Submission: New International Development Policy 2020

Impact investing *from* Australia

Australia's regional role in achieving the SDGs

Australia has an important role to play in contributing to the achievement of the SDGs in the Indo Pacific region as investors, capacity builders and leaders in enabling policy.

A national impact investing wholesaler can support this in part by catalysing the market for impact investing (II) and raising awareness *in* Australia which will have some flow on effects for investment *from* Australia.

In its report, *The Rise of Impact*, the UK National Advisory Board for II (UK NAB) recognised the need for their key organisations in international development, domestic II and traditional finance to work together to tackle development challenges globally. Through coordinated efforts, they saw that "*the UK has the potential to be a globally recognized 'hub' for international development finance, and a leader in helping to achieve the SDGs globally*"[i]. The right market building infrastructure, policy and collaboration, could see Australia achieve a similar standing in the Indo-Pacific.

DFAT in its Voluntary National Review of the SDGs in June 2018, outlined the work that has been done and its strong commitment to delivering the SDGs both at home and globally. Success requires a collaborative effort across the multitude of actors in the development finance eco-system.

Figure 1: The Actors in Australia's Development Finance Eco-system

Source: Impact Investing Australia,2019

In our report, [*Impact Investing from Australia: Tackling the SDGs in the Asia Pacific*](), we examined in more detail Australia's role and the use of Official Development Assistance (ODA) in impact investing for International Development. There is no doubt that **Australia has an important role to play in contributing to the achievement of the SDGs in the Indo Pacific region both as investors, capacity builders and leaders in enabling policy.**

The gaps in Impact Investing *from* Australia

II has an important role to play in driving inclusive growth and contributing to the achievement of the SDGs in the Indo Pacific. II can mobilise private resources to complement donor, public and philanthropic funds to meet the additional requirements under the SDGs, accelerate the pace of change and reverse negative trends in several areas.

II can support innovative delivery of products and services that meet peoples' needs and enable sustainable infrastructure (e.g. cleaner, more climate resilient energy, roads, water, buildings), sustainable land use and social infrastructure (e.g. for health and education) in Indo Pacific developing countries.

II *from* Australia is a critical aspect and there is an opportunity in establishing Australia's new International Development Policy to consider how this may be better enabled. In particular, how to open up the scope for investors and intermediaries through capital and capacity support to play a role in achieving sustainable development and better outcomes for people and the planet in the Indo Pacific region.

Australia as a developed nation in the Indo Pacific region, can support less developed nations to meet SDG targets. The 10 years to 2030 is a short time frame in which to tackle the breadth and depth of the task required to meet the SDGs in the region. The capital element alone is enormous at an estimated $2.5 trn per annum gap across global developing markets. II *from* Australia and related policy into the region needs to consider two aspects in respect of the capital needed. The capital must meet the additional requirements under the SDGs and; shore up existing and in some cases declining capital bases of aid, philanthropic grants or investments to maximise and sustain existing impact.

The approach requires the support of social innovation and fundamental market building infrastructure. It needs the further development of the social enterprise (SE) sector and greater investment in critical social and sustainable economic infrastructure. Existing government policy is already supportive at some level in these areas, the major gap remains in significant support of intermediation beyond the Multi-Lateral Development Banks. This support is critical in facilitating the Indo Pacific impact eco-system to contribute more fully to the solutions required for achievement of the SDGs in the region.

Extending support for Social enterprise (SE) development

Impact Investing (II) to support the development of the regions Social Enterprises (SEs) is emerging. For-profit SEs particularly those that target place with appropriate funding and support can empower people and communities through the creation of jobs and SDG related services.

As with any relatively young market there are several challenges. Targeted initiatives by DFAT and others to tackle issues around capacity, intermediation and capital flows are gaining traction but more needs to be done to see this sector develop and meaningfully contribute to the SDGs.

Social entrepreneurship is being recognised in the region as an approach to reduce widening income inequality, address environmental degradation and empower women and girls. The biggest factor is the emergence of social entrepreneurs themselves, many of them young, who have stepped up to develop financially self-sustaining solutions to address social and environmental challenges in their communities. While the idea that business can and should play a positive role in the community has deep roots, the contemporary social enterprise business model is less well established [ii]

The barriers and challenges impeding the development of the SE sector in the Indo Pacific are outlined in **Table 1** along with some great first steps and potential considerations in SE enablement for DFAT and others. Notwithstanding progress to date, to see the regional SE market further develop, broader engagement and resources need to be deployed. Our recommendation is that the key initiatives in this regard be directed towards intermediation and related capacity building.

Table 1 – Barriers and Challenges to Social Enterprise Development

Barriers	Opportunities	Policy Initiatives
Skills and capability	Build Entrepreneur and SE Capacity	Continue to support Pacific Rise and Scaling Frontier Innovation initiatives. Consider additional support for sector collaborations e.g. Aspen Network of Development Entrepreneurs.
SE Financing gap	Establishment of SE Angel Investor Networks & Investment in Micro SMEs	Continue Engagement and support for key organisations e.g. Asian Venture Philanthropy Network (AVPN). Consider supportive tax policy for investors & fund development.
	Support trade financing gaps	Consider further initiatives with Multi-lateral Development Banks (MDBs) e.g. extension of DFAT's work with the Asian Development Bank (ADB) to other MDBs.

	Improve the regulatory and business environment	Continue to support and work with OECD, MDBs; British Council, UNESCAP etc around enabling target country policy development.
Inconsistent legal structures and government regulation	Promote positive perception of SEs	As above - Thailand, Malaysia and Singapore all have initiatives in place as examples.
	Business model innovation – not for profit to for profit.	Consider the establishment of an early stage discovery fund/funding to assist NGOs in exploring Development Impact Bonds and for-profit models as appropriate. E.g. The Fred Hollows Foundation and Alina Vision.
Preference for non-profit over for-profit models	Aid for Trade targeting key issues/sectors	DFAT Aid for Trade target of 20% (2020) already exceeded – consider additional budget and allocation to this area.
Economic and cultural diversity of countries across the region	Investment in Agriculture	Consider tax incentivisation for targeted investment in supply chain e.g. Nestle's Shared value program which globally has trained 431,000 farmers via capacity building programs.
Limited market infrastructure & access to capital for SEs	Policy and other initiatives to build market infrastructure and enable access to capital for SEs	**Consider expansion of policy targeting intermediation i.e. additional funding to the Emerging Market Impact Investment Fund (EMIIF)** (currently only $40m) could be expanded. Tax incentives could also be considered for early fund investment.
Limited eco-system intermediation	Corporate Sector sponsorship of SEs	Consider further support of inclusive business initiatives e.g. Carnival Cruises in partnership with DFAT and The Difference Incubator to develop the Yumi Tourism project in the Pacific.[iii]
Investor Risk appetite remains low	Development of diversified product offerings with local market experts	**Consider opportunities for supporting the raising of investor awareness and de-risking investment per the EMIIF above** or working with experts beyond MDBs. E.g. The Tropical Landscape financing facility (TLFF) in Indonesia - a partnership which brings expertise and risk mitigation for private investors while helping farmer livelihoods.

Recommendation 1:

Capitalise on the good work already done:

- Extend Australia's existing programs for SE capacity building such as Pacific RISE and Scaling Frontiers Innovation to further enable Indo-Pacific social enterprise development.

Barriers and challenges in investment in SDG infrastructure

While investment picked up in 2017, long-term investment in sustainable development, especially in some developing countries remains insufficient; and despite a global consensus on the need to increase investment in infrastructure, private participation in infrastructure has fallen each year since the Addis Agenda was adopted in 2015[iv]. The situation in the Asia Pacific is of particular concern with the Asian Development Bank (ADB) estimating significant infrastructure requirements between 2016-2030 at a climate change adjusted[1] US$26.2trn[v].

Infrastructure is a critical aspect in achieving the SDGs in the Indo Pacific and with current spending a tiny fraction of what is required, infrastructure directed policy initiatives are imperative. This could see ODA directed to: further

[1] Climate change adjusted figures include climate mitigation and climate proofing costs, but do not include other adaptation costs, especially those associated with sea level rise.

support for the work in this area of the Multi-lateral development banks; providing technical assistance around policy and financing structures to beneficiary countries; and raising investor capacity and awareness of impact investing and blended finance solutions.

In the case of infrastructure, **finding the capital on the right terms is a major issue**, with the ADB reporting over 90% of Asian infrastructure spend as financed by the public sector[2]. Given the constraints on government budgets, enabling and facilitating the mobilisation of significant amounts of private capital toward financing Indo Pacific infrastructure is a critical aspect of the delivery of the SDGs.

Table 2 – Barriers and Opportunities to Critical SDG Infrastructure investment

Barriers	Opportunities	Policy Initiatives
Limited government development spending	Greater focus on blended financing models and designing for impact	Continue support for MDBs in this area particularly in relation to infrastructure projects. Consider consistent Impact management framework built into project design whether through MDBs or own financing facility such as EMIIF or the Australian Infrastructure Financing Facility for the Pacific.
Short term bias of institutional investors	Improve understanding of liquidity needs and fiduciary duties	Clarify beyond doubt that fiduciary duties can (and must) take account of impact in terms of assessing future value. Consider further mechanisms (potentially through EMIIF) for de-risking liquidity issues e.g. facilitating secondary market mechanisms.
Difficulties in assessing risk	Co-investment with local or regional experts	**Expanded tool kit of the EMIIF** and continue support for MDBs as enablers – e.g. International Finance Corporation (IFC) Managed Co-lending Portfolio Program for Infrastructure (MCPP) brings the expertise of the IFC in developing markets to a credit enhanced syndicated debt product.
Challenges in assessing impact	Leverage the emerging suite of tools	Adopt a consistent government methodology for managing impact - emerging tools include the Impact Management project and the IFC Operating Principles for Managing Impact. **Create a dedicated Office of Impact Investment within government to enable this.**
	Awareness raising and capacity building	Support the organisations in Australia such as the AAB/IIA, the Responsible Investment Association of Australasia (RIAA) and the UNPRI that are doing this – **through an Australian II Institute structure**.
Regulation and regulatory uncertainty	Improve policies and ease of doing business	Further co-operate with the OECD, UNESCAP, the MDBs and other regional governments to assist where possible with policy development to promote infrastructure-based investment.
Lack of Intermediary and fund manager capacity	Further Support for intermediaries	**Expand the EMIIF to invest more in key funds supporting infrastructure intermediation including the IFC Catalyst fund.**
Bias toward infrastructure development in major urban areas	Focus on investment structures suitable for projects outside major urban areas	Further support MDBs who are looking at ways of working with local governments outside major urban areas, e.g. through municipal bond investment and Project Preparation facilities (PPFs).

Given their strong track records, access to reasonably low-cost finance through international capital markets and associated expertise in International development financing, the MDBs have an important role to play in addressing many of the challenges described above and mobilising the private sector toward SDG aligned Indo Pacific infrastructure

[2] Public finance covers tax and nontax revenues, borrowing via bonds and loans, official development assistance from donor countries, and support from multilateral development banks (MDBs).

investment. The MDBs have developed several platforms that support the development of replicable and scalable infrastructure projects, these include SOURCE and the Global Infrastructure Facility (GIF). [3]

In 2017, an estimated US$163.5bn of long-term private capital was mobilised by MDBs and DFIs of which around US$16.5bn was directed to projects in APAC. 97% of this global private capital was mobilised by MDBs with the balance by DFIs.[vi] Of the global long-term capital mobilised 45% or ~US$73bn was directed to infrastructure and only 8% of this to social infrastructure such as schools and hospitals.[vii] This further underpins the point that there is a long way to go in addressing the SDG financing gap in infrastructure.

While the financing tools the MDBs use to unlock significant amounts of private capital are important they recognise that substantive change needs to go beyond the capital to the support of the building blocks of policy and capability. A significant catalytic institution to implement Australia's policies in this respect would be an important driver of regional development.

Enabling a catalytic institution for impact investment *from* Australia

Recommendation 2:

Australia's role in International Development and II *from* Australia would be further strengthened by a development finance organisation committed to growing impact investment in the region. Leveraging an existing policy initiative, the EMIIF could be the building block of this organisation.

Expand the funding and toolkit of the EMIIF by $100m (to $140m) to increase its ability to effectively seed product and fund intermediaries and related capacity building (including for investors) in and into the region. To accelerate the impact delivery, the appropriation period should be at a maximum 3 years.

If utilising an expanded EMIIF, the Australian Government would need to ensure that organisation has a mission and mandate that will see the effective and timely deployment of different types of capital. Ultimately, the EMIIF would need to have the capability to utilise other tools used in blended finance to attract private investment in a way that is beneficial and sustainable for targeted countries. The EMIIF could also provide a vehicle through which broader collaborations are evolved with emerging DFIs such as FinDev Canada and the new USIDFC.

An expanded EMIIF would need to work in a collaborative way with a national II wholesaler, once established, in ensuring consistency in impact management and measurement and in building stakeholder awareness and capacity in the impact investing sector. Working together these entities could help Australia contribute to the achievement of the SDGs in the Indo Pacific region as leaders in enabling policy. They could:

- support investors to build their awareness and capacity, reframe their investment approach to incorporate SDG impact and potentially reassess tolerance and/or mitigation approach for risk and liquidity management; and
- support Australian corporates to adopt a shared value approach that considers the SDGs in a regional context. Sustainability of supply chain including potential investment in capacity building, technology and ensuring integrity of labour practices are all important factors.

The regional issues encapsulated in the SDGs require Australia to take further action NOW if we are to avoid the detrimental and irreversible effects of a failure to act for current and future generations. Impact investing is providing an important mechanism to collaborate, participate and actively engage around solutions to these issues and intermediation is critical. **A commitment to further funding this key gap is a critical step for Australia in helping to achieve the SDGs in our region.**

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[ii] Thomson Reuters Foundation, British Council, Tilleke & Gibbins and United Nations ESCAP, *Asean Social Enterprise Structuring Guide*, 2018
[iii] Carnival Australia, Media Release: *Carnival Australia Recognised for Sharing The Value Of Cruise Tourism In The Pacific*, 23/10/2018
[iv] United Nations, *Financing for Development: Progress and Prospects 2018*, Report of the Inter-agency Taskforce on Financing for Development, New York 2018
[v] Asian Development Bank, *Meeting Asia's Infrastructure needs*, 2017
[vi] Collaboration of MDBs (AfDB, ADB, AIIB, EBRD, EIB, ICD, IDB ,IFC, IsDB, MIGA, NDB, WB), *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions, 2017,* (June 2018)
[vii] Ibid

[3] SOURCE is a joint initiative of multilateral development banks to develop sustainable, bankable and investment ready infrastructure projects (https://public.sif-source.org/). The Global Infrastructure Facility (GIF) supports Governments in bringing well-structured and bankable infrastructure projects to market (http://www.globalinfrafacility.org/).