

Mr Peter Harris AO
Commissioner
Australian Productivity Commission
GPO Box 1428
Canberra ACT 2601

26 April 2017

Dear Mr Harris

The Australian Advisory Board on Impact Investing (AAB) welcomes the opportunity to make a submission to the Productivity Commission 5 year review.

Thank you for the opportunity to contribute to the dialogue at the forum in Canberra in December. Since then, we have since made an extensive submission to the Australian Treasury in response to its Discussion Paper on Social Impact Investment. We offer that material and related policy work as an input to the review.

In our view, impact investment and the social innovation it enables is part of the tool box for governments to drive greater productivity. It provides levers like those already used in economic innovation to drive productivity, which have not yet been fully developed in social policy. A confluence of factors highlight the importance of building this capacity now. They include: significant employment growth expected to come from health and other social services; rising demand for services; and the failure to deal with many social issues at their cause rather than dealing with their consequences.

Impact investing offers the Australian Government an expanded toolbox to tackle social and budgetary issues, now and into the future to drive better outcomes for people and communities and mobilise additional private capital for public good.

Now is the time to act to before budget pressures leave little room for adjustment. There has been a concerted focus from leaders, including the Social Impact Investment Taskforce established under the UK Presidency of the G8 which has evolved into a Global Steering Group of over 13 jurisdictions, to catalyse this effort globally. A competitive Australian approach can be shaped to intersect with and influence global practice.

The leadership position already secured for Australia by the AAB through the G8 and subsequent effort is already influencing data frameworks, policy directions and global conventions which could be leveraged to significantly greater effect in and from Australia. Further information on the AAB, its role and global developments is provided in the material attached.

Without constructive government engagement, progress in growing impact investing will be slower and less impactful. The Australian Government could miss the opportunity to use an expanded range of policy tools to combat budget pressures, expand the pool of available resources and generate more sustainable solutions to issues. Australia could miss the opportunity to be competitive in this growing global market.

My colleagues and I would welcome the opportunity to engage further with the Commission about this work and the 5 year review.

Yours sincerely



Rosemary Addis

Chair, Australian Advisory Board on Impact Investing
Chair, Impact Investing Australia

Impact Investing

Submission to Productivity Commission
Increasing Australia's prosperity: 5 Year future review

April 2017



About this submission

The **Australian Advisory Board on Impact Investing (AAB)** and **Impact Investing Australia** welcome the opportunity to make a submission to this Productivity Commission's 5 year productivity review as part of the *Inquiry into increasing Australia's future prosperity* (the Review).

Forward thinking and action taken now will determine the Australia of tomorrow. Establishing positive strategic policy settings today can enable social and financial innovation efforts to contribute to a prosperous future for Australia – 5 years from now, and beyond.

Impact investing refers to investment intentionally designed to deliver positive impact for society and a financial return. It is a complement to grant funding and mainstream finance. Impact Investment is already making a positive contribution to Australia's productivity with its dedicated focus on delivering and measuring both financial and social outcomes. There is significant potential to grow impact investment and

The Australian Government has an important opportunity now to scale these efforts and multiply their impact to improve the lives of many Australians now and into the future. The AAB, in collaboration with Impact Investing Australia and partners across sectors, have developed a growing body of policy resources and welcomes opportunity to participate in this dialogue going forward.

This submission responds in brief to the objectives and consultation questions set by the Review and provides a guide to other available material. Impact Investing Australia stands ready to respond to any opportunity to provide additional information to the Commission or to participate in this conversation as the Commission's analysis develops.

Impact investing is a productivity issue

Impact investment has important implications for supporting Australia's future prosperity. As it is fundamentally about expanding the pool of financial economic and social capital and better outcomes for people and communities, it is a productivity issue.

There is growing recognition by leading economic commentators that future economic growth depends on solving difficult social issues. Professor Michael Porter argues that:

the strongest businesses of the future will be those that align making profit with creating social progress," and points out, "there is nothing soft about the concept of shared value... [it represents] the next stage in our understanding of markets, competition and business management",

highlighting that this is key to *growing the pie* rather than redistribution. ¹

Impact Investment is the capital engine for this shared economic and social value. It supports jobs, growth and productivity by providing access to appropriate investment capital for small and medium enterprises tackling social issues and operating in communities that need employment opportunities and economic resilience.

In developed nations like Australia, social services are overtaking other industries as growth drivers and require different forms of innovation from those that supported manufacturing and technology in the past. This is occurring in the context of contracting fiscal environments, rising demand for social services and changing citizen expectations of delivery. Leaders internationally are highlighting that this also means we need our financial systems to work effectively and efficiently for the social sector.

¹ Porter, M and Kramer, M, *Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth*, Harvard Business Review, 2011

I think societies everywhere will come to the conclusion that an important part of the capitalist system is having a powerful social sector to address social issues, because government doesn't have the resources²

The importance of access to capital in building social cohesion, productivity and participation has begun to be understood. For example, the UK Social Investment Task Force had the clear objective to encourage:

...A move away from a culture of philanthropy, paternalism and dependence towards one of empowerment, entrepreneurship and initiative³

Impact investment combines the disciplines inherent in targeting a financial return and achieving positive societal impact. These investments could relieve Australian Government budgetary pressures and drive social and economic innovation in areas such as employment, health, housing, environment, agriculture, aged care, science and technology.

Availability of impact-seeking capital encourages impact-focused enterprises and collaborations between entrepreneurs, business, philanthropy, community and government to improve the quality of life for people and communities.

Australia can realise significant value locally and be competitive globally. However, currently approximately 80% of impact seeking capital coming into the Asian region is coming from North America and Western Europe.⁴ To realise the potential for impact investing in Australia will take scale. Achieving that requires a range of issues, often seen in new markets, to be addressed. These are primarily:

- lack of co-ordination;
- infrastructure;
- intermediaries, and capacity shortfalls.

State of the Impact Investing Market

Impact Investing is a global growth story, exhibiting 18% compound annual growth in assets under management from 2013 – 15. Investors are placing capital in investments designed for positive social, environmental and cultural impact across the globe. This is occurring across sectors including housing, health, education, financial inclusion, sustainable energy, agriculture and the arts.

The trends indicate the market is no longer nascent, though there are still challenges to address before its full potential is reached. Estimates are impact investment could reach between US\$500 billion and US\$1 trillion within a decade and \$32 billion in the Australian domestic market by 2022.

Investor appetite in Australia is growing. The Impact Investing Australia 2016 Investor Report indicates many Australian investors expect the field to continue to grow over the next 5 years and those already active would like to increase their allocations to impact by up to threefold. There is significant potential in the Asia-Pacific region, which is a growth destination for impact capital.

The impact investing market in Australia has reached an inflection point. Proactive and targeted steps now to address market gaps, promote efficiency and scale will enable significant social and economic impact to be delivered to the benefit of Australia's productivity and communities. Without action, impact investing may remain more fragmented and progress is likely to be incremental and niche.

The challenges and strengths of the impact investing eco-system are well-documented, and common to emerging fields of market based activity and innovation. Market development will require encouragement for participants and transactions *and* attention to infrastructure and institutions to support more, and more effective, participation.

² Sir Ronald Cohen, Founder Apax Partners, Chair International Social Impact Investment Taskforce, quoted in *The Telegraph*, 26 June 2010

³ UK Social Investment Taskforce, *Wealth Beyond Welfare*, 2000

⁴ The GIIN, *Impact Investor Survey*, 2016

Action is required to:

- provide social capital that de-risks the transaction and facilitates the entry of investors who have capital at scale to bring to the problem; and
- develop and grow intermediaries that can stimulate latent demand and connect, on appropriate terms, those who understand the social need and those with resources.

The role of governments and policy

All Australian governments – Federal and State - have a critical role to play. They are necessary partners in realising the potential for impact investment in and from Australia. And they have much to gain from impact investment. Targeted government policy and action can catalyse activity, reduce risks for new entrants, build track records and enhance investor confidence.

The Australian Government has a particular role. Some platforms and actions need national focus and scale. Much market regulation is the province of the Commonwealth and it plays a large role in social service delivery and innovation policy. It has several critical regulatory levers, and national reach and capacity to incentivise more action at State level and between levels of government.

The Australian Government has three important roles to catalyse and enable a robust impact investing market:

- **building the market:** provide leadership, contribute to development of market infrastructure and platforms and provide catalytic capital to mobilise additional resources and impact.
- **market stewardship:** exercising the role of regulator and legislator to remove unnecessary regulatory barriers and create incentives for participation.
- **participating in the market:** to influence where capital is directed, in particular to priority policy areas, and orient more commissioning to achievement of better outcomes.

Without constructive engagement from governments, Australia could miss the opportunity to deploy policy tools that expand the pool of available resources and generate more sustainable solutions. Certainly, progress would be slower and less impactful and Australia's opportunity to be competitive in this growing global market will be at risk.

Changing the game

There are a number of things that need to be done to stimulate activity across the ecosystem for social innovation and impact investment. There are no silver bullets. However, targeted strategic infrastructure and policy can change the game.

Impact Capital Australia (ICA), is the wholesale institution designed under stewardship of the AAB to prime the pump for a dynamic market for impact investment. ICA would have two key roles:

- investment (mainly wholesale) to grow existing market participants and encourage new intermediaries to enter the market; and
- market champion.

Work led by the AAB linked with global best practice underscores that establishment of an appropriately funded independent wholesale institution in the Australian market is a major game changer. It could both provide and/or be the go to point and convener for this necessary layer of socially motivated capital. The G8 Taskforce concluded that every jurisdiction will need such an institution to drive impact investment to a tipping point.

A detailed blueprint has been developed for ICA in collaboration with senior leaders in Australia and globally to deliver significant public value and is grounded in deep understanding of the local market and lessons learned internationally. There is a clear and accountable plan for implementation. This is a unique

opportunity for the Australian Government to collaborate with the private sector, philanthropy and community sector. Meaningful progress is being made with other stakeholders and a commitment from the Australian Government would incentivise and accelerate commitments and action.

ICA will deliver a multiplier effect in investment and impact. ICA can bring the coherent focus needed for the scalable transactions to be delivered. That includes spearheading new funds to invest in local jobs, de-risk investment in housing and infrastructure and demonstrate models of financing in areas of high demand and growth such as disability.

While the centrepiece of our policy recommendations is ICA, the effectiveness of this institution and overall development of the market would be enhanced by complementary policy measures. These include:

- removing regulatory barriers and facilitating growth;
- building government capacity and leadership; and
- developing capacity for commissioning that improves outcomes and reduces costs over time.

There is strong alignment between these policy recommendations and the Australian Government's National Innovation & Science Agenda and the industry and innovation initiatives of State governments to support enterprise development and innovation. More explicit focus on social innovation and the impact investment to fuel it within the design of the innovation agenda would unlock both social and economic benefits for our communities.

Policy resources

Impact Investing Australia continues to develop impact investing policy analysis and resources. The terms of reference to this Inquiry asks that the Commission should have regard to other current or recent reviews commissioned by Australian government. Our past submissions have outlined the role for the Australian Government in catalysing, growing and participating in the impact investing market to benefit Australians. There have been several dimensions to these policy propositions, outlined below.

Impact investment in Australia

Response to the Australian Government Discussion Paper on Social Impact Investing

- Submission to the Treasury (February 2017)
This Submission outlines the context in which impact investment is developing, the role of the Australian Government, opportunities for collaboration with State and Territory governments and other parties, and proposes policy tools and actions to meet the stated objective of developing Australia's impact investing market. Specific questions raised in the Discussion Paper are addressed in the body of the Submission.
<https://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-response-to-Social-Impact-Investing-Discussion-Paper.pdf>

Pre-Budget Submission to Federal Treasury 2017-18

- Submission to the Treasury (January 2017)
This submission proposes a package of five specific Budget measures designed for immediate impact and to inform longer term policy.
<http://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-Submission-to-Treasury-March-2015.pdf>

Data Use and Accessibility

- Submission to the Productivity Commission (July 2016)
The purpose of this submission is to inform the Productivity Commission about the pivotal role data can and should play in realising opportunities to mobilise private capital for public good and encourage more innovative and effective approaches to tackling social issues.
<http://impactinvestingaustralia.com/wp-content/uploads/AAB-and-Impact-Investing-Australia-submission-PC-Inquiry-Data-July2016.pdf>

Affordable Housing

- Submission to the 'Working Group' on Affordable Housing (March 2016)
This submission informs the Working Group of Council on Federal Financial Relations (CFFR) about the relevance and application of Impact Investing to the issue of Affordable Housing. It considers developments both globally and locally in seeking to address each of the discussion questions raised in the associated Issues Paper.
<http://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-Affordable-Housing-Submission-March-2016-v-FINAL.pdf>

Financial System Inquiry

- Submission to the Treasury on the Financial System Inquiry (March 2014)
This submission responds to the Inquiry's central question of how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth, with specific reference to the relevance, application, and significant potential of impact investing in Australia (targeted investments that generate financial revenues, as well as social and/or environmental impact).
<http://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-submission-to-the-Financial-System-Inquiry.pdf>
- Submission to Treasury on the Financial System Inquiry's Final Report (March 2015)
In its final report to Government, the Financial Services Inquiry recognised that impact investing is a significant matter for Australia's financial system. This submission responds to an invitation from the Treasury to provide additional information about how impact investing can XX. The submission focuses on immediate and concrete opportunities for the Government to implement the recommendations in the final report.
<http://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-Submission-to-Treasury-March-2015.pdf>

Impact investing from Australia

- **Inquiry into the Role of the Private Sector in Promoting Economic Growth and Reducing Poverty,** Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade, Foreign Affairs and Aid Sub-Committee (May 2014).
The submission relates to the relevance, application, and significant potential of impact investing (targeted investments that generate financial return, as well as social and/or environmental impact) in the context of supporting the private sector to promote economic growth and reduce poverty.
<http://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-submission-DFAT-inquiry.pdf>

State of the Market

In addition to these submissions, there have been other developments, especially in building data and evidence for impact investing in and from Australia.

- **Impact Investing Australia, 2016 Investor Report (March 2016)**
This report presents the results of Australia's inaugural impact investing survey. 123 investors – including institutions; trusts and foundation; not for profit organisations; and individual investors – participated, providing an important contribution to understanding how the demand for impact investing is shaping in Australia.
<http://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-2016-Investor-Report.pdf>
- **Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016 (October 2016)**
Impact Investing Australia launched the pioneering Benchmarking Impact report presenting the findings from analysis of impact investment activity and performance data for a data-set of Australian impact investments active as at 30 June 2015, with a total product value of \$1.2 billion.
<http://impactinvestingaustralia.com/wp-content/uploads/Benchmarking-Impact.pdf>

Strategic policy

- **The Roles of Government and Policy in Social Finance**, by Rosemary Addis
in: Social Finance (2015), Nichols, A., Paton, R. and Emerson, J.
This chapter sets out new thinking and research on how various public policy tools have been building the social finance market around the world as a catalytic force. The chapter considers the rationale for policy interventions, looking firstly at a market-based analysis and then at arguments for a broader role for the state in encouraging innovation. It sets out a new 'toolbox' for policy, drawing upon examples from around the globe. The chapter concludes with consideration of how social finance can provide a focal point for new collaborations across sector boundaries to shape a more productive generation of public private partnerships.
- **Impact investment: Building the Evidence Base**, OECD (2015)
This report was developed in tandem with the work of the G8 Taskforce to develop the evidence base for impact investment. It looks at a range of dimensions of this developing market and the application of impact investment as well as areas of growing social need across the G7 countries and Australia.
- **The Invisible Heart of Markets**, Social Impact Investment Taskforce (2014)
This report of the Social Impact Investment Taskforce established under the UK Presidency of the G8 reported on the findings of the Taskforce involving the G7, Australia and the EU to determine what would be required to catalyse a global market for impact investment.

The reference lists in the materials referred to above and available at the resources sections of both the AAB and impact investing Australia websites.

See: www.australianadvisoryboard.com and www.impactinvestingaustralia.com

The Australian Advisory Board on Impact Investing

The Australian Advisory Board on Impact Investing (AAB) provides leadership and strategy for accelerating the growth of the impact investment market in and from Australia. It is the lynchpin for Australia's leadership contribution to the Global Social Impact Investment Steering Group (successor to the Social Impact Investment Taskforce established under the UK Presidency of the G8).

The AAB works with National Advisory Boards across 12 other countries and with global agencies including the OECD, World Bank, United Nations, World Economic Forum to catalyse a global market for investments with measurable positive benefit for society.

Established in 2014, the Board comprises a number of Australia's most experienced leaders spanning the finance, business, not for profit, philanthropic and community sectors. Their shared purpose is growing the opportunities for impact investment in and from Australia, ensuring Australia becomes competitive in this global growth market.

The intention is to enable innovation, prevention and greater efficacy in how we tackle issues affecting society and to mobilise additional resources, in particular capital and talent, to contribute to a prosperous future for Australia.

Australia's contribution to the global effort



National leadership and strategy

AUSTRALIAN ADVISORY BOARD ON IMPACT INVESTING

Australian Advisory Board Members	Organisation
Rosemary Addis (Chair)	Impact Investing Australia
Adrian Appo	First Australians Capital
David Bennett	Social Enterprise Finance Australia
Sandy Blackburn-Wright	Social Outcomes
Richard Brandweiner	LeapFrog Investments
David Crosbie	Community Council of Australia
Sarah Davies	Philanthropy Australia
Rob DiMonte	Social Capital SA, TACSI
Belinda Drew	Community Services Industry Alliance
Steve Lambert	National Australia Bank
Fabienne Michaux	Songroom, KAGE Physical Theatre
Peter Munro	AT Kearney
Louise Sylvain	Bush Heritage, University of Sydney
Christopher Thorn	Ernst & Young
Simon Warner	AMP Capital

Ambassadors	Organisation
Carolyn Hewson AO	Non-Executive Director, NED
Carol Schwartz AM	NED, Trawalla Foundation
Peter Shergold AC	University of Western Sydney

Additional ICA Ambassadors	Organisation
The Hon John Brumby	NED; former Premier Victoria
Peter Hunt AM	Greenhill, Grameen Australia
Greg Hutchinson	Paul Ramsay Foundation, CSI
Simon Longstaff AO	The Ethics Centre
Simon McKeon AO	Chancellor Monash Uni
Rob McLean AM	The Nature Conservancy

www.australianadvisoryboard.com

AUSTRALIAN ADVISORY BOARD ON IMPACT INVESTING

Impact Investing Australia

Impact Investing Australia was established in 2014 in response to an industry-identified need for dedicated leadership, facilitation and capacity building.

Responsible for driving the development and implementation of the Australian Advisory Board on Impact Investing's strategy to catalyse the market for impact investing, Impact Investing Australia provided a focal point for market development in Australia from 2014-17.

Its current focus is two flagship initiatives: implementation of Impact Capital Australia and building Impact Investment Ready Growth Grants critical mass. See our work at <https://impactinvestingaustralia.com/>

Partners and Supporters

The Australian Advisory Board on Impact Investing and Impact Investing Australia are supported by partners from across sectors and supporters and contributions of time and experience of a dynamic group of skilled volunteers.

Anchor Partners:



WE
LIFE WITHOUT BARRIERS
VE



Perpetual



Supporting Organisations:



In-kind support:

Daniel Madhavan

Donald Simpson

G&S Consulting

www.impactinvestingaustralia.com



Contact

Sabina Curatolo

Director of Government Relations and Policy, Impact Investing Australia

e: sabina.curatolo@impactinvestingaustralia.com

p: 0400 318 205