

Submission

To: The Senate Economics References Committee - Inquiry into Finance for Social Organisations

On behalf: The National UN International Year of Co-operatives (IYC) 2012 Steering Committee and Social Business Australia

Via email: economics.sen@aph.gov.au

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Australia's International Year of Co-operatives (IYC) 2012 Steering Committee established in May 2010 to coordinate a national response to the opportunities presented by the United Nations declared International Year of Co-operatives 2012 - comprises representatives from across the broad reach of the social business movement, co-operatives, mutuals and credit unions.

The Committee is coordinated by Social Business Australia, the organisation established in March 2010 to promote the interests of social business forms including co-operatives, mutual businesses, employee owned businesses and financial co-operatives (credit unions).

Co-operatives and mutuals deliver on many fronts. They help to support economic development, create new jobs, develop skills and encourage business investment in rural and regional areas. Co-operative and mutual businesses are helping to build a strong and diversified economy. At the same time their economic activity is directed to improve the economic and social wellbeing of members and the community.

The sector has a demonstrable footprint in the Australian economy. Australia's 2,000 co-operatives and mutual banking institutions are owned by around 10 million Australians; that's 3 million more member-shareholders than the total number of Australians investing in the stock market (7.3m). In 2011, Australia's top 100 co-operative and mutual businesses had a combined turnover of \$AUD14.7 billion¹.

Australia's mutual banking sector, made up of 104 credit unions and 9 mutual building societies, has 4.5 million members, more branches than the Commonwealth Bank, and a strong presence in regional Australia.

Driven by the need for commercial success to underpin the sustainability of their social goals, social businesses protect and even grow their workforce during periods of economic downturn (as witnesses by the resilience of these business forms during the GFC²). They also assist local communities to create new jobs and transition to sustainable industry sectors like green energy, healthcare, aged care, community

¹ 3rd Annual Top 100 list of Australian Co-operatives, mutuals and credit unions

² *Resilience of the Co-operative Business Model in Times of Crisis*, ILO 2009

services and farmer-owned agriculture. One of the success stories of the GFC is where communities have derived jobs growth from the rescue and restructure of failing local businesses into community-owned and operated businesses.

Social businesses therefore, are businesses that operate for a social purpose and that generate profits for social benefit. They have social objectives at their core and they diversify ownership through democratic membership and governance structures, so that they can distribute surplus to members and their communities more equitably. SBA was launched at Parliament House, Canberra, on 15 March 2010 by the President of the International Co-operative Alliance, Dame Pauline Green. In her Inaugural SBA Lecture, Dame Pauline spoke about the reach of social business and the many examples throughout the world where social business has been successful in tackling social, economic and environmental concerns. This lecture is recommended to the Senate Economics Committee and a transcript of “Investing in Alternative Economic Futures” can be accessed on SBA's website: www.socialbusiness.coop/tools-resources/reports/

SBA will assist the development of new social businesses in Australia including community sector co-operatives along the lines of the well-established, international social co-operatives movement. The attached Canadian study, ‘Innovative Social Service Co-operatives’ details these business forms (it also profiles one well known Australian example).

We recommend this report to the Senate Economics Committee for the diversity of self-help business models it presents. The report's conclusions suggest that what is called for is a maturation of the current social enterprise models on offer in Australia. We believe these innovative social enterprises should be integral to the development of social enterprise in Australia and should be a key focus of the Government's initiatives to strengthen diversity in social business models on offer.

The integration of self-help, community owned and managed business structures such as co-operatives, employee owned enterprises and hybrid mutual forms are a distinguishing feature of social enterprise development in Australia and abroad. These developments are further informed by looking at the history of the Social Enterprise of the Year Awards in the UK. The variety of social enterprise business models is quite evident - and none are the usual ‘not-for-profit’ business model of the company limited by guarantee:

- 2011 winner - Newington Credit Union, Northern Ireland (financial mutual)
- 2008 winner - The Phone Coop (trading co-operative)
- 2007 winner - The Chocolate Factory (unlisted public company in the fair trade business, 50% owned by a Ghanaian cocoa co-operative, with the remainder divided between the Body Shop and several charities, foundations, fair trade agencies and other social investors)
- 2006 winner - Sunderland Home Care Associates (a private company owned by an employee benefits trust - ESOP)

SBA has also developed good ties to what is arguably the most successful social enterprise developer in the world, Social Enterprise London (SEL). SBA supports the

SEL definition of social enterprise³ that places it firmly in the sphere of trade and commerce and offers a broad view of social enterprise forms that make up the sector.

It is our view that social enterprises should generate most of their income from trading goods and services in the marketplace and that they should have the objective

³ Social Enterprise as defined by Social Enterprise London (SEL)

Social enterprises are businesses that trade in the market in order to fulfill social aims. They bring people together in order to fulfill social gain. Social enterprises have three common characteristics:

- a) Enterprise Orientated: They are directly involved in the production of goods and the provision of services to the market. They seek to be viable trading concerns, making a surplus from trading.
- b) Social Aims: They have explicit social aims such as job creation, training and provision of local services. They have ethical values including a commitment to local capacity building. They are accountable to their members and the wider community for their social, environmental and economic impact.
- c) Social Ownership: They are autonomous organisations with a governance and ownership structure based on participation by stakeholder groups (users or clients, local community groups, etc.) or by trustees. Profits are distributed as profit sharing to stakeholders or used for the benefit of the community.

Although there are many other definitions of social enterprise that exist, all of them have the common underlying theme that social businesses strive to fulfill social aims and needs through the use of common business principles.

Types of social enterprise - There are many different types of social enterprises, which cover a range of forms and functions. They include local community organisations, mutual organisations such as co-operatives, development trusts and large scale companies that operate nationally or internationally. There is no single legal entity that applies to social enterprises. They can be industrial and provident societies, companies limited by guarantee, registered charities, companies limited by shares and unincorporated organisations. The following is a selective list of the different types of enterprise:

1. Community businesses: social enterprises that have a strong geographical definition and focus on local markets and local services.
2. Social firms: provide employment and training to people with disabilities and other disadvantaged groups.
3. Intermediate labour market companies: provide training and work for the long-term unemployed.
4. Development trusts: key actors in community based regeneration.
5. Credit unions: provide access to finance.
6. Co-operatives: associations of persons united to meet common economic and social needs through jointly owned enterprises.
7. Employee owned businesses: create and rescue jobs as part of economic development strategies.
8. Charities' trading arms: enable charities to meet their objectives in innovative ways, such as Fair Trade companies.

of 'turning a need into a market'. In view of this, SBA recommends that the definition of social enterprise developed by the extensive 'Finding Australia's Social Enterprise Sector' (FASES) study⁴ should be used to define the minimum attributes to be classed as a social enterprise in Australia. For the purposes of this Consultation, SBA and the IYC 2012 Steering Committee would also like the following to be considered:

1. Creation of a social enterprise fund as a means of ensuring the adequate capitalisation of social enterprises aiming to be long term, viable and sustainable businesses that generate the majority of their income from trading. A successful social enterprise will generate 'jobs with prospects' in the long term so long as - like any business - it has access to business finance and can build and sustain cash flow from its trading activity.

2. Government taking a broad view of social enterprise 'types' along the lines of the Social Enterprise London (SEL) definition below and that no form of social enterprise business model is excluded from consideration for access to social enterprise directed capital funds. One of the key aims of the Government should be to enhance the diversity of social business models operating in Australia.

3. Fund Managers appointed to manager social investment vehicles should have expertise and knowledge of the self-help models of social enterprise activity to ensure that such projects are assisted in a way that is conducive to their shared ownership objectives and structures.

4. Recommend that the Social Enterprise Fund Managers work to Government contracted guidelines that define their task as being:

⁴ From the FASES project - Social enterprises are organisations that:

- a. Are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit;
- b. Trade to fulfill their mission (1);
- c. Derive a substantial portion of their income from trade (2); and
- d. Reinvest the majority of their profit/surplus in the fulfillment of their mission.

(1) Where trade is defined as the organised exchange of goods and services, including: monetary, non-monetary and alternative currency transactions, where these are sustained activities of an enterprise; contractual sales to governments, where there has been an open tender process; and trade within member-based organisations, where membership is open and voluntary or where membership serves a traditionally marginalised social group.

(2) Operationalised as 50% or more for ventures that are more than five years from start-up, 25% or more for ventures that are three to five years from start-up, and demonstrable intention to trade for ventures that are less than two years from start-up.

(i) To finance only those projects that are assessed as viable and commercially sustainable social enterprises in the long term.⁵

(ii) To finance social enterprises that are obligated to comply with all laws relating to wages and conditions (such as The Fair Work Act); occupational health and safety regulations; and environmental standards.

(iii) To grow long-term revolving loan funds by ensuring that such finance/investment decisions as are made are covered by legally binding and enforceable loan/investment agreements.

(iv) To produce investment principles and lending guidelines that are public and create clear accountability for the decisions made in relation to growing the market for capital for social enterprise.

We commend the UK's Co-operatives and Community Finance Fund to the Senate Committee, as a study of one of the most successful revolving loan funds and lenders for small-scale social enterprises operating in the UK for the past 30 years (www.icof.co.uk). Its history and lending guidelines in particular should be noted. The fund has around GBP 4 million available with an upper limit of GBP 100,000 on loans.

SBA and the IYC 2012 Steering Committee would be pleased to provide further representations to the Senate Committee if required. We would welcome the opportunity to present on the role that we see for capital development in an Australian market specifically tailored to the needs of social enterprise in the long term.

SBA and the IYC 2012 Steering Committee has no objection to this submission being published as part of the consultation process.

Yours sincerely

Trent Bartlett
Chair, National IYC Steering Committee
Chair, Social Business Australia

⁵ SBA/IYC 2012 Steering Committee recommends that the capital funds should not fund social enterprises that are demonstrably not commercially sustainable. We also recommend that due diligence should be applied to ensure that funds are not applied to any enterprise that could disadvantage workers jobs in private enterprises competing with that social enterprise in the same market.

National UN IYC 2012 Steering Committee Members

Patron: Bob Debus, Former Federal Minister for Home Affairs

Chair: Trent Bartlett, CEO Capricorn Society Ltd

Belinda Drew, CEO, Foresters Community Finance

Alan Greig, President, Australian Employee Ownership Association

Suzanne Henderson, Director, Social Business Australia

Martin May, Director, Hepburn Wind

Melina Morrison, Director, Social Business Australia

Daniel Newlan, Senior Adviser, Policy and Public Affairs, Abacus – Australian Mutuals

Roger Nicoll, Director, West Belconnen Health Co-operative

Richard O’Leary, CEO, Macleay Regional Co-operative Ltd

Neville Parsons, CEO, Holiday Coast Credit Union

Tony O’Shea, Chair, Co-operatives Australia

Peter Tregilgas, EO, Regional Development Australia, Mid North Coast Region

Australian IYC 2012 (interim) Website: www.socialbusiness.coop/international-year-of-cooperatives/