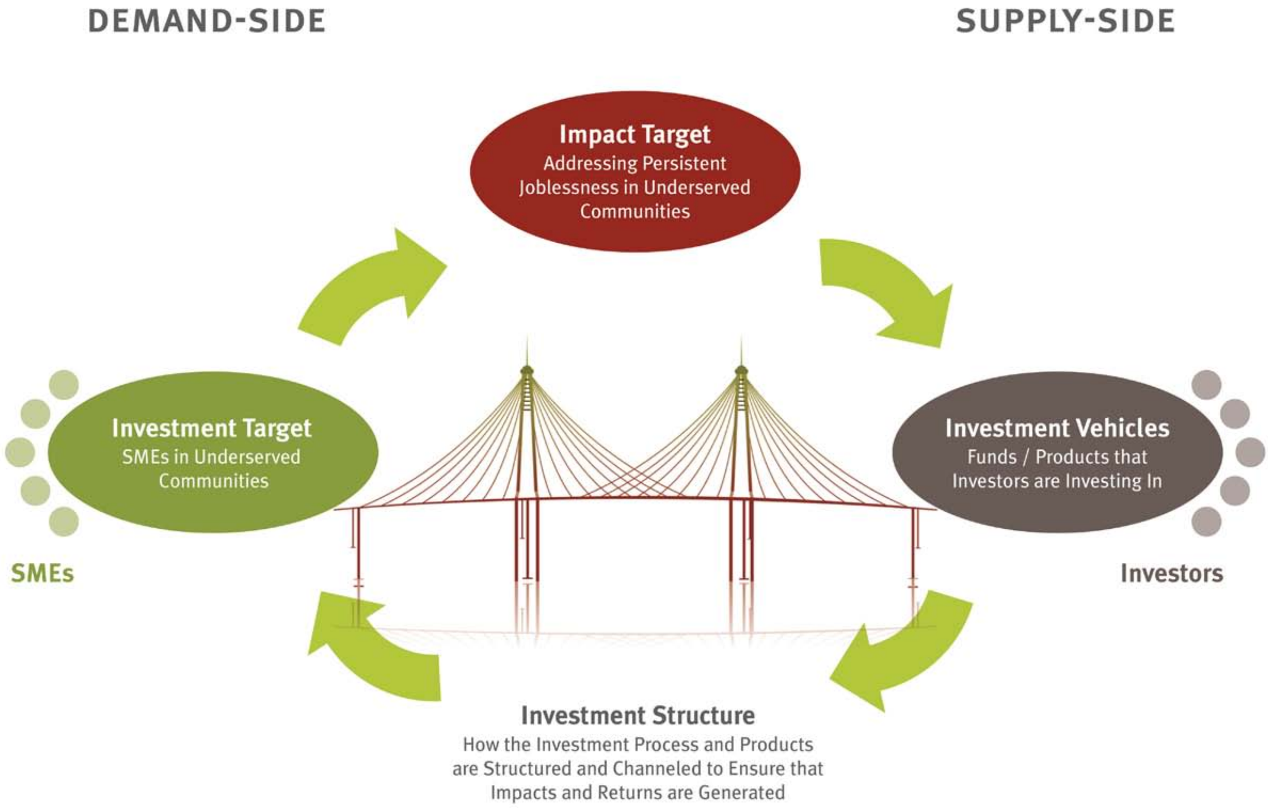

Figure 18

Bridging the supply and demand-sides in order to optimise impact and generate returns

For early adopters, such approaches also provide other points of differentiation. Those seeking finance have the opportunity to grow while the market is still under-developed. Those providing finance may have access to available investable propositions and may also be able to offer their clients a new value proposition within a new kind of investment which offers acceptable financial return and provides social benefit.

Three key areas benefit from an examination of overseas experience:

- Policy frameworks for supporting cross-sector engagement in Place-based Impact Investment;
- The role of intermediary financial institutions in bridging supply and demand-sides of Impact Investment;
- Growing and diversifying the supply of capital for Impact Investment generally and Place-based Impact Investment in particular.

4.1 DEVELOPING POLICY FRAMEWORKS FOR CROSS-SECTOR ENGAGEMENT

There is an element of market failure involved in the conditions leading to under-investment in particular communities. Market failure signifies:

> *'a situation where the market has not and cannot of itself be expected to deliver an efficient outcome... (with) public sector interventions (needed to) redress these market failures to ensure fair and equitable markets and maximise the welfare (economic, social and environmental) benefits to society'* [GHK, 2010;p.12].

In both the UK and the US policy frameworks have been developed which stimulate the supply of capital into underserved markets; and support opportunities for businesses in underserved areas to become investment-ready [Thornley

Supply Development

The Community Reinvestment Act [1977] (CRA) was designed to address the lack of investment and lending into low-income communities in the US, and particularly lending for home mortgages and small businesses. Since its inception it has undergone several additions and changes, but these have, overall, helped to strengthen it. The CRA has been instrumental in engaging banks and other financial institutions in ensuring that their services reach underserved communities, and it has also contributed to developing the supply of capital for investment into these communities. The CRA has helped to draw private capital into the CDFI sector.

The ***CDFI Fund***, established in 1994, was designed to assist in the expansion of CDFIs to provide financial services (particularly loans and investments) in underserved communities. It provides financial and technical assistance to CDFIs, rewards banks who invest in underserved areas, and operates the New Market Tax Credit scheme which incentivises investment into underserved areas.

The fund has, to date, 'invested more than $1.3 billion and catalysed tens of billions in private investment' because the CDFI fund monies are used to leverage private capital [Thornley et al, 2011;p.41]. Although data has not consistently been collected from the funded CDFIs, the impact of the fund has been significant. For example, between 2003 and 2005 the fund helped CDFIs to lend to 8000 SMEs, creating or maintaining more than 185,000 jobs [Thornley et al, 2011].

Directing Capital

The ***New Markets Tax Credit Scheme*** was initiated in 2000, and was designed to increase the flow of capital into underserved areas by incentivising qualifying investment through a tax credit. Community Development Entities compete for the tax credits and then use the capital to finance investments that have positive impacts in the underserved communities, mostly through subsidised debt. Currently the NMTC is better applied to larger community infrastructure projects than to SME investment, however there are plans underway in the current administration to direct the capital from NMTC towards small business investment in underserved communities [Thornley et al, 2011]. To date NMTC investors have invested over $20 billion into 'low income urban and rural communities throughout the US' with two-thirds of this sum invested in communities experiencing 'severe economic distress' where poverty rates are at or above 30% [Gambrell, 2011].

Small Business Investment Corporations (SBICs) are privately owned and managed investment corporations licensed by the SBA to provide investment and finance to SMEs. The SBIC raise funds in their own right to undertake this investment work, but also borrow funds 'at favourable rates because the SBA guarantees the debenture (loan obligation)' [Dilger and Gonzales, 2011;p. ii]. To date the SBIC program has directed $15 billion of investment into SMEs, of which $8.8 billion has been raised from private capital and $6.2 billion guaranteed by the SBA [Dilger and Gonzales, 2011]. Some of the SBICs are place-based and concentrate on investing in SMEs in particular geographic areas, some of which include underserved communities.

Demand Development

The ***Small Business Administration*** (SBA) was established in 1953 and currently coordinates a number of programs designed to support small business development, including support and technical assistance, a loan guarantee program to enhance SME access to debt capital, direct lending to SMEs who are not able to lend from mainstream sources, and programs that assist SMEs to access government contracts. In the loan guarantee program, the SBA takes on part of the risk held by commercial lenders providing loans to qualifying SMEs. The maximum loan is $2 million under the basic loan guarantee (where the loan is guaranteed for between 75–85% of its value). Under the Certified Development Company loan program which focussed on community economic development goals (particularly in underserved areas) the maximum SBA debenture is $1.5 million for job creation, $2 million for public policy goals; and $4 million for small manufacturers [Kalman and Elliott, 2006;p.5].

The SBA also provides management training, informational resources and technical assistance to SMEs, and assists SMEs with acquiring preferential considerations for government contracts, in addition to loans assisting SMEs to meet requirements of such contracts [Kalman and Elliott, 2006;p.3].

The ***Economic Development Administration*** (EDA) formed under the Department of Commerce was formed in 1965 to generate, retain and stimulate jobs, and industrial and commercial growth in underserved areas. More recently the EDA has supported innovative approaches to building SME capacity in underserved areas.

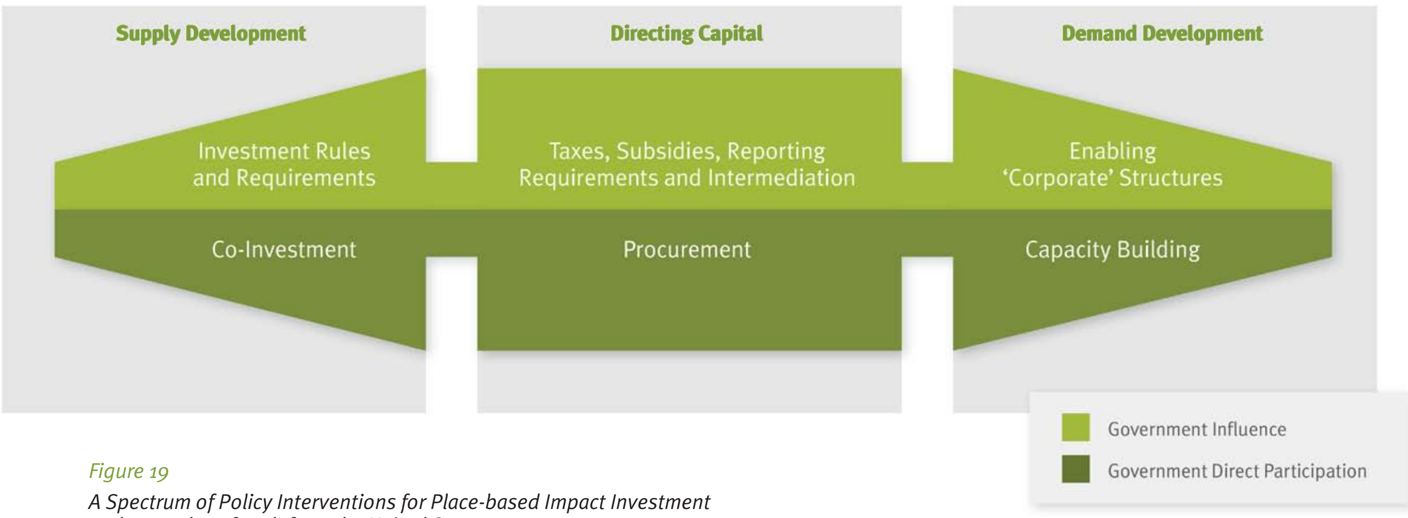

Figure 19

A Spectrum of Policy Interventions for Place-based Impact Investment and examples of each from the United States

Source – Thornley et al, 2011;p8 [figure] et al, 2011]. Policy initiatives have included: the funding of specialist agencies (such as the Small Business Administration in the US); the fostering of public-private partnerships; and the development of a range of specialist financial intermediaries (such as CDFIs) who can channel capital into underserved markets effectively, and who have a 'double bottom line' mission, that is, to generate a social impact and to deliver a financial return.

Figure 19 and the accompanying table illustrate the shape that policy interventions in the US have taken in relation to demand, supply and directing capital [Thornley et al 2011]. This overview highlights the crucial role that policy and legislative frameworks can play. This ranges from catalysing a response to under-investment, to enabling a flow of capital to ensure sufficient scale and reach to optimise impact, and attracting other sources of investment. The research demonstrates that intermediaries such as CDFIs would not have achieved the sort of scale that they have in the US without legislation such as the Community Reinvestment Act or initiatives such as the CDFI fund and the New Market Tax Credit scheme [see for example Moy et al, 2008].

In the Australian context this points to a need for coordination and integration of policy initiatives directed to supporting the development of the Impact Investment market and further developing government funding mechanisms over time.

There are a range of policy and programs areas in Australia where government seeks to encourage employment and economic activity (ranging from employment services to encouraging particular industry sectors and support for economic innovation). In addition, there are policies and programs to encourage investment into high potential industries [see for example, the Early Stage Venture Capital Limited Partnership (ESVCLP); Renewable Energy Equity Fund (REEF), and other AusIndustry programs, *www.ausindustry.gov.au*]. There have also been grant-focussed place-based funds made available to regions experiencing structural adjustment [see for example, Geelong Investment and Innovation Fund (GIFF); South East South Australia Innovation and Investment Fund (SESAIIF); Illawarra Region Innovation and Investment Fund (IRIIF) – see *www.ausindustry.gov.au*]. However, there has not yet been focussed or coordinated policy to encourage Place-based Impact Investment that goes beyond grant funding and seeks to generate financial returns in addition to social impacts. The Senate Economic Reference Committee [2011] has recommended the establishment of a Social Finance Taskforce. However, the committee was focussed on finance for the not-for-profit sector, and therefore in its deliberations it did not place the same emphasis on reversing cycles of under-investment in community as has been a feature in the work of similar taskforces in other jurisdictions. It is hoped that this report will stimulate debate and discussion that could result in the inclusion of Place-based Impact Investment within the agenda of a Social Finance Taskforce, were this committee's recommendation to be implemented in Australia.

4.2 RECOGNISING THE ROLE OF INTERMEDIARIES IN PLACE-BASED IMPACT INVESTMENT

Intermediaries are institutions that create or contribute to building bridges between the supply and demand-sides of the market. Intermediaries can take a number of forms – from investment advisors to structured institutions who help to raise and structure capital appropriately to meet both supply and demand-side needs. Intermediaries have played a critical role in developing Place-based Impact Investment particularly in the US over the past three decades and more recently in the UK.

One key type of intermediary critical to Place-based Impact Investment comes under the umbrella of 'Community Development Financial Institutions' (CDFIs). There is a great deal of variety in the nature, form and focus of intermediaries within this category – with not all CDFIs focussing on SMEs (some focus on finance for other underserved markets, such as not-for-profit organisations, social enterprises and financially excluded individuals); or seeking other social impacts, such as affordable housing, community facilities or education.

Table 4 provides an overview of the products and services that intermediaries such as CDFIs offer in relation to addressing the capital supply and demand gaps for SMEs, particularly in relation to underserved areas, where the impacts are most needed and can generate most positive changes.

Type of Capital	Most appropriate funding mechanisms	Role of the CDFI intermediary in facilitating access to capital in underserved markets	Example of fund/initiative offering this type of capital to SMEs overseas
Working and Asset Development Capital	Debt	Offering accessible and affordable loan products to SMEs in underserved areas to assist in smoothing cash flows and building assets (both of which can have an impact on creating and safeguarding jobs in SMEs); Appraising SMEs capacity to service and manage debt capital; Supporting businesses to build financial capacity and capability.	HOPE Enterprise Corporation is a CDFI operating in the Mid-South Delta Region of the US. It provides loans of between $5,000 and $2 million to SMEs in this region for equipment, assets and working capital, in addition to a range of other finance and investment products. HOPE has provided loans and technical assistance to more than 2000 entrepreneurs in the region and generated more than $100 million in financing over the past 15 years. *[www.hope-ec.org]*
Growth Capital	Convertible debt Mezzanine finance subordinated debt; royalty financing Equity	Offering growth capital to ambitious SMEs with high-growth potential. The intermediary usually carefully screens and appraises SMEs and then structures investment to optimise potential for generating impact and delivering returns.	TRF Private Equity invests in growing companies located in or near urban areas in Pennsylvania, New Jersey, Delaware, Maryland and Washington DC. They focus particularly on manufacturing and service related industries. They structure investments using both preferred equity and subordinated debt. *[www.trfprivateequity.com]*
Risk Capital	Equity Convertible debt	Offering capital for high-growth potential start-ups and early stage SMEs who need capital and support to develop their businesses. As it is a high-risk investment, intermediaries usually have very careful appraisal and ongoing support systems in place.	The CEI Community Ventures Fund (CCVF) invests in companies in a variety of sectors and stages, located in or willing to move to low-income target communities across Maine, New Hampshire and Vermont. Investments are structured as preferred stock or subordinated debt with warrants. *[www.ceicommunityventures.com]*
Technical Assistance and Support	Linked to finance – *may be condition of finance approval; may be a fee for service involved.*	SMEs are offered support and technical assistance before, during and after loans or investment, to ensure 'investment readiness', as part of risk management and to ensure that the SME is able to generate impacts and deliver returns over the life of the loan/investment.	Pacific Community Ventures (PCV) offers a 'Business Advising Program' that helps local businesses with strategic advice, discounted professional service referrals, one-on-one consultations and events. PCV focusses on small businesses in the manufacturing, distribution, restaurant and retail sectors in California. *[www.pacificcommunityventures.org]*

Table 4
Intermediaries Role in Addressing SME capital supply and demand gaps

There are many examples in other jurisdictions of such intermediaries developing. Bridges Ventures is a key example in the UK, but others are emerging also. In the US, there are a range of CDFIs and other intermediaries (prominent examples include Pacific Community Ventures; Coastal Enterprises Inc (CEI); and Seedco – see *appendix 1* for some detailed case studies). *Figure 20* outlines some of the key considerations in determining the need for intermediation in Impact Investment.

4.2.1 CDFIs are designed to achieve a double-bottom line

What is clear in overseas contexts is that intermediaries such as CDFIs play a critical role in extending the reach of Place-based Impact Investment into underserved and under-invested communities, and in ensuring that a 'double bottom line' mission is maintained over the lifecycle of investments [see for example, Rubin, 2011; Thornley and Daley, 2010]. CDFIs have a role to play in sourcing and managing funds (in

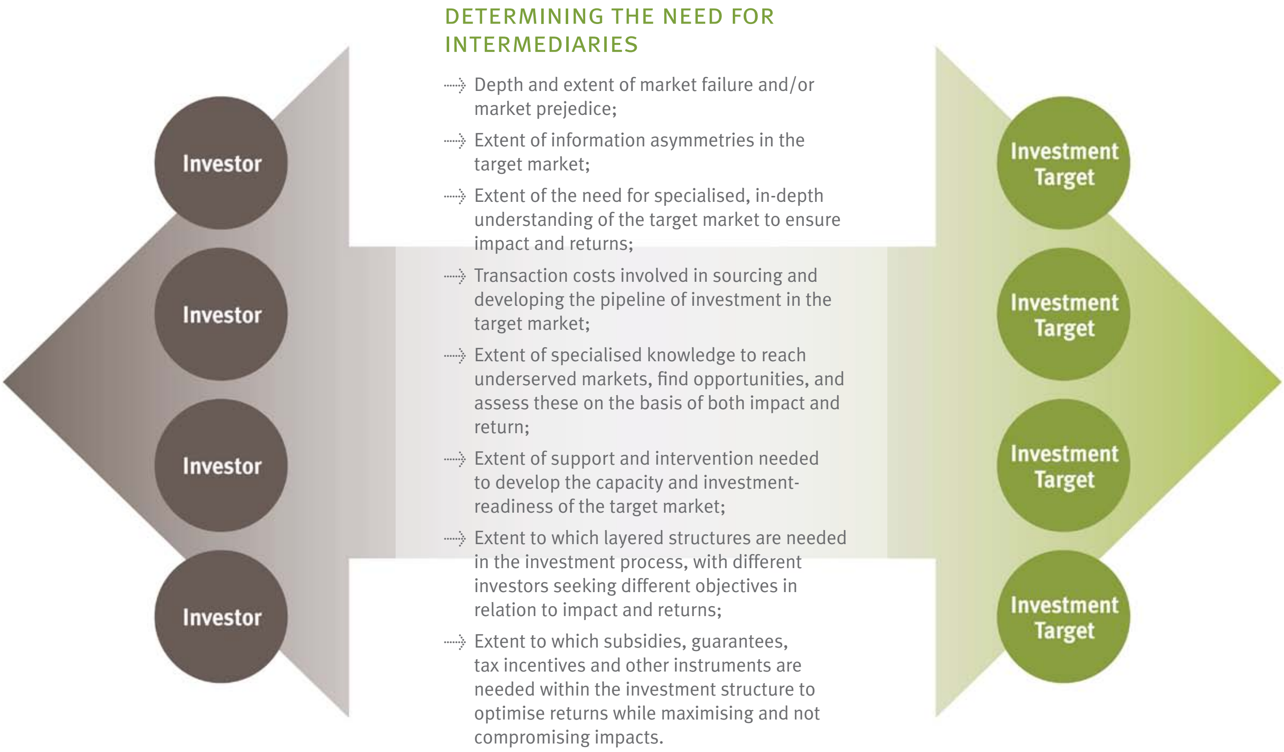

Figure 20

Elements that could determine the need for intermediaries in the design of Place-based Impact Investment

harnessing the supply of capital); appraising and ensuring that SMEs are investment-ready; structuring and channelling appropriate capital into these SMEs; and measuring and reporting to investors and the market on the value created in the process. Further, CDFIs have taken various forms according to the types of funds they manage and their impact focus.

CDFIs in other jurisdictions offer a range of financial products, including:

- Loan products, bridging the debt capital supply gap and enabling SMEs to access capital for asset development (including equipment and property) and working capital;
- Mezzanine products, using instruments that blend features of both debt and equity to fund SME growth and development; and,
- Equity products, focussing on bridging the equity capital supply gap and helping both start-up and established SMEs to access equity-based capital for development and growth. Some CDFIs whose focus is the management of equity funds are referred to as Community Development Venture Capital funds (CDVCs).

Of course some CDFIs manage different funds that cater to different needs, and others have blended funds. Three short case studies [*on page 57*] illustrate some of the ways in which CDFI funds are managed in practice and highlight both the structures that are used, but also the different ways in which CDFIs create bridges between capital and SMEs in underserved areas.

4.2.2 CDFIs focus on more than capital and finance

Intermediaries such as CDFIs also offer more than finance. Most either directly or indirectly support and build the capacity of SMEs in their target areas to ensure that they are ‘investment ready’ and also to optimise potential that the

SMEs will be able to generate impacts and deliver returns to investors. As Benjamin [et al, 2004;p.39] highlight, Impact Investment intermediaries often:

> *'play an active role in advising the companies, either directly through fund staff or indirectly through outside experts who are brought in to increase the companies' level of knowledge and market readiness'*

This activity is commonly separated from the investment process, and may even be offered through a different, but related entity or through a partnership with a technical assistance agency. Most of this kind of support is directed to investment readiness. The critical elements for such work are summarised in *figure 21*.

> *'...the private sector is unlikely to take the lead in bringing resources to underserved communities, (but) it can play an important role in such an effort. However, oversimplifying the problem or promising unrealistically strong financial returns is not the way to attract private sector investors. Instead, it is necessary to be honest about the challenges that underserved communities may present for such investors and to mitigate those challenges with public sector interventions'* [Rubin, 2011;p189].

That said, the evidence does not support a conclusion that Place-based Impact Investment must be operated by not-for-profit intermediaries. Many CDFIs operate both for-profit and not-for-profit companies (with many

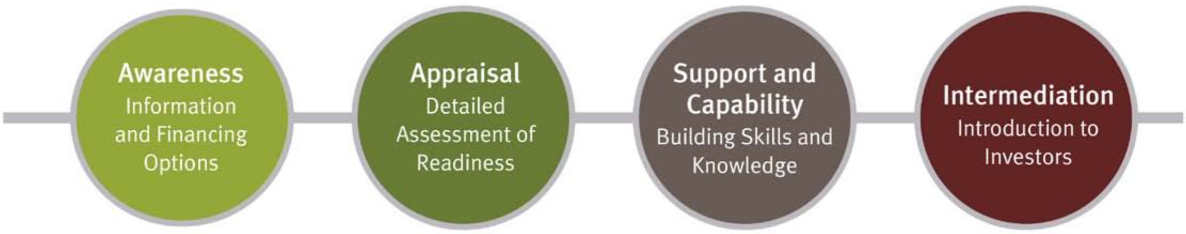

Figure 21
Elements and process of building investment readiness
Source – Based on Mason and Kwok, [2010]

Support and capability building is possibly the most intensive and costly aspect of investment readiness, but as Mason and Kwok [2010;p.21] argue, it is also the most critical:

> *'programs which deliver the awareness and presentation elements but do not effectively engage in the (more costly) critical diagnostic and business support components are unlikely to be effective'.*

Funding investment readiness processes can require CDFI business models that are able to support cross-subsidisation and/or attract external grants or donations.

Some researchers argue that investment into underserved areas will not occur without the development of specialist financial intermediaries such as CDFIs that bridge knowledge and expectation gaps:

structured so that the 'for-profit' companies are subsidiaries of a 'not-for-profit' parent company) to enable them to access the full range of investment, funding and finance needed to plug the supply gap and offer technical assistance whilst also ensuring that both impact and return goals are met.

Further, not all intermediaries are CDFIs, and not all Impact Investment is based out of intermediaries. Some programs in the US have focussed on incentives for mainstream investment funds to also enter the SME investment market [see for example the New Market Tax Credit Scheme and the Small Business Investment Corporations (SBICs)].

There is evidence that mainstream commercial investment sectors (sometimes in partnership with organisations who can provide the technical assistance or secure a pipeline of investment) also take up these opportunities [see for example the National Association of Small Business Investment Companies, *www.nasbic.org*; O'Donohoe et al, 2010; Sultak et al, 2011]. Finally, there is a growing recognition of other intermediary roles in developing the bridges between supply and demand in Impact Investment. For example, the role played by financial and investment advisors is critical to unlocking and growing the supply of capital into Impact Investment [David Carrington, personal communication]. If Place-based Impact Investment is to develop in the Australian context, the place of such roles in the intermediary process will become increasingly crucial.

4.2.3 Key Lessons from CDFIs in the US and UK

Table 5 outlines a logic model for CDFIs as key institutions for bridging the gaps between capital supply and SME demand development [GHK, 2010]. The table articulates some of the outputs, outcomes and impacts generated by CDFIs in their role as intermediaries. This highlights not only the rationale for CDFIs, but also the impacts they are designed to generate in relation to SMEs in underserved and under-invested areas.

CDFIs have achieved remarkable results in both the US and the UK, though it is difficult to make reliable direct comparisons between these two markets for three key reasons.

- The US market for CDFIs and Place-based Impact Investment is much more mature than the UK market;
- The contexts are very different, with the US having mandated capital supply and direction mechanisms (through policy and regulation such as the Community Reinvestment Act and the CDFI Fund). These policy and regulatory frameworks have opened up capital flows, enabled access to dedicated funding, enhanced returns, mitigated risks and reduced transaction costs. More broadly, the US also has a much longer history of recognising the social and economic contributions of the SME sector locally and nationally;

Rationale	Inputs	Expenditure on activities	Outputs	Outcomes	Impacts
Market failures in provision of SME finance by mainstream providers SME growth and development Enterprise-driven regeneration SME development in underserved areas Job Creation in underserved areas Building stronger local economies	Capital Grants and investments Earned income reinvested as capital funding Revenue grants and investments Earned income reinvested as revenue funding Commercial capital Private Capital Investments Third-party credit enhancements *(eg. loan guarantees and risk mitigation mechanisms)*	Managing supply of capital of different types Managing Loan and investment fund(s) Generating demand (eg. marketing, outreach) Delivering and managing loans (eg. appraisal) Administration and operations Business Support *(eg. investment readiness)*	SMEs receiving loans and other investments SMEs receiving business support and technical assistance Investors receiving returns and social value	SMEs started, relocated, supported and safeguarded in underserved areas Jobs created and safeguarded in underserved areas Reduced barriers to lending and investment Social outcomes and multiplier effects in underserved areas Business learning and capability outcomes *(eg. improved financial management)*	Growth in business stock in underserved areas Growth in Employment in underserved areas Growth in personal wealth of residents in underserved communities Regeneration of underserved areas Social Impacts in underserved areas Increase in 'investment ready' SMEs

Table 5

Logic model for CDFIs lending and investing in SMEs in underserved areas

Source – Based on GHK, 2010;p.21 (with changes to enhance relevance to the Australian context)

- Until very recently there has been no internationally accepted standards or comparable impact measurement frameworks that provide comparable measurement of key indicators, such as 'jobs created'. The development of frameworks such as IRIS [see *www.thegiin.org*] should help to address this.

Table 6 provides a snapshot of the overall impact of CDFIs in the US in relation to those indicators associated with Place-based Impact Investment. CDFIs in the US have collectively developed a '$24 billion market for equity and debt investments' in underserved communities [Thornley et al, 2011;p.14] over the last three decades. A recent analysis of CDFIs who received funding through the CDFI Fund in the US found that, on average, these CDFIs were able to 'leverage their awards with private investment by a factor of 13 to 1', meaning that the CDFI Fund funding allocated in 2010 (US$105 million) will see over one billion dollars flowing into underserved and under-invested areas [Gambrell, 2011;p.5]. Coupled with the number of full-time jobs that have been created and maintained in these communities, predominantly for residents of those communities, this represents a significant achievement.

In the UK, where the market is much less mature, the overall impacts 'remain small scale, patchy and variegated, but represent value for money given the levels of public sector support' [GHK, 2010;p.ii].

Table 7 provides an overview of the net impact of the UK CDFI sector's enterprise loan portfolio in 2009, across all areas and in underserved areas in particular (referred to in the UK as 'deprived areas'). Even the US figures, while comparatively impressive, are very small relative to the mainstream investment market. It is widely acknowledged that to maximise impact and bridge the capital supply gap in underserved communities more scale is required.

Impact area	Cumulative impact of CDFIs
Full-time jobs created/maintained	229,687
Micro/small businesses financed	51,409
Cumulative financing since inception	US$24 billion

Table 6

A snapshot of the cumulative impact of CDFIs in the United States across indicators key to Place-based Impact Investment

Source – Opportunity Finance Network Side by Side, 11th Edition, 2008

	All Areas	Deprived Areas
Businesses created	1,705	371
Businesses safeguarded	1,372	469
Jobs created	3,635	1,252
Jobs safeguarded	3,618	1,078
Turnover created	£560 million	£113 million
Turnover safeguarded	£788 million	£216 million

Table 7

An overview of the net impact of the UK's CDFI sector's enterprise loan portfolio as at 2009.

Source – GHK, Evaluation of Community Development Finance Institutions (CDFIs) in the UK [2010;p.iii]

Loan Fund

Seedco

New York, USA

Seedco is a not-for-Profit organisation, headquartered in New York City, whose focus is on advancing economic opportunity for people, businesses and communities in need. Seedco Financial, a fully owned subsidiary of Seedco, is a CDFI, that has over $200 million in assets under management.

The goal of Seedco Financial is to 'stimulate economic development in communities that are underserved by traditional banking institutions by providing affordable capital, hands-one business assistance and innovative solutions' to entities such as SMEs located in underserved communities and who are not able to borrow from mainstream sources. Their small business loans fund lends between $50,000 and $750,000 for equipment financing, inventory financing, leasehold improvement and working capital. Currently they are operating in three major markets (New York, Alabama and Louisiana) and they tailor the capital and outreach efforts to specific needs in each location.

Their mission is to 'stimulate economic development in low-income and underserved communities'...and they seek 'to advance social equity, economic opportunity and environmental sustainability in the markets they serve while promoting the creation of new employment opportunities and the retention of existing jobs'.

Seedco currently serves around 500 borrowers in over 200 underserved areas, and loans have created/retained over 4,000 jobs in those communities.

Mezzanine Fund

Vested for Growth

New Hampshire, USA

Vested for Growth is an initiative of the New Hampshire Community Loan Fund, a CDFI based in the US. Established in 2002, Vested for Growth offers customised growth capital for established 'high impact' SMEs in New Hampshire that use a combination of subordinated debt and royalty.

They focus on value-adding businesses, mainly niche manufacturers who offer unique products or services and that charge more for a brand premium. Most of the SMEs that they invest in have between 20 and 50 employees and between $2 million and $10 million in sales. The royalties are structured so that investors receive between 1/4% and 3% of sales.

Vested for Growth addresses a financing gap for growth capital and many of the SMEs in which they have invested were rejected by banks for debt capital because of insufficient collateral, problems in sales or profitability over the past three years, a concentration of sales or bankruptcy – but who have a good margin on their products/services [Hamilton, 2009]. They are also businesses that are not interested in equity options because they do not wish to sell or dilute their ownership stake, are not wanting to lose control of decisions or because their projections are not large enough for equity owners.

Equity Fund

Bridges Ventures Community Development Venture Funds

UK

Founded in 2002, Bridges is a private investment company that is majority owned and managed jointly by its executive directors and the Bridges Charitable Trust.

Bridges are currently managing two venture funds (investing in businesses in sustainable sectors and/or that are located in the most deprived 25% of the UK, and that can deliver social impacts and financial returns – £115 million in total); a social entrepreneurs fund (investing in high impact social enterprises that have a sustainable business model – £12 million investment); and a sustainable property fund (investing in property in regeneration areas and environmentally sustainable buildings).

The Venture funds invest in early stage, later stage and property backed businesses using venture capital, private equity and near equity or mezzanine instruments. Their investors are institutional, including financial institutions, pension funds, high-net-worth individuals, trusts and foundations. They use an initial social screen and then strictly commercial criteria to select amongst companies that pass the social screen. They then work with the companies to increase their value and improve social impact and they report on social, environmental, financial and commercial performance.

32 of the 34 investments in the Venture Funds are in the most deprived 25% of UK, and over 60% in most deprived 10% of UK. Companies in which an investment has been made have employed over 1370 people, 40% of whom live in target areas. Financial results to date include exit returns between 29-165% Internal Rate of Return (IRR) and from 2x to 22x money multiples. Six successful exits have been achieved in Fund 1 with realised gains of £12.7 million. Fund II is three years into its investment period and 46% of the fund is invested.

www.bridgesventres.com
Also see Bridges and Parthenon, [2010].

4.3 GROWING AND DIVERSIFYING THE SUPPLY OF CAPITAL

A number of factors will contribute significantly to growing and diversifying the supply of capital for Impact Investment:

- Engagement of a broad range of investors;
- Development a broader choice of products;
- Development of the infrastructure needed to ensure that the investment process is as accessible and understandable as possible for these investors;
- Creating the risk/reward metrics that enable investors to position and engage with Impact Investment as part of their broader portfolios.

There is now a substantial body of literature on this emerging market [see for example, Freireich and Fulton, 2009; O'Donohoe et al, 2010; Saltuk et al, 2011; Thornley et al, 2011; Elliot, 2011]. The factors consistently identified that would unlock greater access to capital for Place-based Impact Investment in particular can be grouped into four categories:

- Enhancing the ***value proposition*** of Place-based Impact Investment;
- ***Clarifying regulatory constraints*** for particular investors and ***addressing cultural barriers***;
- Unpacking and making greater use of ***investment layering***;
- Addressing the ***challenge of exits*** in Place-based Impact Investment.

4.3.1 Enhancing the Value Proposition

As noted in Section One, Impact Investment requires a clear articulation of the balance in any given transaction or proposal between impact and return. Some commentators have argued that growth in the sector will only really occur when returns meet market rates, and for certain investors, when the social value proposition can be more precisely articulated:

> *'For the industry to grow, and for funds to reach a more optimal size, market-rate returns will become increasingly important. For funds interested exclusively in the finite pools of subsidised investment capital, financial sustainability will nonetheless be more crucial than ever'* [Thornley, 2010;p.40].

Some Place-based Impact Investment propositions could be designed as a substantially commercial investment proposition. What represents a 'commercial' proposition needs to be unpacked further as most commercial investment portfolios include a spread of financial risk and return.

Researchers such as Yago [et al, 2007] suggest that addressing information asymmetries represent the major barrier to investment in underserved areas. Addressing information asymmetries will require: concerted effort to raise awareness; development of clarity in language and in disclosure so that investors can clearly see where an investment proposition sits on the spectrum; and clear articulation of the proposed balance between social impact sought and expected financial risk and return. As has been evidenced in the field of micro-finance, once information asymmetries are addressed, the investment proposition becomes much clearer, making it easier for investors to assess an investment and thus potentially opening capital flows [see for example CAF Venturesome, 2011].

What is not clearly documented, nor yet tested in the Australian market, is the extent to which deeper market failure or structural inequities detract from mainstream investors engaging in under-invested communities, or taking up Impact Investment opportunities more broadly. As some researchers highlight, if more complex factors are at play, driving change may require greater degrees of government intervention:

> *'(some) researchers inaccurately claim that underserved communities lack access to capital primarily as a result of information failure, ignoring the numerous other obstacles that raise costs and discourage private sector investment in such communities. Overcoming these additional obstacles requires much more than improved information—it requires subsidy—a fact that (these other) approach(es) obscure and potentially discourage.'* [Rubin, 2011;p.183].

Rubin [2009] argues that the nature of social objectives that funds are trying to achieve will also shape what could be considered appropriate returns, and ultimately will determine whether market rate returns are achievable in a particular fund. She suggests that there is a distinction between funds whose impact is predominantly '***corrective***', that is, they are working to address a lack of access to capital amongst particular populations or geographies; and those that are predominantly '***additive***', that is, they are aiming to achieve an additional social or economic objective, such as building employment and addressing locational disadvantage.

According to Rubin [2009], the latter are more likely to encounter difficulties in achieving market returns without some forms of subsidies or incentives, or an approach that layers the investment to take account of the impact-return preferences of different types of investors. Rubin [2009] argues that this distinction helps to deepen our understanding of the different types of social objectives that Impact Investment is aiming to address, and why some strategies require subsidies and others may not.

If we see Impact Investment as a spectrum of opportunities between grants and high risk/ return commercial investment (such as private equity or venture capital) and Place-based approaches to Impact Investment as including opportunities along that spectrum, then those that argue market returns are necessary and achievable, and those who believe that impact requires incentives and subsides, may all be correct. The issue then is clarity in the value proposition that is put to investors. Being able to benchmark returns across Impact Investment funds, with clear and consistent articulation within these benchmarks of both the financial risk and returns and the social value that is being generated (and whether it is corrective or additive) will go a long way to addressing this clarity. It is therefore critical that any Place-based Impact Investment initiatives in Australia link to current international initiatives seeking to address these challenges [see for example, the Global Impact Investing Ratings System (GIIRS), aiming to develop benchmarks linked to a common taxonomy for the Impact Investment field; Impact Reporting and Investment Standards (IRIS); and PULSE, a repository program for collecting and analysing social metrics].

4.3.2 Clarifying Regulatory Constraints

While there are no direct regulatory barriers to Place-based Impact Investment, some basic clarification about how particular investors could invest in such funds or initiatives could potentially strengthen investor interest. Two areas in particular could benefit from further clarification from a regulatory perspective.

Institutional investors with fiduciary responsibilities to maximise financial returns have sometimes argued that these duties prevent them from engaging in Impact Investment. Thus, for example, superannuation funds have cited the 'Sole Purpose Test' as a reason for not exploring Impact Investment. Certainly, internationally, this has represented one of the most significant obstacles to growing Impact Investment. If Place-based Impact Investment initiatives are to attract such investors, clarification from regulators focussed on the potential for some Impact Investments to come within portfolio tolerances and provide diversification of risk exposures subject to appropriate due diligence would assist to build the dialogue with managers of such portfolios [see Senate Economics References Committee, 2011;pp. 82-84 in particular].

Recent research at an international level has challenged the narrow investment focus of pension and superannuation funds and argues that there is scope for broader investment strategies, including exploration of Impact Investment [see Johnson and de Graaf, 2009; see also a discussion with large pension fund manager TIAA-CREF on Impact Investing, *www.thegiin.org/cgi-bin/iowa/investing/spotlight/58.html*; and a report from Fair Pensions in the UK: *www.fairpensions.org.uk/rediscovering-fiduciary-duty*].

In Australia, the investment by a superannuation fund as a key partner in the recently announced SEDIF program (Christian Super Fund, partnered with Foresters Community Finance in this Impact Investment initiative), represents an important first step of a superannuation fund into Impact Investment in Australia. Christian Super Fund made this investment within the range of its investment portfolio [see Christian Super Fund submission to the Senate Economics References Committee Inquiry into Finance for the Not for Profit Sector, 2011]. This demonstrates a potential for such funds to find transactions which meet their fiduciary and financial obligations to members in a way which also enables members to see their investment at work in the community and diversifies the risks to which the portfolio is exposed. This example could instil confidence in other funds to explore such investment options.

Foundations and philanthropic entities (including Private Ancillary Funds) in Australia have also argued that the fiduciary duties which apply to them (some of which are very similar to those that apply to superannuation funds), restrict their capacity to take up Impact Investment opportunities, including those where the social impact relates to the mission of the foundation – known as Program Related Investments.

At the structural level the 'barriers' may well be perceived rather than actual, but if Place-based Impact Investment is to build up a critical mass of investors, some clarification of regulatory constraints represents an important step [see for example the UK Charity Commissions guidance on Charities and Investment, 2011]. This will also have a flow-on effect for the next level of investor barriers, that of cultural barriers.

4.3.3 Cultural & Behavioural considerations

Growing the interest of investors in Impact Investment requires not only a reduction in any structural barriers, but also a cultural shift amongst investors [see for example, CAF Venturesome, 2011]. Historically, clear and intentional social impact has been more associated with philanthropy than investment. The focus of 'investment' has rested solely on the optimisation of returns. The growth of socially responsible investment and 'ESG' – environmental, social and governance ratings and screens has demonstrated demand for investment products which actually take account of social and environmental impacts. Impact investment takes this a step further from mostly negative screening to transactions seeking to generate intentional impact. The track record of some international leaders such as Triodos[4] has demonstrated the potential, but it requires a different dynamic and approach to investment.

This shift, is of critical importance if the market for Impact Investment is to grow and develop. Without this, even if there are excellent products developed, a bottleneck in the flow of investments is likely to result – as Shueth argues is the case in the US:

> *'The real issue is not about products or markets; it's about attitudes in the board room and among advisors. ...(The) bottleneck is the investment professionals in this country'* [Shueth, in Freireich and Fulton, 2009;p.19].

Other factors are beginning to influence these shifts. For example, Porter and Kramer [2006; 2011] have built arguments for 'shared value' which explicitly recognises the social and environmental dimensions of commercial activity as a pivotal consideration for future prosperity. This aligns with much work that has influenced the development of Impact Investment over the past decade [see for example, Emerson, 2000; Cohen, 2005].

However, there is no doubt the practice of these principles is not yet mainstream and entrenched behavioural and cultural practices remain. Addressing these involves:

- Building a consistency of language and definitions within Impact Investment;
- Fostering industry recognition and building professional networks around Impact Investment;
- Improving the flow of information and transparency about products and their returns/impacts; *and*
- Developing Impact Investment champions, preferably investors and advisors who are well respected in the investment industry [see for example, Saltuk et al, 2011; O'Donohoe et al, 2010; Freireich and Fulton, 2009; Bouri, 2011].

4.3.4 Making Greater Use of Investment Layering

Opening up investment from a diversity of investors with different objectives and expectations will no doubt enhance the flow of capital into Impact Investment. One important tool for achieving this is to utilise structures that 'layer' opportunities within a single transaction to enable investors to participate in line with their objectives and appetite for social impact and financial risk and return (as outlined in *section one*). There is clear precedent for different 'trenches' of investment for investors with different risk and return appetite in purely commercial investment transactions. For example, some investors may take security for their investment hence lower the risk where others may be 'subordinated' to that interest and take a higher risk but expect a higher return.

Proponents of Impact Investment have, for some time, highlighted the 'blended' returns such investment can produce [see Bugg-Levine and Emerson, 2011]. Freireich and Fulton [2009] added the term 'layering' to point to how investments could be structured in such a way as to incorporate the objectives of both Financial First and Impact First investors and most recently there has been discussion of 'Layered Cake Deals' [see Neelakantan, 2011].

4 – Triodos Investment Management (the Impact Investment subsidiary of Triodos Bank) manages over 20 funds totaling around US$2.7 billion [see http://report.triodos.com/en/2010/ourgroup/triodosinvestmentmanagement.html] .

Examples in the Impact Investment market where 'layered' structures adjust the risk and return to 'crowd in' new sources of investment capital include:

- The GoodStart transaction referred to above where the investors included secured senior debt to National Australia Bank, a subordinated government loan, unsecured 'social notes' offering combined social and financial return and deeply subordinated notes issued to Impact First investors seeking primarily social impact returns;
- SEDIF where government funding is subordinated to lower the capital risk for other investors;
- NRAS where the program contribution alters the risk and return for private investors in affordable housing;
- The UK government's participation in the first Bridges Ventures Fund, which was on subordinated terms to other investors providing an incentive to direct investment in under-served communities and lowering the risk of entry for other investors;
- The US SBIC and CDFI Fund initiatives where the government funding provides direct investment to under-invested areas and lowers the risk for and provides incentives to others to participate.

The differing interpretations in the literature point to a distinction between blended returns and layered structures:

- ***Blended returns*** which acknowledge the combination of social and financial return, and for a single offering may mean that everyone receives the same financial return, with investors expecting to offset the costs of achieving a specified impact within the calculation of the returns. Investors understand that the upside of the impact may have downside consequences for financial returns. They may look for a clear articulation of the social value generated through the investment so that they can assess whether this is sufficiently balanced within the expected returns;
- ***Layered structures*** mean that there will be potentially differential returns and impact objectives across different investors and investment opportunities within the same transaction. The difference from purely commercial or financial layered structures is that the layers also reflect the investor appetite for influencing social impact. Impact First investors may accept a lower financial return or they may accept a greater proportion of the risk if they can drive greater impact, and this in turn may

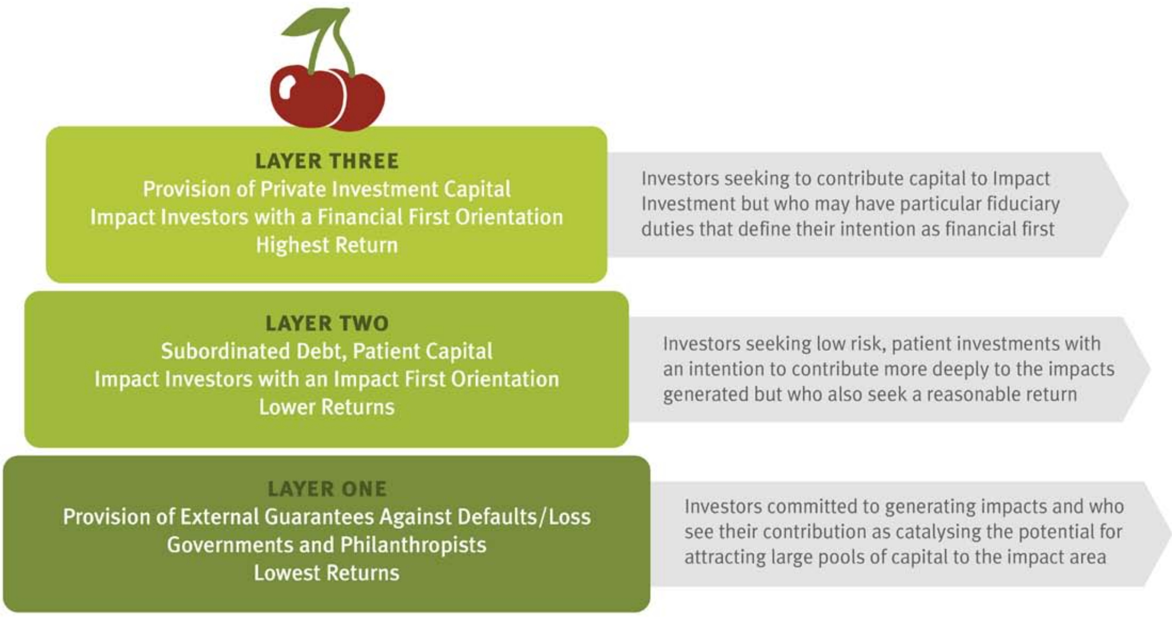

Figure 22
Layered Cake Deals as an Impact Investment Structure

mean that Financial First investors could reduce their risk or achieve more market comparable returns, thus potentially bringing more investors to Impact Investment. *Figure 22* illustrates this. The learning from experience to date seems to be that the value proposition of such a structure needs to be very clear. So, for example, the Impact First investor should be able to assess how their investment will deepen the Impact, rather than only interpreting their role as providing the financial subsidy needed to bring Financial First investors to the table.

Further work is needed to document the potential for and understand in practice how layered investment structures could enhance the supply of capital and generate deeper impact in the Impact Investment market. What is also clear from international experience is that there is greater scope for innovation in relation to both investment and philanthropy sectors, with layering approaches having the potential to draw together and harness the strengths of both these sectors to achieve greater and deeper social impacts.

4.3.5 Addressing the Challenges of Exits

Investors do not only look to risk-return ratios in assessing investments. One of the other key elements for assessing investment opportunities is liquidity – or capacity to realise or redeem the investment.

A number of factors determine liquidity and they are related to the options that an investor has to 'exit' the particular investment. The expected exit path is usually part of the structure and terms of the investment. For example, an equity investment in a listed company has greater options for exit through sale to other investors in the market and so is more liquid than an equity investment in a privately held company. If an investment is structured so that funds remain illiquid (are locked in) for long periods of time, or if exit options are limited or complex to execute, then this increases the barriers and risks for many investors. The challenges of exits relate equally to investments in property funds or any other less liquid investment options.

Equity exits in commercial ventures have changed over time, and exit strategies also differ according to context. Though Initial Public Offerings are often considered the most common form of exit, in reality this has not necessarily been the case in contexts such as Australia and Europe, where trade sales (ie. external buyers) predominate [Ernst and Young, 2007, 2008]. Recent research indicates that exit strategies in impact-focussed equity investments have also developed over the past decade, as outlined in *Table 8* [Thornley, 2010].

According to Cherry [2003] there are two key reasons why exits are difficult for some impact-focussed equity investment funds:

- An inappropriate exit may threaten or challenge the social impacts which are, along with financial returns, at the heart of these investments;
- Impact Investors may make smaller investments in SMEs, and therefore they may not have the capacity to exit through an Initial Public Offering (IPO) or acquisition, which are options attractive to many mainstream equity funds.

Others argue that this can be addressed in the overall planning and design. There is a case made for how 'brand value' and 'brand purity' can be linked to the business proposition for

CDVC Exit Strategies	1999	2008
External Buyer	46%	77%
Management buy-back	36%	10%
Initial Public Offering	15%	10%
Employee Share Ownership Plans (ESOP)	unavailable	3%

Table 8

The changing face of US Community Development Venture Fund exits over the past decade

Source – Thornley, 2010; Tesdell, 2009 a new buyer, or by seeking out buyers whose perspective aligns with maintaining ongoing social impacts of the SME [Silberberg, 2008].

Silberberg [2008;p.106] argues that exits in more illiquid investment options can be designed or at least managed so that 'lasting social impact' is achieved, through careful pre-exit planning, intentional structuring, marketing and facilitating of exits; and ensuring that employees in the company do not become tied to that business (in other words, building their capacity for ongoing employability as part of the investment intervention). Others have also suggested that careful structuring of the investments in the first place can help funds to realise both returns and potentially even strengthen impacts on exit [Hammerman et al, 2002; Caplan et al, 2007].

If well designed, Place-based Impact Investment presents an opportunity for innovation and establishing a track record for exits. There are clear parallels both in other commercial investments directed to businesses and in the overseas experience with Place-based Impact Investments to guide the planning for Australia. Bridges Ventures, for example, has been able to prove a track record of successful exits and materially exceed the initial projection for financial return on investment while delivering clear economic and employment benefits to the communities to which investment is directed [see Bridges Ventures fund reports and Impact reports at *www.bridgesventures.com*].

Conclusion – What does this mean for the development of Australian Place-based Impact Investment?

This report has highlighted some important considerations for how investment could be designed to regenerate economic activity, investment opportunities and employment in Australia's underserved communities.

The literature points to a spectrum of opportunities on a number of dimensions:

- Opportunities to create new investment markets and attract investors to proposals that not only provide acceptable levels of financial return but also offer positive outcomes in communities;
- Opportunities to achieve social impact as well as financial return;
- Opportunities to aggregate investment in SMEs through funds that allow a portfolio approach to mitigate factors which inhibit availability of capital to such organisations individually;
- Opportunities to bridge information asymmetry and other more structural barriers to investment in SMEs and in under-invested communities.

The literature and available examples also point to a number of elements that will be important considerations for the design of Place-based Impact Investment initiatives.

First, it is clear that *place* is an increasingly important lens for both investment and innovation. Economic restructuring in Australia over recent decades has had profound implications for the fortunes of many communities. Localities whose development history has been tied to vulnerable industries (particularly manufacturing) are the places in this context where under-investment is most evident, and where decline and disadvantage (as evidenced by concentrations of joblessness) have intensified over the last two decades.

Place-based Impact Investment has the potential to intersect investment and innovation and thereby address one of the shortcomings of much social innovation: how it can be sustainably financed [Adams and Hess, 2010;p.147]. Further, such an approach opens the potential for responses to economic restructuring that draw on place-based and people-based innovations rather than focussing only on industry-based or issues-based approaches [Adams and Hess, 2008]. Certainly exploring how Place-based Impact Investment could actually generate economic opportunities, make SME growth more dynamic, and contribute to creating and retaining quality jobs in Australia's underserved communities, has the potential to make a significant contribution to finding pathways out of decline for those communities particularly affected by economic restructuring and the decline of manufacturing.

Secondly, the design needs to begin from a clear articulation and understanding of the opportunities and objectives. Where social impacts are the primary goal, the potential and the limitations of utilising investment structures to generate social impacts needs to be recognised. Therefore, it is important to begin with and return to the question, 'why are we doing this', and then 'reverse engineer' the investment design [Foresters, 2010]. Clear knowledge of the financial structures, instruments and investors is essential. The power of this strategy lies in combining rigour in these aspects with clarity of purpose around the intended social impact.

Third, there is a link between SMEs and economic activity and employment in place. There is also evidence that this market does not yet have access to sufficient capital of the right type at the right time to grow and develop. Developing trends as the 'boomer' generation retire from family run SMEs may also have a profound impact on communities over the coming decades and there are not yet many available mechanisms to finance the purchase of such businesses so that they are able to remain in communities [see for example Seet and Graves, 2010].

Fourthly, the development of Place-based Impact Investment initiatives provides an opportunity for genuine cross-sector cooperation and partnership because the issues at hand sit at the intersection of community futures, commercial interests and public policy. In both the US and the UK, government has been a significant catalyst for the development of Impact Investment, creating both the policy platforms and initiating and opening capital flows for the development of investment product in this space. In both contexts, however, public sector intervention has been used to stimulate and leverage private capital rather than remaining wholly publicly funded. The private and social sectors have thus also played key roles in moving Impact Investment from idea to reality. Banks, financial institutions and philanthropic foundations are major investors in Place-based Impact Investment through specialist financial intermediaries such as CDFIs. Not-for-profit organisations have also taken on roles in the provision of technical assistance to SMEs to ensure that they have opportunities to become 'investment ready' and in supporting and building capacity of people in target areas to ensure that they are 'employment ready' when the SMEs are at the stage of growing employment.

In Australia too, government is beginning to play an important role in Impact Investment, having catalysed major initiatives in recent years [see for example, NRAS, SEDIF, the CDFI pilot and a myriad of private-public partnerships designed to stimulate investment in green technology and clean-tech industries]. Involvement in these initiatives from the private and social sectors has been built into the design of the programs. The real challenges lie, however, in taking the commitment beyond particular funded initiatives to explore the bigger issues in Australia of how to grow Impact Investment as an asset class and as an accepted part of building an innovative cross-sector approach to addressing place-based decline and disadvantage.


SWAN DRAUGHT

Place-based Impact Investment presents an important opportunity for reversing the cycles of decline and under-investment in communities, and bringing to this not only new analyses and new capital but also means for the communities to build their own regeneration story. It does not represent a 'quick fix' or a 'silver bullet' that will lead to instant solutions. Neither should it be seen as a replacement for existing programs – rather, it represents a compliment. It does, however, offer a means for harnessing new capital and it creates new possibilities for underserved communities through positive cycles of economic activity and job creation. As Freireich and Fulton [2009;p.8] emphasise, this is an important contribution in itself:

> *'These times remind us how easy it is to slide into market triumphalism – where we lapse into the sloppy (and incorrect) thinking that investment and market mechanism are the solutions to all our problems. However, the magnitude and nature of the problems humanity faces also require the harnessing of additional investment capital'*.

Although we may not have the level of development in Impact Investment policy or infrastructure that exists in the US and the UK, it is not the case that we need to start from a blank canvas in the Australian context. There is an emerging Impact Investment field that is beginning to attract interest from investors. Both the opportunities and challenges in Australia lie in making assessments about what type of Place-based Impact Investment could work best in this context, and what policy and commercial support is needed to initiate some further innovative practice in this space.

Australia is in a fortunate position to be able to analyse and learn from what has occurred in overseas Place-based Impact Investment, and thus to potentially 'leap frog' in terms of the development of local initiatives. Several factors in particular come together to create opportunities in Australia:

- International Impact Investment markets have developed to a point where Australia can utilise key lessons to leap forward in developing its own market;
- Australian initiatives can take opportunities to be early adopters of the developing infrastructure to support the international market and participate in an emerging international network;
- Awareness of and interest in Impact Investment has developed substantially in Australia over recent years. Building the range of examples and consolidating learnings with other Australian initiatives as they develop can build momentum.

The companion document to this *Literature Review* examines these questions further and outlines the *Building Blocks* needed to make Place-based Impact Investment a reality in Australia.

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APPENDIX ONE

Case Studies

- Bridges Community Ventures
- Coastal Enterprises Inc: CEI
- Pacific Community Ventures

Bridges Ventures (UK)

Overview	'Bridges Ventures is a private sector, mission-driven investment company that specialises in funds that can deliver financial returns and make a positive social or environmental impact'.
History and ownership	Established in 2002, 25 staff. Majority owned by its management team, with a substantial minority owned by the Bridges Charitable Trust (which has a veto over any change in the social mission, and to which each member of the staff team donates 10% of their carry). Bridges Charitable Trust also created the Social Entrepreneurs Fund.
Investment Funds	***Two Venture funds*** that invest in ambitious, entrepreneurial businesses in two ways: → ***Sustainable Sectors*** Invests in businesses whose social/environmental impact is intrinsic to what they do. Key sectors targeted: education & training, environment, health & well-being → ***Regeneration*** Invest in ambitious businesses that are located in the most deprived 25% of the UK and can deliver a strong multiplier effect as they spend money and recruit in these areas. Generalist, but experienced in: leisure & hospitality, consumer products & services, business & financial services, manufacturing & distribution. Bridges Ventures has two other funds: ***Sustainable Property Fund*** (whose investment focus is properties in underserved areas and buildings showing environmental leadership); ***Social Entrepreneurs Fund*** whose focus is scalable social enterprises delivering high social impacts & operating sustainable business models.
Investment focus	Venture funds invest in early stage, later stage and property-backed businesses (Venture Capital, Private Equity and Near-Equity)
Funds under management	BridgesVenture Fund I: £40 million [2002] BridgesVenture Fund II: £75 million [2007] Total funds under management (including property and SE funds): £150 million
Investors	Institutional investors (HSBC, Cooperative Financial Services, Lloyds TSB, Barclays & Cititgroup), pension funds, HNWIs, trusts and endowments.
Methodology	Three-stage process to target, maximise and report on social impact: → ***Social Screen*** – 'setting clear social impact of location or sector; then use strictly commercial criteria to select amongst those companies that pass the social screen; looking for winners commercially that do good'; → ***Engagement*** – working with portfolio companies to improve social impact and increase value of the business; (developed Bridges Social Impact Scorecard) → ***Reporting*** – reporting social, environment impacts plus financial and commercial performance to investors, and active engagement in developing social investment reporting globally.
Social Impact	32 of the 34 investments from Venture Funds in most deprived 25% of UK, and over 60% in most deprived 10% of the UK. Companies have employed over 1370 people, 40% of whom live in the targeted areas. Multiplier effect: for each £1 invested, £4 of additional spend in area from the company. Each £1 invested leverages additional £2.10 of external investment.
Financial Returns	Financial results to end March 2010: Investments in 34 companies totalling £64 million. Six successful exits achieved. Fund I: Realised gains of £12.7 million from six successful exits, including one partial exit. Fund II: Three years into its investment period and 46% invested. Exit returns to date range from 29-165% IRR and from 2x to 22x money multiples.

Sources – Bridges Ventures website [www.bridgesventures.com]; Investing for Impact [March, 2010] and Bridges Ventures 2009, 2010, 2011 Impact Report.

CEI: Coastal Enterprises Inc. (US)

Overview	CEI is based in Maine, in the United States and is expert in rural business development and financing. It is a Community Development Corporation (CDC) and a Community Development Financial Institution (CDFI). CEI works with subsidiaries and affiliates to enable it to expand its programs and services. These include: → *CEI Capital Management, LLC* manages CEI's $683 million allocation under the New Markets Tax Credit program; → *CEI Investment Notes, Inc.,* provides a way for individuals and institutions to invest in the local economy for social, environmental and economic benefits; and → *CEI Ventures, Inc.* and *CEI Community Ventures, Inc.,* invests venture capital in promising job-generating businesses in underserved areas.
History and ownership	CEI was founded in 1977 to develop job-creating natural resources and small business ventures in rural regions of Maine. It now serves all of Maine, its primary market, and areas of northern New England and upstate New York. CEI operates primarily in rural markets where financial returns are not sufficient to attract traditional investment, but where CEI's goal of achieving economic, social and environmental benefits can be satisfied. CEI is structured as a not-for-profit company, though some of its subsidaries (eg. CEI Ventures) are for-profit.
Investment Funds	CEI subsidiaries manage funds associated with the New Markets Tax Credit program and a number of Venture Funds (three closed fund across the subsidiaries), totalling around US$35 million.
Investment focus	Company sizes vary from one employee to 500, in stages from start-up to mature. Targeted sectors have included: value-added fisheries, farms and forest projects; microenterprise development; targeted job creation; the creation of supported, rental and privately-owned housing; assistance to women business owners; child care facility development; and support for refugees and new immigrants. In targeting these sectors CEI aim to achieve social and economic justice within sustainable communities.
Funds under management	Under management – US$707.9 million; Amount Financed – $677 million Amount leveraged – $1.66 billion
Investors	CEI manages capital raised from private foundations, financial institutions and public entities either through: below-market loans (that are pooled, and earnings above costs support the fund); donations; equity through two venture capital subsidiaries; investment notes; or through investments under the New Markets Tax Credit program.
Methodology	CEI engages a wholistic approach to building assets, linking business financing to job creation, entrepreneurship, sustainable development, policy advocacy and research. CEI lends and invests money and provides business counseling services to companies in Maine and New England. CEI also has a policy arm, through which it works legislatively and with its partners to meet its goals. Through its business support and policy activities, CEI employs a holistic approach to address the complex, interwoven issues inherent in poverty alleviation, rural development and environmental sustainability.
Social Impact	CEI is interested in the employment potential of each loan and/or investment and works with borrowers to open new job opportunities to those who are in need of employment. All financing activity is measured by the social impact of each project. Specific impacts include: → Businesses/people counseled: 33,572; → Full-time jobs at loan closing: 25,235; → Affordable housing units created/preserved: 13,381; → Child care slots created/preserved: 4,952.
Financial Returns	Venture fund returns are on track to be consistent with average CDVC returns (10–15% IRR). Investors under the NMTC program expect 'attractive rates of return' though it is not clear from CEIs information exactly what these returns are.

Sources – CEI website [www.ceimaine.org], CEI Community Ventures [www.ceicommunityventures.com], CEI Ventures [www.ceiventures.com].

Pacific Community Ventures (US)

Overview	Pacific Community Ventures (PCV) is a CDFI that is focussed on creating jobs and economic opportunity in low income communities through direct support of small businesses in those communities in addition to advocacy for systemic change to increase investment in underserved areas. PCV undertakes business advising, policy research, education, advocacy and has an affiliate that manages three private equity funds investing in SMEs located in underserved areas. These funds invest in 'high growth California businesses that bring significant economic gains to low-to-moderate income employees as well as deliver exceptional financial returns to business owners and our investors'.
History and ownership	Founded in 1998, PCV is a hybrid organisation – that is, while PCV is a not-for-profit organisation, it is affiliated and partnered with Pacific Community Ventures LLC, a for-profit equity fund management company. It was formed to address the disparities that occurred in California in the late 1990s when technology was fueling a venture capital boom, whilst the number of Californians living below the poverty line was growing. The founders, a small group of business leaders, saw an opportunity to support SMEs in underserved communities using the tools of venture capital.
Investment Funds	Three funds totalling around US$60 million, with current investments being made out of Pacific Community Ventures LLC III, a US$40 million fund that closed in 2007.
Investment focus	Generalist focus, though special emphasis on small, high-growth California businesses in specialty food products, ethnic products and services; health and wellness; custom, low-capital intensity manufacturing; environmentally-friendly focussed products. The focus is on mid to later-stage businesses with growth potential and the capacity to create jobs.
Funds under management	Over US$60 million
Investors	Public and private financial institutions including banks, pension funds, insurance companies and other institutional and individual investors.
Methodology	Companies must first pass a social return screen, where PCV considers the potential of a company to offer employment opportunities and job quality for lower-income workers. It then has two program tracks – one for established, growth-stage SMEs that are ready for financial investment and have the potential to deliver returns for investors; and one for smaller SMEs that could benefit from further business advising.
Social Impact	PCV focusses on building quality jobs (jobs that provide a combination of a living wage, employee benefits, and skill and asset-building opportunities), and see this as a key step on a pathway out of poverty. PCV believes 'SMEs are critical to the health and development of underserved communities because they are significant employers and powerful job creators, provide entrepreneurial role models, and have deep connections to local economies' [Caplan et al, 2007;p. 3-4]. In 2010 invested in 10 companies, and advised 166 companies, who together employ around 3000 people, 2/3 of whom are residents of low income neighbourhoods. PCV has invested and leveraged around US$1.3 billion of private capital into small business in low-income communities.
Financial Returns	PCV's second fund (PCV Investment Partners II) had a realised gross IRR of 28.3% (total IIR 6%; projected 18.5%).

Sources – Pacific Community Ventures websites [www.pacificcommunityventures.org and www.pcvfund.com]; and Caplan et al, [2008].

APPENDIX TWO

Comparative Frameworks of Measuring Disadvantage in Australia –

Identification of the most disadvantaged localities in Australia

TASMANIA – the most disadvantaged localities

Baum (Urban Areas)	**Vinson** (Urban and Rural)	**Priority Employment Areas** (Urban and Rural)
Brighton Derwent Valley Glenorchy Sorell	***Most disadvantaged*** Break O'Day Central Highlands Derwent Valley ***Next most disadvantaged*** Brighton George Town Southern Midlands Tasman	**North West/Northern Tasmania** Burnie Central Coast Circular Head Devonport Dorset George Town Kentish Latrobe Launceston Waratah/Wynyard West Coast West Tamar

VICTORIA – the most disadvantaged localities

Baum (Urban Areas)	**Vinson** (Urban and Rural)	**Priority Employment Areas** (Urban and Rural)
Hume – Broadmeadows Brimbank – Sunshine Greater Dandenong Casey – Cranbourne Casey – Hallam Whittlesea – South	***Most disadvantaged*** Berriwillock Cabbage Tree Creek Campellfield Korong Vale Melbourne (Inner City) Nowa Nowa Nyah West Port Welshpool Thorpdale Ultima ***Next most disadvantaged*** Ardeer Benambra Braybrook Broadmeadows Carlton Daylesford Heathcote Jeparit Kookdrook Marong Massey Minyip Nyah Portalington Rosebud West Tallangatta Valley Thornton	**South Eastern Melbourne** Cardinia Casey Frankston Greater Dandenong Kingston **North Western Melbourne** Brimbank Hobsons Bay Hume Maribyrnong Melton Whittlesea Wyndham **Ballarat – Bendigo (Central Victoria)** Ararat Ballarat Central Goldfields Greater Bendigo Hepburn Moorabool Mount Alexander Northern Grampians Pyrenees **North Eastern Victoria** Albury Benalla Campaspe Corowa Shire Greater Shepparton Indigo Moira Strathbogie Wangaratta Wodonga

NEW SOUTH WALES – the most disadvantaged localities

Baum
(Urban Areas)

- Blacktown – South-West
- Fairfield
- Auburn

Vinson
(Urban and Rural)

Most disadvantaged

- Armatree
- Boggabilla
- Brewarrina
- Harrington
- Iluka
- Koorawatha
- Lightening Ridge
- Menindee
- Tingha
- Windale
- Wilcannia

Next most disadvantaged

- Ashford
- Barraba
- Bonalbo
- Bowraville
- Bingara
- Bundarbo
- Calliope
- Capertee
- Claymore
- Collarenebri
- Coopernook
- Crescent Head
- Dareton
- Diamond Head
- Grassy Head
- Gwabegar
- Kandos
- Sydney (Central)
- Tighes Hill
- Tweed Heads
- Urunga
- Walgett
- Warrawong
- Waterloo
- Wickham

Priority Employment Areas
(Urban and Rural)

Canterbury – Bankstown and South Western Sydney

- Bankstown
- Camden
- Capbelltown
- Canterbury
- Fairfield
- Liverpool
- Wollondilly

Illawarra

- Eurobodalla
- Shellharbour
- Shoalhaven
- Wollongong

Richmond – Tweed and Clarence Valley

- Byron
- Clarence Valley
- Coffs Harbour
- Glen Innes Severn
- Kyogle
- Lismore
- Richmond Valley
- Tenterfield
- Tweed

Mid-North Coast

- Bellingen
- Gloucester
- Hastings
- Kempsey
- Nambucca

Sydney West and Blue Mountains

- Auburn
- Blacktown
- Blue Mountains
- Hawkesbury
- Holroyd
- Parramatta
- Penrith

Central Coast – Hunter

- Cessnock
- Gosford
- Great Lakes
- Lake Macquarie
- Maitland
- Newcastle
- Port Stephens
- WyongCessnock
- Gosford
- Great Lakes
- Lake Macquarie
- Maitland
- Newcastle
- Port Stephens
- Wyong

QUEENSLAND – the most disadvantaged localities

Baum (Urban Areas)	**Vinson** (Urban and Rural)	**Priority Employment Areas** (Urban and Rural)
Ipswich Caboolture Logan Richlands	***Most disadvantaged*** Biggenden Burke Hervey Bay Murgon Mount Morgan Spring Hill Wacol ***Next most disadvantaged*** Aurukun Bendemere Boulia Carpentaria Brisbane (Central) Cook Doomadgee Eidsvold Isisford Kingston Kolan Mornington Paroo Perry Redland Torres Wondai Woodridge	**Ipswich – Logan** Ipswich Logan **Southern Wide Bay-Burnett** Cherbourg Cooloola Kilkivan Murgon Nanango Tiaro **Bundaberg – Hervey Bay** Bundaberg Burnett Hervery Bay Isis Kolan Maryborough Miriam Vale **Cairns** Atherton Cairns Cardwell Douglas Eacham Herberton Johnstone Mareeba Yarrabah **Caboolture – Sunshine Coast** Caboolture Caloundra Maroochy Noosa **Townsville – Thuringowa** Burdekin Charters Towers Dalrymple Hinchinbrook Palm Island Thuringowa Townsville

SOUTH AUSTRALIA – the most disadvantaged localities

Baum (Urban Areas)	**Vinson** (Urban and Rural)	**Priority Employment Areas** (Urban and Rural)
Playford – Elizabeth Playford – West Central Playford – East Central Playford – West Salisbury – Central Salisbury – Inner North Salisbury – North-East Salisbury – Bal Port Adelaide – Enfield Port Port Adelaide – Enfield Inner Onkaparinga – Hackham Onkaparinga – North Coast Onkaparinga – Morphett Onkaparinga – South Coast Mallala	***Most disadvantaged*** Ceduna Coober Pedy Onkaparinga – North Coast Peterborough Playford – Elizabeth Playford – West Central Port Adelaide Enfield ***Next most disadvantaged*** Barunga West Onkaparinga – Hackham Port Adelaide Enfield – Inner Port Augusta Port Pirie – City Whyalla Yorke Peninsula – South	**Northern and Western Adelaide** Adelaide Charles Sturt Gawler Playford Port Adelaide – Enfield Salisbury Tea Tree Gully West Torrens **Port Augusta – Whyalla – Port Pirie** Peterborough Port Augusta Port Pirie Whyalla

WESTERN AUSTRALIA – the most disadvantaged localities

Baum (Urban Areas)	**Vinson** (Urban and Rural)	**Priority Employment Areas** (Urban and Rural)
Kwinana Wanneroo – South Armadale Gosnells	***Most disadvantaged*** Dundas Halls Creek Menzies Ngaanyatjarraku Sandstone Upper Gascoyne ***Next most disadvantaged*** Carnarvon Denmark Kondinin Laverton Murchison Perth Trayning	**South West Perth** Cockburn Kwinana Mandurah Rockingham

Knode