Australian Government
Department of Education, Employment and Workplace Relations

Australian Government
Department of the Prime Minister and Cabinet

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

Thank you for the opportunity to provide a submission to the Senate Economics Review Committee Inquiry into *Mechanisms and Options for the Development of a Capital Market for Social Economy Organisations.*

This submission is made jointly by the Department of the Prime Minister and Cabinet and the Department of Education Employment and Workplace Relations.

The purpose of this submission is to provide a review of the literature and an overview of the international and Australian landscape for capital markets for social benefit. It also seeks to outline key Australian Government initiatives in this area to date, and to comment on the role of government in supporting a capital market for social economy organisations.

The key messages of the submission are:

- There is a growing interest in capital markets for social economy organisations around the world, and this market is less developed in Australia than in some other countries such as the UK and the US.
- In order to develop a larger and more robust capital market for social economy organisations in Australia the following issues need to be addressed.
  - Social economy organisations may need support to identify their financing needs and options, and to become investment ready. Managing boards of organisations, especially those that rely on philanthropic income, can be risk averse and reluctant to use debt financing options.
  - There is a need for effective intermediaries to bring financing institutions and social economy organisations together.
  - The challenges associated with measuring social outcomes and social returns on investment are a significant barrier to greater and more effective investment in social economy organisations.
  - The capital and expertise available from mainstream financial institutions, and those in the social investment and impact investing area, need to be better harnessed to support social investment.

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- Development of a capital market for social economy organisations is not about substituting government funding of services, but about enabling social economy organisations to leverage private and philanthropic finance to increase their efficiency and effectiveness.

Yours sincerely,

Rebecca Cross
Deputy Secretary (Social Policy)
Department of Prime Minister and Cabinet
30 May 2011

Robert Griew
Associate Secretary
Department of Education, Employment and Workplace Relations
31 May 2011

Australian Government

Joint submission into the Senate Economics Inquiry into Mechanisms and Options for the Development of a Capital Market for Social Economy Organisations

Department of Education, Employment and Workplace Relations

Prime Minister and Cabinet - Office of the Not-for-Profit Sector

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Contents

1. Introduction

The Department of the Prime Minister and Cabinet, Office of the Not-for-Profit Sector and the Department of Education, Employment and Workplace Relations are pleased to provide this submission to assist the Senate Economics Committee in its Inquiry into *Mechanisms and Options for the Development of a Capital Market for Social Economy Organisations.*

The Monitor Institute in its seminal work on Impact Investing[1] states:

> *There are moments in history when the needs of an age prompt lasting, positive innovation in finance – from ideas as big as the invention of money, to the creation of new institutions such as banks and insurance firms to the development of new products…Evidence suggests that many thousands of people and institutions around the globe believe our era needs a new type of investing. They are already experimenting with it, and many of them continue even in the midst of a financial and credit crisis.*[2]

This inquiry is an important contribution to the dialogue, debate and development of a capital market for a social economy in Australia.

I. Social economy

Firstly, we will provide a context for the social economy and mechanisms and options for a capital market for organisations within it.

We will outline the longer term trends internationally in social innovation and social impact investment. These include increased demand and scarcity of resources, professionalisation and capacity building in the not-for-profit and philanthropic sectors, new (or renewed) levels of cross sector collaboration and community asset building and 'blended' or 'shared' value approaches focused on generating economic <u>and</u> social/environmental impact. We will place social enterprise and social impact investment and other trends in social business models and finance options in that context.

II. Barriers and opportunities for developing a robust capital market for social economy organisations in Australia

We will provide the Committee with an overview of international thought leadership and practice in relations to mechanisms and options for a capital market for social economy organisations. This includes international and Australian evidence with respect to the factors affecting supply and demand and the potential for developing the market for social impact investment.

This is intended to build on the analysis of the Productivity Commission in its 2010 report *The Contribution of the Not-for-Profit Sector* and other expert advice and perspectives in the Australian context the Committee may receive in other submissions to this Inquiry.

III. The policy toolbox

We will examine the policy tools available to governments to support the creation of a functioning social economy, including capital market options.

[1] *Investing for Social and Environmental Impact; A design for catalysing an emerging industry,* 2009, Monitor Institute.
[2] Ibid, p 1.

We will refer to some international initiatives by way of example and explain relevant current policy directions and Government initiatives within this framework.

IV. Appendices

Some of the material introduced in this submission is elaborated on in Appendices. Appendix 6 lists of additional references which may be of assistance to the Committee.

I SOCIAL ECONOMY

1. The social economy

The terms 'social economy' and 'social economy organisations' do not yet have clear and commonly understood meanings in the Australian context. Practice and language in this country appears to have been influenced by a range of other jurisdictions. These influences include parts of Europe where the term is used to describe organisations and entrepreneurial activity within the 'third sector', the United Kingdom and the United States where a range of terms such as 'non-profit venture', 'non-profit entrepreneurship', 'social-purpose endeavour', 'social innovation', 'social-purpose business', 'community wealth enterprise', 'public entrepreneurship' and 'social enterprise' have found currency.[3]

The common features of the international landscapes which have gained some currency in the Australian contexts include more diverse organisations and entrepreneurial activity driven primarily by social purpose coming from the third sector, co-operatives and other community structures. Commentators have also argued that changes in public funding for the third sector and key actors in the social dialogue have been common factors in shaping new behaviours and strategies in third sector organisations.[4]

The different influences and outcomes across jurisdictions have also been noted.[5] In Australia there is very little literature documenting the extent and nature of social enterprises *per se.*[6] There is also a large and varied third sector or not-for-profit sector as evidenced by the findings of the Productivity Commission. This will be considered further in Section II. 'Social economy organisations' and the market structures to enable and support them will need to be able to evolve, develop and adapt for and within the Australian context if they are to be robust and sustainable.

Beyond recognising the diversity of organisations and market based innovation and activity with potential for contribution to social value creation, we have not defined 'social economy' or 'social economy organisations for the purposes of this paper.

2. What kinds of social economy organisations operate in Australia?

Within the Australian context, there are a diverse range of organisations operating within the not-for-profit sector. We refer the Committee to the Productivity Commission's report for the evidence and analysis of the sector and its contributions to society.[7] We acknowledge the diversity of the sector, the difficulty defining it and making generalisations with respect to it.

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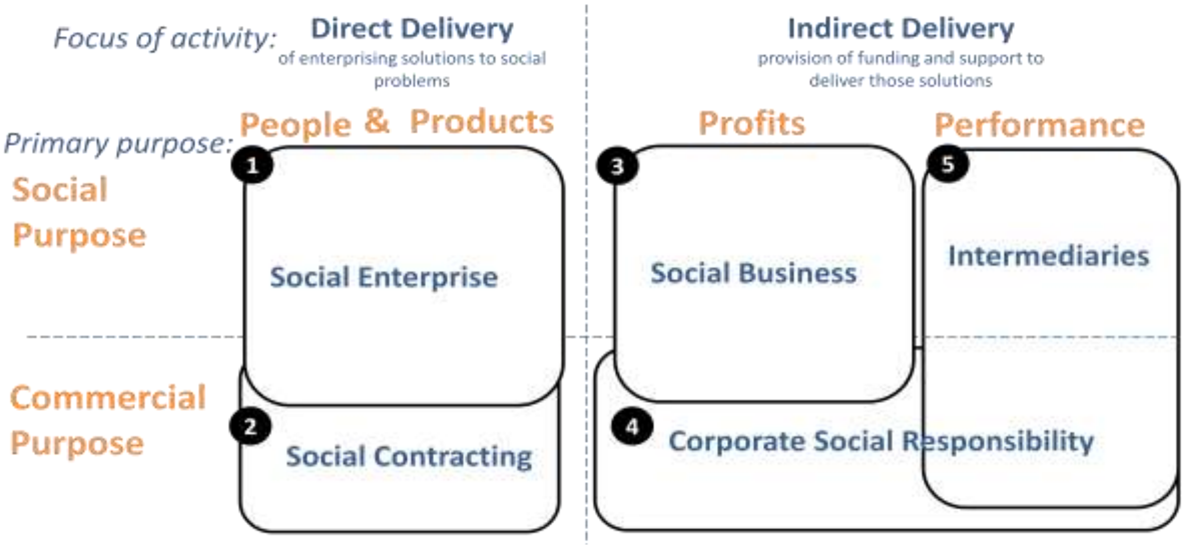
[3] Defourny, J. and Nyssens, M., 2010, 'Conceptions of Social Enterprise and Social Entrepreneurship in Europe and the United States: Convergences and Divergences', *Journal of Social Entrepreneurship,* Vol:1, No:1, pp 32 – 53, p 38.
[4] Ibid, p 39.
[5] Ibid, pp 34 – 39.
[6] *Finding Australia's Social Enterprise Sector (FASES) – Final Report*, 2010, Australian Centre for Philanthropy and Nonprofit Studies.
[7] Productivity Commission Research Report, *Contribution of the Not-for-Profit Sector*, 2010.

A range of market based activity, much of which sits within or overlaps with the not-for-profit sector has potential to contribute social value and address social issues. Enterprise based social enterprise models include the following.[8]



Enterprising market activity is increasingly being identified as an innovative and effective model for addressing a range of social problems, including social inclusion, homelessness, environmental challenges and long-term joblessness. Entrepreneurial activity and innovation can exist outside a structure or within particular programs or initiatives and social value can be created within for profit or not-for-profit structures.

Social enterprises are variously defined. The most recent study on social enterprise in Australia adopted a definition that they are organisations led by an economic, social, cultural, or environmental mission consistent with a public or community benefit, which:

- trade to fulfil their mission;
- derive a substantial portion of their income from trade; and
- reinvest the majority of their profit/surplus in the fulfilment of their mission. [9]

There is some ambiguity in the Australian context as to whether philanthropy is a sector on its own or a contribution to the third sector. In either case, philanthropy has a significant role in the social economy.

We also highlight for these purposes that there is a contribution from other sectors, including the private sector, to creation of social value and addressing social issues. As highlighted in a recent report by McKinsey[10], long term global trends will impact on how business responds to its role of social responsibility and potential to contribute to the social economy and capital market in that context. Further consideration of the contribution of the private sector to creating social value and addressing social issues is included at Appendix 1.

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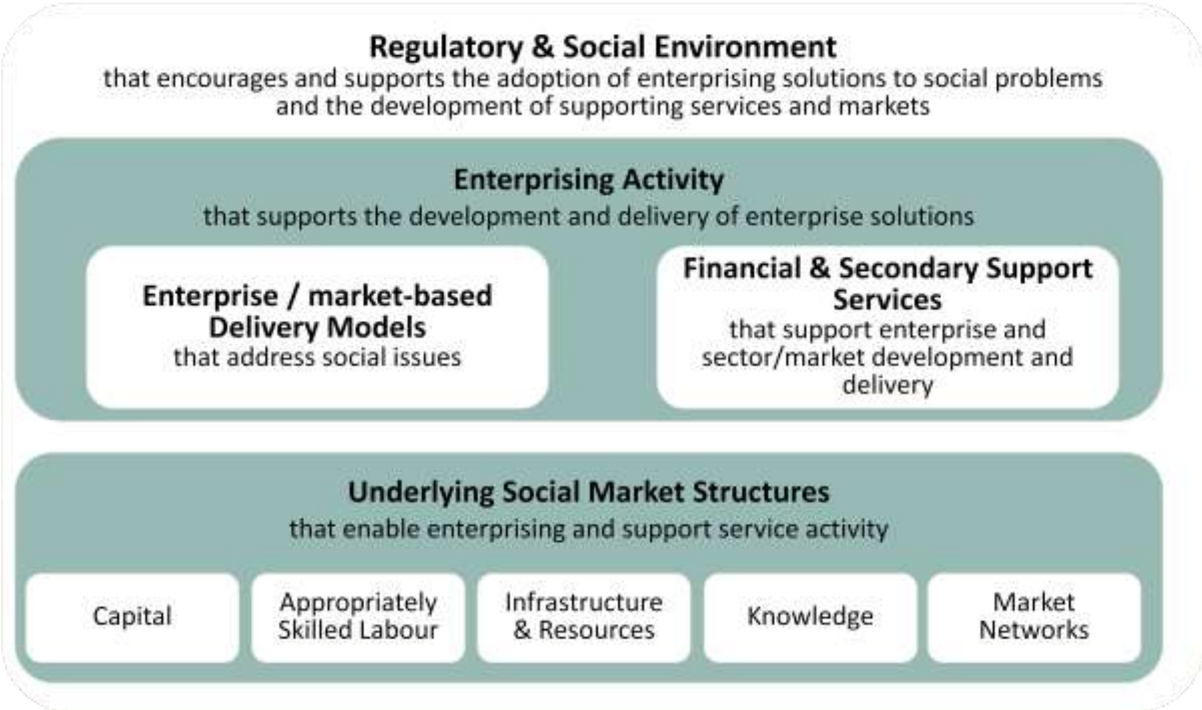
[8] Hill, R. and Effective Consulting, 2010, Department of Education Employment & Workplace Relations.
[9] FASES Report, 2010, p 4
[10] *'Shaping the Future: Solving Social Problems through Business Strategy, Pathways to Sustainable Value Creation in 2020',* 2010. McKinsey & Company.

3. Social Economy Market Structures

It is important to ground consideration of barriers and opportunities to development of a capital market for social economy organisations in the context of the broader market and regulatory infrastructure requirements for the social economy and market based innovation. These can be summarised diagrammatically as follows. The interrelationship between access to capital and other market structures is considered in the context of the material in Sections II and III.



[11]

4. The broader context

Longer term international trends: towards shared value

Global trends are important as they provide the context within which we may need to adapt or show foresight to do things differently and plan for the future. In the Australian context, CSIRO identified five 'mega' trends[12] that will redefine how people live across the globe. These are:

1. **More from less**. The simultaneous depletion of natural resources and the increasing demand for these resources, spurred by economic and population growth, will drive a focus on resource use efficiency - getting 'more from less'.
2. **A personal touch**. The growth of the service sector in Western economies will create a wave of innovation aimed at tailoring and targeting services.
3. **Divergent demographics.** The ageing population of OECD countries, and concurrent health problems and shrinking working populations, will continue to be in stark contrast to the high fertility rates, younger populations and food security tensions of poorer countries.

[11] Hill, R. and Effective Consulting, 2010, Department of Education Employment & Workplace Relations.
[12] *Our future world; An analysis of global trends, shocks and scenarios,* CSIRO, 2010, www.csiro.au/resources/Our-Future-World-report.html

4. **On the move.** People are changing jobs and careers, moving house, commuting further to work and travelling around the world more often.
5. **i World**. As the functionality of the internet increases, this trend points towards a convergence between the natural and its digital counterpart as social interactions, information systems, transactions and sensory systems are replicated on the internet. Computing power and memory storage are improving rapidly.

McKinsey[13] identified five significant trends in similar terms which will shape business, and hence 'corporate citizenship' over the coming decade.

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These global trends can be expected to act as drivers for the growth of the social economy and market based social innovations. Recent examples include growth in the Fair Trade movement,[15] development of financial products to accelerate delivery of vaccines to the developing world[16] and other innovations in social impact investment.

In an apparent paradox, while global connectivity increases, a focus on local activity, 'place-based' solutions and achieving greater impact is also increasing. Our networked and connected society provides new ways to grow and thrive and opportunities to foster and deepen connection across all sectors. These trends have influenced the work of Ezio Manzini[17] and others in social innovation and design.

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[13] McKinsey, 2010, p 6.
[14] Ibid.
[15] Porter, M. and Kramer, M., 2011, 'Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth' in *Harvard Business Review*, Jan – Feb, pp 1 – 17, p 5.
[16] This example refers to the International Finance Facility for Immunisation (IFFIm) bonds. For more information see Appendix 3 or *Investing for Impact; Case studies across asset classes,* 2010, Bridges Ventures and the Parthenon Group, p 3 and 34.
[17] Ezio Manzini is Professor of Design at the Politecnico di Milano, Honorary Doctor at The New School of New York (2006) and at the Goldsmiths College of London (2008), Honorary Professor at the Glasgow School of Art (2009) and Visiting Research Fellow, the University of Melbourne (2007-9). Manzini is widely regarded as one of the most influential thinkers on sustainability in Europe. His research and teaching has focused on strategic design and design for sustainability using processes of scenario building and solution development.

The development of connectivity is building more extensive networks of like-minded individuals across boundaries. A vast amount of information is available and can be accessed with unprecedented immediacy, including through social networking platforms such as Twitter. This trend seems only likely to increase with the advent of 'cloud' computing and other technologies. This has driven an increase in civic engagement and self organising capacity for civil society which is able to generate and disseminate information and ideas outside of established platforms.[18]

The emerging scenario is that today the ways to grow are more dynamic and diverse than just getting bigger and there is an increasing focus on developing concepts of prosperity and well being beyond economic growth. [19]

Longer term trends requiring 'more from less' also apply to capital. Some commentators have stated it as bluntly as:

> *The resources of government and philanthropy alone are insufficient to address the world's biggest problems.*[20]

Indeed, the recent global financial and economic crisis has been acknowledged by policy makers and commentators internationally as making social innovation and creative solutions even more important to enable sustainable growth, create employment and boost competitiveness.[21]

From Economic and Social Values to 'Shared' or 'Blended' Value

A number of longer term trends are influencing thought leadership and practice promoting 'shared' or 'blended' value, which:

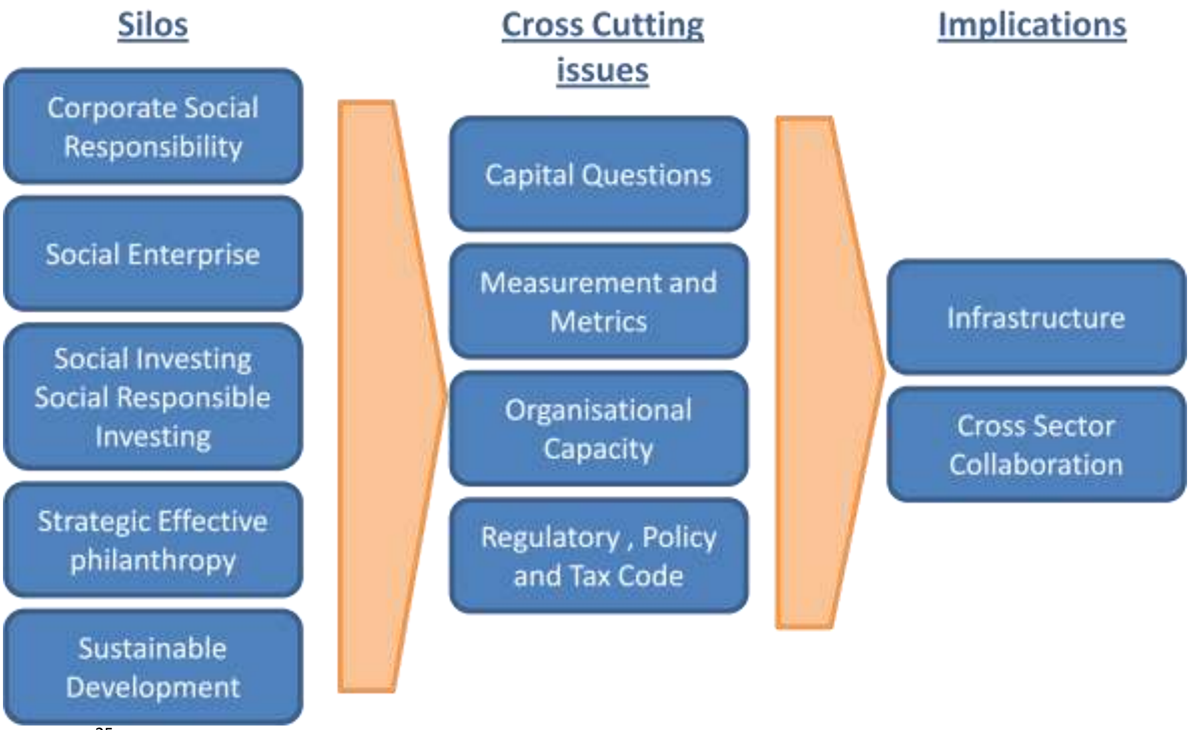
> *Recognises that societal needs, not just conventional economic needs, define markets..it is about expanding the total pool of economic and social value.*[22]

Social, economic and environmental values have historically been treated as separate notions of value, and to some extent mutually exclusive. Social value was pursued by the philanthropic sector, the corporate sector focussed on maximising economic value and some public interest groups sought to achieve favourable environmental outcomes.

[18] See for example, *Civil Society Manifesto*, Foresters Community Finance.
[19] See for example, *Vision 2050*: *A new agenda for business*, World Business Council for Sustainable Development, 2010 (http://www.wbcsd.org/web/projects/BZrole/Vision2050-FullReport_Final.pdf) and *Growing the Social Investment Market*, 2011, HM Govt. National measures of wellbeing are being developed by the United Kingdom and Canadian Governments – see http://www.ons.gov.uk/well-being, and http://www4.hrsdc.gc.ca/h.4m.2@-eng.jsp respectively. In 2009, French President Nicholas Sarkozy announced his intention to begin measuring national happiness. Progress to date from the French Institute of Statistics and Economic Studies can be found at http://www.insee.fr/en/publications-et-services/default.asp?page=dossiers_web/stiglitz/performance_eco.htm.
[20] *Impact Investing: A Framework for Policy Design & Analysis,* Insight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University, January 2011, preface; see also *Impact Investments: An Emerging Asset Class, 2010,* JP Morgan Global Research, The Rockefeller Foundation and Global Impact Investing Network, 2010.
[21] See for example, United States *Social Innovation Fund* announcements (http://www.whitehouse.gov/administration/eop/sicp/initiatives/social-innovation-fund) and *A Study on Social Innovation: a paper prepared for the European Bureau of Policy Advisors*, Young Foundation and Social Innovation Exchange, 2010.
[22] Porter, M. and Kramer, M., 2011, *HBA,* p 5; in the context of corporate activity '*(The concept of shared value) recognises that social harms or weaknesses frequently create internal costs for firms - such as wasted energy or raw materials, costly accidents, the need for remedial training to compensate for inadequacies in education. And addressing societal harms and constraints does not necessarily raise costs for firms, because they can innovate through new technologies, operating methods and management approaches and as a result increase their productivity and expand their markets.'*

This shift in focus also presents potential for greater collaboration between sectors. This will require reframing questions and conversations to facilitate connections at points of mutual interest in social change. For example, governments can highlight policy priorities such as advances in the productivity and participation agendas as priority fields of action and provide incentives and frameworks for others to engage.[23] The significance of collaboration and intermediation and the opportunities for governments in these areas are considered further in Sections II and III.

The 'blended' or 'shared' value proposition encourages a shift away from the silo approach and the hard line delineation between sectors.[24] It identifies the central cross-cutting issues which are common to the streams of activity and key enablers for the social economy.



[25]

This type of approach requires genuine consideration of the economic impact of social issues and a 'rethink of how capital markets can support true value creation.'[26] As leading business scholar Michael Porter, who developed the theory of the Competitive Advantage of Nations[27] reinforces:

> *There is nothing soft about the concept of shared value... [it represents] the next stage in our understanding of markets, competition and business management.*[28]

The thought leadership in this area also highlights the importance of new approaches to the role of capital in relation to social cohesion, productivity and participation. For example, it is important and instructive to note that work of the United Kingdom Social Investment Task Force from 2000- 2010

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[23] *A Study on Social Innovation,* 2010, Young Foundation and Social Innovation Exchange, p 109.
[24] Emerson, J., 2004, *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Creation*, http://www.blendedvalue.org/media/pdf-bv-map.pdf
[25] Emerson, J., 2004, p 25.
[26] Porter, M. and Kramer, M., 2011, p 17.
[27] Porter, M., 1998, *The Competitive Advantage of Nations*, Free Press.
[28] Porter, M. and Kramer, M., 2011, p 17.

had a clear aim that its work should encourage additional investment and expertise in order to result in:

> *...a move away from a culture of philanthropy, paternalism and dependence towards one of empowerment, entrepreneurship and initiative...*

Its several reports reflect this goal with the series title '*Enterprising Communities: Wealth Beyond Welfare*'.[29] Similarly the Canadian Social Finance Task Force which reported in December 2010 emphasised the importance of its work in relation to tackling complex societal problems, creating jobs and strengthening communities.[30]

[29] *Enterprising Communities: Wealth Beyond Welfare*, Social Investment Task Force, 2000, updated 2003, 2005.
[30] *Mobilising Private Capital for Public Good,* 2010, Canadian Task Force on Social Finance, p 1.

II BARRIERS AND OPPORTUNITIES FOR CREATING A ROBUST CAPITAL MARKET FOR SOCIAL ECONOMY ORGANISATIONS IN AUSTRALIA

6. Market Context

A Robust Capital Market for Social Economy Organisations

Supply of and access to capital is only one facet of a robust capital market for social economy organisations. There are a range of factors influencing supply and demand and a number of factors which would need to be present for effective and efficient operation of a market. These include:

- common terminology and metrics systems for measuring social return/impact to allow for analysis and comparison of performance;
- specialist intermediary organisations, including financial advisors, analysts and brokers and industry associations;
- development of a track record of investment performance;
- development of secondary markets to promote liquidity; and
- access to innovation and research.

The relationships between these market factors are not linear, as illustrated in the diagram below[31]:

[31] Department of Education, Employment and Workplace Relations, 2010.

The inter-dependence of these factors is illustrated in the following examples:

- Strategic philanthropists and social impact investors may be encouraged to invest or donate greater amounts where effective systems are in place for measuring the social impact of their investments.
- The demand from social economy organisations for capital to expand successful programs may increase if they are able to access specialist financial advice and are supported to develop adequate organisational capacity to support the expansion.

Lack of access to finance and development of other market structures is acknowledged in the international evidence as not only a barrier to growth and development of social economy organisations, but a barrier to social innovation more generally.[32]

There is a substantial body of international evidence and thought leadership on development of capital markets for the social economy which spans more than a decade. Examples include work in the United States dating back to the late 1990s such as *The U.S. Non-Profit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Mechanisms*, [33] and in the UK since 2000 including the work of the Government auspiced Social Investment Task Force: *Enterprising Communities – Creating Wealth Beyond Welfare* [34] and *Financing Civil Society: A Practitioners View of the UK Social Investment Market*[35] and in Canada including the work of the Task Force on Social Finance*: Mobilizing Private Capital for Public Good.*[36]

The recent United Kingdom policy document, *Growing the Social Investment Market: A Vision and Strategy,*[37] provides a useful overview of these market features and the fragility in the development of the United Kingdom's social impact investment market by reference to a market failure framework.

In the Australian context, a National Australia Bank commissioned report prepared by Foresters Community Finance: *Finance and the Australian Not-for-Profit Sector: Examining the potential for a not-for-profit capital market in Australia*, was launched in April 2011.[38] The Centre for Social Impact and other commentators have also made a substantial contribution to the ongoing debate and dialogue.[39]

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[32] *A Study on Social Innovation,* 2010 p 93; Mulgan., G., 2006, *The Process of Social Innovation,* The Young Foundation.
33 Emerson, J., *The U.S. Non-Profit Capital market: An Introductory Overview of Developmental Stages, Investors and Funding Mechanisms,* 1999, REDF Box Set, Vol:2 Ch:10 and Ryan, W., *Nonprofit Capital: A Review of Problems and Strategies,* Rockefeller Foundation and Fannie May Foundation, 2001.
[34] *Enterprising Communities: Wealth Beyond Welfare*, 2000, Social Investment Task Force.
[35] Mitchell, L., Kingston, J., and Goodall, E., *Financing Civil Society: A Practitioners View of the UK Social Investment Market,* 2008, Charities Aid Foundation.
[36] *Mobilizing Private Capital for Public Good*, Task Force on Social Finance*,* 2010 and *An Overview of Impact Investing,* 2010, Phillips, Hager & North.
[37] *Growing the Social Investment Market: A Vision and Strategy,* 2011, HM Govt/United Kingdom Cabinet Office, Ch 3 and Annxure B.
[38] Burkett, I., 2011, Foresters Community Finance, *Finance and the Australian Not-for-Profit Sector: Examining the potential for a not-for-profit capital market in Australia*, Foresters Community Finance, 2011.
[39] Publications available at Centre for Social Impact http://www.csi.edu.au/site/Knowledge_Centre/Publications.aspx; Swinburne http://www.swinburne.edu.au/business/philanthropy/.

Supply and Demand

The Productivity Commission considered in some detail factors impeding supply of capital to and demand for capital from social economy organisations in Australia. There is not a lot of data in terms of actual demand or supply beyond the general acknowledgement there is insufficient capital available.[40]

There is a range of helpful international research on these factors.[41] The findings can generally be summarised as recognising enormous potential for developing the flow of resources for organisations that primarily generate social or environmental value, as well as significant barriers, including institutional, cultural and in some cases practical, to realising that potential.[42]

The challenge to social economy organisations and those who might fund or finance them is also one of cultural change and behaviour. Context and experience influence our approaches to everything we do. Assumptions and bias are present in financial as well as other interactions. Behavioral and cultural factors relating to altruism, giving and investing influence the potential and practice in this field to provide new sources of capital to be applied to the social economy. Significant work has been done in the last few decades on the influence of behavioral economics on mainstream investment.[43] There have also been studies done on the complex decision making involved in philanthropic giving.[44] There is little research in the Australian context. What there is reinforces the significance of these factors.[45]

Lenders can be myopic about the actual risks and returns associated with social investment, attributing much higher risk than is actually present.[46] Philanthropists bring their own motivations, needs and decision-making criteria to the table.[47] Some people are motivated to ensure their wealth

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[40] See for example Hill, R. And Effective Consulting, 2010, *Strategies for Increasing High Net Worth and Ultra High Net Worth* Giving for FaHCSIA; *Giving Australia: Research on Philanthropy in Australia,* 2005, Department of Families and Community Services. Hope Consulting, *Money for Good: Impact Investing Overview*, 2010. In the US context, *Money for Good, Impact Investing Overview*, 2010, Hope Consulting, provides an overview.

[41] Joy I., de Las Casas L., and Ricke B., *Understanding the Demand for and Supply of Social Finance,* New Philanthropy Capital and NESTA*,* 2011*,* p 7-8, cite Nicholls A 2008 Said Business School at Oxford undertook research funded by the Big Lottery Fund and United Kingdom Cabinet Office[41] which provides a useful overview of the factors influencing the 'flow of resources – either market or non-market generated – that fulfil the funding needs of organisations that primarily create social or environmental value.

[42] Monitor Institute, 2009, p 3.

[43] Daniel Ariely *Predictably Irrational* www.danariely.com ; Peter L. Bernstein *Against The Gods: The Remarkable Story Of Risk* http://prospect-theory.behaviouralfinance.net/Kahneman and Tversky found empirically that people underweight outcomes that are merely probable in comparison with outcomes that are obtained with certainty; also that people generally discard components that are shared by all prospects under consideration. Under prospect theory, value is assigned to gains and losses rather than to final assets; also probabilities are replaced by decision weights. Also: http://jayhanson.us/_Economics/Origin%20of%20Behavioral%20Economics07003.pdf

[44] 'Donations to charity represent a complex social decision in which the benefits for the giver are abstract and indirect, unlike decisions involving primary reward or money where the benefit is concrete. Although two previous neuroimaging studies of charitable giving have reported activity in regions that respond to primary reward, neither addressed the questions of what neural networks provide the input used to compute values. In the case of decisions over primary rewards (e.g., choosing which juice to drink), the value is likely to be influenced by sensory factors such as expected taste and by somatic states such as thirst. On the other hand, computing the value of a charitable donation might require inputs from areas involved in social cognition. For example, because giving to charity involves sacrificing resources for the benefit of others, these decisions are likely to require a shift in attention away from the subject's own state to focus on the needs of others. In addition, the value that we assign to addressing the needs of others might depend on how much empathy we feel for them', quoted sourced from www.tacticalphilanthropy.com. See also Claire Gaudiani Ph.D.,2004, *The Greater Good: How Philanthropy Drives the American Economy and Can Save Capitalism,* Holt Paperbacks, also

[45] Burkett, I., 2010, *Financing Social Enterprise*, Foresters Community Finance.

[46] HM Govt, *Growing the Social Investment Market,* 2011, p 27 and Annexure B, and Productivity Commission*,* 2010.

[47] Hope Consulting, 2010, *Money for Good: the US Market for Impact Investment and Charitable Gifts from Individual Donors and Investors*; Hill, R. And Effective Consulting, 2010, *Strategies for Increasing High Net Worth and Ultra High Net*

has a positive impact on society and some of them are attracted to opportunities for their contributions to be recycled to greater effect.[48]

The Productivity Commission found in its consultations that not-for-profit leaders' natural inclination to take innovative approaches to social problems is being restricted by the increasingly risk averse attitudes of their Boards as well as the approach of funders.[49] Social economy organisations can be risk averse and reluctant to make the strategic and cultural shift away from grant funding and in some cases have a mistaken perception that other options will create personal liability.[50]

7. From Funding to Finance – a spectrum of options

The role of a capital market for social economy organisations needs to be considered in the context of the distinction between finance and funding, and the options for access to finance through means other than through the capital market explained by the Productivity Commission.[51]

The submissions to the Commission and its findings reinforce that whatever the mechanism, there is a significant unmet need for capital (and in particular growth capital) for not-for-profit organisations in Australia.[52] The Commission found that such organisations often struggle to obtain secure income streams and working capital to undertake new programs, to replicate what works or take good ideas to scale. The Commission noted that it can be difficult for not-for-profit organisations to plan beyond short term funding cycles and much time and resources are invested in securing grants. Public support for NFPs engaged in preventative activities may be limited relative to crisis response.[53]

This is consistent with international evidence documenting lack of stable and sustainable funds and barriers to securing growth capital, and particularly risk capital, which impedes the capacity for social economy firms to develop, scale and grow.[54]

> *A transition away from grant dependence towards commercial finance is crucial for longer-term sustainability and growth of social enterprises and ventures.*[55]

The potential for impact of capital or lack of it in the social economy is also not only financial. The Social Investment Task Forces in the United Kingdom and Canada developed in a context of growing awareness of the impact of capital market failures and growing inequality on social cohesion and social inclusion.[56]

Harvard Business School's Social Enterprise Initiative convened a roundtable conference of philanthropists in April 2011. The forum consensus was that in order to garner the capital necessary

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Worth Giving for FaHCSIA; *Giving Australia: Research on Philanthropy in Australia,* 2005, Department of Families and Community Services.

[48] Elliott A., 2011, *Investing for the Good of Society,* NESTA.

[49] Productivity Commission, 2010, p242.

[50] HM Govt, *Growing the Social Investment Market,* p 27 and Annexure B.

[51] Productivity Commission, 2010, Ch 7.

[52] Ibid.

[53] Productivity Commission 2010, p XXXIII.

[54] Young Foundation and Social Innovation Exchange, 2010, p 93; and Hartigan, P., 2006, 'Delivering on the Promise of Social entrepreneurship: Challenges Faced in Launching a Global Social Capital Market', 2006, in *Social Entrepreneurship: New Models of Sustainable Social Change,* ed. Alex Nicholls, Oxford University Press.

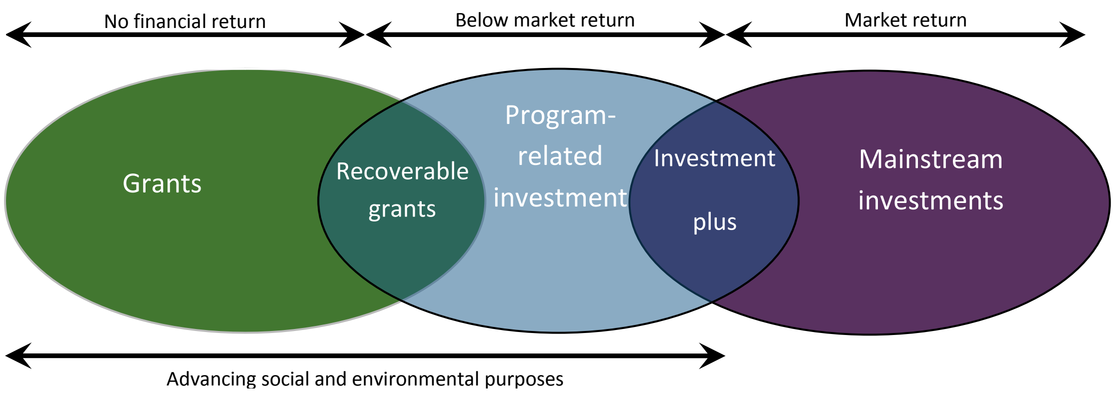
[55] Hartigan, P., 2006, 'Delivering on the Promise of Social entrepreneurship',

[56] *Mobilizing Private Capital for Public Good*, 2010, Task Force on Social Finance, p 3; *Enterprising Communities*, 2000, Social Investment Task Force, p 4.

to foot the bill for social change, not-for-profits need to think less about traditional grants and more in terms of innovation, and so do the organisations that fund them.[57]

Along the spectrum represented graphically below, there are three main themes in development of a robust capital market for social economy organisations.[58]

- Expanding the utilisation by social economy organisations of the full range of funding and financing options along the spectrum from grant funding to mainstream financial products;
- Growing the pool of capital available for social purpose; and
- Developing the emerging market for 'social impact investment', or in other words, developing the range of financing options on the spectrum between grant funding and mainstream investment.



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In this remainder of this section, we have focussed on these themes and the international and Australian thought leadership and examples which point to the key mechanisms and options important for their development. Specifically, these are:

- capacity and investment readiness;
- product development and innovation;
- organisational forms and structures;
- the role of intermediaries and networks; and
- risk, measurement and metrics.

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57 Nobel C., 2011, 'Social Investing: Emerging Trends in a Changing Landscape', *Harvard Business School Social Enterprise Initiative.*

58 *Impact Investing: A Framework for Policy design & analysi*, 2011, Insight at Pacific Community Ventures & The Initiative for responsible Investment at Harvard university; *Impact Investments: An Emerging Asset Class*, 2010, JP Morgan Global Research, The Rockefeller Foundation and Global Impact Investing Network

59 Bolton, M., 2005, *Foundations and Social Investment: Making Money Work Harder to Achieve More,* Esmee Fairburn Foundation, p 7.

8. Increasing capital and options across the spectrum

Utilising the spectrum

The literature on good organisational practice for social economy organisations emphasises the importance of diversifying income streams and sources of capital,[60] but there is little available data on the extent to which this occurs and the extent to which such organisations access mainstream investments. Some of the cultural and capacity influences on this were considered above.[61]

The Productivity Commission examined the sources of capital available to the sector, the constraints affecting the sector and some initiatives to improve access to capital.[62]

Increasing the capacity for both demand and supply side to engage with the full range of funding and financing options available is an important part of developing a robust capital market. There will likely always be a need for grant funding; the key is to open up a range of options.

The relationship between organisational forms and capacity to utilise a full spectrum of capital options is also a consideration. For example, the most common organisational forms for social economy organisations in Australia (companies limited by guarantee and incorporated associations) cannot raise equity capital.

Innovations in product development and organisational forms considered later in this section exemplify developing practice.

Growing the Pool of Capital for Social Purpose

The Productivity Commission included a section in its report on increasing the supply of capital that accepts part of its return in social benefits.[63]

Identifying more clearly how different sources of capital are currently being applied is also important:

- Who is funding or financing what activity?
- Who is best placed to fund or finance fund or finance what activity?
- Who is best placed to take risk?
- Can more of a portfolio approach be encouraged and developed across different funders to balance risk and potential for impact?

For example, this may include consideration of how increased philanthropic giving can be encouraged or how government can work with others to understand what innovations have worked and have potential for replication and scale. The Monitor Institute developed a tool to assist different funds to map and analyse where others are active, where there are gaps or areas ripe for collaboration.[64] This type of analysis can inform potential for differentiation, encouraging growth and expansion and collaboration to maximise the impact of available funding.

[60] See for example Mitchell, L., Kingston, J. et al, *Financing Civil Society:,* 2008, Charities Aid Foundation.
[61] See Section II, Parts 1 and 2.
[62] Productivity Commission, 2010, Ch 7.
[63] Productivity Commission, 2010, pp 191- 193.
[64] Mapping tool available at http://www.monitorinstitute.com/strategylandscape/

'Utilisation' of capital is a key concept in this discussion. It goes to how sources of capital such as assets (in particular cash reserves) of social economy organisations and the corpus of philanthropic funds and other pools of capital can be used effectively in the context of a capital market. For example, strategic investors in the social economy can catalyse new intermediaries and start-up ventures by providing first loss capital to underwrite loans. This use of the capital facilitates access to capital for social economy organisations by reducing the risk for other lenders and does so without crowding out other investors.[65] Some social economy organisations could make better use of their existing financial resources, including through:

- social procurement – trading with one another;
- utilising balance sheet reserves to make social impact investments themselves; and/or
- using their asset base to raise finance through mortgages or bonds, as discussed below.

The Productivity Commission noted that internationally, philanthropic intermediaries are encouraged to undertake so called *mission* or *program* related investments. This involves investments of the philanthropic corpus aimed at furthering the social objectives of the foundation, for example, education or healthcare.

This is an emerging area of practice internationally[66] and is informed by a perspective that the purpose of foundations is to invest in the creation of social value and that foundation assets for supporting this process should go beyond grant making to include investment strategies for both the corpus and philanthropic investments.[67] Regulatory parameters and fiduciary duties have an impact on the utilisation of philanthropic and superannuation funds[68] in Australia as in other countries.

In some jurisdictions, research reinforces that trustees and boards are more likely to proceed if they are confident they can manage the risks and if there is clear policy and regulatory guidance.[69] This has led to the development of guidance material. For example, the in United Kingdom the Charities Commission publishes a detailed guidance note on the duties of trustees and potential for funds to make mission related investments.[70]

Tax incentives can also provide an incentive for investment including by allowing investments to return a market rate. This was considered by the Productivity Commission[71] and is always a matter of cost benefit analysis. Proposals such as the one advanced by the Benevolent Society that a franking credit be provided for social bonds[72] are continuing the public dialogue and debate. The role of such incentives in the United Kingdom has been the subject of a recent UK study: *Investing in Social Enterprise: the role of tax incentives.*[73] Australian Governments have reviewed a number of

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[65] The role of underwriting and other forms of catalytic investments are discussed in Ludlow J. and Jenkins J., *Twenty Catalytic Investments to Grow the Social Investment Market*, NESTA, Panahpur and UnLtd, 2011, p10.

[66] The Canadian *Task Force on Social Finance* recommended that public and private foundations should invest at least 10% of their capital in mission-related investments by 2020 (*Mobilising Private Capital for Public Good,* Rec 1, p 3) The United States Internal Revenue Service permits charitable foundations to make program-related investments instead of grants provided the investments further the foundation's charitable purpose and are not expected to achieve a market rate of return. While the ambiguity of the rules have deterred many foundations from making such investments, others have taken a leadership role, for example the Rockefeller Foundation http://www.rockefellerfoundation.org/.

[67] Emerson, J., 2002, *A Capital Idea: Total Foundation Asset Management and The Unified Investment Strategy*.

[68] Productivity Commission, 2010, p 192.

[69] Heaney V., 2010, *Investing in Social Enterprises: the Role of Tax Incentives*, NESTA and the Centre for the Study of Financial Innovation, p 14.

[70] http://www.charity-commission.gov.uk/about_us/about_the_commission/char_invest_legal.aspx

[71] Productivity Commission, 2010, Ch 7.

[72] Spencer, R., 2011, *From giving to investing: a new approach to not-for-profit funding,* Centre for Social Impact http://www.csi.edu.au/site/Home/Blog.aspx?defaultblog=http%3a%2f%2fblog.csi.edu.au%2f2011%2f04%2ffrom-giving-to-investing-a-new-approach-to-not-for-profit-funding%2f

[73] Heaney, V., 2010.

tax incentives, including the frameworks for Private and Public Ancillary Funds in the past few years. On 10 May 2011, the Government announced a reform which seeks to better target not-for-profit tax concessions.[74]

Building out the middle: What is social impact investment?

Social impact investment builds out the 'middle' of the spectrum between grant and philanthropic funding and mainstream financial products. The terms 'impact investment', 'social investment', 'social finance' and 'social impact investment' are variously used to describe this area. They all refer to investment and financing mechanisms and options that offer positive social impact as well as financial return.

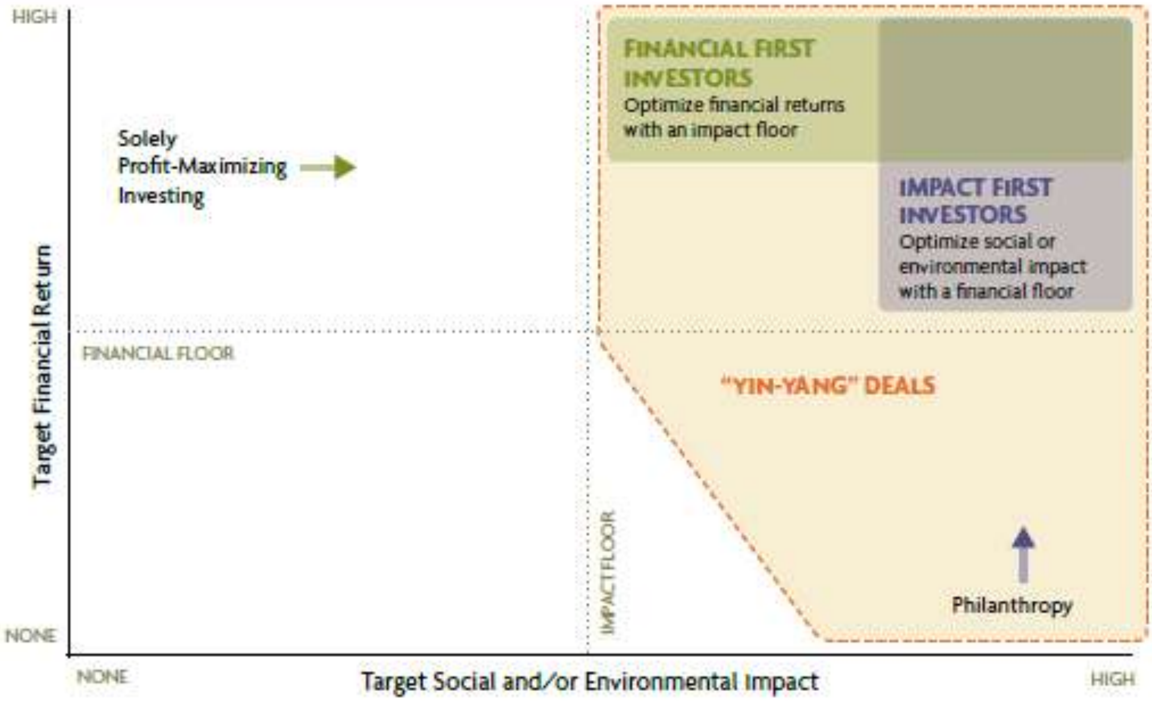
A new social impact investment market is steadily taking shape globally and is emerging in Australia. It brings new financing methods with potential to leverage significant new resources and new participants toward addressing social and environmental concerns in more effective, efficient and sustainable ways. This has, at least in part, been an acknowledgement that governments and philanthropy do not have the resources to address all the world's social problems. This is reflected in a number of reports which bear titles such as *More than Money* and *Financing Civil Society*[75]. This is a global trend and the practice and institutions are developing not only in the context of western democracies, but also throughout the developing world.

[74] For full release, see http://www.budget.gov.au/2011-12/content/bp2/html/bp2_revenue-07.htm.
[75] Mitchell, L., Kingston, J., and Goodall, E., *Financing Civil Society:* 2008, Charities Aid Foundation, and Simon J., and Barmeier J., 2010, *More than Money: Impact Investing for Development,* Center for Global Development.

Social impact investment accommodates a range of approaches depending on the demand and the motivations and risk appetite on the supply side:

- '*Investment first'* opportunities prioritise financial return with an impact 'floor', which may include negative screens, for example to exclude tobacco or gambling businesses, and/or positive screens, for example to improve skills or create employment opportunities.

- '*Impact first'* opportunities prioritise social or environmental impact with a financial 'floor'. This could include return of all or part of the capital invested (to enable it to be utilised again to create further social impact) or acceptance of a below-market rate of financial return in order to achieve a desired level of social impact. [76]



[77]

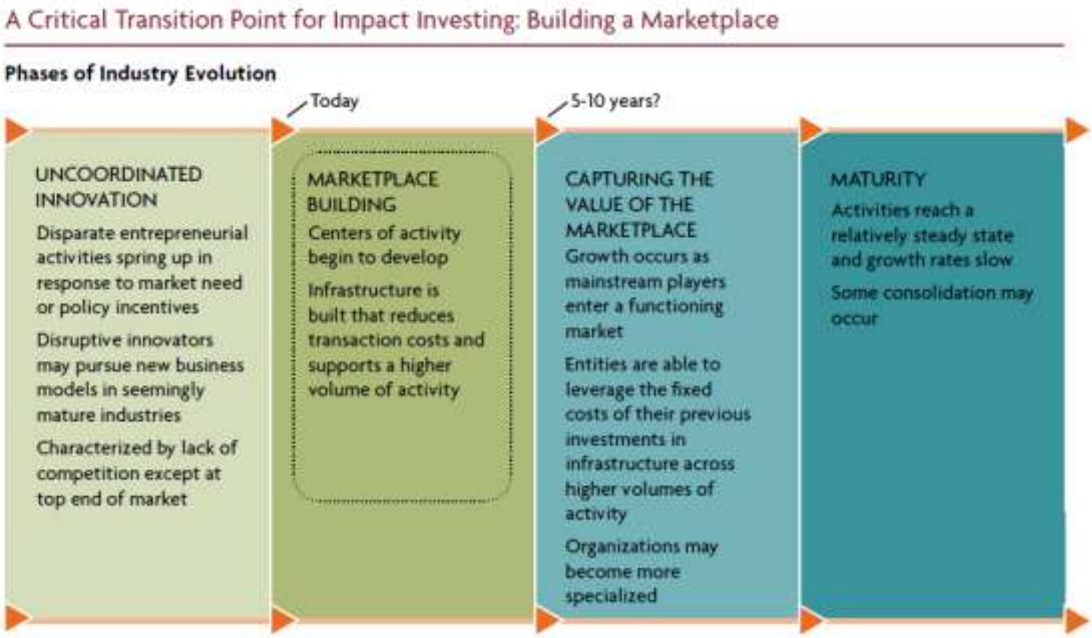
There potential for social impact investment to increase the pool of capital available for social purpose. The models allow capital to be invested, recovered and invested again, creating a 'virtuous cycle' of sustainable investment. The use of capital in this way has potential to generate significantly greater long-term social impact than grant making alone or mainstream market investments alone.

Development of Social Impact Investment

The market for social impact investment is still developing. The pace of development in different countries or markets has not been static. In the United States and the United Kingdom it is generally agreed to have progressed from a range of disparate innovations with little competition towards a greater focus on market building. Capital markets supporting microfinance and some areas of sustainable banking are more mature still.[78]

[76] Monitor Institute, *Investing for Social and Environmental Impact*, 2009, p 32.
[77] Monitor Institute, *Investing for Social and Environmental Impact*, 2009, p 32.
[78] See for example *Impact Investments: an emerging asset class,* 2010, JP Morgan and *The Impact Investors Handbook: Lessons from the World of Microfinance,* 2011, CAF/Venturesome.

The critical phases of market evolution were captured by the Monitor Institute as follows.



[79]

Recent research[80] in the United States outlines the vision of investors engaged in this market of a future well-developed impact investing marketplace that functions like the traditional capital markets, in which investment opportunities are transparent; performance data is accessible, credible, and comparable; investors can access ratings agencies, syndicators, clearinghouses, auditors and other necessary market intermediaries and co-investors are easily identified.

Development of a market involves all sectors. The Monitor Institute's work further linked the stages of development to key initiatives for building a market place.[81] Key themes of this work and research from the United Kingdom is provided at Appendix 2 for the Committee's reference.

Despite over a decade of development research and practice in the United States and the United Kingdom, the challenges remaining include the lack of efficient intermediation, enabling infrastructure and clear deal flow. The markets remain poorly defined without sufficient structure or the diversity of organisations that are found in mainstream markets. That said, there are numerous examples pointing to a future that goes beyond public subsidy and philanthropy.[82] Positive developments include the growing level of interest among capital providers in building on the emerging track record of successes, the increasing recognition of the need for effective solutions to social and environmental challenges and significant skilled workforce interest.[83] The recent policy and investment initiatives of the Governments in these countries are considered in Section III and Appendix 7.

In Australia, while the market remains nascent, there are signs of change. In the Department of Employment, Education and Workplace Relations, we have encountered a new and building level of

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[79] Monitor Institute, 2009, *Investing for Social and Environmental Impact, p 3.*
[80] *Impact Investments: An Emerging Asset Class*, 2010, p.16.
[81] Monitor Institute, 2009, *Investing for Social and Environmental Impact, pp. 15 and 19-23.*
[82] Ibid, see also *Financing Civil Society,* 2008, CAF/Venturesome.
[83] Monitor Institute, 2009, p 49.

dialogue, collaboration and alliances between non-traditional partners and new products in the market in the past year.[84]

The conclusions of the Monitor Institute capture the potential and the challenges:

> *The pressing question is whether impact investing will remain a small, disorganised, underleveraged niche for years or even decades to come – or whether leaders will come together to fulfill the industry's clear promise, making this new domain a major complementary force for providing the capital, talent and creativity needed to address pressing social and environmental challenges. Our premise is that there is only one acceptable answer. It matters a great deal that more of our era's assets are used to address some of its most troubling challenges.*[85]

While the vision remains aspirational, this must be seen as a long term change process.

> '*If I had been leaving Harvard in 2010, this would be the area I would want to be going into. I think societies everywhere will come to the conclusion that an important part of the capitalist system is having a powerful social sector to address social issues, because government doesn't have the resources.*'[86]

Potential size of the market

There is no definitive information on the size of the social impact investment market, in Australia or internationally. Various proxies and assumptions have been used in the international context to estimate the amount of additional capital which could be sourced for social purpose. International research has estimated the potential impact investment market at US $120 billion in the United States,[87] CAD $30 billion in Canada,[88] and approximately $500 billion globally.[89] We are not aware of any studies in the Australian context.

The available reference points for such work could include the following.

- The size of the Socially Responsible Investment (SRI) market: managed SRI portfolios grew in Australia by 10% during the 2010 financial year from $14.02 billion to $15.41 billion, representing 1.66% of the $926.8 billion in managed investment portfolios.[90]

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[84] For example, the consultation process undertaken as part of the Social Enterprise and Development Fund Initiative (http://www.deewr.gov.au/Documents/SEDIF%20Consultation%20paper_FINAL.pdf). The Australian Government's establishment of the Office for the Not-for-Profit Sector is a recognition of the importance of collaboration and engagement with the sector. DEEWR has worked with a wide range of stakeholders to find the best ways of building the capacity of social enterprises. These processes, along with the highly collaborative processes involved in developing and administering the Social Enterprise Development and Investment Funds program, including the appointment of an expert advisory committee, have created a broader dialogue between Government, social partners, other jurisdictions, the investment and philanthropic communities, financial providers and others about the future and potential of a social impact investment market in Australia.

[85] Monitor Institute, 2009, p 5.

[86] Sir Ronald Cohen, Chair of the UK Social Investment Task Force 2000-2010 quoted in 'Capitalism has its consequences' *The Telegraph,* 26 June 2010, found at http://www.telegraph.co.uk/finance/financetopics/profiles/7856009/Sir-Ronald-Cohen-capitalism-has-its-consequences.html

[87] Hope Consulting, 2010, *Money for Good: The US Market for Impact Investment and Charitable Gifts from Individual Donors and Investors*.

[88] Canadian Task Force on Social Finance, 2010, p 5.

[89] Monitor Institute, 2009, p 9.

[90] Responsible Investment Association Australasia, *Responsible Investment 2010*, p 14. The published value of all SRI portfolios was $15.79 billion. Note that double counting of $384 million is subtracted due to investment from retail funds (offered by a fund manager or a superannuation fund) which then invest in a wholesale fund or mandate of another

- Funds invested in the Australia's superannuation system - $1.23 trillion as at June 2010;[91] many Australian superannuation funds have SRI portfolios. [92]
- As of 2008-09, Private Ancillary Funds have an estimated $ 2.0 billion corpus.[93]
- Australia's not-for-profit sector made $8.8 billion of capital investments in 2006-07, of which 61 per cent was funded from surplus from current operations.[94]

9. Capacity and investment readiness

'Capacity' is used as shorthand for a variety of capital market enablers, such as the quality of organisational leadership, skills and skill development, fluency in the language used by other disciplines (of finance in the case of some social economy organisations, and of the social economy in the case of some finance professionals).

Social economy organisations seeking access to capital to commence or expand social activities need a range of skills and capabilities, not least of which include ability to:

- present sound investment opportunities in a language that investors can understand; and
- develop business plans and financial accounts that comply with mainstream financial market requirements.

While these may be considered strong organisational disciplines in any sector, the Productivity Commission and other research in the Australian and overseas markets has found a lack of expertise in this area, especially in small to medium sized organisations.[95] To some extent, this phenomenon is not significantly different from the challenges faced by small and medium enterprises in other sectors. However, the degree of difficulty can be magnified by the focus on social purpose in social economy organisations. This focus can mean such organisations develop with less direct revenue, lack of working capital and greater complexity in navigating the institutions and products to identify suitable finance options.[96]

An important component of market building is developing the skills of social economy organisations so they can become 'investment ready'. This requires the capacity to obtain and make good strategic use of finance in a context where profit is not the driver of the business model. Demonstrating business capabilities promotes trust, legitimacy and accountability. This challenge should not be confused with making social economy organisations more 'business-like'. Jim Collins[97] asserts this is 'well intentioned, but dead wrong'. Mr Collins points out that there are universal

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[91] Annual Superannuation Bulletin, June 2010 (issued January 2011), Australian Prudential Regulation Authority. Total superannuation assets increased by 13.9 per cent during the year to 30 June 2010 to $1.23 trillion. Of this total, $722.6 billion are held by APRA-regulated superannuation entities and $390.9 billion are held by self-managed superannuation funds regulated by the ATO. The remaining $111.9 billion comprises exempt public sector superannuation schemes ($74.6 billion) and the balance of life office statutory funds ($37.3 billion).

[92] Responsible Investment Association Australasia, *Responsible Investment 2010,* p 14.

[93] Australian Tax Office website http://www.ato.gov.au/corporate/content.aspx?menuid=49810&doc=/content/00268761.htm&page=44&H44

94 Australian Bureau of Statistics, 2009, cited in the Productivity Commission, 2010.

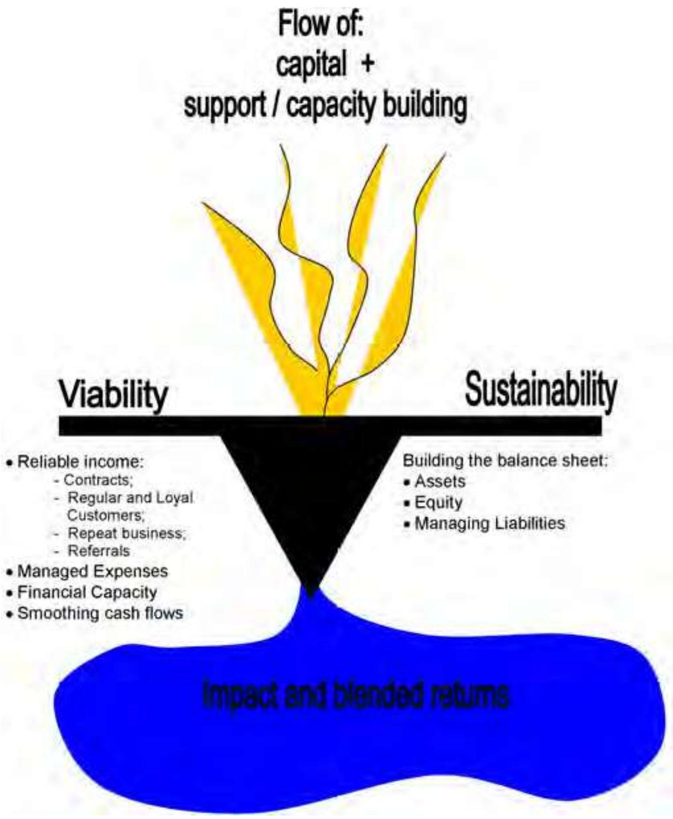
95 Productivity Commission, 2010, p 189. See also Burkett, I., 2010, Finance and the *Australian Not-for-Profit Sector* and *Finance and Australian Not-for-Profit Sector*, 2011, Foresters and National Australia Bank.

[96] R. Hill and Effective Consulting, 2010, Department of Education Employment & Workplace Relations.

[97] International thought leader on what distinguishes great organisations; author of *Built to Last: Successful Habits of Visionary Companies,* 2002, Collins Business; *Good to Great: Why some companies make the leap and others don't*, 2008, Harper Business; and *Good to Great and the Social Sectors: A monograph to accompany Good to Great,* 2005, HarperCollins.

principles of good practice that make 'great' organisations and reinforces that the need for good disciplines – in planning, people, governance and allocation of resources – in all sectors. [98]

Recent Australian research emphasises the role that process of engagement between social economy organisations and potential funders and sourcing and managing appropriate capital play in building capacity. This report reinforces the importance of all parties bringing good disciplines to the process, as illustrated below.[99]



The requisite elements for market development identified in the international evidence and referred to above and in Appendix 2 include a range of 'capacity' measures. Beyond organisational capacity, these include development of a common language platform. Absence of common language has been highlighted as a barrier to development of the market globally and in individual countries.

[98] Collins, J., 2005, *Good to Great in the Social Sector,* Harper Collins; note Collins also examines other factors which inhibit effective funding and finance for social sector organisations
[99] Burkett, I., 2010, p 42.

10. Product Development & Innovation

Capital Needs of Social Economy Organisations

Social economy organisations, like commercial enterprises, need:

- the right type of financial product for the relevant phase of growth and development;
- the ability to obtain finance from a range of sources (government; philanthropic; commercial lenders) depending upon the nature of the activities being undertaken (such as the risk profile and the potential social and/or commercial return);
- innovative financial products that meet their particular needs; and
- expert advice from specialist financial advisers with an understanding of the suite of funding and finance options available.

Social economy organisations, like commercial enterprises, develop through different stages. Broadly speaking these phases are start-up; development; growth and maturity. They have corresponding needs for different forms of capital or financial products:

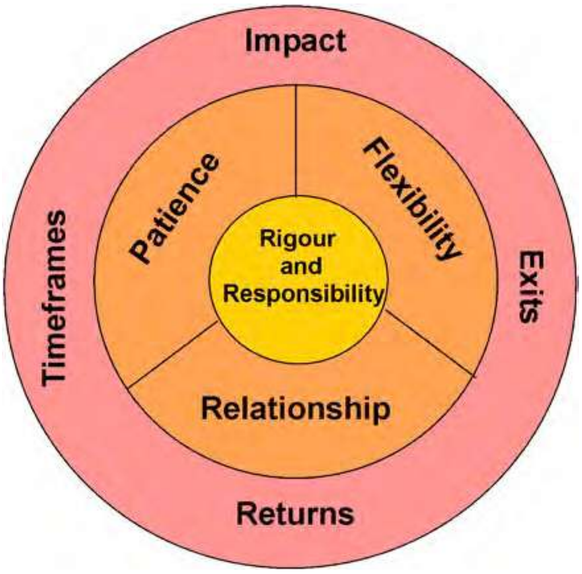
- start-up capital and seed capital;
- fixed asset capital;
- working capital;
- growth and development capital; and
- sustainability and consolidation capital.

Hybrid models of capital can be required to allow for the fact that development is not always a linear progression. [100] Further information on the relationship between phase of organisational development, risk and financial products is included in Appendix 3.

Recent Australian research[101] also emphasises the importance in this nascent market of developing sources of capital and financial infrastructure to facilitate appropriate deal structures and products that 'bridge the gaps' between demand and supply.[102]

[100] Burkett I., 2010. See also Bolton, M., Kingston, J. and Ludlow, J., 2006, *The Venturesome Model: Reflecting on our approach and learning 2001 – 2006*, Charities Aid Foundation Working Paper.
[101] Burkett I., 2010.
[102] Ibid, p 41.

The figure developed below identifies elements important to increasing the ability of social economy organisations to engage and deliver impact. [103]



Types of Financial Product

Most capital can be categorised as either grant funding, equity or debt. In broad terms:

- *Grants* are non-recoverable funding usually from government, philanthropy or corporate social responsibility sources. This form of funding is often short term and/or restricted to particular activities or programs rather than general working capital. In recent times, some grant funders have funded capacity on the basis agreed outcomes will be achieved.
- *Equity* is an investment directly into the organisation as an owner. The form of ownership depends on the organisational structure, for example, an equity holder in a company will typically be a shareholder. The return on an equity investment is typically through a combination of dividends – or a share of profits proportionate to the shareholding and capital gain (or loss) when the equity interest is sold. Thus, the return is directly correlated to growth and success or otherwise of the organisation. Also, there is no immediate repayment required.
- *Debt* is typified by a loan on agreed terms. There are a range of financial products with different parameters which define their terms. The essential agreement is to repay the capital plus an agreed rate of return. That return may be fixed or may vary depending on factors such as interest rates set by the reserve bank. The return on investment is known and priced to take into account the relative risks.

A range of financial products have emerged over the past decade to meet the needs of social economy organisations and those supplying capital to them. The innovations in grant, debt and equity capital were summarised in the Foresters Community Finance paper.[104] An overview of the product types and international and Australian examples is included in Appendices 3, 7 and 8.

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[103] Burkett, I., 2010, Fig 13, p 44.
[104] Ibid, pp 46 - 49

These products can be broadly categorised as follows.

- Financing designed to be repaid over a longer period, typically at low or no interest; sometimes even at negative interest, often referred to as *patient capital* and includes products such as *no interest loans* and *patient equity.*
- Financial instruments on terms which vary from the mainstream market in terms of target returns and/or term of repayment. They may have a lower than market rate of interest in return for social impact. Alternatively, the rate of return may be higher, but the period over which repayment is made is longer. There are sometimes referred to as *social notes* or *social bonds*.
- New financing instruments intended to enable preventative social innovations at scale which align social and financial return by calculating the rate of return based on the probability the innovation will deliver better outcomes – referred to as *Social Impact Bonds.*[105]
- Debt funding which has a rate of return based on the level of profit generated by the organisations revenue generating activities – sometimes referred to as *quasi-equity* or *profit participation agreements*.

In our work, the Departments have seen increasing interest from both social economy organisations and financial institutions in this area and some new products in the Australian market. Examples include the 'social bonds' issued by Lifehouse[106] and the Benevolent Society,[107] development work on social impact bonds by the New South Wales Government,[108] Foundation for the Artist,[109] and Social Impact Property Fund #1 offered by Foresters Community Finance.[110]

Internationally, the development of the 'asset class' has been analysed. Helpful summaries are provided in the work of Bridges Community Ventures and Parthenon Group study across asset classes[111] and work of JP Morgan and the Rockefeller Foundation on impact investing as an emerging asset class.[112] The United Kingdom and United States Governments have undertaken varying degrees of work on social impact bonds; this is set out in Appendices 7 and 8. The Canadian Social Finance Task Force also recommended cross sector collaboration to develop new 'bond and bond-like' instruments.[113]

The type of product appropriate for a given social economy organisation also depends on a range of factors including its stage of development. The Forester's Community Finance research on the financial needs of social enterprise includes a helpful table that outlines the advantages,

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[105] *Social Investment Ten Years On*, 2010, Social Investment Task Force and *Social Impact Bonds: Rethinking Finance for Social Outcomes Social Finance*, 2009, Social Finance.

[106] Hewitt, C.J., 'Charity turns to bonds for funding', *The Australian,* January 13, 2011, http://www.theaustralian.com.au/business/charity-turns-to-bonds-for-funding/story-e6frg8zx-1225986586274

[107] Spencer, R., 2011.*From giving to investing: a new approach to not-for-profit funding.* The project will build 128 age-friendly designed apartments, with 40 percent affordable units and the aim of up to 95 percent of residents never having to move to a nursing home (estimated as a saving of $30 million to individuals and the public purse). 'Apartments for Life Social Bonds' will raise the final $10 million of capital and provide a 5% return per annum, plus the social return of supporting 40% of residents into affordable, suitable and well-located housing. The Society has suggested that the provision of franking credits would make these forms of investment more attractive.

[108] By Shergold, P., Kernot, C., and Hems, L., 2011, *Report on the NSW Government Social Impact Bonds Pilot*, Centre for Social Impact.

[109] Shergold, P and Schultz, J., 2010, *Arts Plus: Proposal for a Foundation for the Artist*, Centre for Social Impact and Arts Queensland.

[110] See http://www.socialinvestmentaustralia.com.au/investment-products/8-information-for-investors.html

[111] *A Study Across Asset Classes,* 2009, Bridges Ventures.

[112] J P Morgan*,* 2010, *Impact Investments an Emerging Class.*

[113] Canadian Task Force on Social Finance, 2010, Rec 3

disadvantages, best uses and potential pitfalls of major types of capital as applied to social economy organisations.[114]

Role of Funds

Market development requires not only creativity and innovation but also scale. Fund structures also enable capital seeking investment returns as a priority to be pooled with capital seeking social impact as a priority.

> *Without some catalytic, risk-taking funding…the deals may not provide sufficiently attractive returns for social investors; without commercial investors, it may be more challenging to invest the volume of funds required to make a difference.*[115]

A number of governments have also seen an opportunity to provide a catalytic market effect by providing the 'impact' focused, risk-taking capital to attract institutional investors into this market.

The role of government is considered further in the next section and a range of such initiatives, including the Australian Government's Social Enterprise Development and Investment Fund (SEDIF) initiative, is included at Appendix 8. [116] Such measures can only be seen as interim steps in market development to provide a 'buffer' to early stages of development and test the market. Succinctly put by the Monitor Institute, 's*omeone needs to go first'.* [117]

These approaches are not confined to the social economy. Risk capital to provide incentives for funding research and development, commercial and technological innovation and, more recently, environmental technologies have all played a role in the financial and policy landscape.[118]

11. Organisational Forms and Structures

Social economy organisations in Australia take a variety of legal forms including co-operatives, community/voluntary associations, companies limited by guarantee or proprietary limited companies. The capacity to raise and service different forms of equity and debt finance is also affected by the parameters of the legal form. Legal forms also entail duties for directors or other office holders, for example to make decisions in the best interests of the company and to act in the interests of shareholders and creditors.[119]

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[114] Burkett, 2010, p 45 – 6.
[115] Monitor Institute, 2009, p 8.
[116] We note the Productivity Commissions 'concern about moral hazard issues associated with government providing finance directly through a capital fund, or through providing loan guarantees for private investors which may hinder the development of a long-term efficient market', Productivity Commission, 2010 p 192.
[117] Monitor Institute, 2009, p 8.
[118] Examples include: The Renewable Energy Equity Fund (targeting small, innovative renewable energy companies and providing venture capital and managerial advice) and the Renewable Energy Venture Capital Fund (targeting critical early-stage equity investments in emerging renewable technologies) as discussed further in Appendix 8. The Department of Innovation, Industry, Science and Research operates a number of venture funds with government seed capital to encourage risk capital into emerging and strategic technologies: e.g. Pre-Seed Fund; Innovation Investment Fund. Other DIISR administered funds promote investment by providing tax incentives: Early Stage Venture Capital Limited Partnership , Pooled Development Funds; Venture Capital Limited Partnerships; Green Car Innovation Fund; Automotive Transformation Scheme. State governments use similar models to promote investment in strategic technologies and sectors, for example, the Victorian Government's Collaborative Internet Innovation Fund (matched funding); Competitive Business Fund.
[119] *Corporations Act* 2001 (Commonwealth), Chapter 2D.

Internationally, a number of jurisdictions have established new legal forms that aim to introduce greater flexibility for social economy organisations and their funders. In some cases these have a focus of more explicit recognition of the social purpose of the organisation. In others they are intended to open up access to equity or other forms of capital. In some cases there is a hybrid purpose – or recognition of the hybrid purpose – of new social economy organisations. An overview of the different forms and their characteristics, strengths and weaknesses is included at Appendix 4.

These organisational forms are still relatively new. Whether they will be effective in promoting investment and emerge as a significant part of the landscape is still not clear.[120] The issue may be one of purpose or intention and understanding what needs potential investors and enterprises are currently lacking which could be met with more flexible or different structures. For example, is capacity to raise equity capital focused on flexibility for investees or exit strategy for investors to realise returns on their investment? In either case, can these needs be met by design of the 'right' capital to meet those needs rather than as a function of organisational structure? Can the values and social mission of the organisation be given explicit recognition within existing structures and regulation?

In the Australian context, the Productivity Commission considered that addressing organisational structures which would allow equity raising was less important than developing a sustainable market for debt financing.[121] The scope for Australian enterprises to adopt a structure and constitution with features equivalent to some of the overseas structures within the current regulatory regime is untested, particularly if the organisation is also seeking charitable tax status.[122] On 10 May 2011, the Government announced a review of the company limited by guarantee structure[123] which will focus on whether all of the requirements of structure remain appropriate to not-for-profit entities.

It is important that emerging social enterprises have access to advice and assistance on the most appropriate legal form and business structure to support their ventures.[124] The Australian Government is implementing its commitments to establish a national regulator and reduce regulatory complexity for the not-for-profit sector.[125] As part of this commitment, the Government has announced an Australian Charities and Not-for-profits Commission (ACNC), which will commence operations from 1 July 2012. It will initially be responsible for determining the legal status of groups seeking charitable, public benevolent institution, and other NFP benefits on behalf of all Commonwealth agencies.

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[120] For example, recent research suggests the main benefit of the United Kingdom community interest company or CIC has essentially been a branding exercise, as the required locks on assets and profit distribution hindered investment relative to mainstream companies, see Heaney, V., 2010, p 44 – 54. The authors were of the view that the CIC could become a focus for investment into social enterprises if tax advantages were applied to CICs. See also Canadian Task Force on Social Finance, Rec 5, p 3.

[121] Productivity Commission, 2010, p 193.

[122] The *Corporations Act 2001* does not preclude a company limited by guarantee from including a statement of values in its constitution that would be binding on directors and members, however there are other structural considerations.

[123] See http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/077.htm&pageID=003&min=brs&Year=&DocType

[124] The role of intermediary organisations such as PilchConnect (which links not-for-profits with pro bono legal services) or Our Community is important in this sphere: See submission 131 to the Productivity Commission report on the Contribution of the Not-for-Profit sector and http://www.pilch.org.au/community_org/

[125] The Government announced the establishment of an *Australian Charities and Not-for-profits Commission* as part of the 2011-12 Budget. The Council of Australian Governments (COAG) Business Regulation and Competition Working Group recently agreed to an implementation plan and governance structure to develop a nationally consistent approach to fundraising regulation, and the adoption of a standard chart of accounts where possible by 1 July 2010. See Communiqué, COAG Meeting 19 – 20 April, available at http://www.coag.gov.au/coag_meeting_outcomes/2010-04-19/index.cfm#business

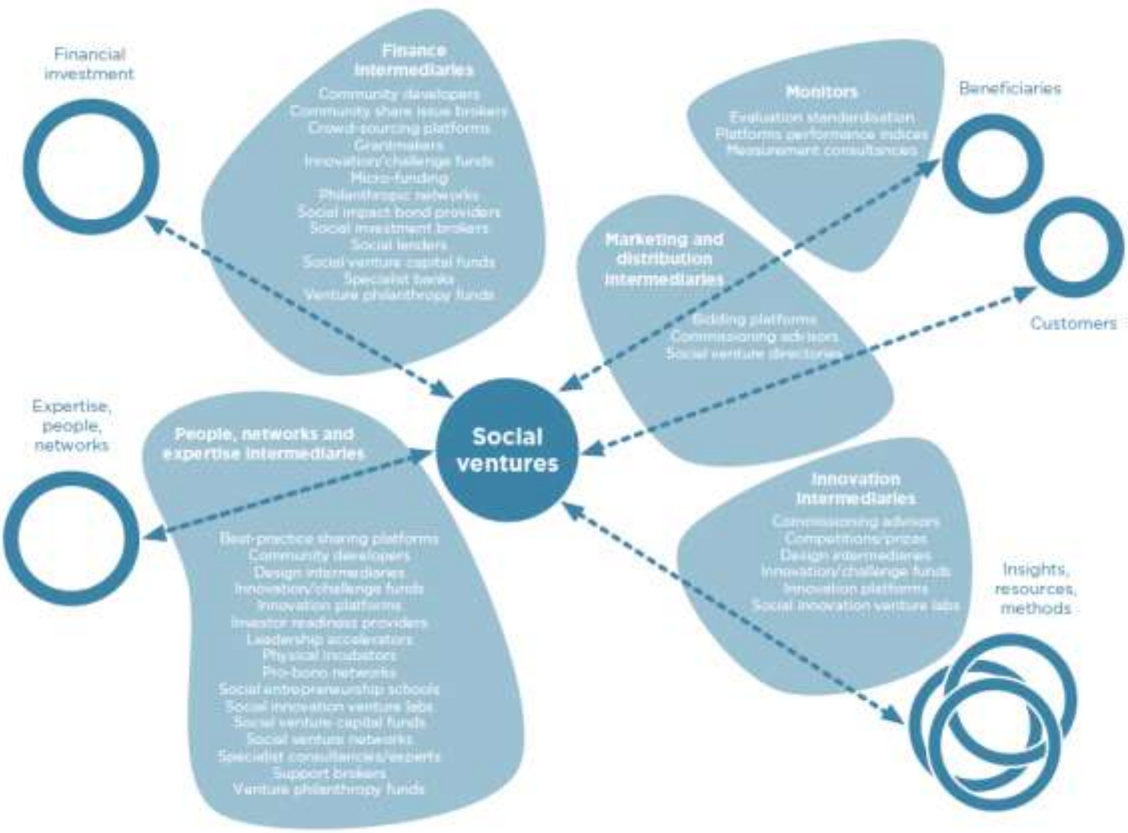
The Commission will also implement a 'report-once use-often' reporting framework for charities, provide education and support to the sector on technical matters, and establish a public information portal by 1 July 2013

12. The role of intermediaries

Efficient intermediation is recognised through the literature as an important component of market development. [126] Market development will require developing a cohort of professionals with skills in finance and related disciplines who have a genuine understanding of the social economy to contribute to the workforce of the social economy, financial providers and the intermediaries in the market.[127]

Specialist social economy intermediaries are emerging around the world to support the growth of social enterprises, aggregating and matching finance, developing innovative financial products, promoting the development of capabilities and skills, providing physical and virtual collaboration spaces, improving technologies and providing networks. Intermediaries also play a valuable role in education and advice necessary to inform legal and business structures to support investment and appropriate types of investment for an organisation and its stage of growth and sources of capital.[128] Organisations surveyed in the United Kingdom that been supported by a social venture intermediary reported significant improvements in their revenues and beneficiaries and ability to raise additional investment.[129]

The important roles of intermediaries can be captured as follows:[130]



[126] See for example Shanmugalingam C., Graham J et al, 2010, *Growing Social Ventures: The role of intermediaries and investors*; *The Impact Investor's Handbook*, 2011, CAF/Venturesome.
[127] The role and function of intermediaries is considered further in Appendix 5.
[128] See Submission 131 to the Productivity Commission report, 2010, http://www.pilch.org.au/community_org/.The role of intermediary organisations such as PilchConnect (which links not-for-profits with pro bono legal services) or Our Community is important in this sphere, see http://ourcommunity.com.au/
[129] Shanmugalingam C., Graham, J. et al, 2010, p 7.
[130] Ibid, p 21.

An overview of the role of intermediaries in all five fields of activity is provided in Appendix 5; this includes Australian and international examples of intermediaries providing these services.[131]

Intermediaries have a particular role in matching needs to the full spectrum of finance options. As in business ventures of all types, expert advice on the most appropriate source and form of finance for the needs and stages of the venture is critical. Intermediaries also play a role in developing the frameworks for the market. In both the United States and United Kingdom, there are centres developing the research, evidence and thought leadership such as the Centre for the Study of Financial Innovation (CSFI), National Endowment for Science Technology and the Arts (NESTA) and the Initiative for Responsible Investment at Harvard University. In Australia, the Centre for Social Impact (CSI) and Asia-Pacific Centre for Social Investment and Philanthropy are playing a role together with departments of institutions such as Queensland University of Technology specialising in the not-for-profit sector and social economy.

In a number of overseas jurisdictions, philanthropic foundations have also played a leading role in developing the dialogue, research base and practice. Examples include the Big Lottery Fund and Esmée Fairbairn Foundation in the United Kingdom and Rockefeller Foundation in the United States.[132]

Specialised financial intermediaries, such as community development finance institutions, have also emerged which tailor their activities to support social economy organisations' access to capital. These intermediaries do not just provide capital, but actively work with organisations through each step of the financing process. There are relatively few financial intermediaries in Australia which specialise in providing community development finance; an overview was provided by the Productivity Commission.[133] The Responsible Investment Association of Australasia and New Zealand identified 11 community finance providers in Australia in 2010 with total assets of $1,331 million, an increase of 15% on last year's adjusted figure of $1,157 million.[134] There is a more mature international market of such organisations. Examples include Charity Bank (UK), Triodos Bank (NE) with operations in a range of countries, Venturesome (UK) and Vancity Credit Cooperative (Canada).[135]

13. Risk, Measurement and Metrics

The consideration of longer term global trends in Section I includes the growing recognition that we need to move beyond economic indicators to develop more holistic measures of social progress. A recent paper for the Bureau of European Policy Advisers quoted Robert F Kennedy:

> *Gross Domestic Product measures everything except that which makes life worthwhile.*[136]

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[131] Adapted from *Growing the Social Investment Market,* 2011, table 3.1, p 23. Australian examples sourced from Productivity Commission, 2010, p 185.

[132] Esmee Fairbairn Foundation (esmeefairbairn.org.uk); the Big Lottery Fund (www.biglotteryfund.org.uk); Rockefeller Foundation (www.rockefellerfoundation.org)

[133] Productivity Commission, 2010, p 186.

[134] Responsible Investment Association Australasia, *Responsible Investment 2010*, p 16. This category includes: the total assets of organisations dedicated to pooling funds for financing community investment; specific community investment funds and the value of loan portfolios within institutions that are dedicated to community benefit or microfinance purposes.

[135] Charity Bank (www.charitybank.org); Triodos Bank , with operations in a range of countries (www.triodos.com); Venturesome (UK) an initiative of the Charities Aid Foundation (see http://www.cafonline.org/default.aspx?page=18929) , VanCity Credit Cooperative (Canada) (www.vancity.com)

[136] Cited in *A Study of Social Innovation,* 2010, p 102.

In the context of a social economy, measures and tools which recognize and communicate the social as well as financial or economic impact are particularly important. How can we judge efficacy and success or progress on important social issues without such measures or in purely economic terms.[137]

An important feature of the market infrastructure for the capital market for social economy organisations is common language and metrics to measure and compare the social returns. Measurement is important to establish track record and enable the risks and returns associated with different investments to be assessed and compared by potential investors in a social and financial context. In some cases, social impact measurement is critical to the structure of the financial products. For example, it is critical to the structure of social impact bonds to be able to identify a baseline outcome, set targets and measure achievement of outcomes and impacts (such as improvements in health, well being, educational attainments).[138]

A number of tools have been developing internationally; the Young Foundation recently analysed over 150 such tools in use. They concluded that although there had been encouraging developments, there are not yet any widely-agreed metrics on gauging social returns or the impact of social ventures. [139] The final report of the Social Investment Task Force[140] also found that the United Kingdom market is still experiencing significant challenges, including a lack of accepted standards for measuring social impact against performance benchmarks. The Productivity Commission also considered the measurement of social impact and the importance of such measures in developing an understanding and communicating the contribution of the social economy.[141]

Leaders in the social impact investment market are collaborating to reduce high transaction costs by building market infrastructure such as common social return metrics and framework. The leading work currently is the Impact Investment Reporting and Investment Standards (IRIS) led by the Global Impact Investors Network and the rating agency Global Impact Investing Reporting Standards (GIIRS).[142] The Gates Foundation recently prepared a helpful overview of some emerging measurement tools. [143]

These new measurement tools are guiding financiers, including governments and philanthropists seeking to determine the most effective way of acting and bring a focus and discipline to the task of choosing interventions that are shown to be the most effective relative to the resources invested.

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[137] See *A Study of Social Innovation,* 2010, Young Foundation and Social Innovation Exchange; Social Investment Task Force, 2010, p 9; and Mulgan G. and Reeder, N., 2010, *Social Impact Investment: The opportunity and challenge of Social Impact Bonds*, Young Foundation.

[138] Mulgan G. and Reeder, N., 2010, Young Foundation.

[139] Shanmugalingam, C., Graham, J., Tucker, S., and Mulgan, G., 2011, *Growing Social Ventures: The Role of Intermediaries and Investors*, The Young Foundation and NESTA, p 46.

[140] Social Investment Task Force, 2010, *Social Investment Ten Years On: Final Report of the Social Investment Task Force*, p.9.

[141] Productivity Commission, 2010, Ch 3.

[142] See http://iris.thegiin.org/ and http://www.giirs.org/

[143] Tuan M., 2008, *Profiles of Eight Integrated Cost Approaches to Measuring and/or Estimating Social Value Creation*, Bill & Melinda Gates Foundation, found at http://www.gatesfoundation.org/learning/Documents/WWL-profiles-eight-integrated-cost-approaches.pdf

III THE POLICY TOOLBOX

14. The policy toolbox

The role of government in a market economy is often, properly, the subject of debate. There has not yet been significant dialogue or debate in Australia about whether there is a need for specific policies for investing for social purpose. International research has identified two related propositions to inform such dialogue:[144]

- *The private market alone often does not fully promote, and sometimes may prevent, investments with important social and environmental benefits; and*
- *Despite this, private markets can be an appropriate tool to address particular social and environmental challenges.*

The considerations relevant to that discussion are similar to those considered in Section II with respect to what a robust capital market would require. They include: whether there are structural barriers to investment for social purpose, whether private markets currently externalise negative context to society, whether information asymmetry and uncertainty is constraining market development and whether government action can assist in overcoming short term lack of track record.[145]

Policy, regulation and tax are an important part of the market infrastructure for a social economy and capital market to support it. Policy and regulation are a feature of the mainstream capital market and allow ordered capital flows, prudential regulation, standards of disclosure to inform the market and investors, appropriate remedies and penalties and other market oversight.[146] Design is important; poorly designed policies can inhibit or distort market development.[147]

Governments can influence and show leadership, on other enablers such as convening dialogue, building resources, practice and networks and developing measurement tools.[148] Governments can also provide incentives for collaboration and investment around particular policy priorities such as health or education.[149] In appropriate cases, governments can 'go first',[150] providing the drive for social innovation[151] and catalysing action to encourage others into the market and build investor confidence.[152]

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[144] *Impact Investing: A Framework for Policy Design and Analysis,* 2011.
[145] Ibid, p 15 – 17. Also see Section II.
[146] For example, ASIC plays this role in the Australian context.
[147] *Impact Investing: A Framework for Policy Design and Analysis,* 2011, p 17.
[148] But note the divergence between the aspirations of policy makers and the capacity of the third sector, as discussed in C Wood, C., and Leighton, D., 2010, *Measuring Social Value: the gap between policy and practice*, Demos.
[149] Shanmugalingam, C., Graham, et al, *Growing Social Ventures,* 2011, The Young Foundation.
[150] See Section II, 'Role of Funds'.
[151] Mulgan., G., 2006, *The Process of Social Innovation,* The Young Foundation.
[152] For example, the United Kingdom Social Investment Task Force and the Canadian Task Force on Social Finance played this role.

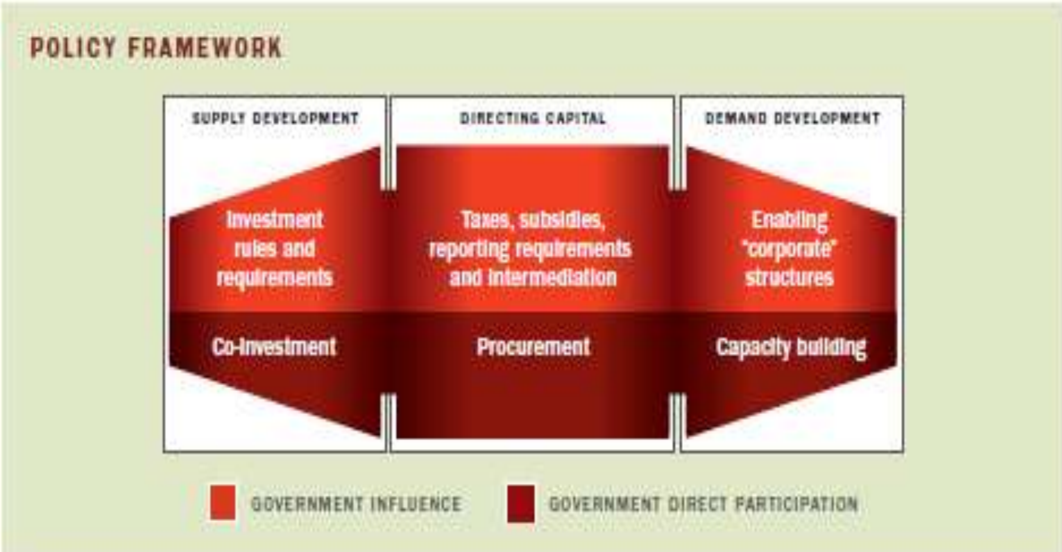
Governments have more than money and regulation to contribute. Experience, data, research, and policy content all add value. Collaboration, partnering and broking connections are all ways in which governments can work with other sectors to develop the knowledge and evidence base and create formal and informal networks that promote dialogue and knowledge sharing about what works and what does not. Governments are also well placed to act as a convenor. The Productivity Commission noted the importance of the broader role for government, [153] highlighting this can be of greater value than the financial resources, though the funding is always valued by the sector.[154]

The options for government can be presented across a spectrum. Careful informed choices and managed risks need to be made on available evidence and clear objectives.[155]

Governments can also seek to encourage clusters[156] as a solid basis for developing centres of new activity. This draws on the work of Michael Porter[157] that clustering can provide a strong basis for competitive advantage.[158] Clusters are concentrations of inter-connected organisations that share a variety of resources and relationships; clusters may be place based and/or issues based.[159] Careful design to encourage clusters to promote development of a capital market for social economy infrastructure has potential to create focal points for activity in place and/or centred around policy priorities.[160]

[153] Productivity Commission, 2010, Ch 13.
[154] Ibid. The Professional Partnerships Program, brokered by DEEWR, is one such collaboration between corporate Australia and social enterprises.
[155] Adapted from Djordjija, P., and Nigel, T., 2003, '*Public Policy for Corporate Social Responsibility*' World Bank.
[156] Porter, M., 1998, *The Competitive Advantage of Nations*, Free Press.
[157] Ibid.
[158] Ibid.
[159] For example, the Initiative for a Competitive Inner City is a nonprofit research and strategy organization and the leading authority on U.S. inner city economies that specializing in determining industry clusters with the highest market opportunity for inner city business growth and job creation.
[160] Zappaià, G., 2003, 'Corporate citizenship and the role of government: The public policy case', Research Paper No: 4, Information and Research Services, Dept of the Parliamentary Library, Parliament House, Canberra.

The areas for government action can also be viewed through the lens of market mechanisms or objectives: supply development, direction of capital and demand development, as illustrated below.[161]



There is a substantial body of international research and evidence that examines the range of policy interventions and their potential contributions to catalyzing and developing capital markets for the social economy. A guide to key papers that recommend frameworks for government action is included at Appendix 6.

15. International Policy Initiatives

Governments internationally have been active in considering, and in some cases developing, the policy context for the social economy and capital markets to support it; examples of the range of government initiatives is included at Appendix 7. A few themes deserve particular note.

Task Forces

In the United Kingdom and Canada, Task Forces have led the debate. In the United Kingdom, the Social Investment Task Force was auspiced by the Treasury and carried out its work over a decade from 2000-2010.[162] Its role was to provide stewardship for dialogue and a focus in the role social impact investment can play in addressing pressing social issues. This work is credited with achieving significant increase in the flow of investment into disadvantaged communities, as well as contributing to development of the market for social impact investment.[163]

[161] *Impact Investing: A Framework for Policy Design and Analysis,* 2011 p 19.

[162] Social Investment Task Force 2000-2010, Chaired by Sir Ronald Cohen delivered 4 reports: Enterprising Communities: Wealth Beyond Welfare, 2000, Enterprising Communities: Wealth Beyond Welfare (Update) 2003, Enterprising Communities: Wealth Beyond Welfare (Update) 2005, Social Investment Ten Years On: Final Report 2010. The UK Social Investment Task Force was an initiative of the UK Social Investment Forum, in partnership with the New Economics Foundation and the Development Trusts Association

[163] The remit of the Task force was to *'To set out how entrepreneurial practices can be applied to obtain higher social and financial returns from social investment, to harness new talents and skills to address economic regeneration and to unleash new sources of private and institutional investment. In addition, the Task Force should explore innovative roles that the voluntary sector, businesses and Government could play as partners in this area.'*

The Canadian Task Force on Social Finance was an initiative of Social Innovation Generation and the MaRS Discovery District in Toronto. This task force is not auspiced by the Government although a former Prime Minister, the Honourable Paul Martin, is a member. The Task Force was launched in October 2010 and reported in December 2010.[164] The Task Force met with Federal Finance Minister, Jim Flaherty, who distributed its report to all his provincial and territorial counterparts and their deputies. In addition, the Canadian Federal Government is exploring how ideas in the Task Force are relevant to different government departments, with particular initiatives hosted by Human Resources and Skills Development, Canada and Public Safety Canada.[165]

Supporting Policy & Infrastructure

A number of initiatives internationally have contributed or supported enabling infrastructure, including intermediaries, for the social economy and development of the capital market. The extent and nature of initiatives has varied widely between jurisdictions. Some common themes are regulation for new organisational forms,[166] tax incentives to promote investment,[167] capacity building and knowledge resources, encouragement and funding of intermediaries.[168] A number of jurisdictions also have a dedicated regulator for not-for-profit organisations, designed to facilitate understanding of the sector and its needs and to promote trust and accountability requisite for investment.[169]

The United Kingdom Government released its strategy: G*rowing the Social Investment Market: A Vision and Strategy* in early 2011. This builds on work of the previous Government including its social enterprise strategy[170] and scoping work for a social investment bank, proposed to be a wholesale bank.[171] That proposal has been developed as the so called *Big Society Bank*, although implementation has recently been delayed.[172]

Funds

There are a number of examples of governments catalysing funds to encourage private investment or matching private investment in new funds. The focus of these funds has included growth capital for social enterprise, scale and replication of successful innovations and new investment in under-served communities. The objective of public investment is to encourage new or additional investment for social purpose and develop the market in early stages.

One of the best known examples is the United Kingdom Government's seed funding of £20 million into Bridges Ventures Fund which leveraged that much again in private investment for new business in under-served communities. This has had a significant impact in attracting additional investment to stimulate economic activity and create employment in the most disadvantaged areas of the United Kingdom.[173] Other prominent examples include the £30 million Scottish Social Investment Fund and the USD$50 million Social Innovation Fund.[174] These and other examples are included in

[164] Canadian Task Force on Social Finance, 2010.
[165] See http://www.rhdcc-hrsdc.gc.ca/eng/home.shtml; http://www.publicsafety.gc.ca/index-eng.aspx
[166] See Appendix 4.
[167] See Appendix 7.
[168] See Appendices 5, 7.
[169] For example, the UK Charities Commission, the Charity Commission of Northern Ireland, NZ Charities Commission.
[170] *Social Enterprise: Strategies for Success*, 2002, HM Government.
[171] Consultation paper found at http://www.parliament.uk/deposits/depositedpapers/2009/DEP2009-2020.pdf
[172] See Appendix 7; see also www.guardian.co.uk/public-leaders-network/2011/apr/19/big-society-bank
[173] *Impact Report 2010: Innovative Investments that make a Difference,* Bridges Ventures, p 9.
[174] See Appendix 7; US Social Innovation Fund http://www.nationalservice.gov/about/programs/innovation.asp; Scottish Social Investment Fund http://www.scottishinvestmentfund.co.uk/

Appendix 7.

The United Kingdom Big Society Bank[175] and recommendation of the Canadian Task Force on Social Finance for the establishment of a Canadian Impact Investment Fund[176] use different approaches, but are both intended to mobilise new capital into the market and support development of retail funds and products.

16. Australian Policy Initiatives

Australian Governments have also developed policy and initiatives to support and develop the social economy and capital markets to support it; examples of current policies and initiatives are included at Appendix 8.

Supporting Policy & Infrastructure

The Australian Government also has current policies and initiatives designed to develop the enabling infrastructure for the social economy. While these are detailed in Appendix 8, recent developments include the following.

- The Office for the Not-for-Profit Sector was established in 2010 and builds on the National Compact with the Third Sector to recognise the importance of collaboration and engagement with the sector.
- In May 2011, a new Commonwealth regulator – the Australian Charities and Not-for-Profit Commission – was announced. This body will commence operation in July 2012 and contribute to reducing red tape and streamlining assessment of charitable tax status.
- Approximately 80 social enterprises have received funding through the Jobs Fund and Innovation Fund. This funding contributed directly to social enterprises creating employment and overcoming barriers for the most disadvantaged job seekers. In addition, funding was provided to support capacity-building for the sector including intermediaries, training, mentoring and evaluation.
- A program to pilot support for Community Development Financial Institutions.

Funds

The Australian Government has also developed initiatives designed to test and catalyse the market. These include the Social Enterprise Development Investment Funds initiative (SEDIF) and funds to promote investment in clean and renewable energy technologies. As the Committee has expressed particular interest in SEDIF, a more detailed overview of the initiative is provided at Appendix 8. The National Rental Affordability Scheme, while not a fund, has received international recognition for its innovative approach to Government action to stimulate new investment in an important area of policy and social challenge.[177] Other initiatives have contributed to availability of venture capital for new environmental initiatives and renewable energy.

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[175] *Growing the Social Investment Market*, 2011, p 37.
[176] Canadian Task Force on Social Finance, 2010, p 3.
[177] *Impact Investing: A Framework for Policy Design and Analysis,* 2011, p 94.

IV. Conclusion

The future presents new opportunities and challenges for meeting the most pressing social needs and responding to the longer term trends. Public, private and social sectors all have a role to play in meeting the social challenges ahead and creating shared value. Sectors need to work together to facilitate those who understand what the need is or who have ideas and ability with potential for social impact coming together with those who have the resources to contribute.

Working toward a prosperous future with a healthy social and economic outlook is not a soft proposition. It requires significant and focused work to overcome a range of barriers. However, in a world of scarce resources, it is incumbent upon all sectors to rise to the challenge to bring new resources to the table and to stimulate innovative and more effective ways of working.[178]

New ways of working and capital markets to support the social economy will not emerge in Australia overnight. The opportunities are great, but not without risk. It will take time to develop the necessary skills and capabilities, the market scaffolding and infrastructure, a market track record and a profile that attracts both investors and organisations seeking investment. The role of market intermediaries in developing capacity and necessary expertise is critical. This is long-term change.

There is a risk that the definition of social return could be cast too widely so that investments become a 'feel good' exercise rather than a 'do good' opportunity. If the market is too hyped, there may be bubbles, especially if the supply of capital outstrips demand for investment in early stages.[179] These risks can be managed by proceeding thoughtfully and taking heed of the lessons learned through evidence and practice here and internationally.

The Department of Education Employment and Workplace Relations and the Department of Prime Minister and Cabinet, Office of the Not-for-Profit Sector are continuing to examine the many international developments occurring in the fields of social innovation, social enterprises and social impact investment and the steps being recommended by experts and taken by governments around the world to inform policy.

[178] Monitor Institute, 2009, pp 11 – 12.
[179] Ibid, p 4.

List of Appendices

Appendix 1: Corporate contribution to the social economy

Background

The private sector contributes to social value creation through a range of activities from the impact of its business on employment creation and social infrastructure of a community, to its contribution to the mobilisation of modern society and the range of CSR related activities.

The corporate sector is integral part of the overall approach to developing the social economy as are other sectors and other actors. However, a greater challenge is to look beyond sectors and reframe the questions around; what the needs are, who are the partners who make a contribution, how can we enable them in terms of frameworks that will facilitate their contribution and innovation toward social change.

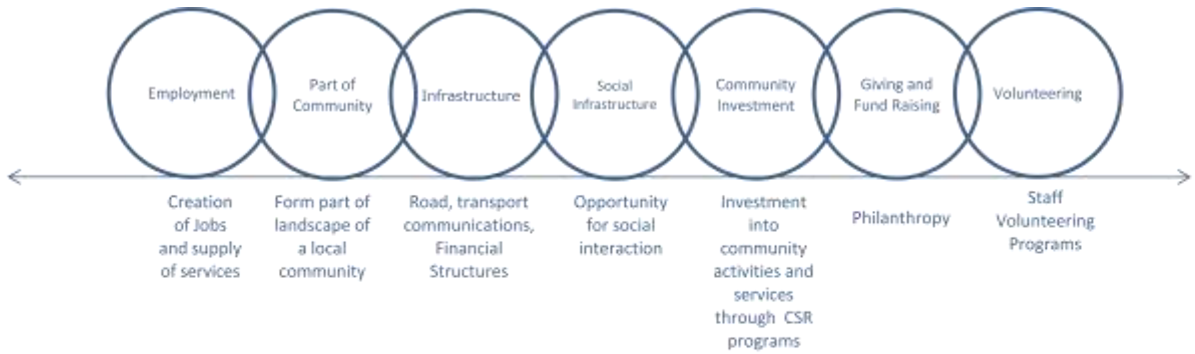
Public infrastructure including increasingly media and information technology infrastructure facilitates participation and social connections. Everyday business decisions to invest in an area or not or planning to exit an area or not can have a much greater impact if not more than activities targeting philanthropic efforts.

There is evidence in Australia and overseas that the role of the corporate citizen is changing which has the potential to create opportunities for the government to influence how the corporate sector could be making a contribution through a range of policy options.

There is growing evidence in Australia and internationally of transformational changes in the environment in which business will have to operate and compete which will directly impact how business may respond to challenges of social issues.

The Role of the Private Sector and Social Value Creation

The private sector contributes social value in multi faceted ways. Employment is a large component of private sector contribution to enabling an inclusive society. Local businesses are part of the community in which they operate from job creation, to supply and connectivity of individuals, consumers and businesses. The impact of the private sector extends well beyond its corporate social responsibility efforts. The following diagram demonstrates the wide range of mechanisms through which the private sector contributes:



The contribution by the private sector to social change is often focussed on the role of the corporate sector and larger multi-national businesses. The contribution of the small to medium enterprise (SME) is often overlooked. These smaller more localised businesses also have the potential to make a significant contribution through their involvement with communities at the local level in terms of employment, economic and social value and as role models.

There will always be a wide spectrum of activity within the private sector reflecting the fact that businesses are a composite of individuals with different social values and motivations and their response to social needs will differ.

Trends

- ***Pressure for Change in Business Practices***

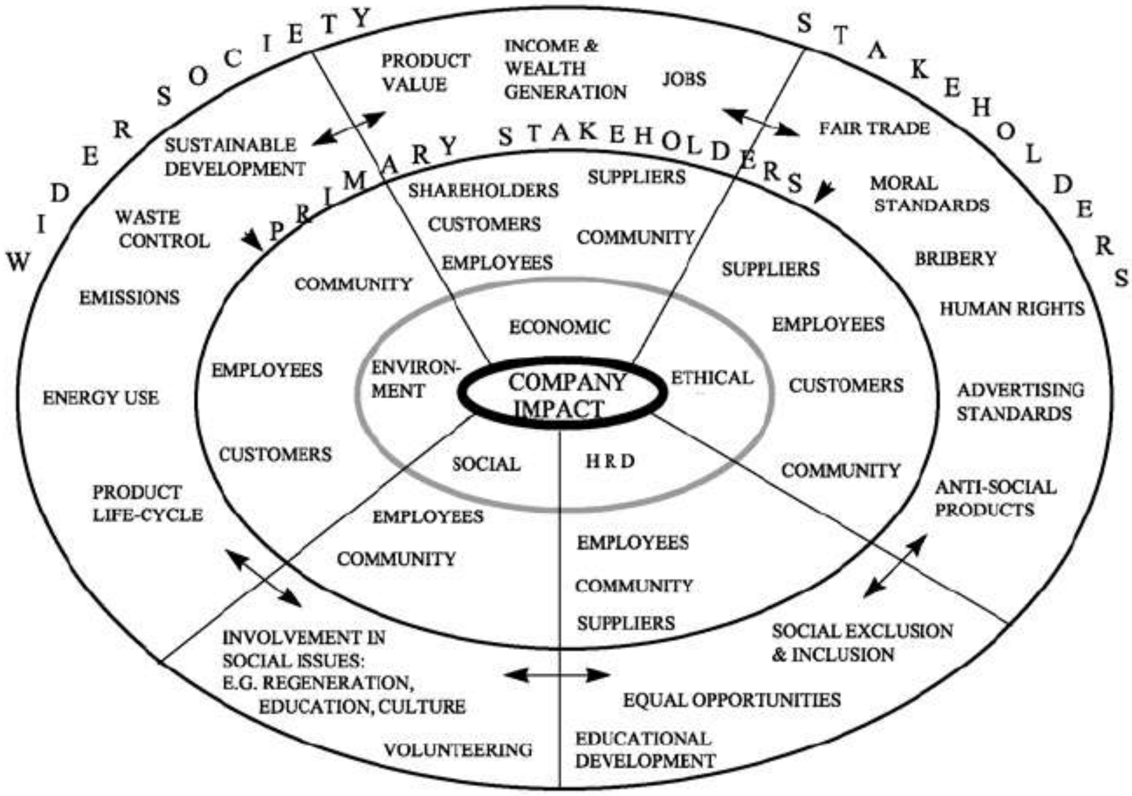
The debate about the role of business in addressing economic and social issues has acquired a new sense of urgency in recent years within the business community. The change has been generated by an awareness of that adopting environmentally and socially responsible practices can be of direct economic value to business. This has been further demonstrated by the growing awareness that globally businesses face an unprecedented set of challenges to foster sustainable economic growth.

A recent report by McKinsey[1] highlighted the impact of talent shortages, shifting centres of economic activity a new era of government action, increased scarcity or resources and new levels of technological connectivity and accelerating market place competition all of which will impact on how business respond to its role of social responsibility.

[1] '*Shaping the Future: Solving Social Problems through Business Strategy, Pathways to Sustainable Value Creation in 2020'*, 2010. McKinsey & Company.

- ***Changing role of Corporate Citizenship***

The potential impact of a company as a corporate citizen is shown by the following diagram[2] :



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[2] Marsden, C. and Andriof, J. 1998, 'Towards Understanding of corporate citizenship and how to influence it', in *Citizenship Studies*, Vol: 2, No: 2, pp 329 -352.

The outer ring shows the greatest impact of a corporate responsibilities and expectations. It represents a conceptual picture and in reality there is overlap between some areas, for example, a social impact may flow from professional development programs involving mentoring to social enterprises.

The emerging view is although business has had a positive and negative influence in civil society, the scope of their impact or ripple effect has increased which in turn increases the focus in social responsibility.

- ***Stakeholder versus Shareholder***

There is considerable debate around the importance private enterprise should give to shareholders in comparison to the broader lens of the stakeholder. One end of the spectrum economists such as Friedman present a view that the primary concern of the private enterprise is the shareholder[3] to a more main stream position where the responsibilities of private enterprise need to be balanced between shareholders and the broader needs of stakeholders to an emerging view that a business case exists for investment in the social well being of communities as part of an overall strategic response to economic sustainability.

> "*The business case for corporate social responsibility is clear. For BHP, corporate social responsibility isn't a case of stock holder versus stakeholder arguments, but is also critical part of maximising shareholder returns. Simply, corporate social responsibility is in the best interests of our shareholders and is fundamental to profit creation and sustainability*" CEO of BHP Billiton, Chip Goodyear[4]

This is further supported by a recognition that global corporate citizenship is changing and extends to how the company makes profits everywhere it operates not simply what is does with the profits afterwards. It is about how the business operates in three spheres of influence as set out below:[5]

[3] *Impact of economic downturn on corporate community investment,* 2009, Centre for Corporate Public Affairs, report to Department of Families, Housing, Community Services and Indigenous Affairs.
[4] *Corporate Community Investment in Australia*, 2007, Centre for Corporate Affairs and Business Council Australia.
[5] Nelson, J., 2004, *Corporate Citizenship in a Global Context*, Corporate Social Responsibility Initiative, Working Paper No: 13, John F Kennedy School of Government, Harvard University

CSR and Social Value

The private sector contribution is often described through the lens of corporate social responsibility.

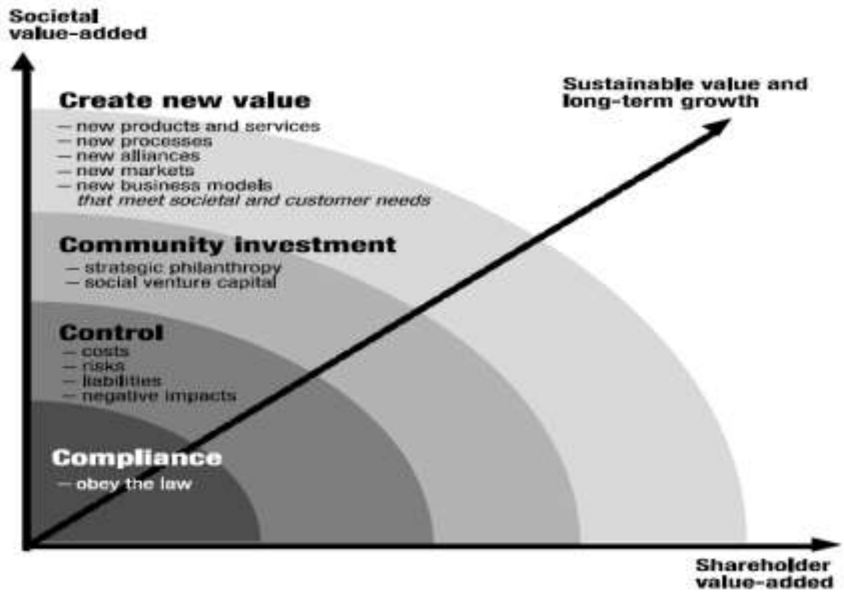
CSR is the commitment of business to contribute to a sustainable economic development, working with employees, their families, the local community at large to improve the quality of life, in ways that are both good for business and development.[6]

CSR is covers a wide range of issues relating to business conduct, from corporate governance and environmental protection, to issues of social inclusion, human rights and national economic development.[7]

CSR is one mechanism through which the private sector can contribute to the social economy. Every business can be plotted along the CSR curve in continuum, on a scale ranging from:

- one driven by profits and compliance related requirements and an absence of socially redeemable activities;
- to those whose standards exceed regulatory requirements;
- to building and strengthening their corporate image among stakeholders or within the local communities within which they operate; and
- A transformational stage where CSR is fully integrated in the business strategy and part of realising new business opportunities.

The diagram shows the relationship between social value and shareholder value and CSR strategies:[8]

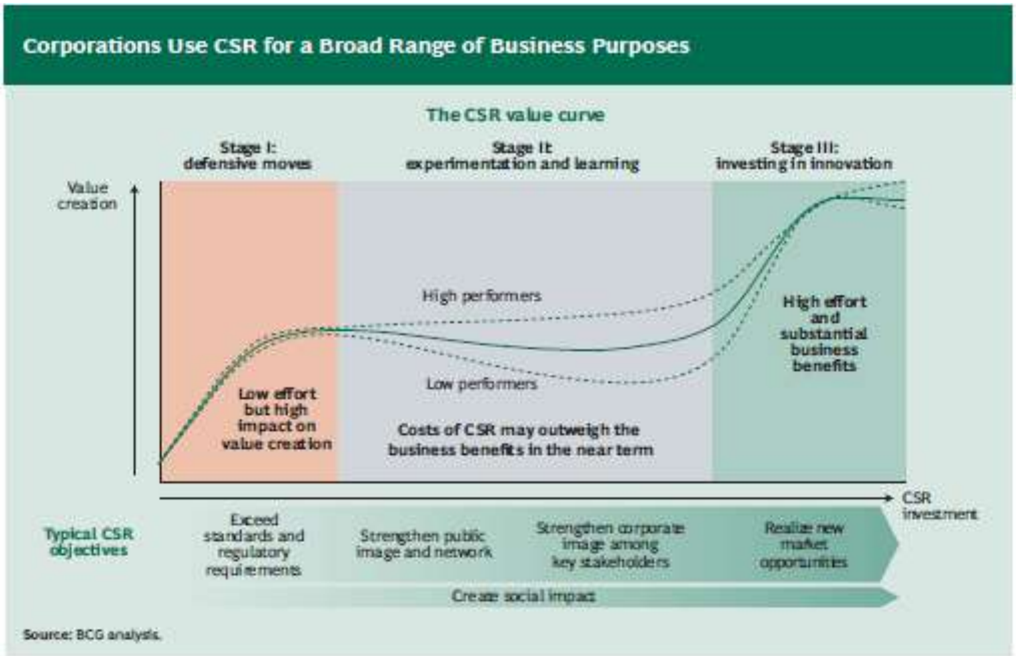


For most companies the primary focus in the early stages is compliance driven and risk mitigation. Somewhere along the middle of the curve strategic based philanthropy and community or social

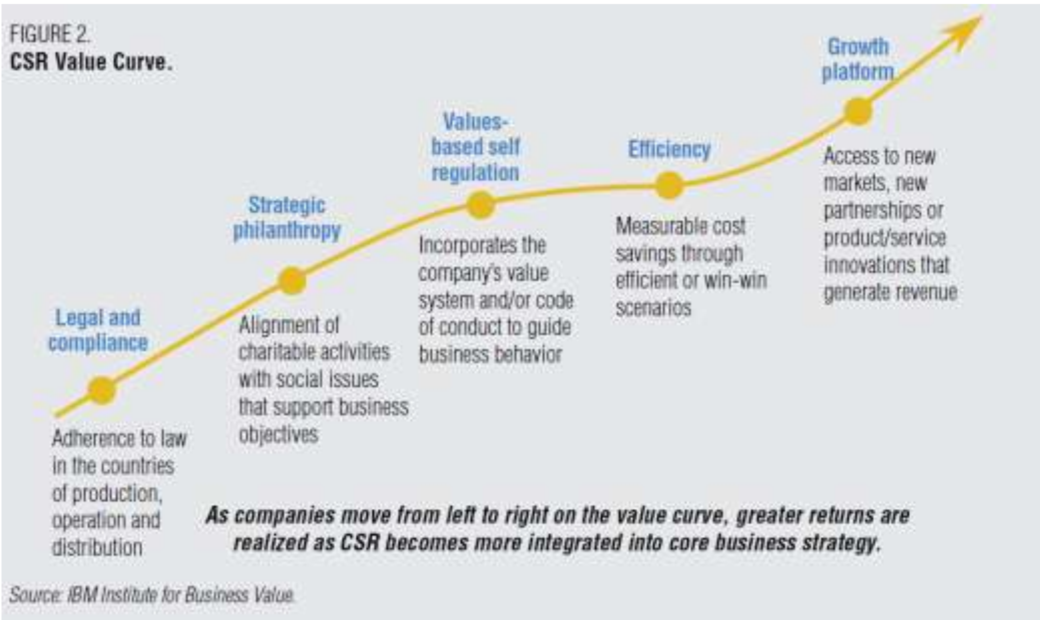
[6] Petkoski, D. and Twose, N., 2003, *Public Policy for Corporate Social Responsibility,* World Bank Institute.
[7] Ibid.
[8] Nelson, 2004, *Corporate Citizenship in a Global Context.*

investment emerges. Private companies establish more meaningful partnerships with non for profit companies. The final stage is the emergence of new processes, alliances, products and markets through to new business models that meet societal and customer needs.

The Boston Consulting Group value creation curve highlights the mix of intent for CSR:

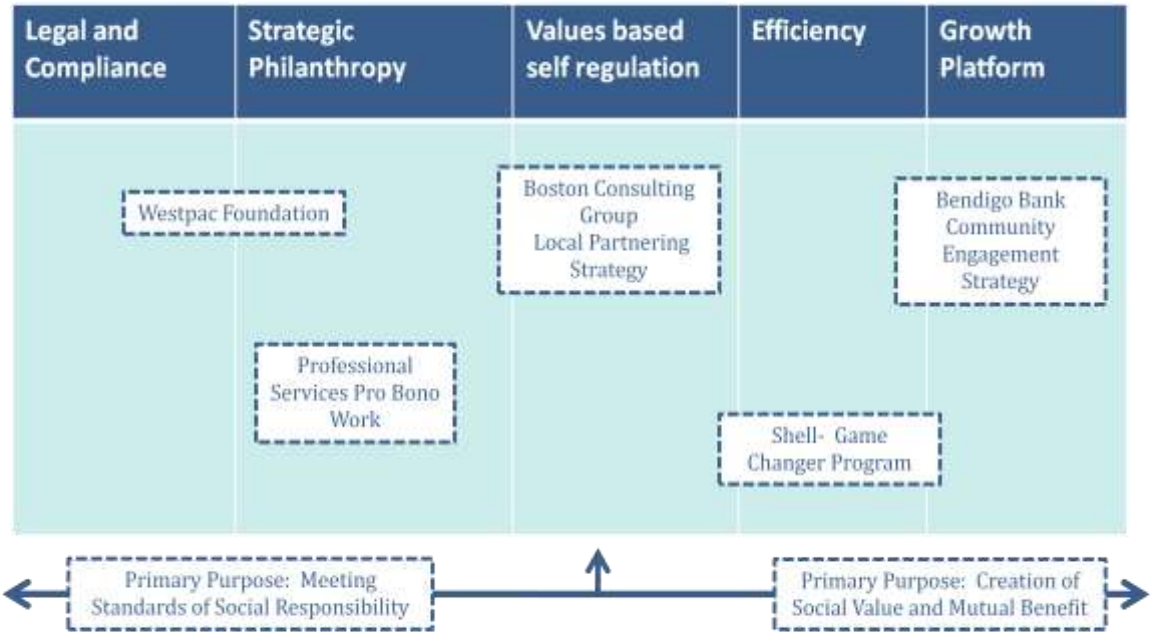


The IBM CSR Value Curve shows the degree of business integration with CSR:



For many companies it makes sense to move along this curve sequentially. Some will remain at a particular stage or skip or jump stages. Some may choose not to engage at all.

The following table illustrates some examples of CSR and business integration:



There may be some merit in undertaking further research to build a map showing the breadth of examples in Australia, however as highlighted later in this paper there may be a more constructive framework through which to approach these issues.

Developing a sense of social responsibility is an important issue for both small and large businesses. Until recently, larger multinational companies have been much more involved than small to medium enterprises in a formal and structured way.[9] SMEs' contribution can be less structured and there is no sophisticated way to measure how SMEs contribute to communities.

Reasons cited as barriers to a deeper level of engagement are lack of awareness (of the link between business performance and socially responsible actions), resource constraints on new investment and environmentally safer technologies. The ethical perspective of the owner is cited as the major reason behind the level of engagement outside standard business activities[10]. In the best practice examples of small and big business a socially integrated strategy is considered part of normal course of doing business.

It is part of building a picture of small and big end of town, there are a number of large corporate who make a significant contribution aimed in line with international benchmarks of 1% of pre tax profits but not all is invested in Australia and some large corporate with overseas operations it is common practice to invest locally in line with geographical operations.

Expanding CSR or shifting business along the value creation curve offers one option for business to play a greater role in creating social value. However, there are challenges working out where the

[9] Grayson, D. and Madhavi, B., 2003, *Responsible Business: Making It Work for Small and Medium-Size Enterprises,* Corporate Social Responsibility Magazine, CSR Europe.
[10] Ibid.

need is, how to engage, measuring impact and quantifying strategic potential. These are not insurmountable but legitimate challenges often magnified by where CSR is driven from within the business.

Corporate Philanthropy in Australia

Corporate Philanthropy is the planned and structured giving of money, time, information, goods and services, voice and influence by business, to improve the wellbeing of community.[11]
The Productivity Commission's *Report into the Not for Profit Sector* estimated that:

- The corporate philanthropic sector contributes around $3.3 billion to Australia's not- for profit bodies in 2003-4
- Around one in five businesses have what they see as a partnership with a not for profit
- Australian companies give around 0.45% of their pre tax profits to the not for profit sector.

The Australian corporate sector is diverse in its intent and purpose and as cited in the PC *Report* the reasons behind corporate giving are multiple and intent varies between businesses. Cited reasons include: public relations, marketing benefits, reputational benefits, corporate citizenship and stakeholder expectations.

A report on the Community Corporate Investment in Australia 2007 is further evidence of the mixed drivers behind corporate philanthropy shaped by the diversity of views around the role of business in communities [from] the sole purpose of business is to make profit for shareholders to the view that the interests of shareholders should ranked alongside other "stakeholders" without necessary precedence.

Notwithstanding the mix of business engagement with societal issues, there are a number of emerging trends:

- Response to CSR is now changing. CSR is viewed as parts of core business strategy explicitly linked to assisting companies achieve their business goals. There is growing recognition about the importance of professionalising CSR delivery mechanisms. Many corporations are struggling with similar issues as how to make their CSR programs more effective.[12]
- Corporate community investment is becoming increasingly strategic and more aligned with core business activity :
    - A business case is now the predominant driver for companies to engage in corporate community investment (only 7% of companies surveyed for this report said they required no business case in determining whether or not to invest in a community"
    - Most boards and CEOs are now involved in setting the overall strategic directions for their companies community investment activities (60% of CEOs or boards

[11] http://www.philanthropy.org.au/aboutus/mission.html
[12] *Developing a CSR Network for Members*, Committee for Melbourne Briefing Paper.

were involved in determining board strategy, although they are less likely to be involved in its development or determining specific initiatives)

  - Greater emphasis on a rigorous selection of non for profit community partners allowing for the pursuit of greater mutuality of interests and alignment with business activities
  - Staff engagement, including volunteering will continue to be a major area of growth more than 60% allocate 1-3 days per annum paid work for volunteering).[13]

- An increasing number of companies is predicted to catch up with current leading practice and leaders will seek more creative ways to meet corporate objectives by community engagement.
- Large companies are expected to expand resources devoted to community investment and continue to build it into corporate strategy.
- Collaboration and partnerships are expected to grow. Innovative developments in building the capacity and financial base of selected non for profit partners are likely to be more common as corporate engagement on a mutually beneficial basis.
- A recent report by the Centre of Corporate Public Affairs found that despite the GFC companies expected no major change in the direction of corporate community investment in 2009-10.[14]

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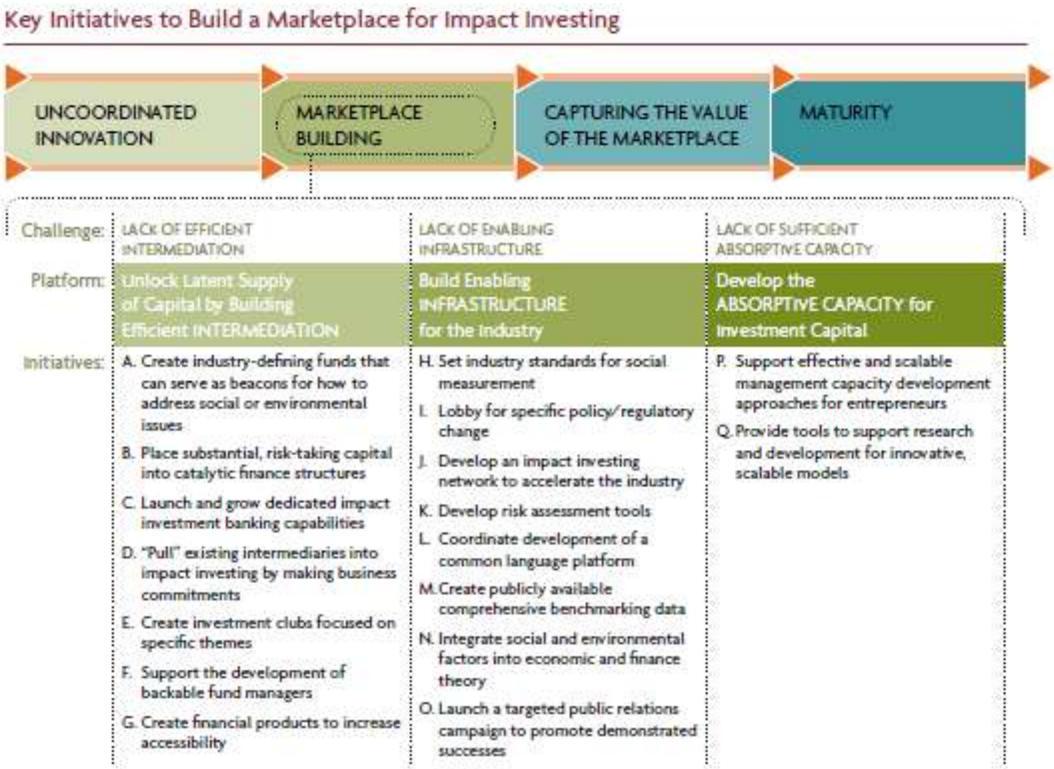
[13] *Impact of economic downturn on corporate community investment*, 2009, The Centre for Corporate Public Affairs.
[14] Ibid.

Appendix 2: Factors in Capital Market Development

Key Initiatives to Build a Marketplace for Impact Investing

The stages of development and key initiatives for building a social impact investment marketplace identified by the Monitor Institute in their report *Investing for Social and Environmental Impact: A design for catalyzing an emerging industry.*[1]



[1] *Investing for Social and Environmental Impact: A design for catalyzing an emerging industry,* Monitor Institute, 2009, p 45.

Four Pillars for the Development of a Social Impact Investment Market

The Charities Aid Foundation (CAF) identified 'four pillars' and 'four second order needs' critical to the development of a social impact investment market. This framework is broadly representative of approaches being recommended internationally. CAF's findings are influenced by research undertaken on the most advanced sector of the impact investment market, microfinance, and draws lessons about the tactical and strategic decisions which could systematically advance the development of the impact investment market as a whole.[2]

CAF's Four Pillars of Market Development
1. Confident and informed demand from the sector (investee readiness) Voluntary and community sector (VCS) organisations fail to adequately distinguish between revenue and capital; rather they tend to focus on income and costs, with a corresponding lack of knowledge about, or confidence in, asset management (especially in relation to their balance sheets), capital investment and identifying financing needs and options. VCS organisations have a perceived cultural aversion to debt funding.
2. Efficient matching of supply with demand (intermediaries) With a lack of effective intermediaries, inefficiencies in social capital markets inhibit matching of supply and demand. A recent Monitor report highlights that social capital markets are often still defined by 'fragmented demand and supply, complex deals, and a lack of understanding of risk'; compounding this is the typically small deal size.
3. Variety of investment mechanisms (investor choice) The range of funding and investment mechanisms in the UK social investment market is limited, and remains dominated by a static grant funding pool; this reflects a lack of established relationships between risk, return and pricing for the sector.
4. Resilient supply of finance (both private and public investors needed) A mix of private, commercial and public funding from both retail and wholesale sources is needed for a robust marketplace.
Four second-order needs
1. The need for a unified voice, such as an association or industry body, to speak and lobby on behalf of the sector Differences of opinion and confusion surround new legal structures (CICs, CIOs, L3Cs etc), the role of public funders, the potential for commercial returns and other issues. While this debate is healthy, the sector also needs some level of coordination to present a reasonably united front and make lobbying efforts more effective.
2. Standardisation of products, benchmarking, language and metrics to increase efficiency and facilitate scaling Extensive debate surrounds definitions, terms, impact measurement, and all other aspects of this market. Products and offerings remain highly tailored to individual situations. Uncertainty is typical of nascent markets, but scaling requires the efficiency and cost benefits of standardisation. Potential examples of the need for standardisation in the UK include identifying pathways to broader applicability of social impact bonds beyond the pilot launched by Social Finance Ltd, or the basic vehicles and common terms used to invest in social enterprises.
3. Clearer social metrics to ensure the financial versus social return trade off is more apparent When is an investment 'social', and when is it not? How are social impact and trade-offs measured? These issues are ongoing sources of debate, and relate to the issue of standardisation mentioned above. The lack of information on the successes or failures of social investments inhibits the flow of capital into the sector, and forces both investors and investees to rely on anecdotes and case studies to demonstrate social impact. Better methodologies, consistently implemented, are needed.
4. Support organisations, rating agencies and knowledge centres A robust social investment market needs the entire supporting infrastructure available to the broader financial market place. This includes established thought leadership, external rating and audit expertise, advisory services, and more

[2] Adapted from *The Impact Investors Handbook,* 2011 and *Access to Capital*, 2009, both CAF/Venturesome publications.

Appendix 3: Financial Products

There are several documents that provide a strong analysis of emerging products across asset classes, including some documents referenced in the body of the submission such as *Impact Investing: a Framework for Policy Design and Analysis*[1], *Blended Value Investing: Capital Opportunities for Social and Environmental Impact*[2] and *Investing for Impact: Case Studies across Asset Classes.*[3] There are many fine examples of program grant making around the world. See some of the impact focused case studies cited in *Conversations about Possibilities: Themes and Reflections from the International Philanthropy Collaboration,*[4] *Intentional Innovation: How Getting More Systematic Could Improve Philanthropy and Increase Social Impact*[5] and *What's Next In Philanthropy: Acting Bigger and Adapting Better in a Networked World.*[6] The Rockefeller Foundation, the Annie E. Casey Foundation and the Ford Foundation are also leaders in this area.

The tables below include but a few examples of products and trends across the spectrum of grants and other financial products. These examples relate to social investment not broader socially responsible investment.

GRANTS	**AUSTRALIA** Large philanthropic foundations such as the **Myer Foundation** and **Ian Potter Foundation** now often provide support for some larger initiatives in areas of focus working in partnership with others, as well as continuing to make grants in response to applications. See also resources available on the Philanthropy Australia website www.philanthropy.org.au. - **Givewell** provides research for informed giving: www.givewell.com.au - **Social Ventures Australia** has been a leader in venture philanthropy in Australia, developing a pool of grant funding for high engagement grants funding coupled with support which could include assistance with strategic planning, financial sustainability, measurement and/or performance evaluation. - **Social Traders** runs a program called 'The Crunch' which provides social enterprises with intensive mentoring and development with the opportunity of applying for grant funding on completion. - The **Australian Centre of Social Innovation's** 'Bold Ideas, Better Lives Challenge' provided grant funding to innovative initiatives targeting big problems in our society.
	INTERNATIONAL **United Kingdom** - Work of foundations such as the **Baring Foundation** in leading practice (see in particular The Grantmaking Tango www.baringfoundation.org.uk/GrantmakingTango.pdf), **Esmee Fairbairn Foundation** focussing on initiatives other find hard to fund and the **Big Lotteries Fund** focussing on initiatives that bring real improvements to communities and the lives of those most in need. - **Big Venture Challenge** is a national competition to find the 25 most ambitious social entrepreneurs in England. Winners receive an initial £25,000 grant and have the opportunity to increase this to £150,000 if they can find sources of matched funding. **United States** - The **Social Innovation Fund** provides matched funds to community-based solutions that have evidence of real impact to scale up operations. - The **Bill and Melinda Gates Foundation** is making large investments and shaping the landscape in a range of areas of need as well as influencing the face of philanthropy.

[1] *Impact Investing: A Framework for Policy Design & Analysis,* 2011, Insight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University
[2] *Blended Value Investing: Capital Opportunities for Social and Environmental Impact*, 2006, World Economic Forum.
[3] *Investing for Impact; Case studies across asset classes,* 2010, Bridges Ventures and the Parthenon Group.
[4] Addis, R., and Brown, C., 2007, *Conversations about Possibilities: Themes and Reflections from the International Philanthropy Collaboration*, Ross Trust
[5] *Intentional Innovation: How Getting More Systematic Could Improve Philanthropy and Increase Social Impact*, 2008, W.K. Kellogg Foundation.
[6] Fulton, K., Kasper, G. and Kibbe, B., 2010, *What's Next In Philanthropy: Acting Bigger and Adapting Better in a Networked World,* Monitor Institute.

NEW INSTRUMENTS EQUITY/DEBT	**AUSTRALIAN** - **GoodStart ChildCare Ltd**, a syndicate comprising Social Ventures Australia, Mission Australia, Benevolent Society and Brotherhood of St Laurence issued social notes in order to purchase 678 ABC Learning Centres. The notes will have a fixed interest rate of 12.0 per cent and will mature in eight years. - The former New South Wales Government announced in 2010 that it would undertake a pilot project to explore the potential of the Social Impact Bond in the Australian context. A feasibility study was conducted by the Centre for Social Impact. It is not yet know if the current New South Wales Government will continue with the pilot. - Australia's oldest charity, **The Benevolent Society**, plans to issue a Social Bond to raise support for its **Apartments for Life** project, which will pioneer a new model of aged housing in Australia. The project will build 128 age-friendly designed apartments, with 40 percent affordable units and the aim of up to 95 percent of residents never having to move to a nursing home - **The Chris O'Brien Charitable Bonds for Lifehouse** sold developed bonds to fund accelerated development and construction of the RPA Lifehouse, a cancer research and treatment centre. The bonds have a minimum term of six years with indicative annual returns of 5 – 6%. - **Westpac's Indigenous Capital Assistance Scheme** provides finance from $20,000 to $500,000 with subsidised interest for the first three years. It also offers business advisory and mentoring services to assist in the development of a business.
	INTERNATIONAL - **Global Alliance Vaccines Immunisation –** The **International Finance Facility for Immunisation (IFFIm)** borrows on capital markets against donor countries' pledges, raising funds through bond issuances. This innovative financial mechanism aims to provide US$4 billion in disbursements between 2006 and 2015 to help protect more than 500 million children through immunisiation. The World Bank, as the Treasury Manager for International Finance Facility for Immunisation, coordinates with IFFIm's donors and manages their 10-20-year legally binding commitments and payments. **Canada** - The **BeaLight Foundation** has provided loans to a for-profit car service network that hires people who face barriers to employment. The interest rate of the loan decreases as the number of social hires increases. - The **Fiducie du Chantier l'economie social** provides funds for operation costs and the acquisition of real estate for social economy organisations with a 15 year patient capital repayment moratorium. **European Union** - The **European Investment Bank** is currently offering **Climate Awareness Bonds** to individual investors. The funds raised are earmarked for lending to projects in the fields of renewable energy and energy efficiency. **United Kingdom** - **Allia the Social Profit Society** issues charitable bonds and loans invested money to **Places for People Homes** which builds, sells and rents homes and provides services and support to those who live in them. This organisation manages more than 47,000 homes in the United Kingdom. - The **Tender Fund** at Futurebuilders offers three year interest-free loans of between £3,000 and £50,000 to help organisations tender successfully for public sector contracts. - A six-year **Social Impact Bond** pilot scheme, has been announced in the UK, with the organisation **Social Finance** working with Government and private investors. Private investors have provided around 5 million pounds to engage social service providers to deliver intensive support services both in prison and on release. If reoffending is reduced the investors will share in the Government's long-term savings **United States** - In February this year, the US announced that it was beginning to look for pilot projects for a **Pay for Success Bond**, a type of social impact bond. Up to $100 million is potentially available for this initiative. - The **Calvert Foundation's community note** is designed to make impact investing attractive for the average investor. The amount invested is flexible and investors can specify a term of between 1 and 10 years and the profile of their investment.

FUNDS	
	AUSTRALIA - **Social Enterprise Development and Investment Fund (SEDIF)** – see Appendix 8. - The **Foresters Community Finance Community Investment Fund** is open to small and large investors and provides finance to community organisations to develop community owned assets. - The Australian Government's **Renewable Energy Venture Capital (REVC)** is a $100m fund which makes critical early-stage equity investments that leverage private funds to help commercialise emerging renewable energy technologies. Guidelines for the fund are currently being developed; substantial interest from fund managers, investors and renewable energy companies is expected. - The **Renewable Energy Equity Fund (REEF)** provides venture capital and managerial advice for small, innovative renewable energy companies. The investee company receives capital and managerial expertise. In return for the provision of capital, the fund manager acquires a part-ownership of the company and usually a seat on the Board of Directors. The Australian Government contributed $17.7 million to establish the fund, which is matched by private sector funding of $8.8 million.
	INTERNATIONAL **United Kingdom** - The **Bridges Venture Fund** invests capital in businesses with the potential to have real social/environmental impact which in turn drives superior financial returns. **Venture Fund I** began with a £20 million cornerstone investment from the Government. This loan was subordinated and had a capped return. Government funding was matched on a 1:1 basis by private sector funds. - The **Scottish Investment Fund** is a £30 million fund provided by the Scottish Government to an intermediary for investment in third sector organisations. **European Union** - The **Triodos Renewables Fund** invests in renewable energy projects across Europe. They have over 4000 investors. A fourth share issue closed in January 2010 having raised £4.3 million **Mexico** - **IGNIA Fund I**, is a social venture capital fund that invests in high growth businesses in Mexico and throughout Latin America. They have recently made an investment in a housing project in Chiapas, Mexico, providing 1800 families with access to affordable housing. **United States** - **Pacific Community Ventures** runs the funds **PCV Investment Partners I, II and III,** which make equity investments in high-potential companies in underserved industry sectors. The purpose of these investment funds is to attract and channel institutional investment money into private companies that provide good jobs with marketable skills, benefits, wealth creation vehicles (e.g. stock option and profit sharing plans) and job skills training in low/moderate income communities. - **Expansion Capital Partners** and their **Clean Technology Fund II** invest in companies that offer improvements in resource efficiency and productivity, creating more economic value with less energy and materials. - **Solstice Capital** currently has two funds under management and seeks superior venture capital returns for its limited partners through investments in seed- and early-stage companies and places at least 50% of its funds into industry areas of alternative energy, education, the environment and life sciences. - The **Northern California Community Loan Fund** provides financing and expertise to disadvantaged individuals and communities. They make low and no income loans to assist community based not-for-profits working in low-income neighbourhoods. - **Clear Venture Partners** invests in early and development stage companies and invests 60% of its capital in federally designated underserved communities. - **SJF Ventures** looks to partner with entrepreneurs who are committed to impacting the world positively through the businesses that they are creating. They focus on cleantech, business and Web-enhanced services, and premium consumer products sectors. - **Acumen Fund** invests exclusively in businesses in India that directly serve the poor, have economically sustainable business models and are innovative. The fund was establish with seed funding from the Rockefeller Foundation as well as individual philanthropists, and the return horizon is 10 – 15% over 5 – 7 years.

In addition to the emergence of new products, there are a number of established social or sustainable banks that provided banking products, including credit, for social economy organisations.

SOCIAL/SUSTAINABLE BANKS	**INTERNATIONAL** **Triodos Bank** exclusively finances companies judged to be of social or ecological benefit. The bank began in 1980 with €540,000 in start-up share capital. The Bank now uses money deposited by close to 100,000 savers and lends it to hundreds of organisations, such as fair trade initiatives, organic farms and social enterprises. **Shorebank** is a community development bank with US$2.1b in assets. Among other products, Shorebank offers ShoreBank Development Deposits—deposits from socially motivated investors from around the world—to fund the loans that revitalize local neighborhoods **Vancity** is based in credit union based in Canada which offers a range of credit products and other financial services and support to the not-for-profit sector. **Charity Bank** in the UK finances social enterprises, charities and community organisations, with the support of depositors and investors who want to use their money to facilitate social change. The **Big Society Bank** was announced by the Government in 2011, the bank will provide finance and advice to social ventures and will be comprised of an initial capitalisation of £200 million from the largest United Kingdom banks, with a further injection of £400 million from dormant bank accounts.

Appendix 4: Organisational forms and structures – international examples

A number of jurisdictions have established new legal forms that aim to introduce greater flexibility for social economy organisations. Below are some examples.

Jurisdiction	Type	Description
UNITED STATES	**B Corporations (Benefit Corporation)** *A corporate form that enables for-profit businesses to gain recognition for their corporate social responsibility activities*	A Benefit or 'B' Corporation's are legally required to adhere to socially-beneficial practices, such as protecting the environment or preserving employee benefits. B Corporations must meet the following criteria: - Comprehensive and transparent social and environmental performance standards; - Higher legal accountability standards; - Build business constituency for good business One goal of the B Corporation movement is to obtain tax breaks for these companies. In 2009, Philadelphia became the first state to offer tax incentives to B Corporations. The B Corp website lists 407 companies in 30 states that have earned the designation of B Corporations.
	L3C's ('low profit, limited liability company') *A corporate structure for enterprises focussed on social and environmental impact, in which profit is a second order focus.*	The L3C is a hybrid legal structure combining the financial advantages of a limited liability company (LLC) with the social advantages of a non-profit entity. An L3C runs like a regular business and aims to be profitable. However, unlike a for-profit business, the primary focus of the L3C is not to make money, but to achieve socially beneficial aims with profit making as a secondary goal. The L3C thus occupies a niche between the for-profit and charitable sectors. The L3C must be organised and operated at all times to satisfy three requirements: the company must "significantly further the accomplishment of one or more charitable or educational purposes," and would not have been formed but for its relationship to the accomplishment of such purpose(s); "No significant purpose of the company is the production of income or the appreciation of property" (though the company is permitted to earn a profit); and the company must not be organised "to accomplish any political or legislative purposes."
UNITED KINGDOM	**CICs**	The United Kingdom's *Companies (Audit, Investigations and Community Enterprise) Act* of 2004 established Community Interest Companies (CICs) to operate as an entity between a traditional profit making trading company and a charity. CICs were created as part of the wider debate on how to facilitate an enabling environment for social enterprises. They aimed to provide a quick, simple and inexpensive way to set up social enterprises, while allowing for the security of limited liability. There are three key differences to other corporate forms; an asset lock, meaning all assets and profits are to be permanently retained and used for community benefit, greater transparency regarding use of assets and directors' remuneration and dividends paid to any shareholders are capped up to a maximum aggregate dividend calculated as a percentage of profits. There is also a cap on performance-based interest on debts.

EUROPEAN UNION	**Social Co-operatives**	Social co-operatives are legally defined as follows: the objective is the general benefit of the community and the social integration of citizens. Italy was the first country to legislate this form of company, and Belgium and Poland followed. Cooperatives exist in Sweden and the UK but without a specific legal structure. In Italy, there are two types; a "type A" social cooperative brings together providers and beneficiaries of a social service as members usually in the health, social or education sectors while a "type B" social cooperative brings together permanent workers and previously unemployed people who wish to integrate into the labour market. The European Commission adopted the Statute for a European Co-operative Society on 22nd July 2003. Its objective is to provide co-operatives with adequate legal instruments to facilitate their cross-border and trans-national activities.

Appendix 5: Intermediaries

Using the five areas provided by the diagram in the body of the submission, a selection of international and Australian examples of social investment intermediaries are listed below.

	SUPPORT PROVIDED	INTERNATIONAL EXAMPLES	AUSTRALIAN EXAMPLES
FINANCIAL INTERMEDIARIES	*Organisations that link investors and social organisations, bringing sources of finance to social ventures and packaging investments into structured financial products that deliver a mix of social and financial returns.*	(UK) **CAF Venturesome** provides debt and equity-like finance to social ventures. (UK) **Community Development Finance Institutions** provide loans to start-ups, individuals and enterprises for disadvantaged groups and disadvantaged areas. (NE) **Triodos Bank** links investors and social impact investment opportunities by fund management; project development; investment management and venture capital funds. (UK) **Futurebuilders** provides loan financing, often combined with grants and professional support, to third sector organisations in England that need investment to help them bid for, win and deliver public service contracts. The Fund aims to substantially improve the financial and strategic capability of the third sector	**Forestors Community Finance is** open to small and large investors and provides finance to community organisations to develop community owned assets. **Social Ventures Australia** acts as an intermediary between investors and organisations. To date, it has provided venture capital for eight high potential non-profit organisations.
PEOPLE, NETWORKS AND EXPERTISE	*Organisations that help to build the skills of social ventures, bring in expertise, offer training and match potential employees with social ventures.*	(UK) The **School for Social Entrepreneurs** (SSE) was established 1997 and provides training and opportunities to enable individuals to use their creative and entrepreneurial abilities more fully for social benefit, supporting them to set up new charities, social enterprises and social businesses across the UK. (UK) **UnLtd Connect** benefits social ventures by connecting them to professionals from all sectors of society who have volunteered their expertise. (US) The **Global Impact Investing Network (GIIN)** is established to build market infrastructure In September 2009, J.P. Morgan, Rockefeller Foundation, and the United States Agency for International Development launched the Global Impact Investing Network ("the GIIN") to accelerate the development of an effective impact investing industry. The GIIN was tasked to develop the critical infrastructure, activities, education, and research that would increase the scale and effectiveness of impact investing. (Canada) The **Canadian Task Force on Social Finance** is a network of expert organisations and individuals. The Task Force makes recommendations to guide federal and provincial governments, foundations, and institutional investors take actions to ignite the development of an investment marketplace dedicated to addressing Canada's social and environmental challenges.	The **School for Social Entrepreneurs** runs a nine month program that gives social entrepreneurs the personal and business support they need to grow their venture to be more effective. **Social Traders** provides training, mentoring, networks and support to social enterprises. The **Crunch** is Social Traders social enterprise development support and investment initiative, based on the highly successful Spark Challenge from the United Kingdom adopting a similar combination of capacity building and investment. Public Interest Law Clearing House (Vic) Inc. has piloted specialist legal services for the Victorian NFP organisations, known as **PilchConnect.** PilchConnect leverages the pro bono resources of Victoria's private legal profession.

MONITORING	*Organisations that assess the effectiveness of social ventures, and provide information to the marketplace on their function.*	(UK) **Social Return on Investment (SROI)** measures social outputs, outcomes and impacts, and assigns monetary value to them. (US) The **Impact Reporting and Investment Standards (IRIS)** is a tool for measuring social impact of investments, developed by the Global Impact Investing Network (US) The **Global Impact Investing Rating System (GIIRS)** is a ratings agency that provides comparable and transparent social and environmental performance data on enterprises seeking investment capital.	In 2009-10, **Social Traders** conducted a research project that aimed to assist several Victorian social enterprises to measure the social value of their enterprises. This lead to the development of a Social Accounting and Audit process which Social Traders intends to use to support future managers of social enterprise to report on social impact.
MARKETING AND DISTRIBUTION	*Organisations that enable ventures to reach paying customers and help customers to find social ventures. These include various forms of market places or match-making services as well as expert advisory work.*	(UK) **Eastside's 3SC** brings together in partnership differing sizes of social ventures in order to bid for large, public sector contracts	**Social Traders** supports and encourage the development of commercially viable social enterprises in Australia.
INNOVATION	*Organisations that focus on launching and supporting social ventures. Can include design intermediaries, innovation challenge funds, competitions /prizes for innovation, innovation platforms and social innovation venture labs*	(UK) **thinkpublic** uses innovative, design-centred methods to develop solutions to social issues. (UK) **Young Foundation** combines research insights with expertise in supporting and spinning out innovative social ventures. (US)) **Changemakers** is an on-line community of action for collaboration on solutions to the most pressing social problems. It provides mentoring collaboration and problem solving competitions.	The **Australia Social Innovation Exchange (ASIX)** is an online community where people and organisations working and investing in social innovation can connect and supports a growing community of practice in Australia and globally. The site also promote social ventures, linking them up with resources and customers. The **Australian Centre for Social Innovation (TACSI)** identifies and supports innovative ideas, methods and people that contribute to social change. For example, the Bold Ideas, Better Lives challenge offers social entrepreneurs the chance utilise the support and networks offered by TACSI and to share in $1m worth of investment to develop and implement their project.

Appendix 6: Framework for Government Action

Key papers that recommend frameworks for government action for catalyzing and developing capital markets for the social economy.

Access to Capital: A Briefing Paper, Charities Aid Foundation Venturesome, 2009.
https://www.cafonline.org/default.aspx?page=18948

The Impact Investor's Handbook, *Lessons from the World of Microfinance*, Charities Aid Foundation Venturesome**:** Market Insight Series, February 2011.
http://www.cafonline.org/default.aspx?page=19910

Financing Civil Society, A Practitioner's view of the UK Social investment Market Charities Aid Foundation Venturesome, 2008.
http://www.cafonline.org/pdf/Venturesome%20-%20Financing%20Civil%20Society%20-%20Sept%2008.pdf

Investing for Social and Environmental Impact: A design for catalysing an emerging industry, Monitor Institute, 2009.
http://www.monitorinstitute.com/documents/InvestingforSocialandEnvImpact_FullReport_001.pdf

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Appendix 7: International Government Initiatives

Below are some examples of international government initiatives designed to support the emerging of a capital market for social economy organisations. More examples can be found *Impact Investing: A Framework for Policy Design and Analysis,* reference throughout this submission.

COUNTRY	INITIATIVE	DESCRIPTION
United Kingdom	Growing the Social Investment Market: A vision and strategy	The goal of the strategy is to build on the existing embryonic social investment market and create a long-term 'third pillar' of finance for social ventures, alongside traditional giving and funds from the state. The strategy put forward a vision for the market and outlined planned enabling actions and included the announcement of the Big Society Bank.
	Social Investment Task Force	The Task Force operated between 2000 and 2010. It provided stewardship for broad dialogue and consistency of focus for impact investment. The Task Force's work focused on the potential to increase capital to create jobs, reduce inequality, promote social cohesion and strengthen communities. This work is credited with achieving significant increase in the flow of investment into disadvantaged communities as well as contributing to development of the market for social impact investment. Several
	Community Investment Tax Credit	A recommendation of the Social Investment Task Force was the establishment of a Community Investment Tax Credit. The Credit provides 5% tax offset each year over a five-year period (25% over the term) to investors providing funds to accredited Community Development Finance Institutions that then finance qualifying enterprises and community projects in underinvested communities.
	Bridges Ventures Fund I & II	The creation of Community Development Venture funds was another Task Force recommendation. Bridges Ventures began in 2002 supported by a £20 million cornerstone investment from the Government, half in the form of a loan at Treasury Bill rates and half as an investment in the fund which was matched on a 1:1 basis from private investors. This fund provided capital for investment into enterprises in disadvantaged communities. Funding recipients are required to be based in the poorest locations in the United Kingdom or to produce strong educational, healthcare or environmental benefits. Based on the success of the first fund, Bridges Ventures raised a second venture fund in 2007 with an expanded mission that includes sustainability. This £75 million fund was raised entirely from the private sector.
	Big Society Bank	Announced as part of the Growing the Social Investment Market strategy, the Big Society Bank will enable social ventures to access finance and advice. The Bank will be comprised of an initial capitalisation of £200 million from the largest United Kingdom banks, with a further injection of £400 million from dormant bank accounts.
	Social Enterprise; a Strategy for Success	In 2002, the Department of Trade and Industry released a strategy document outlining the Government's approach to social enterprise over the next three years and established the Social Enterprise Unit (SEnU) to co-ordinate its implementation. In particular, the strategy indentified three areas where Government action was warranted which were in creating an enabling environment, making social enterprises better businesses and establishing the value of social enterprise.
	Scottish Investment Fund	The Scottish Investment Fund is a £30million fund provided by the Scottish Government to be delivered over the period from 2008-2011. The fund's overall aim is to build capacity, capability and financial sustainability in the Third Sector to help it fulfill its potential and contribute to the overall national outcomes of the Scottish Government. The investments are a mix of loan finance, non-repayable strategic investments and other financial products, new to the third sector, such as risk capital. As of March 2011, £25 million had been loaned or invested to organisations.
European Union	Joint European Support for Sustainable Investment in City Areas	The Joint European Support for Sustainable Investment in City Areas (JESSICA) program uses a public-private partnership model to support large, integrated sustainable urban development projects. Grants made available to European Union member states can be pooled with public, private and regional funding for development with the bank acting as guarantor or providing loans itself.
	Climate Awareness Bonds	Climate Awareness Bonds are offered by the European Investment Bank to individual investors in denominations of €100. The funds raised are then lent to projects within the fields of renewable energy and energy efficiency. The bonds are held for five years full capital plus 5% return is guaranteed. Investors can also opt to use their return to buy and cancel carbon dioxide allowances.
	Social Innovation Park	Designed to be the 'new social Silicon Valley', the Social Innovation Park in the Basque region of Spain was developed with funding of €6 million from the Spanish Government and local authorities. The initiative will be a business park for social enterprises, co-operatives, regional and governmental organisations and charitable foundations. Research and development needs will be met by Social Innovation Academy, on-site and on-line training. The site will also include a Social Innovation Laboratory and Social Enterprise Generator to incubate new projects.
	Green Funds Scheme	In 1995, the Government of the Netherlands began offering tax incentives for investment into Green Funds. These Green Funds are operated through designated banks and investors, or savers, receive a tax credit and a further waiver of taxes on dividend and interest payments. Since the introduction of the scheme, over 234 400 individuals have invested more than €6.8 billion in Green Funds.

COUNTRY	INITIATIVE	DESCRIPTION
United States	New Markets Tax Credit	The New Markets Tax Credit (NMTC) allows investors in low-income communities to claim a tax credit of 39% of the original equity investment over seven years. In 2009, Community Development Entities (intermediaries between investors and low income communities) made US$16 billion in NMTC investments. US Treasury estimated in February 2010 that for every dollar in foregone tax revenue, the NMTC leverages US$12-14 of private investment.
	Community Development Financial Institutions Fund	The Community Development Financial Institutions Fund (CDFI) has awarded over US$1 billion in funding to financial organisations to expand their capacity to provide credit, capital, and financial services to underserved populations and economically distressed communities in the United States. The Fund estimates that for every $1 they spend, at least US$20 is leveraged in private and non CDFI capital. The Obama Administration has increased the Fund's budget allocation to unprecedented levels, allocating US$243.6 million in the 2010 financial year (an increase of 127% from the previous year), and US$250 million in the 2011 financial year. This investment is expected to leverage US$2.7 billion in private financing.
	Impact Investment Fund	The US$1 billion Impact Investment Fund (IIF) was announced March 2011 as part of the Obama administration's promotion of entrepreneurship. It will see government backed bonds used to provide match finance on a 2:1 basis to organisations that fund companies in economically distressed areas and emerging sectors such as clean energy. The details of how the fund will operate are not yet available but it is possible that it will fund a social impact bond-type product, with the Government coming in on a 'first loss' basis.
	Inner City Capital Connections	A partnership between the ICIC , Bank of America, Merrill Lynch and the U.S. Small Business Administration, operate Inner City Capital Connections (ICCC), a national program to drive the growth of inner city businesses that struggle to access growth capital. ICCC teaches growing inner city companies about capital and matches them with investors to create jobs and local economic prosperity. ICIC identifies investment-grade companies in the inner city, introduces them to investors and helps prepare them to compete for capital. The companies that ICIC has "discovered" for investors have posted average revenue growth rates over 20% and have increased employment by over 24% .
	Social Innovation Fund	Social Innovation Fund was launched in 2010 with US$50 million in seed capital. Through a public-private partnership, the Social Innovation Fund and selected local and national grantmakers co-invest in programs that increase the scale of community-based solutions that have evidence of real impact in areas of youth development, economic opportunity or healthy futures. Every Government dollar invested is matched with private funds. The fund is designed to impact thousands of low-income families and create a catalog of proven approaches that can be replicated.
	Pay for Success Bonds	In February this year, the US announced that it was beginning to look for pilot projects for a Pay for Success Bond**,** a type of social impact bond. Up to $100 million is potentially available for this initiative
	Hope VI/Choice Neighborhoods	Hope VI provided federa funding to local housing authorities to rebuild and revitalise severely distressed public housing. Hope VI funds were used to leverage billions in private, philanthropic and additional public funds. As 2010, Hope VI became Choice Neighborhoods.
Canada	Social Impact Bonds	As part of their election platform, the newly elected Canadian conservative Government committed to establishing social impact bonds, to raise money for new community initiatives.
	Outcomes from the Canadian Task Force on Social Finance Report	In December 2010, the Task Force met with the then Finance Minister, who agreed to distribute copies of the report to all his provincial and territorial counterparts and their deputies. There are several provincial level initiatives that refer to the work of the Task Force, including a project in Ontario to improve the relationship between Government and the not-for-profit sector, an Advisory Council for Social Entrepreneurship has been set up in British Columbia and a Market Partnership Project is underway to examine relevant tools for social enterprise business advisory supports, as described in Recommendation #7 and in Nova Scotia, social enterprise has been included for the first time in the Provincial Economic Strategy.
South Africa	Broad-Based Black Economic Empowerment	In 2003, south Africa passed the Broad-Based Black Economic Empowerment (BBBEE) Act which aims to promote the economic inclusion of the country's black population through targeted Government procurement. The legislation requires that public institutions take into account black economic empowerment when contracting with, purchasing from or licensing South African businesses. This serves to redirect existing investment capital and creates new impact investment opportunities by publishing BBBEE scorecards which help investors identify companies that have high positive social impacts. It also expands equality and diversity in corporate ownership and supports the growth of black-owned businesses.

Appendix 8: Australian Initiatives

Australian Government

PROGRAM	SUPPORT	DESCRIPTION
Not for Profit Reform	Sectoral Reform	As part of their election platform, the current Government committed to several measures that were drawn from the recommendations of the PC report. These were: • The establishment of an Office of the Not-for-Profit sector (ONFPS) within the Department of Prime Minister and Cabinet • A scoping study for a national one-stop-shop regulatory (led by Treasury) • A reduction of red tape for Government funded NFPs (led by Finance) • Greater harmonisation and simplification between the Federal and State and Territory governments on NFP issues, including regulation. As part of the 2011-12 Budget, the Government announced $53.6m over four years to establish the Australia Charities and Not-for-Profit Commission (ACNC). The ACNC will commence operations from 1 July 2012 and will initially be responsible for determining the legal status of groups seeking charitable, public benevolent institution, and other NFP benefits on behalf of all Commonwealth agencies. The Commission will also implement a 'report-once use-often' reporting framework for charities, provide education and support to the sector on technical matters, and establish a public information portal by 1 July 2013. A fully independent Commissioner will be appointed to drive all the changes. There are several ways in which these actions will contribute to supporting the social economy – 1. The Office acts as a broker and intermediary for the sector, facilitating connections between not-for-profit organisations, the private sector and Government. 2. The Standard Charter of Accounts will support rigor in the sector by encouraging a consistency of practice in financial reporting.
Jobs Fund	Direct Grant Funding	The Jobs Fund was a temporary program ending on 30 June 2011 which was created to fund social or infrastructure projects that created or retained jobs and employment opportunities in communities most affected by the global financial crisis. In addition supporting infrastructure and other community projects, Jobs Fund directly funded 71 trading social enterprises to a total of $45 million. Jobs Fund also supported capacity in the market by funding two organisations to provide support and information services to social enterprise; • Social Ventures Australia (SVA) received $1.62 million to create a Social Enterprise Hub in Queensland. The 'Supporting Social Enterprises Project' provides expert business support, training and funding to social enterprises across the region. • Yarnteen received $1.8 million to create the 'Regional Indigenous Social Enterprise (RISE) Hub' in New South Wales. The Hub is training and mentoring Indigenous entrepreneurs to develop sustainable social enterprises that create jobs for Indigenous people
Innovation Fund	Direct Grant Funding Some projects are for sector development	The Innovation Fund is a component of the Australian Government's national employment services, Job Services Australia. The Fund is designed to develop innovative solutions to the barriers faced by the most disadvantaged jobseekers address the needs of the most disadvantaged job. To date, the Innovation Fund has supported 10 organisations trading as social enterprises to a total of over $5 million. Almost $4 million has been invested in supporting an additional four organisations to provide assistance and information services to social enterprises: • The Working Futures Initiative will build a stronger evidence base around the efficacy of intermediate labor markets in assisting disadvantaged job seekers. Mission Australia with the Brotherhood of St Laurence have received funding to research the additional costs that social enterprises face in employing, training and supporting highly disadvantaged job seekers. Clarity around cost structures and good practice will inform discussion around the role of Government investment in intermediate labour markets. • The National Employment Services Association (NESA) with the Australian Social Innovation Exchange (ASIX) received funding to evaluate the social enterprise intermediary model and to support social enterprises to become viable over the long term. • The Job Futures and the School for Social Entrepreneurs Australia have been funded to provide support learning and development opportunities to social change makers. • Social Firms Australia (SoFA) has received funding to support social enterprises to achieve improved employment outcomes.
Good Start	Debt (second tier loan)	678 ABC Learning childcare centres were purchased by GoodStart – a not-for-profit company established by Mission Australia, Social Ventures Australia, the Benevolent Society and the Brotherhood of St Laurence. The Australian Government loan is provided as part of a financing arrangement which also includes senior debt from National Australia Bank, 'social notes' from private investors and deeply subordinated debt from foundation partners Brotherhood of St Lawrence, Mission Australia and Social Ventures Australia.
Indigenous	Direct	Indigenous Business Australian and DEEWR provide business loans for Indigenous enterprises through the

PROGRAM	SUPPORT	DESCRIPTION
Economic Development Strategy	Loans	Business Development Program. In 2009-10 the IBA provided 74 business development loans totalling $14.89 million, provided business support totalling $7.79 million and supported 56 economic development initiatives (totalling $1.99 million).
Community Development Finance Institutions	Grant	On 28 February 2011 Minister Macklin announced the CDFI, a $7.5 million Community Development Financial Institution (CDFI) pilot project to address the financial exclusion of disadvantaged Australians and to build the capacity of those on low incomes. The CDFI injects business development funding into community finance organisations which make small loans to individuals who would otherwise lack access to affordable credit. Loans are often provided in combination with financial counselling, mentoring and financial literacy training.
Social Enterprise Development Investment Fund (SEDIF)	Catalytic Investment	The SEDIF is intended to provide $20 million cornerstone contribution to seed the establishment of at least two funds that will generate social impact investment and increase capital for social enterprises in Australia. The Government's contribution is to be used in partnership with private and philanthropic investment at a minimum 1:1 ratio. This investment will be distributed to a small number of qualified Fund Managers, selected through a targeted competitive grant process. The Government contribution will be made by grant; the assessment process is ongoing as of May 2011.
National Housing Rental Affordability Scheme (NRAS)	Catalytic Investment	NRAS seeks to address the shortage of affordable rental housing by offering financial incentives to the business sector and community organisations to build and rent dwellings to low and moderate income households at 20 per cent below-market rates for 10 years. The Australian Government has committed $1 billion to the Scheme over four years to stimulate construction of up to 50,000 high quality homes and apartments. Incentives are paid annually on each dwelling for ten years. The scheme aims to : • increase the supply of affordable rental dwellings; • reduce rental costs for low to moderate income households; and • encourage large scale investment and innovative delivery of affordable housing.
Renewable Energy Equity Fund (REEF)	Catalytic Investment	REEF provides venture capital and managerial advice for small, innovative renewable energy companies. The investee company receives capital and managerial expertise. In return for the provision of capital, the fund manager acquires a part-ownership of the company and usually a seat on the Board of Directors. The Australian Government contributed $17.7 million to establish the fund, which is matched by private sector funding of $8.8 million.
Renewable Energy Venture Capital (REVC)	Catalytic Investment	REVC will be a $100 million fund which makes critical early-stage equity investments that leverage private funds to help commercialise emerging renewable energy technologies. The objective of fund is to use a venture capital model to provide funding and active investment management to encourage the development of early-stage Australian companies which are commercialising R&D in renewable energy and enabling technologies. Guidelines for the fund are currently being developed; substantial interest from fund managers, investors and renewable energy companies is expected.
Professional Partnerships Program	Intellectual and Relationship Capital	The Professional Partnerships Program is a partnership between DEEWR, Deloitte, Ernst and Young, KPMG and PricewaterhouseCoopers which has resulted in 30 social enterprises funded through jobs fund receiving pro bono business consulting services. The main objectives of this initiative are to improve the sustainability of the enterprises and to capture information on the type of support needed by social enterprises. The project is also promoting broader partnership between the public service and the private sector, and modelling new and better ways of working with the corporate sector and communities to build service capacity.
Golden Gurus	Intellectual and Relationship Capital	The Golden Gurus program brokers new mentoring relationships between experienced people who want to volunteer their time to mentor social enterprises and small businesses.

State Government initiatives

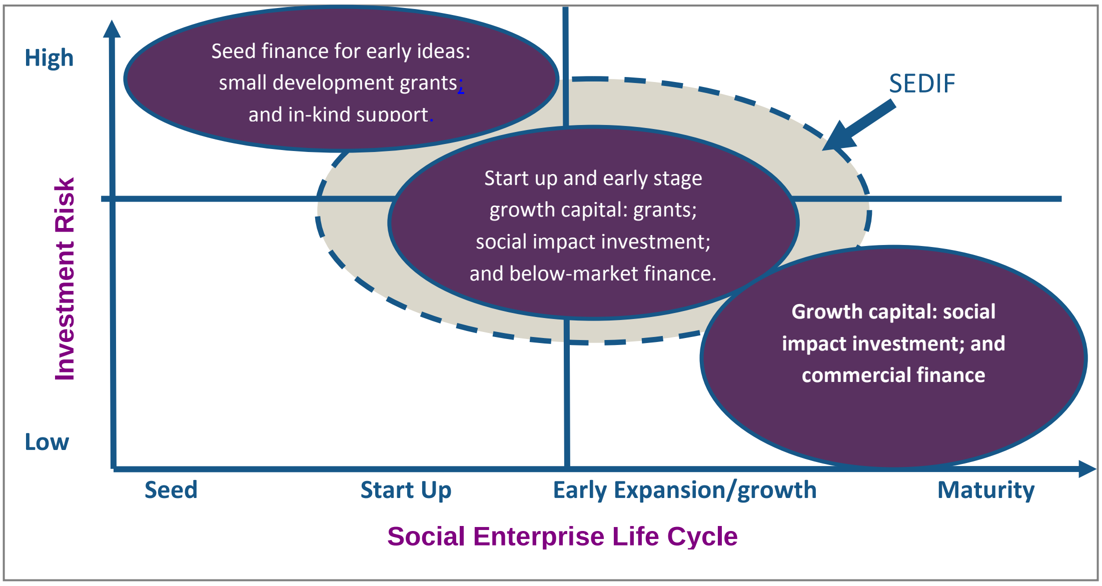
PROGRAM	SUPPORT	DESCRIPTION
Social Innovation Grants Program West Australian Government	Direct Grant Funding	Social Innovation Grants Program promotes innovation in the delivery of social and community services. The program provides one-off grants to enable not-for-profit community sector organisations to develop and trial news ways of delivering services in communities. The program has provided seed funding to social entrepreneurs.
Community Development Investment Fund West Australian	Direct Loans	The $10 million Community Development Investment Fund provides low-interest loans to eligible community sector organisations. Loans are used to build organisational capacity so that over time, recipients can become increasingly self-supporting, while directing their surpluses to public good and social benefit.
Partnership to Jobs Tasmanian Government	Direct Grant Funding	Partnerships to Jobs provides grant funding to organisations that manage projects that create jobs for groups of people who are long-term unemployed, disadvantaged, under-employed or parents or retirees returning to the workforce. The program has provided funding to social enterprises and replaced the Social Enterprise Loan Fund.
Tasmanian Social Enterprise Study Tasmanian Government	Sector Development	On 18 May 2010, the Tasmania government launched a study aimed at supporting social enterprise. The study profiles Tasmania's social enterprises, to give Tasmanians a clear understanding of their activities, challenges and priorities and to inform the Tasmanian Government's Economic Development Plan, currently being developed.
Queensland Inclusive Social Enterprise Project Queensland Government	Direct Grant Funding	Queensland Inclusive Social Enterprise Project is being delivered by Social Ventures Australia. The $2 million project is designed to support the developments of Queensland based social enterprises that are focused on employing people who have been long-term unemployed due to mental health issues. Social enterprises that are supported are expected to be sustainable and self-sufficient by the end of the investment and support period.
Social Impact Bond Pilot (proposed) New South Wales Government	Catalytic Investment	The former New South Wales Government announced in 2010 that it would conduct a pilot project to explore the potential of the Social Impact Bond in the Australian context. A feasibility study was conducted by the Centre for Social Impact. It is not yet know if the current New South Wales Government will continue with the pilot.
Office of the Community Sector Victorian Government	Sectoral Reform	The Office for the Community Sector (OCS) was established in 2008 in the Department of Planning and Community Development to support the Victorian Not-For-Profit (NFP) community sector to be sustainable into the future. In 2011, the OCS will be focussing on two areas, increasing the capacity of Not-For-Profit community organisations and reducing the burden of red tape.
Seed funding for Social Traders Victorian Government	Sector Development	The Victorian Government provided seed funding for Social Traders, an organisation that was established to facilitate, support and advocate for the development of social enterprise in Australia.
Investing in Community Enterprises Victorian Government	Direct Grant Funding	The Victorian Government has invested over $14 million in social enterprise development since 2004. In total over 100 enterprises have been funded. These have created over 1,100 job and training opportunities for people who have found it difficult to enter the mainstream labour market. It is unclear whether this program will continue under the new Government.

Social Enterprise Development and Investment Fund

The Australian Government has taken a leadership role through the $20 million Social Enterprise Development Investment Funds initiative (SEDIF) as an early catalyst in the emerging market for social impact investment developing in Australia. This follows on from the investments in social enterprises made through the Jobs Fund and Innovation Fund.

The Australian Government is seeking to make a “cornerstone” contribution to at least two specialised investment funds which will provide seed and growth capital for social enterprises. These funds will be a market first and are intended to address the lack of access to capital for such enterprises to develop and scale their businesses beyond early stages. Applicants are required to provide leverage from other sources for the Australian Government investment on at least a 1:1 basis and demonstrate capacity to attract additional investment over time to build and sustain the funds.

SEDIF is aimed at stimulating the social impact investment market in Australia and contribute to development of a vibrant social sector. The funds will provide access to capital for social enterprises as they work to improve the lives of individuals and communities and tackle social issues. The fund managers and their partners will use SEDIF to provide financial products and related capacity building for social enterprises. The initiative targets the late stage seed and growth funding which is often difficult for social enterprises to secure and critical for their capacity to develop and scale.



The principal objective of SEDIF is to establish two or more investment funds which generate social impact in addition to financial return and increase capital for social enterprises in Australia. SEDIF is also intended to contribute to the following short term and longer term objectives:

In the short term:

- provide a catalyst for market development;
- test capacity for and existing barriers to social impact investment and access to
- capital for social enterprise;

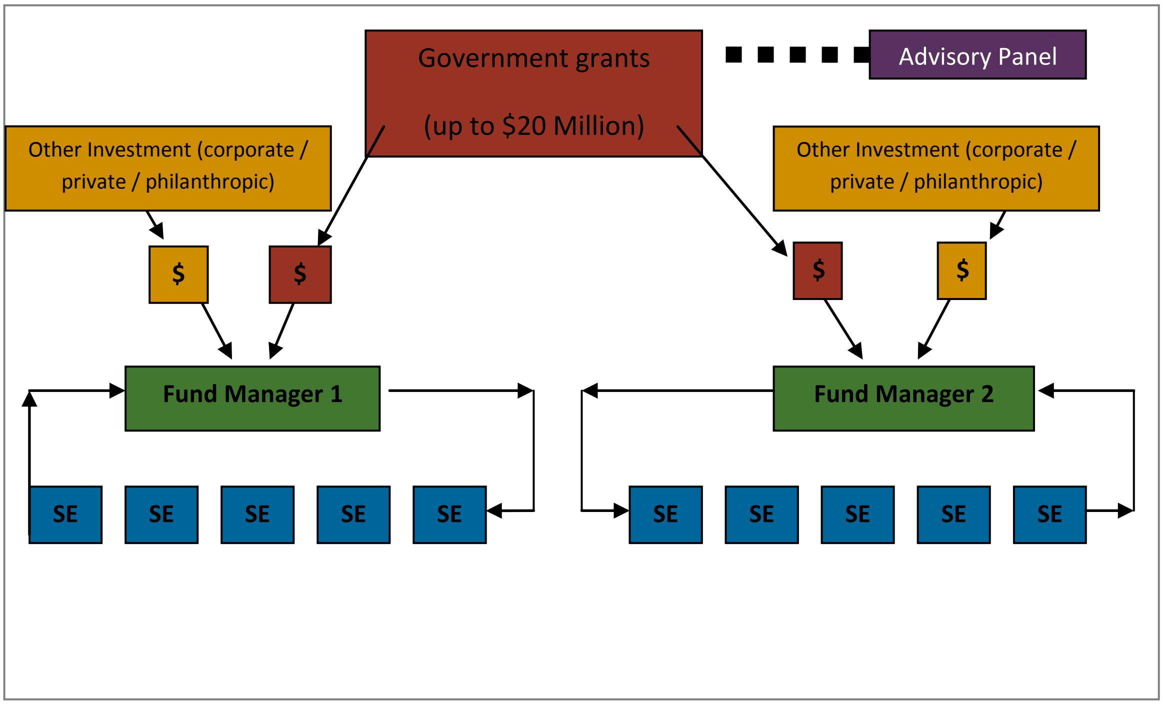
- capacity building for social enterprise; and
- target investment in priority areas for impact.

In the longer term:

- support development of infrastructure to build market place for social impact
- investment;
- support innovative product development; and
- attract longer term investment in priority areas for impact.

The Fund Managers will be responsible for:

- Sourcing investment from other investors at a minimum 1:1 ratio, to at least double the pool of funds available to social enterprises;
- Designing specific financial products; and
- Delivering this capital to social enterprises, in tandem with capacity building support.



FUNDING FLOWS FOR THE SOCIAL ENTERPRISE DEVELOPMENT AND INVESTMENT FUNDS.

A competitive grants process is underway to select the fund managers to receive the $20 million in seed funding. The grants process has been informed by detailed design work taking account of the international and Australian context and a public consultation process.

Applications for funding have been sought which demonstrate optimisation of social impact with an appropriate financial floor and where fund managers have capacity to establish the fund and perform consistent with the strategic intent and robust governance and risk management. How the Government investment will be utilised to attract other investment, including the initial 1;1 leverage is also an important consideration. The key selection criteria are structured within the following categories with a number of sub-criteria in each case.

1. Vision, Strategy and Objectives for the fund
2. Investment Strategy & Portfolio Management
3. Investment, Financial Model, Risk & Governance
4. Performance, Impact & Investor Relations

All public documents pertaining to the process, including guidelines, consultation papers, submissions received and information about processes are available on the Department's website at http://www.deewr.gov.au/Pages/SEDIF.aspx

The Department has been supported throughout the process of developing the grant guidelines and selecting recipients by an Advisory Committee comprised of experts in governance and risk, finance and funds management, philanthropy and social enterprise and related legal issues. The SEDIF Advisory Committee provides advice to the Department of Education, Employment & Workplace Relations project team.

The application period for grant funding for the Social Enterprise Development and Investment Funds (SEDIF) closed on 18 February 2011. Shortlisting took place in March 2011 following an initial assessment process. The Department is undertaking the more detailed and extensive assessment and selection process from among shortlisted applicants. Given the probity and confidentiality considerations for the process, the Department is not able to provide details of the applicants or fund proposals.

Selection of fund managers will be determined through robust relative assessment of the applications against the SEDIF Grant Guidelines and overarching requirements of the Financial Management and Accountability Act. The Department has reserved the right not to fund any proposals if the process of testing the market does not result in fund proposals of sufficient quality which meet the funding requirements. Announcements of successful fund managers will be made at the appropriate stage once relevant due diligence has been conducted and agreements negotiated and signed. The Department will continue to update the Committee on developments in the SEDIF process.