

THE AUSTRALIAN

Impact investing can transform Australia with government help

PETER SHERGOLD, ROSEMARY ADDIS | THE AUSTRALIAN | MARCH 16, 2016 12:00AM

The debate about tax reform highlights a fundamental truth: addressing the scale and complexity of issues facing society exceeds the resources available to government. Increased revenues will not guarantee that we can respond effectively to the manifold social challenges that face us.

This is not unique to Australia. Most countries face growing gaps between demand and what governments can afford. Providing for those in need and ensuring society remains open and fair are challenges for democratic societies around the world. Philanthropy and volunteering play a vital role, but they are not sufficient to fill the gaps. Most of the community sector is small and does not have adequate capital to increase scale.

There is reason for optimism. We see a groundswell of collaborative approaches to tackling intractable social issues and of businesses and social enterprises finding new ways to integrate public purpose. Not-for-profit experience is being complemented by new ways of operating. Impact investing is the force that can drive more of this.

Impact investments take many forms. What they have in common is they are designed to deliver positive social benefit as well as financial return. This approach is already being used to tackle a range of issues, from job creation to social housing, education and energy.

Impact investing is gaining momentum. Innovative enterprises are springing up across the nation. Funds run by Social Ventures Australia and Social Enterprise Finance Australia finance social enterprises to purchase premises or expand their activities to benefit communities. For governments this is a powerful tool to mobilise private capital for the public good, encourage innovation, pay on the basis of successful interventions and increase the efficiency of cost allocation.

The Australian Advisory Board on Impact Investing has been working with counterparts in 13 countries to build the market. The reality is we still don't have the infrastructure needed to achieve scale. Without that, the social and economic impact will fall short of its potential.

Yet there is clear appetite both from individual and institutional investors. The Impact Investing Australia 2016 Investor Report launched last week with the University of Melbourne canvassed 123 investors who account for more than \$333 billion of Australia's

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investing to become more significant. And they are willing to invest in diverse areas: children and older people; housing and health; arts and culture; clean energy and the environment.

Impact investing brings together public, private and community resources and capability to achieve better outcomes for society. It can help drive quite different working relationships between public servants, the community sector, enterprises, business and private investors.

[Government has a critical role to play.](#) Constructive policy and leadership is needed to encourage social investment and to provide incentives for innovation and collaborations.

NSW has already introduced social benefit bonds, allowing community organisations and private investors to receive payments if they can reduce the need for out-of-home care for children in troubled families. Initiatives are being developed to deliver better outcomes and save costs in the management of chronic health conditions in that state and to reduce homelessness in Queensland and South Australia. A federal-state working group is exploring innovative financing for affordable rental housing.

More targeted action is needed. With the right policies in place, the positive contribution of impact investment can be accelerated. Instead of increasing expenditure on meeting community crises, governments can enable the market and drive more investment in prevention and wellbeing.

We believe there is an opportunity to build a deeper partnership between governments and the private and community sectors by establishing an independent institution, Impact Capital Australia. That would change the game with wholesale finance, allowing existing participants to increase their reach and impact and encourage others to enter the market. A government contribution would deliver benefits far exceeding the cost, creating a multiplier effect.

The design work already done demonstrates such finance could catalyse a range of new initiatives: funds that invest in social infrastructure including housing solutions to complement the NDIS, and in local communities and business to create jobs. Funds that invest in social impact bonds to improve social outcomes in areas such as early childhood development; type 2 diabetes; training and employment; and aged care.

It is time to move past unhelpful generalisations that “markets are efficient” and “governments are inefficient”. In the 21st century, no one sector holds all the levers for creating public value.

Impact investing can benefit many parts of society, not least taxpayers. Today, a delegation of leaders from the business, finance, community and philanthropy sectors will visit Canberra. Our message is simple: work with us to realise the potential of impact investing, and

in doing so, transform our capacity to tackle social issues and build a prosperous future.

Peter Shergold is chancellor of Western Sydney University. His report on adaptive government, [Learning from Failure](#), has just been released by the Australian Public Service Commission. Rosemary Addis founded and chairs [Impact Investing Australia](#) and the [Australian Advisory Board on Impact Investing](#).

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