



brightlight

RESPONSE TO CALL FOR PUBLIC
SUBMISSIONS FOR FOREIGN POLICY
WHITE PAPER

by

BRIGHTLIGHT IMPACT ADVISORY

Submission by Brightlight Impact Advisory

[REDACTED]
[REDACTED]
[REDACTED]

28th February 2017

Hon. Julie Bishop, Minister for Foreign Affairs

Hon. Steven Ciobo, Minister for Trade, Tourism and Investment

By email: whitepaper@dfat.gov.au



About Brightlight Impact Advisory

Brightlight provides impact investment consulting and funds management services to asset owners across private, philanthropic and government sectors. Brightlight enables clients to solve some of the world's most pressing problems by catalysing impact investment while maintaining the highest levels of financial rigour. Our mission is to change the world by creating an environment in which long-term investing, human flourishing and environmental stewardship go hand in hand.

Introduction

Our submission relates entirely to the role that we believe impact investing has to play in Australia's Foreign Policy. We have focussed on those questions articulated in the Call for Public Submissions where impact investing can play a real role in achieving Australia's objectives.

#2 – Global Trends

DFAT has identified the emergence of global trends as relevant to Australia's global interests.

AUSTRALIA HAS DIVERSE INTERESTS THAT SPAN THE GLOBE

Which global trends, such as developments in technology, environmental degradation and the role of non-state actors, are likely to affect Australia's security and prosperity? How should Australia respond?

The world is starting to rethink the role that finance and investment have to play in solving some of the most pressing problems that we face. Many of our current environmental and social global challenges cannot be solved by State actors alone, but require co-ordination across international borders and across sectors. Private sector actors, including businesses and financial institutions, are becoming key contributors in solving some of these problems.

At the same time, governments in emerging and frontier markets are becoming more cautious about the actions and attitudes of foreign operators within their market. There is an increasing expectation that investors and companies entering these markets will not just provide goods and services and create jobs, but that they will do so in a way that positively benefits local communities, the environment and society as a whole.

In this context, impact investing is becoming an increasingly relevant tool in achieving Australia's objectives. We believe that there is a natural fit between impact investing and the work of DFAT in the region and around the world. Indeed, DFAT has already recognised the importance of embracing this shift:

The world has changed—and our aid program is changing too. Today, many developing countries are growing rapidly, with aid representing an increasingly small proportion of development finance. To be effective in this new context, our aid is becoming more innovative and catalytic, leveraging other drivers for development, such as private sector investment and domestic finance. We are recasting our aid program in light of this new development paradigm.¹

Existing DFAT initiatives² are already exploring the value and effectiveness of using impact investment approaches rather than grant-based approaches. In our view, this is a step in the right direction. Impact investment is not always a suitable replacement for the important foreign aid and development work that DFAT undertakes. However, strategically used, we believe that impact investing can advance Australia's interests with greater effectiveness, bringing public sector and private sector together in collaborative approaches that provide win-win outcomes.

We believe that Australia should respond by:

- Evaluating the success of existing impact investment programs within DFAT and look to scale them up significantly if they are proving successful.
- Signalling our intent to be a regional and global leader in the field of impact investing.
- Creating a domestic environment in which impact investing is supported and encouraged across a wide range of participants, including Australia's largest individual investors. Our submission to the Treasury Discussion Paper on Impact Investing explores this in more detail.
- Supporting the development of Australian impact investment market participants who are able to leverage capabilities and become key influencers in impact investing in the Asia-Pacific region.

#4 – Economic Opportunities

AUSTRALIA NEEDS TO BE AMBITIOUS IN GRASPING ECONOMIC OPPORTUNITIES

What steps should be taken to maximise our trade and investment and expand commercial opportunities for Australian business? How can we ensure Australia is positioned to take advantage of opportunities in the global economy? What are the key risks to Australia's future prosperity and how should we respond?

In addition to being an important tool in the context of aid & development objectives, the emerging impact investment sector itself is a significant economic opportunity for Australia.

Impact investment in the Asia-Pacific region has enormous potential for growth. Analysis by the Global Impact Investing Network shows that, despite containing 70% of the world's low-income population, South and South East Asia and the Pacific receive only 30% of the world's impact investment capital.³ Additionally, the IFC estimates that, South Asia and East Asia combined represent 38% of the world's credit gap and 91% of the world's deposit gap, and contain two-thirds of the world's total number of Small and Medium Enterprises.⁴

¹ <http://dfat.gov.au/aid/Pages/australias-aid-program.aspx>

² For example the Emerging Markets Impact Investment Fund, Pacific Rise, Investing in Women Initiative, Project40 and InnovationXchange.

³ Source: GIIN Impact Investor Survey, 2014.

⁴ Source: IFC Enterprise Gap Finance Database at <http://smefinanceforum.org/data-sites/ifc-enterprise-finance-gap>

At the same time, as the general prosperity of the region improves, the pool of potential impact investors from the region increases. Australia has the opportunity to provide impact investment advice, product and investment not only for Australian investors, but to investors from the region, leveraging our strong financial services capability and stable regulatory environment.

This represents a substantial economic opportunity for Australia, which can be grasped in a number of ways. We can:

- Ensure that Australia's assets, including those held in sovereign entities and institutional investors, are well positioned to access the economic opportunities and investment returns available from meeting the needs of enterprises across the region.
- Showcase Australia's existing expertise across a wide range of sectors that will be highly relevant to the continued growth of SMEs in the region, including mining, information & communications technology, financial services, education and health care.
- Ensure that the impact investment market in Australia is well-positioned to export services to the region.
- Continue to explore ways in which Australia's aid & development program can partner with NGOs, the private sector and investors to deliver collaborative initiatives that benefit all parties.
- Position Australia as a thought-leader and market leader in impact investing in the region.

Not only this, but demonstrating market leadership in this field can play a part of maximising our trade and investment opportunities, by demonstrating Australia's position as a responsible partner for business in the region:

- Impact investing provides ways using Australian sources of capital (whether institutional investors or government agencies) to further Australia's economic interests while simultaneously furthering our foreign policy objectives.
- Positioning Australia as a regional and global leader in the field of impact investing will ensure that we are seen as an attractive investor by those in need of capital, and will ensure that we have access for global opportunities in the global economy.
- As the world redefines its expectations of capital and business, a failure to lead in this area could cause us to lose access to these opportunities.

#6 – Assets

AUSTRALIA USES A RANGE OF ASSETS AND CAPABILITIES TO PURSUE OUR INTERNATIONAL INTERESTS

What assets will we need to advance our foreign policy interests in future years? How can we best use our people and our assets to advance Australia's economic, security and other interests and respond to external events?

How can government work more effectively with non-government sectors, including business, universities and NGOs, to advance Australia's interests?

If we are to grasp the economic opportunities we have outlined above, Australia will need a thriving and market-leading impact investment capability that can be used to invest privately and publically-held assets, as well as development & aid spending, in ways that generate financial returns, achieve positive social and environmental impact and increase Australia's influence in the region.

This will require working closely with key impact investment market participants who are investing in and providing services into the region. It will also require the expansion of impact investment

capabilities within DFAT, to ensure that the department is well-positioned to facilitate impact investment in line with its policy objectives.

Options that DFAT may wish to explore include:

- The establishment of a bilateral development bank to provide targeted investment, generating positive financial performance as well as alignment with Australia's foreign policy objectives.
- The establishment of a task force to consider ways in which DFAT and the private sector can work together to achieve outcomes.
- Working with other departments to encourage the development of a Centre of Excellence for Impact Investing within Australia, to create the generation of leaders who will be able to drive Australia's leadership role in the field.
- Working with other departments to support the development of impact investment specialists within Australia – particularly those with the capacity to provide services into and allocate capital within the region.
- Support the investment of government funds into the region in ways that provide financial returns and show Australia's leadership role.
- Consider whether the Future Fund's investment mandate should be amended to ensure that it invests in ways that promote, rather than detract from, Australia's interests. Some existing sovereign funds have already adopted this approach.

Conclusion

We are pleased to have this opportunity to submit material for your consideration and look forward to seeing the White Paper later this year. We are available to discuss any aspect of our submission.

Tim Macready

Managing Director, Brightlight Impact Advisory