

NZNAB Submission to the NZ Productivity Commission Inquiry into the opportunities and challenges of a transition to a lower net emissions economy for New Zealand

WHO WE ARE - New Zealand National Advisory Board (NZNAB) for Impact Investment

In April 2018, the National Advisory Board for Impact Investment in New Zealand was announced by the Hon. Peeni Henare, Minister for the Community and Voluntary Sector. Eight members representing different sectors of the economy were announced at this time, chosen through a combination of election and appointment. Up to two more members may be co-opted this year to ensure all relevant sectors are represented, including Iwi representation.

The NZNAB provides a point of contact between public sector, private sector and philanthropy, and between investors, investees, and intermediaries for Impact Investment. The NAB is accountable to the Impact Investment Network (IIN). The IIN membership facilitates coordination between actors in Impact Investment to foster market development and activity. Launched at the Social Enterprise World Forum in Christchurch in late 2017, the IIN now has over 400 members. The IIN facilitated the launch of the NZNAB to steer strategy and governance of the emerging domestic market, and secondarily to connect NZ to global market developments.

WHAT WE ARE SUBMITTING ON

As one of the first actions for the newly formed New Zealand National Advisory Board for Impact Investment, we are grateful for this opportunity to submit on the Low-emissions economy: Draft Report (2018).

We SUPPORT:

the inquiry into how New Zealand can maximise the opportunities and minimise the risks of transitioning to a lower net-emissions economy, and the broad scope outlined in the draft report.

the Commissions' conclusions in its Draft report [p 134], that barriers to low-emissions investments (which will include Impact investing) exist and require attention.

The Commission's recommendation that a low-emissions strategy be developed for New Zealand [p 158], including a regulatory framework for the financial sector that supports a low-emissions transition.

We ACKNOWLEDGE that New Zealand is part of an international response to address the impacts of climate change and to limit the rise in global temperature, requiring a transition to the global economy to one consistent with a low carbon and climate resilient development pathway. The drivers of the developing momentum of Impact Investment globally are interwoven with broader global trends. Impact Investment in New Zealand and internationally has demonstrated significant innovation, and an ability to attract capital to benefit society and the environment. There is a need to further develop the impact investment ecosystem in New Zealand to fully benefit from this potential to support a move to a lower net emissions economy.

We PROPOSE in this submission:

1. How Impact Investment can contribute to the solution, and
2. What Government can do to support that.

We RECOMMEND that:

1. Impact Investment be proactively included in a cross-government response to this challenge
2. that the inquiry expands its scope to specifically investigate how Impact investment can be supported and utilised to encourage investments that provide both an intentional and measured impact the goal of transitioning to a low net emissions economy in New Zealand
3. that the NZNAB be engaged with as part of the enquiry process to help identify and develop opportunities for Impact Investment to be part of the solution.

BACKGROUND – WHAT IS IMPACT INVESTING?

*“Social Impact Investments are those that **intentionally** target social objectives with a financial return and measure the achievements of both.”*

- Social Investment Taskforce (2014)

Impact investing is described as the point where capital meets purpose. Governments and philanthropic movements alone cannot fund some of the environmental and social problems faced in many countries in the world (including, for instance, the challenges of meeting NZ’s obligations under the Paris accord in terms of environmental conditions) – and so new ways of providing solutions are being sought.

Impact Investing fits on a continuum of funding and investments, increasingly relevant within the investment and philanthropic sectors in New Zealand.

	INVESTING			GRANT MAKING
DESCRIPTION	Traditional Investing	Responsible Investing	Impact Investing	Philanthropy
	Maximising financial returns for any given level of risk is the sole objective	Investments are screened based on ESG Factors, alongside expected financial return	Investments made with the intention to generate societal and/or environmental impact alongside a financial return	Financial returns are disregarded in favour of societal and environmental solutions
ESTIMATED GLOBAL ASSETS	US\$294 Trillion ⁽²⁾	US\$23 Trillion ⁽³⁾	US\$114 Billion	

Public sector, private sector and philanthropists are increasingly turning towards financing where a financial return alone is not enough – there must also be an incremental, intentional, measurable and scalable social or environmental return.

WHY IS IMPACT INVESTMENT IMPORTANT TO THE TRANSITION TO A LOWER NET EMISSIONS ECONOMY FOR NEW ZEALAND?

Critically, Impact Investment has the potential to support a flow of structures and opportunities that will contribute in an intentional and measured way to a lower net emissions economy for NZ, and this can be done without a further drain on the public purse.

This does not mean government will not have to provide any finance to resolve social and environmental issues – it means that government will be able to do more, because there will be an additional flow of both public and private money to support it.

THE OPPORTUNITY

The goals of the Impact Investing movement in New Zealand, and indeed throughout the nineteen OECD countries who are members of the Global Steering Group (GSG), are well aligned with the government's ambitions in the areas of environmental and social improvements for our people – whether in climate change mitigation, water quality, land use improvement or affordable housing.

Impact investment has been used to finance transactions in these areas in other countries, and the National Advisory Board seeks to spread the awareness of possibilities in our country. In some countries, impact investing is driven by the growing demands of younger investors that returns on their savings must be more than financial – this sentiment will also grow in New Zealand, and we need to prepare to meet the challenge.

The Report Growing Impact in New Zealand produced with contributions from EY and JBWere and launched by the Ākina Foundation in September 2017 outlines the scale of the opportunity:

- Increasing demand for socially responsible investments is spreading with individuals and institutions demanding investment solutions (e.g. recent KiwiSaver moves on tobacco and controversial weapons).
- Currently 26% of global professionally managed funds or US\$23 Trillion are managed with one or more types of social strategy.
- While negative screening is the most common strategy, impact investments are the fastest growing and reached US\$248 Billion in 2016, up 150% in 2 years.
- Impact investments are the pointy end of socially responsible investments, often private equity or debt types and more focused on social returns than other investments.
- They are still small in New Zealand but are projected to rise to around \$5 Billion over the next decade.

Source: Growing Impact in New Zealand Report 2017, contributions from EY and JBWere. To read the full report, download [here](#)

It is estimated that there is a market potential of \$5b that could be channelled into investments that benefit us all, but it will take a change in the way things are done. We need to create the ecosystem for these deals to emerge, and there is a need for a cross government approach to partnering to support systemic change.

There are three key roles for government in supporting this change:

1. **As Market Participant**
2. **As Market Builder;**
3. **As Market Steward.**

POTENTIAL ROLES FOR GOVERNMENT

Market Participant	Market Builder	Market Steward
<ul style="list-style-type: none"> • Leadership Role as: • Investor (e.g. Super Fund) • Procurement • Commissioner e.g. Social Impact Bonds or 'Payment for Results' • Partner -pooled investments, sharing risks, e.g. on social housing sites • Innovator -supporting feasibility studies and pilots, and outcomes focussed grants. 	<ul style="list-style-type: none"> • Demandside development: Social Enterprise policy development, capacity building • Supplieside development: tax and fiduciary roles • Intermediary development: participating, seeding • Build critical data and analysis, R&D clearinghouse • Build capacity and supporting leadership networks (e.g. NAB) • Advance public awareness and policy • All of Govt. approach • Learn from experimentation • Talk about it! 	<ul style="list-style-type: none"> • Regulator • 'Watching brief' over ecosystem ('social economy' focus) • Complement to state provision, not a replacement. Can test ideas, and if successful, they can be adopted as part of state provision.

In November 2017, the Minister for the Community and Voluntary Sector Peeni Henare announced the investment of over \$5 million to grow New Zealand's social enterprise sector, through the Social Enterprise Sector Development Programme, [launched in May 2018](#).

While impact investing can come in many forms, one potential opportunity for impact investing is through the hybrid business model known as 'social enterprise'. Social enterprises are purpose-driven organisations that intentionally trade to deliver social and environmental impact. While still relatively new in New Zealand, they represent a growing part of the NZ economy and are forecast to grow further.^{1 2} They fit particularly well alongside emerging models of Maori economic development.

The funding recently announced by Government will be administered over four years by the Department of Internal Affairs, which has partnered with Ākina Foundation to develop a programme focused on expanding the country's social enterprise market, assisting those already involved, and building business capability. The programme has four work streams for Year One:

- Engaging with the social enterprise sector

¹ Deloitte Insights - 2018 Global Human Capital Trends, *Introduction: The rise of the social enterprise*, March 28, 2018

² ANZ Bluenotes, *Why social enterprise could be the next boom*, Jan 2018

- Developing Capability
- Facilitating Access to Finance
- Unlocking Access to Markets

This investment from the New Zealand Government is an important first step in the establishment of the social enterprise sector. The Commission's report notes the lack of climate-related investment opportunities of the type and scale required by investors [Fig 6.1]. A successful social enterprise sector is one way in which those investment opportunities can grow and develop. Access to finance is one of the key levers for this success, with the impact investment sector providing the required flow of capital to support social and environmental innovation. As noted in the Commission's report [p 139], the government can play a key role in stimulating this type of investment.

3 THINGS THAT WILL MOVE THE DIAL

1. Government is a crucial partner and catalyst

- Policy alone is not enough! Local and Central Government have a critical role to play, as a funder, co investor and market builder (supporting the emergent National Advisory Board, and providing seed funding for feasibility studies for example.)
- Capability and pipeline build is vital for the success of any deal flow, with a concentrated and supported approach needed now to unlock innovation and enterprise support from early-stage, through research & development and investment readiness.
- Procurement is a key area where leadership can be shown in an all of Government approach.
- Just talking about it helps!

2. Policy and Regulation

- Provide a supportive regulatory environment (e.g. Trust structures, fiduciary duty and the new Trusts Bill), and offer tax relief for Impact Investors.
- For example, The Giant Leap Fund in NSW is a ESVCLP (Early Stage Venture Capital Limited Partnership), they can make tax free returns and there is a rebate off their tax bill when investing.
- Lower than market return can be claimed as a deductible distribution in Australia.
- In some countries (e.g. France) government has required a percentage of pension funds to be invested in SRI approved structures. If we were to do this in New Zealand with Kiwisaver funds, for instance, it would in our view create a boost to the level of interest in Kiwisaver, and would further underline the government's leading the way in encouraging ethical and responsible investment.

- Within the Social Enterprise Sector Development Programme (SESDP), policy and regulation review to support the growth of the demand-side will identify opportunities to unlock further growth of the social enterprise sector. Alignment with these reviews, led by the Department of Internal Affairs, will be essential for the Productivity Commission to be aware and involved with.

3. Data and Measurement

- “Wellbeing Measures” are a real opportunity for us to develop a shared language and understanding of how to measure and communicate social and environmental outcomes.
- Sustainable Development Goals (SDGs).

SUMMARY

We commend the Productivity Commission on the intent and scope of this inquiry, and appreciate the opportunity to contribute to the discussion. This submission briefly highlights the significant opportunity that exists for Impact Investment to provide the vehicle for innovative and impactful solutions to the challenge of progressing to a lower net emissions economy for New Zealand.

There are several roles for a cross government approach that would support this outlined in this submission. The NZNAB would be delighted to engage with the Productivity Commission during the inquiry process to establish how Impact Investment to be part of the solution.

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