

The Commissioners
The National COVID-19 Commission (Advisory Board)
Department of the Prime Minister and Cabinet
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24 August 2020

Submission to the National COVID-19 Commission (Advisory Board)

Dear Commissioners,

[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 government 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 a role in supporting 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 broken down by the key pillars of the Impact investing 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.

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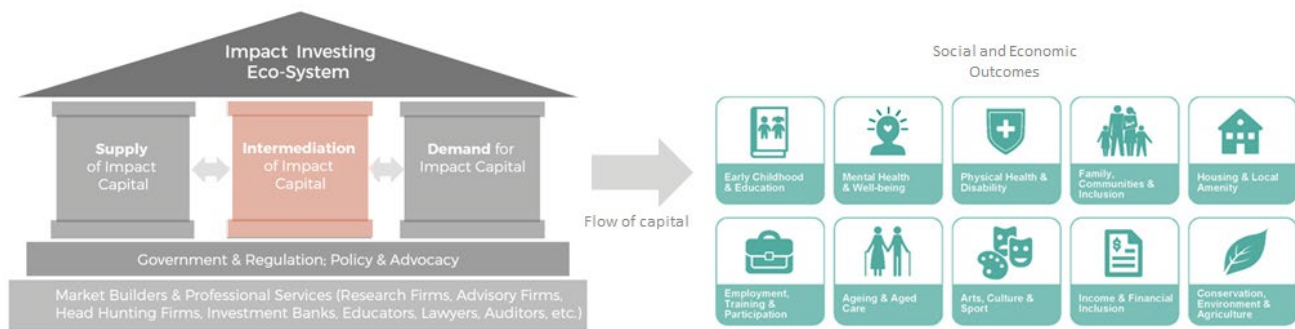
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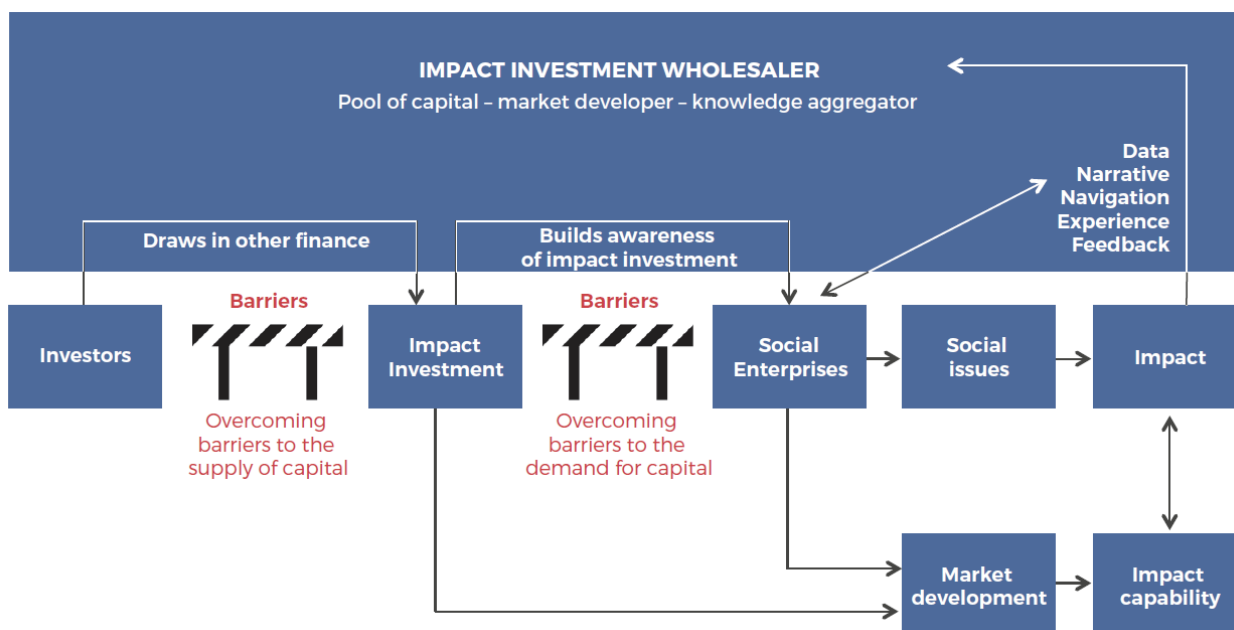
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Addressing the Intermediation Gap through impact investment wholesalers.

At the heart of the lack of impact investments currently in Australia is the lack of II 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. 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, create additional jobs, 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.*

We have made additional recommendations through our pre-budget submission which are summarised below.

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

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.*
- *Fund an independent Impact Investment Institute with an initial commitment of \$5m over 3 years.*

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

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 EMIF 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.*

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 input to the commission. We encourage any advice to 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 to discuss any aspect of this Submission.

Yours Sincerely,



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