

# Building social capital can deliver big returns

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David Murray's financial system inquiry backed changes to support social investment. *Photo: Sean Davey.*

In April 2012, Harvard Professor [Michael Porter](#) launched the [Social Progress Index](#), to be used in tandem with GDP.

He said that leaving the social dimensions out of competition and economic theory had been a huge mistake.

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As we embark on a [new national conversation about innovation](#), it's important to ensure that we don't repeat the same mistake.

I have spent nearly three decades in innovation, within the private, community, philanthropic and public sectors, including as social innovation strategist in the Australian government.

The more time I spend in the field, the clearer the interrelationship between social and economic progress becomes, and the more mystified I become as to why we don't utilise the same toolkit for innovation in how we tackle the most pressing issues for society, as we do in economic policy and other areas of R&D.

The toolkit for social innovation is the same: enterprise development, capability and talent, measurement, regulatory settings and capital.

The role for government is the same: as a market builder contributing to the market infrastructure and incentivising participation; as a standard setter; and as a market participant using targeted funding to create a multiplier effect.

Our recent Financial System Inquiry agreed, particularly as it relates to mobilising private capital as a vital enabler of the innovations addressing social challenges.

Impact investment is the growing field for achieving this, whereby investments are purposefully designed to deliver both positive social impact and a financial return.

Impact investing is an innovation story in its own right. It is a new conception of how we can integrate social purpose and finance.

As the inquiry notes, it "has the potential to benefit government and taxpayers by reducing costs and improving social policy outcomes".

It is also an enabler of innovations, providing the capital to finance new models, infrastructure and entrepreneurial activity focused on addressing issues affecting our society.

Promising developments here have put Australia at the forefront of this field globally, including being the only country outside the G7 and EU invited to participate in the G8 Social Impact Investment Taskforce. We have an opportunity to lead in this field and reap the benefits in our communities.

With social services expenditure at around \$154 billion and demand in key areas growing faster than GDP, the need to consider alternatives is clear.

Even if our federal budget was not under stress, the lack of progress reflected in higher incarceration rates, long-term and intergenerational unemployment and consistently poor outcomes for Aboriginal communities demand a different approach.

While there are promising developments, wider uptake of the toolkit for social progress lacks scale and is fragmented.

Without a focus on innovation for social benefit, we risk further entrenching disadvantage. Without a focus on developing capital flows to support enterprise, and encouraging talent and capital into the field, we are unlikely to reap the benefits of innovation in the Australia we want for our children that is fair and full of opportunity.

Just like the commercial sphere, there is no silver bullet, but we can take positive and targeted steps. In late 2014, the Australian Advisory Board on Impact Investing released a strategy, *Delivering on Impact*, to catalyse the market.

Since then, leaders from the community sector, business, philanthropy and finance have worked together to implement the central planks of that strategy with the intention of transforming the way we tackle social issues through social innovation and investment.

The big game-changer needed is the creation of an independent financial organisation that can unlock the potential of impact investing, accelerate the pace and scale of its development and create a significant multiplier effect in capital and impact.

Last month we launched a Blueprint for Impact Capital Australia, an institution that would do just this. Its investment activity would be predominantly wholesale, providing finance to existing participants to grow their reach and impact and encouraging others to enter the market.

Examples could include a fund to finance affordable accommodation for people with disabilities, or a social impact bond fund investing in innovations and prevention that improve social outcomes in areas such as early childhood development or type 2 diabetes.

As a market champion, it would target barriers to growth and develop new, scalable opportunities for innovation and impact.

Impact Capital Australia can become a reality with appropriate capital and resources, including from government and major financial institutions.

Enterprise development is another critical element. Globally, evidence is building that the support entrepreneurs need to develop and grow is similar whether they are socially or commercially motivated.

The Productivity Commission recognised this in 2010. We needed a well-resourced Impact Investment Readiness Fund dedicated to assisting organisations with a social purpose.

Just such a fund was launched in March and, seeded with \$1 million from NAB, is already showing the potential. It makes grants to mission-driven organisations like HireUp, which connects people living with a disability with support workers.

To promote innovation and better outcomes, we need governments to play a greater role in capturing and sharing data relating to our social issues and spending. Where such data is publicly available, organisations can then identify where the opportunities exist to do things better, and use this data to innovate and improve service design and measurement.

There is potential today to mobilise capital at scale and transform how we achieve social change. Enough has been trialled elsewhere to know what's needed and to act with confidence.

Government has a critical role to play in developing the opportunities for impact investing and what it can enable, and in doing so, ensure innovation benefits all Australians today and into the future.

**Rosemary Addis is chairman of Impact Investing Australia and the Australian Advisory Board on Impact Investing and represents Australia on the Global Social Impact Investment Steering Group.**

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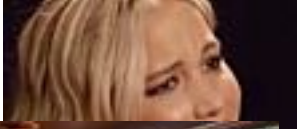


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