

The Hon. Josh Frydenberg, MP

The Treasurer

c/o The Treasury

Langton Crescent

PARKES ACT 2600

24 August 2020

Pre-Budget Submission - Supplementary Information

Dear Treasurer,

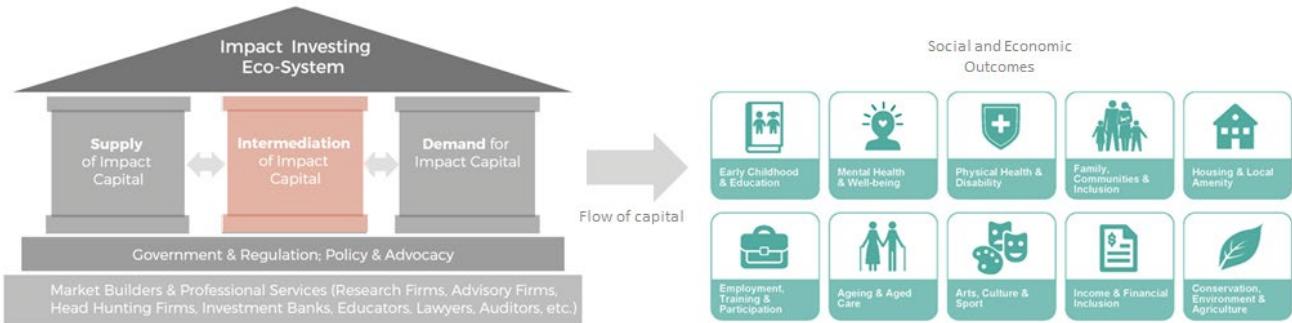
Impact Investing Australia (IIA), Australia's representative on the Global Steering Group for Impact Investment (GSG) would like to thank you for your consideration of our submission. As a member of the GSG's we have a birds-eye view of how different impact investing instruments are being used around the world to both support the immediate social and economic impacts of COVID-19 and hasten the path to recovery. COVID-19 has increased the pressure on government's budgets and heightened their focus on **ensuring outcomes are delivered against spending and capital is catalytic in attracting private sector investment - both characteristics of impact investing.**

In Australia, impact investing (II) also has a critical role to play in driving a return to positive and inclusive economic growth in a post-COVID environment. Impact investments are those which target social and/or environmental issues **in addition to** a financial return. They range from investments in affordable housing, disability accommodation, renewable energy infrastructure and social and sustainability bonds to loans to social sector organisations or growing social enterprises. **Investment in this way, promotes job growth in sectors of the economy which are also aligned with better social and environmental outcomes.** In addition, impact investments can be made through a specific lens targeting those groups that have been disproportionately impacted by COVID-19 for example women, indigenous communities, or youth.

Impact investing is a relatively new market in Australia with investment capital flows still constrained by a lack of transactions or impact investment funds. There has never been a more important time to accelerate the speed of this market's development than to support a post-COVID recovery. **Impact investing will grow faster with the right market building infrastructure and the Government has an important role to support this.** The focus of this submission is around the role Government can play in enabling the infrastructure that can catalyse and accelerate private capital and investment around structural reform and towards a more inclusive economic recovery. This submission is underpinned by the full details in our submission lodged in February this year:

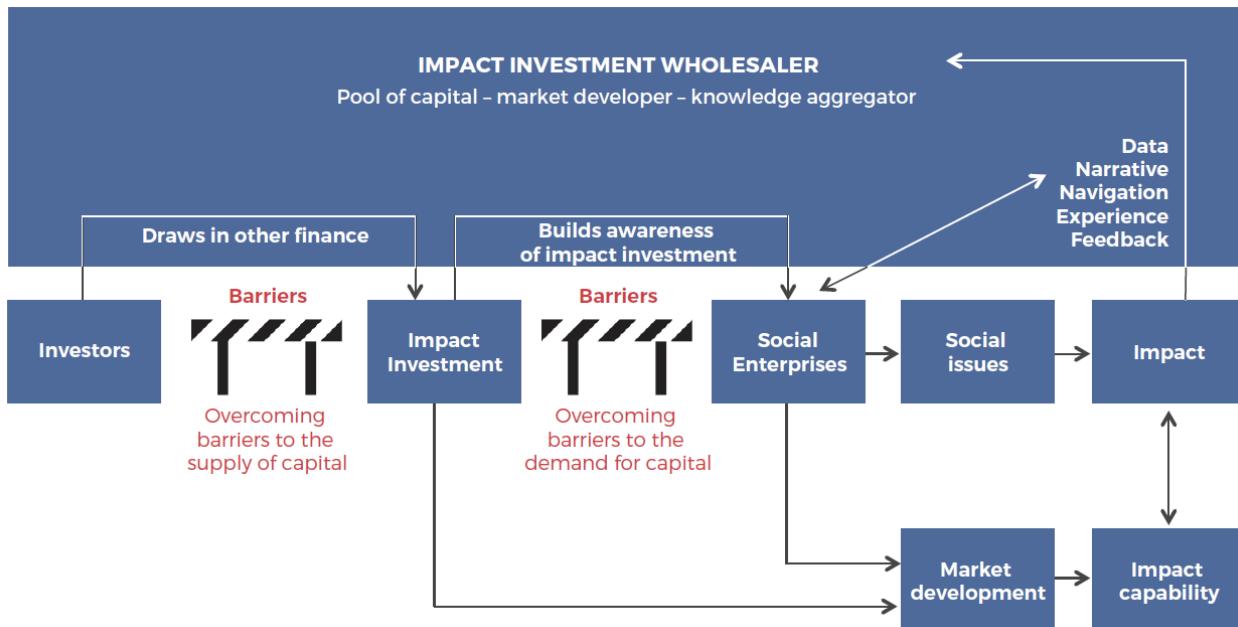
https://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-2020_21-Pre-Budget-Submission-FINAL.pdf

This submission is broken down by the key pillars of the II eco-system namely demand, supply, and intermediation. If capital is to flow quickly and in the right way to deliver both social and economic outcomes post COVID-19 then the first element to address is the critical enabler of demand and supply namely intermediation.



Addressing the Intermediation Gap through impact investment wholesalers.

At the heart of the lack of impact investments currently in Australia is the lack of intermediaries specifically both fund managers and originators of transactions. Experience from other countries in addressing this issue shows that catalytic institutions such as national impact investment wholesalers have provided "go to places" for both anchor capital and impact due diligence to support further capital raising from private investors.



Source: GSG Working Group Report, Building Impact Investment Wholesalers, Key Questions in Design of an Impact Investment Wholesaler, 2018

National impact investing wholesalers are designed to support and grow intermediaries and act as market champions. They are specifically structured with the right type of capital and capacity to do this. Successful examples internationally include Big Society Capital (UK) and the European Investment Fund's, Social Impact Accelerator. Big Society Capital's June 2020 Quadrennial review gives a sense of the impact created including: 50,000 people supported into employment, 26,000 people into suitable housing, 729,000 taking part in physical activity, 6,700 children accessing childcare and 255,000 people receiving online support for mental health. These are all important and necessary areas for investment in building back post COVID and a catalytic institution that drives this is critical.

Recommendation 1:

Create an Australian Impact Investing Wholesaler, we are calling Impact Capital Australia (ICA) by committing a minimum of \$150m which would be matched initially by financial institutions including major Australian banks. The Government contribution could be structured as a grant and/or an approved investment considering budgetary and capital account implications. ICA would be a game changing institution with the capital and mandate to drive Impact investing in Australia to effectively support the post-COVID recovery.

Addressing the gap in demand through Social Enterprise Support

The Social Enterprise sector has an incredibly important role to play in creating jobs and driving innovation to address our social issues particularly through and post COVID. There are an estimated 20,000 Social enterprises (SEs) in Australia. SEs are businesses (either profit or not for profit) which primarily exist to fulfil a social or environmental purpose.

In May 2015, IIA established what is now called the Impact Investment Ready Growth Grant. The grant was targeted at helping SEs to get "ready" to raise the capital they needed to grow. Its purpose was to build SE capacity and in tandem support intermediaries providing the services required for investment readiness. Since November 2018, this program has been administering funding for the Department of Social Services' Sector Readiness Fund (\$7m over 3 years). Over the last 5 years we have enabled over 60 grantee SEs to scale and grow their impact. Examples include [Hire-Up](#), [Vanguard Laundry Services](#), [Outlook](#), [Nightingale Housing](#), [Maths Pathways](#) and [Energy Renaissance](#). Many of these SEs have rapidly and innovatively pivoted their businesses in the face of COVID and related changes in community needs.

Running this grant program has put us at the centre of the SE eco-system where we have collected views from intermediaries, investors, and the social enterprises themselves. What we have identified are two clear gaps in the market that if addressed could see more SE succeed and respond to their role in a post-COVID recovery:

- 1) A broader spectrum of social enterprise support from earlier stage to capital raising.
- 2) Contract readiness support.

Recommendation 2:

- *Develop a broader and multi-function SE growth fund (\$15m + \$5m administration) similar to the [Access Foundation in the UK](#) which is co-funded with philanthropy and/or corporate sponsorship and provides capacity building, mentorship, contract readiness support and earlier stage capital (eg. grants, concessional loans, equity) for SEs prior to the point at which they can raise more commercial investment. This could also support earlier stage Impact investment fund design.*
- *The contract readiness component could also align with government social procurement policies.*

Addressing the gap on the supply side through awareness raising and capacity building

Within Government:

Our international experience and networks across the GSG have evidenced significant precedent in the establishment of a dedicated Office within Government to build capacity and embed a whole of government policy for II. This is particularly relevant for post-COVID recovery when alignment between governments and departments will accelerate policy efficacy. Examples include: The Government Inclusive Economy Unit in the UK, The Dutch Innovative Finance Taskforce in Ministry of Foreign Affairs of the Netherlands, and the Office of Social Impact Investment in NSW.

Centralising II in one department and with a responsible Minister would give the Government the ability to both anchor its II knowledge in one place and coordinate the agenda across departments. It could enable a clearer line of sight to opportunities to mobilise private capital toward the social and economic outcomes required to accelerate recovery, build capability, and attract new talent. Finally, the approach could provide a strong base for engagement with other key II stakeholders such as business, social enterprises, investors, and community to drive more effective collaboration around the steps required for effective post-COVID impact investment.

Outside Government:

The cross-sector nature of II requires a centralised and co-ordinating entity for all the stakeholders (including government) and a stable funding mechanism to support this market building activity. IIA has implemented and co-ordinated some important market building activities but the lack of a stable funding base exacerbated by COVID continues to be a major constraint. Market building will need to continue in the short to medium term to raise II awareness and build related capability in other sectors to complement government action and reduce dependency over time. A funded Impact Investing Institute could be a centre of excellence from which to drive collaboration, bringing together the work of cross-sector entities for pro-active and collaborative engagement with the government. The recently created Impact Investing Institute in the UK, which combined the UK NAB and the UK SII Taskforce (2016) is a working example of this government funded model.

Indicative components of an Australian Impact Investment Institute could be:

- 1) *Knowledge Hub* – driving education, training, and thought-leadership.
- 2) *Eco-system & Capacity Building* - market development initiatives such as the provision of technical assistance, to build capacity and networks.
- 3) *Collaboration toward innovation & scale* – the Institute could co-ordinate organisations to pool resources, innovate and/or aggregate solutions or investment products to drive scale.

Recommendations 3 & 4:

These recommendations are targeted at raising market awareness and driving capability through building centres of excellences both within and outside of government:

- *Create a dedicated Office of Social Impact Investment within the Department of the Prime Minister and Cabinet, leveraging the existing expertise of the SII Taskforce. This could build public sector capacity and create a go to place within government while ensuring impact integrity is maintained as the market develops.*

- Fund an independent Impact Investment Institute with an initial commitment of \$5m over 3 years. This would mirror the example in the UK and provide a centre of excellence outside of government to help inform policy, drive market awareness, and build broader sector capability.

The combination of these initiatives would deliver a more efficient and effective allocation of existing resources and more future resources through investment targeted at achieving social impact.

Impact Investing from Australia

The preceding recommendations have largely focused on the how and why of accelerating growth in II in Australia. Following we consider COVID related support for the broader region through Impact investing.

The Department of Foreign Affairs and Trade (DFAT) has for several years recognised the importance of impact investing *from Australia* into the Indo-Pacific region particularly in support of the achievement of the Sustainable Development Goals (SDGs). Small (in relative dollar terms) but important policy measures such as Pacific RISE and the Scaling Frontier Innovation initiatives have all been supportive of capacity building and social enterprise development. These alongside more recent launched initiatives such as the Emerging Markets Impact Investment Fund (EMIIF) and the blended finance funding partnership with Convergence should be continued and consideration given to the opportunities for further expansion in Australia's efforts to support the region post-COVID.

The EMIIF is a regional Impact Investing wholesaler however, with current funding of only \$40m, it will be difficult for it to play a significant role in driving regional impact investment. If its capital pool were expanded greater potential could be unleashed to drive post-COVID regional recovery. The EMIIF could potentially utilise tools used in blended finance to attract private investment in a way that is beneficial and sustainable for targeted countries. It could also be the vehicle through which broader collaborations are evolved with emerging Development Finance Institutions such as FinDev Canada and the new USIDFC. Importantly, it could work in a collaborative way with an Australian II wholesaler, ICA, once established, to ensure consistency in impact management and measurement and to jointly build institutional investor participation in Impact Investing.

Recommendation 5 & 6:

Capitalise on the good work already done and:

- Extend existing programs for SE capacity building such as Pacific RISE and Scaling Frontiers Innovation to further enable Indo-Pacific social enterprise development.
- 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 and regional economic stimulus, the appropriation period should be shortened to a maximum of 5 years.

This suite of recommendations is focused on the market building activities of Government to promote an active Australian impact investment market which would see better social and economic outcomes for both Australian and Indo-Pacific communities as we emerge from the impacts of COVID-19. The lynchpin is the establishment of an Australian Impact Investment wholesaler. This measure will enable more innovative approaches to tackling the issues effecting our communities pre and post the COVID crisis. It will help build and develop market intermediaries and the capacity needed to make impact investing significant in re-inventing our post-COVID future.

Impact Investing Australia welcomes the opportunity to provide this pre-budget submission. We encourage the Australian Government to take up the opportunity for targeted action to fuel the development of impact investment as an important tool at this critical time. Members of the IIA Executive and board will be happy to meet and discuss any aspect of this Submission.

Yours Sincerely,



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