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PO Box 6021
Parliament House
Canberra ACT 2600

Dear the Hon Dr Sharman Stone MP

**Re: Joint Standing Committee on Foreign Affairs, Defence and Trade –
The business of aid in the Indo-Pacific**

As a graduate of the University of Oxford, having consulted at the World Bank and working several years in the private sector of foreign aid (in AusAID, ADB, USAID development project contract management), I draw on these experiences, in addition to my current role as an academic in UTS Business School, in making this submission.

My latest research and industry collaborations on social entrepreneurship (with the Westpac Foundation), social innovation and the development of the global \$650 billion impact investing market (with the Skoll Centre, University of Oxford) enable me to share keen observations regarding the opportunities and mechanisms to better engage the private sector in reducing poverty in the Indo-Pacific region.

Thank you for the opportunity to respond and contribute to the inquiry into expanding the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region.

Yours sincerely

Dr Danielle Logue
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SUMMARY OF RECOMMENDATIONS

1. The establishment of social stock exchanges and the opportunities for foreign aid to contribute to building a social stock exchange(s) for the Indo-Pacific region to mobilize investment from private sector into social enterprises that are reducing poverty;
2. Finding scalable business models ready to receive impact investment in the Indo-Pacific, including emerging hybrid, scalable enterprise models in the Indo-Pacific region;
3. Supporting new or existing intermediaries that can effectively facilitate investments in business in underdeveloped markets, as well as those who can enable larger deal suitable for institutional investors;
4. Expanding and deepening the public-good infrastructure (and ability to develop social procurement as another mechanism for development) in Indo-Pacific countries;
5. Collaborations with educational institutions to design and launch professional development and graduate programs for current fund managers, for new entrants to the investor and intermediary segments of the market, and for entrepreneurs.

APPROACH TO THIS SUBMISSION

I make this commentary from the perspective that foreign aid (or a portion of it) could be reconceived as impact investments. Impact investing intentionally seeks a social and financial return. It is not an asset class, but rather a lens through which to make investment decisions¹. You may ask: doesn't every investment have impact? (i.e. creates jobs, wealth and so on). Impact investing has intentionality (investments motivated by the social and/or environmental return), and requires measurement of outcomes (social impact and financial return)². The Rockefeller Foundation, in a review of this nascent market that began to seriously emerge in 2009, argues that much more can be done in accelerating impact investing not only in developed countries, but also in developing countries. Examples of impact investments, which have so far been in the form of debt instruments, include vaccine bonds, green bonds and microfinance bonds – all examples of innovative products that have attracted significant amounts of private and public capital.

COMMENTARY

My response is in particular to three points raised under the Inquiry's terms of reference:

- Additional partnerships, activities or financial instruments the Australian government could use to enhance the role of the private sector in the development of the Indo-Pacific region;
- The role of public-private partnerships in leveraging private sector investment in developing countries;
- The role Australian and international business could play to support development and inclusive growth in partner countries.

¹ <http://reports.weforum.org/impact-investment>

² See my recent article with Dr Pamela Hartigan, University of Oxford:

<http://theconversation.com/impact-investing-grabbing-a-piece-of-the-650-billion-market-24837>

Recommendation 1: The establishment of social stock exchanges and the opportunities for foreign aid to contribute to building a social stock exchange(s) for the Indo-Pacific region to mobilize investment from private sector into social enterprises that are reducing poverty.

Recommendation 2: Finding scalable business models ready to receive impact investment in the Indo-Pacific, including emerging hybrid, scalable enterprise models in the Indo-Pacific region.

As the global impact investing market gains traction, market infrastructure is emerging to connect social enterprises (in both developing and developed countries) with impact investors (including individuals, funds, institutions and foundations). In the development of a market estimated to be worth between \$450 billion and \$650 billion by 2020, one such piece of infrastructure is **the development of social stock exchanges**.

Common to all types of investments and financial markets, exchanges and investment platforms help address the challenge that many investors face when seeking to make investments. For impact investments, a social stock market helps impact investors invest in impact enterprises: identifying investable opportunities. Social Stock Exchange was officially launched in London in 2013³; it showcases publically listed impact enterprises that trade on the London Stock Exchange. The Impact Investment Exchange⁴, which trades out of Mauritius, will “support listing, trading, clearing and settlement of securities issued by social enterprises” across Africa and Asia. In 2013, Canada also launched Social Venture Connexion or SVX⁵.

Important to note is the different modes of operation of these so-called exchanges. MaRS Centre for Impact Investing, which founded SVX in Canada, argues that they are

³ <http://www.socialstockexchange.com>

⁴ <http://www.asiaiiix.com/product-offerings-and-operations>

⁵ <http://www.svx.ca>

closer to a true stock exchange. They claim that the London Social Stock Exchange and The Impact Investment Exchange are focused on impact assessment and do not engage in capital market activities. SVX is registered as a restricted dealer with Ontario Securities Commission and aims to address social finance market failures by providing social ventures with a low cost method of gaining access to investors⁶. In comparison, the UK version lists member companies as publicly listed organizations driven by clear social and environmental aims (well beyond Corporate Social Responsibility) – at the core of their operations they seek to address social and environmental problems. It is not a transactional platform at this stage. The Exchange is being used to provide profile and access to capital at scale in the future; it essentially conducts the due diligence for impact investors, providing ‘standardized and comparable social impact disclosure’. The World Economic Forum agrees with the value of such exchanges in that they have the potential to offer value to retail and institutional investors by providing access to liquid securities of impact enterprises⁷.

Such platforms and exchanges provide part of the essential market infrastructure necessary for an impact investing market to emerge and grow, including in developing countries, and the opportunity for foreign aid to be a catalyst in the development of such infrastructure and so mobilize private investors.

Recommendation 3: Supporting new or existing intermediaries that can effectively facilitate investments in business in underdeveloped markets, as well as those who can enable larger deal suitable for institutional investors.

Recommendation 4: Expanding and deepening the public-good infrastructure (and ability to develop social procurement as another mechanism for development) in Indo-Pacific countries.

⁶ <http://www.theguardian.com/social-enterprise-network/2013/oct/24/canadian-social-stock-exchange>

⁷ <http://reports.weforum.org/impact-investment/3-impact-investment-sector-assessment/3-2-impact-investment-ecosystem-the-landscape-today/#/view/fn-45>

The rapid and global diffusion of social impact bonds (SIBs - also known as Social Benefit Bonds in NSW, the only trial in Australia) are a new form of public-private-third sector partnership. SIBs are not an actual bond (i.e., in the sense of a debt instrument) but rather a multi-stakeholder partnership in which private investors – not state governments – provide the capital for non-profit organizations to develop and deliver services (note that in this respect, SIBs share some common features with public-private partnerships). The government repays the investor (in form of principal and interest) only if the program succeeds: repayment to investors is contingent upon specified social outcomes being achieved and therefore, in terms of investment risk, SIBs are similar to a structured product or an equity investment. Against the backdrop of experiences during the global financial crisis, SIBs have been seen as a potential solution for sustainable financing of social programs, due to their ability to recalibrate incentives and investment to stimulate social change.

The first pilot SIBs project was only recently established in the UK in 2010 and preliminary results (which are positive) are now available. SIBs have been by now introduced or piloted in the USA, Australia, Canada, and more recently also in continental Europe; in other empirical settings, such as Africa or Asia, they are in a planning stage. Import for this Inquiry, they are being considered by large development institutions, such as the World Bank, and actors such as The Gates Foundation (see the Development Impact Bonds (DIBs) working group⁸. There is now much debate around whether social impact bonds are the future of international development⁹, with firms such as Instiglio¹⁰ in the US, recently emerging and now testing SIBs for projects in developing countries.

⁸ <http://www.cgdev.org/page/development-impact-bond-working-group>

⁹ <http://www.fastcoexist.com/1681966/are-social-impact-bonds-the-future-of-international-development>

¹⁰ <http://www.instiglio.org/about-instiglio/>

Recommendation 5: Collaborations with educational institutions to design and launch professional development and graduate programs for current fund managers, for new entrants to the investor and intermediary segments of the market, and for entrepreneurs.

To attract and mobilize Australian and international business, Australian foreign aid could be used to leverage Australian and international private sector as co-investors in impact investments. Foreign aid could also be used to develop market infrastructure, such as social stock exchanges, to enable more capital to be mobilized and attract impact investors to the Indo-Pacific region. Development Impact Bonds (DIBs) could also be trialled as a novel form of public-private partnerships where the Australian government only invests in foreign projects that provide social impact, and investors take on some of the risk (in return are rewarded if the project succeeds). Impact investing networks have begun to appear in South Africa, Kenya, India, Singapore, Hong Kong and Brazil, in addition to Australia, US, UK, Canada and Europe.

All of this activity requires education on both the supply and demand side of the potential impact investing market. As observed with the current nascent market in Australia¹¹, connections between supply and demand can be hindered by the lack of common language, understanding of the requirements of investors, understanding of the challenges of social enterprises, and a lack of intermediaries to provide such education. Collaborations with educational institutions are needed to design and launch professional development and graduate programs for current fund managers, for new entrants to the investor and intermediary segments of the market, and for entrepreneurs (that is, entrepreneurs and social entrepreneurs - noting that I consider all entrepreneurs need to now be social entrepreneurs).

¹¹ For example, to assist social enterprises becoming “investor ready” in Australia, **I have founded and now direct the UTS Social Innovation Fellows Program**, where a team of high performing MBAs and myself provide assistance to social enterprises who are close to gaining commercial (or impact) investments. See <http://www.uts.edu.au/about/uts-business-school/management/news/social-innovation-fellowship-program-means-business>