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## Response to Recommendations

*Financial Systems Enquiry 2015*

## Introduction to Foresters Community Finance

As a Community Development Finance Institution (**CDFI**), Foresters is a socially focused organisation which uses community finance and social investment to generate financial returns as well as social, cultural, and environmental outcomes. Foresters is a financier and fund manager with a social focus. We provide loans to individuals who are underserved by mainstream financial institutions. We also provide business and property loans to non-profit organisations and social enterprises across Australia who are underserved by mainstream financial institutions

Foresters raises and delivers capital to non-profits and social enterprises through its funds management company, Social Investment Australia. Social Investment Australia Ltd (SIA) a joint venture company with InterFinancial Corporate Finance Limited (InterFinancial). SIA holds Australian Financial Services Licence number 339844 and is the financier and fund manager for Foresters' investment products.

During the last thirty-six months Foresters has made over 600 small consumer loans (under \$4,000) to people excluded from mainstream financial institutions, and loans to twenty-nine community organisations totalling \$5,816,415.

**Foresters is not a philanthropic organisation, nor a grant maker – it is funder using the tools of capital markets to help people and communities help themselves.**

## Response to recommendations

### Recommendation 32 Impact Investment

***Explore ways to facilitate development of the impact investment market and encourage innovation in funding social service delivery***

Foresters Community Finance endorses this recommendation.

In our 20 year experience of investing in social service delivery across Australia we know that social service organisations benefit from access to capital to grow and develop their mission – to get scale like all business propositions. However, social service organisations also need capacity building in terms of skills and knowledge in their organisation to develop sustainable innovation practice, product and service. The investment in capacity building could be shaped similarly to the Investment and Contract Readiness Fund in the UK. [www.beinvestmentready.org.uk](http://www.beinvestmentready.org.uk)

We also caution to be wise to the balance of supply of investment dollars to the demand for the investment and the tension that sits between financial return and social return. Social service delivery has a mission to provide a social outcome dominating the financial return on investment. Impact investors need to know that the forgone financial return could be classified as the social impact return.

## Financial Systems Enquiry

***Provide guidance to superannuation trustees on the appropriateness of impact investment.***

Foresters Community Finance endorses this recommendation.

We would like to see superannuation trustees accept impact investment as part of the asset allocation framework. Again in our 20 years experience of providing impact investment into the social services markets we have been able to provide a market rate financial return to our investors, including a super fund who has impact investment allocation. Impact investing therefore should not affect the sole purpose test. And if allocation strategy is articulated in documents, superannuants can elect the funds with this allocation as part of their superannuation portfolio.

***Support law reform to classify a private ancillary fund as a 'sophisticated' or 'professional' investor, where the founder of the fund meets those definitions***

Foresters Community Finance endorses this recommendation.

**Recommendation 21 Financial Inclusion**

Foresters Community Finance notes the statement within the report on the issue of Financial Inclusion : "The Inquiry also supports continuing industry and government efforts to increase financial inclusion and financial literacy to improve customer outcomes." Other than broad principle in recommendation 21: *Introduce a targeted and principles-based product design and distribution obligation*, the report does not address the issue of financial inclusion. As over 16% of the population suffers from some level of financial exclusion and are often forced into very high cost solutions when in crisis, we are disappointed that the inquiry did not consider these issues in more depth.

**Recommendation 18 Crowdfunding**

*Graduate fundraising regulation to facilitate crowdfunding for both debt and equity and, over time, other forms of financing.*

Foresters Community Finance endorses this recommendation especially around the funding of SME and community projects. The current restrictions for retail investors in this area is a major blockage to innovation and workable solution within the community finance and SME area.

We support the concept of risk based reforms that allow limited holdings of both debt and equity or other forms of financing. We would support reforms similar to current trends in the UK, USA and Canada.