Impact Investing Australia
Submission to the Economic Reform Roundtable
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Executive Summary

Australia has a significant opportunity to increase labour productivity and economic participation by developing a sophisticated market for social impact investing. Many Australians are currently unable to access work due to structural barriers, representing a drag on national output and a missed opportunity for inclusive growth.

Social impact investment addresses this challenge by directing capital toward enterprises and initiatives that support workforce re-entry, skills development, and long-term employment for those facing disadvantage.

This submission identifies three budget-neutral policy reforms that would strengthen Australia's impact investment market, while directly contributing to national reform priorities: wholesale co-funding with private capital, a Foundation for Impact Investment, and expedited outcomes funding. These reforms offer a practical, evidence-based path to lift productivity, build economic resilience, and strengthen budget sustainability.

Untapped Labour Potential and the Productivity Challenge

A significant proportion of Australia's working-age population is currently excluded from the labour market, either actively seeking employment without success or discouraged from participating due to structural barriers. In the December 2024 quarter, 1.1 million Australians aged 18–75 without a paid job expressed a desire to work, with 1 million available to start within four weeks (ABS, 2024). Of the 1.1 million people willing and able to work, 613,000 reported long-term health conditions and 410,100 had a disability (some reported both) (ABS, 2024). These figures highlight a substantial pool of underutilised human capital. Enabling even a portion of these individuals to participate productively would increase output per worker, reduce demand for welfare and health services, and ease long-term fiscal pressures.

Where does Social Impact Investment fit?

Social impact investment is the deployment of capital with the intention of generating measurable social outcomes alongside a financial return. It focuses on areas where markets alone have not delivered optimal social outcomes, such as employment for marginalised cohorts, housing, education, disability, and community health. While often confused with philanthropy, social impact investing is distinct: it channels public, private and philanthropic concessional investment into scalable models that deliver both impact and financial discipline. Australia's market remains nascent, but international evidence demonstrates its capacity to unlock innovation, improve outcomes, and reduce long-term costs to government when structured appropriately.

Linking Impact Investment to Labour Productivity

Investing in social outcomes has a direct, measurable relationship to labour productivity. Many of those currently outside the labour force have low or no current output, yet are capable of contributing if provided with the right support and opportunity. Social impact investment allows for targeted upskilling, supported employment pathways, and transitional models that prepare individuals for sustainable work - lifting both individual income and national output.

These investments generate a dual return: they raise productivity while simultaneously relieving fiscal pressure from income support, health, housing and justice systems. The mechanism is analogous to the well-documented productivity gains Australia has achieved through improved childcare access and female labour force participation; it is now time to broaden that logic to other underrepresented groups.

The Role of For-Purpose Enterprises

For-purpose enterprises - organisations that embed social or environmental objectives into their business models - are central to delivering the benefits of social impact investment by employing and upskilling individuals who face persistent labour market barriers. Critically, the benefits they deliver extend beyond job creation.

Recent research from Harvard Business School shows that impact-backed firms outperform matched small businesses in employment, payroll, and salary outcomes—particularly for disadvantaged workers—while also achieving superior revenue and productivity growth. These results confirm that investing in mission-driven enterprises is a viable route to lifting both wages and productivity, while building inclusive economic capacity.

Cohorts Facing Barriers to Employment

Social impact investment has the potential to lift participation among a range of cohorts who face entrenched barriers to employment. These include:

• Indigenous Australians, who face systemic disadvantage and lower average employment rates.

• Older women, often affected by unpaid caregiving responsibilities and age discrimination.

• People with disability and neurodiverse individuals, who may require customised employment settings or support.

• People exiting the justice system, who face stigma and limited pathways back to employment.

• Refugees and asylum seekers, who often have professional skills but lack local networks or certification.

• People experiencing housing stress or homelessness, for whom employment is a critical stabilising factor.

In each case, the barriers are surmountable with tailored employment models that combine training, support, and flexibility - hallmarks of impact enterprise approaches.

Sector-Based Case Examples of Social Impact

Across Australia, a growing number of for-purpose enterprises are demonstrating the effectiveness of targeted employment models in diverse industries.

- In commercial laundry, *Vanguard Laundry Services* in Toowoomba and *Beacon Laundry* in the Northern Rivers region

provide award-wage employment and training for people with mental health conditions and complex life circumstances.
- In hospitality and catering, social enterprises like *Colombo Social* in Sydney and *Mu'ooz* in Brisbane offer refugee and migrant women hands-on work experience, English language support, and a pathway to long-term employment.
- In horticulture and landscaping, organisations such as *Knoxbrooke* in Victoria employ people with intellectual disability, combining supported work with vocational training.
- In the data science sector, *Australian Spatial Analytics* trains and employs neurodiverse data analysts in inclusive, structured environments.
- In Darwin, *Together Business*, a First Nations-owned enterprise, supports Indigenous Australians to build careers in accounting and professional services through culturally safe training, mentoring, and employment partnerships.

These enterprises highlight how impact investing can scale proven models and expand employment pathways for underrepresented Australians across a range of economic sectors.

Policy Recommendations to Catalyse Impact Investment

Realising the productivity potential of social impact investment requires deliberate government action to address structural barriers in the capital market. Despite strong demand for investment-ready, impact-driven enterprises and services, Australia's impact investing market remains underdeveloped relative to its peers.

Many enterprises lack access to appropriate forms of capital to test, prove, and scale innovative models, while investors face high transaction costs, limited pipelines, and misaligned risk-return expectations. The Social Impact Investment Taskforce (SIITF), in its 2022 update report, identified several high-leverage reforms to overcome these obstacles. We support the Taskforce's recommendations and propose that the government adopt three priority measures:

1. Wholesale impact investment co-funding
2. A Foundation for Impact Investment offering capability-building grants and concessional, recyclable loans
3. Expedited implementation of the $100 million Outcomes Fund

Recommendation 1: Wholesale Co-Funding

To mobilise capital at scale, the Australian Government should establish a wholesale co-funding mechanism that provides cornerstone investment alongside private and philanthropic capital. Similar models internationally - such as Canada's Social Finance Fund, Japan's JANPIA, Spain's Social Impact Fund and Better Society Capital in the UK - demonstrate that government participation can de-risk early investments, attract institutional capital, and build market confidence.

A co-funding vehicle would address financing gaps for intermediaries, funds, and mission-driven enterprises unable to access capital on commercial terms. Structured as blended finance, the mechanism would use public capital strategically to unlock significantly greater private investment in inclusive employment, affordable housing, and regional development. By acting as an anchor investor, the Commonwealth can accelerate a deeper, more efficient impact investing market that delivers long-term productivity gains through social inclusion.

Impact Investing Australia recognises that the Government has indicated that the fully developed impact wholesaler recommended by the SIITF is not a short-term priority, but encourages the Government to consider interim wholesale financing options that crowd in private sector investment with a view to developing a wholesaler over time.

Recommendation 2: Foundation for Impact Investment

To address persistent gaps in early-stage capital, the Australian Government should establish the **Foundation for Impact Investment**, as recommended by the SIITF, and supported by Treasury's Investor Roundtable Social Impact Investing Working Group in December 2024. The Foundation would provide capability-building grants and concessional, recyclable loans to support emerging social enterprises and impact intermediaries in proving and scaling their models. These entities often serve communities with complex needs and dual social-commercial missions that traditional finance undervalues. The Taskforce proposed a $55 million Commonwealth investment, to be matched by a $20 million contribution from philanthropic foundations - creating a mission-aligned vehicle to support innovation at scale.

Concessional finance would absorb early-stage risk while preserving social purpose; recyclable loans would enable ongoing capital redeployment. This Foundation would help unlock broader market participation and improve economic outcomes. Like the other reforms proposed, it is expected to be budget-neutral over time, generating fiscal savings through reduced demand on public services.

Recommendation 3: Expedite Outcomes Fund Implementation

Outcomes-based funding mechanisms can reduce government risk, improve program accountability, and drive better results over time. The Australian Government's $100 million Outcomes Fund, announced in 2023, is a welcome commitment. We recommend that its implementation be expedited, with an initial focus on backing high-quality, proven interventions to demonstrate the effectiveness of outcomes-based models. For example, the Foyer Central program in Sydney—an integrated housing and employment model for young people at risk of homelessness—has already shown strong results through a structured, wraparound approach.

Supporting such initiatives would build confidence in outcomes-based contracting and catalyse broader adoption. With sound evaluation and performance frameworks, outcomes funding can deliver better results for people and better value for taxpayers, while reorienting public expenditure toward prevention and productivity-enhancing investment.

Alignment with National Economic Reform Priorities

These recommendations are closely aligned with the three pillars of the government's economic reform agenda:

• **Improving productivity** – by bringing marginalised cohorts into the labour force, increasing output per worker, and fostering innovation in employment models.

• **Building economic resilience** – by reducing long-term welfare dependency and diversifying the labour force.

• **Strengthening budget sustainability** – by redirecting expenditure from reactive services (e.g. unemployment benefits, health interventions) to preventative, outcomes-based investments with long-term savings.