

# **PART I**

## **Introductory comments and a Social Finance Taskforce for Australia**

The first part of this report has two chapters. The first introduces the types of organisations that comprise the social economy in Australia, and outlines the international and domestic context for this inquiry.

The second chapter presents the committee's key recommendation: namely, to create a Social Finance Taskforce for Australia. This Taskforce is premised on several witnesses' arguments on the need for cohesion and strategic direction in the development of a robust capital market within the social economy. The committee believes that a Social Finance Taskforce is best placed to meet this challenge.

# Chapter 1

## Introduction and conduct of the inquiry

### Referral of inquiry

1.1 On 9 February 2011, the Senate referred to the Economics References Committee the matter of mechanisms and options for the development of a robust capital market for social economy organisations in Australia, for inquiry and report by 31 October 2011.<sup>1</sup> An extension for this reporting date was subsequently granted, with the revised reporting date being 22 November 2011.

### Terms of reference

- 1.2 The terms of reference for this inquiry direct the committee to inquire into:
- (a) the types of finance and credit options available to not-for-profit organisations, social enterprises and social businesses, the needs of the sector and international approaches;
  - (b) the role and current activity of financial intermediary organisations and how these can be strengthened;
  - (c) strengthening diversity in social business models;
  - (d) the development of appropriate wholesale and retail financial products and services;
  - (e) government actions that would support the potential for social economy organisations involved in the delivery of government services to access capital markets;
  - (f) incentives to support investment in the sector;
  - (g) making better use of the sector's own financial capacity, including practices relating to purchasing of products and services and use of reserve capital;
  - (h) making better use of the corpus of philanthropic foundations and trusts to make investments in Australia's social economy organisations, expand socially responsible investments and impact investments and any current barrier to their investment;
  - (i) policies, practices and strategies that affect the availability of capital markets for social economy organisations on social innovation, productivity, growth and workforce issues in these sectors; and
  - (j) any other related matters.

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1 *Journals of the Senate*, 2010–11, No. 18, 9 February 2011, p. 528.

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## **The social economy**

1.3 The terms of reference for the inquiry refer to the development of a robust capital market for social economy organisations in Australia. The term 'social economy' is not well defined in the Australian context, and includes a variety of organisations including not-for-profit (NFP) organisations, social enterprises and social businesses. Social economy organisations operate with a commitment to a stated social goal or outcome. This commitment to social outcomes differentiates social economy organisations from commercial enterprises, which exist purely to maximise profit for owners or shareholders.

1.4 NFP organisations, social enterprises and social businesses cover a multitude of organisational types, and there is considerable overlap between the three. Many social enterprises, for example, have a not-for-profit legal structure, while many social business models straddle the divide between commercial operations and social enterprises. This makes clear categorisation within the social economy difficult, and as new organisational types continue to emerge in the marketplace, the distinctions between these sub-sectors are becoming increasingly blurred.

1.5 In the Australian context the terms 'Not-for-Profit sector' and 'social economy' are sometimes used interchangeably. In broad terms, the committee considers that the umbrella term 'social economy' includes the NFP sector, as well as emerging forms of social business and social enterprise that may not traditionally be considered part of the NFP sector. However, rather than making definitive categorical statements about what exactly constitutes the 'social economy', the committee believes that a better approach for the purposes of this inquiry is to acknowledge the diversity within the sector, with reference to specific organisational types wherever possible.

### ***Spectrum of organisations within the social economy***

1.6 One useful framework for thinking about the makeup of the social economy has been developed and articulated by Venturesome, a social investment fund based in the United Kingdom. Venturesome compares organisations by placing them along a spectrum ranging from charities fully reliant on grant or fundraising income, through to commercial businesses. This framework is useful in the Australian context, and is outlined in Diagram 1.1.

**Diagram 1.1: Spectrum of organisational models**



Louisa Mitchell et al., *Financing civil society: A practitioner's view of the UK social investment market*, September 2008, p. 7.

1.7 The horizontal axis represents the motivation of the organisation. Organisations concerned only with 'social returns' are placed at the far left of the spectrum, organisations concerned only with 'financial returns' are at the far right and those offering 'blended returns' (i.e. a mixture of social and financial returns) are in the middle.<sup>2</sup>

1.8 The section below outlines some of the major categories of organisations within the social economy.

### ***Not-for-Profit organisations***

1.9 NFP organisations impose the non distribution of profits to the members of the organisation, and are established for a community purpose. They are not part of the business sector because the generation of profit is not their primary aim.<sup>3</sup> The sector consists of a range of entities including charities, churches and religious organisations; sporting organisations and clubs; advocacy groups; community organisations; some cooperatives; trade unions; trade and professional associations; chambers of commerce; welfare organisations and service providers.<sup>4</sup>

1.10 The main broad categories of NFP organisations in Australia are outlined in Diagram 1.2. These include charities, which are NFP organisations with a charitable purpose. This purpose is defined in common law as acting for the relief of poverty; the advancement of education; the advancement of religion; and other purposes beneficial

2 Louisa Mitchell et al., *Financing civil society: A practitioner's view of the UK social investment market*, September 2008, p. 7.

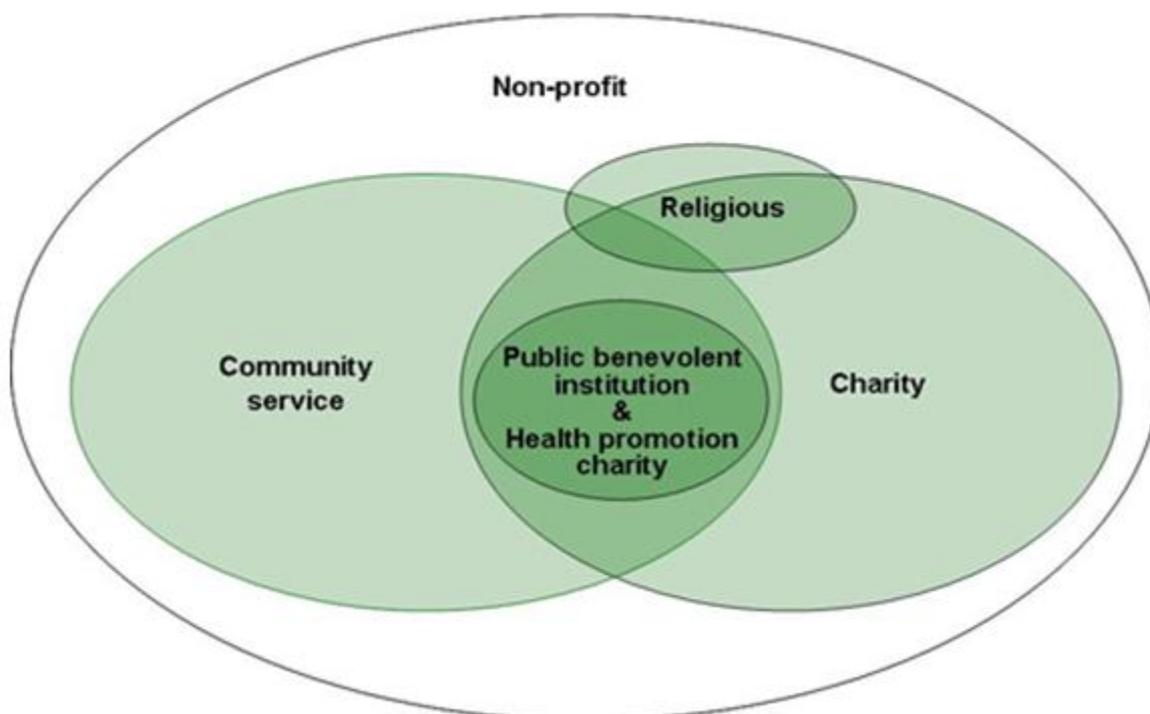
3 Senate Standing Committee on Economics, *Disclosure regimes for charities and not-for-profit organisations*, December 2008, p. 11.

4 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. xviii.

to the community.<sup>5</sup> Some charities which act predominantly for the direct relief of poverty, sickness, suffering, distress, misfortune, destitution or helplessness, attain Public Benevolent Institution (PBI) status and are entitled to additional tax concessions.<sup>6</sup>

1.11 By numbers, NFP organisations make up the majority of organisations within the social economy.<sup>7</sup> There are many ways of classifying organisations within the NFP sector. NFPs may be defined according to the type of activities they undertake, their size, legal structure, charitable status, resourcing or area of focus.<sup>8</sup>

**Diagram 1.2: Broad categories of NFP organisations in Australia**



Australian Charities and Not-for-Profits Commission Implementation Taskforce, 'Key Statistics', <http://acnctaskforce.treasury.gov.au/content/Content.aspx?doc=statistics.htm> (accessed 26 October 2011).

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- 5 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. xv.
- 6 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. xviii.
- 7 The Productivity Commission has identified approximately 59 000 economically significant NFPs operating in Australia. Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. iii.
- 8 Foresters Community Finance, 'Finance and the Australian Not-for-Profit Sector', *Submission 4-attachment 2*, pp 9–22.

## ***Social Enterprises***

1.12 A January 2010 Productivity Commission (PC) report into the contribution of the NFP sector defined a social enterprise as an enterprise established using a business model to deliver services for the purpose of providing a social benefit, rather than to provide a profit.<sup>9</sup>

Finding Australia's Social Enterprise Sector (FASES), a recent study on social enterprise in Australia conducted by the Australian Centre for Philanthropy and Nonprofit Studies at Queensland University of Technology in conjunction with Social Traders Australia, expanded this definition, finding that social enterprises are organisations which:

- are led by an economic, social, cultural or environmental mission consistent with a public or community benefit;
- 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.<sup>10</sup>

1.13 Social enterprises may use not-for-profit or for-profit legal structures. As noted in Diagram 1.1, a variety of types of organisations can be generally characterised as 'social enterprise', including:

- charities with 'mission focussed' trading arms;
- social benefit enterprises (or social enterprises);
- social purpose businesses (or social businesses);
- socially responsible businesses; and
- businesses whose purpose is to generate funds for charities.

1.14 There are no clear data available establishing the number of social enterprises operating in Australia, although the FASES study estimated that there may be up to 20 000. The report characterised the social enterprise sector in Australia as diverse, mature and sustainable, with social enterprises operating in every industry of the Australian economy.<sup>11</sup>

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9 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. xix.

10 Department of Education, Employment and Workplace Relations (DEEWR) and Department of the Prime Minister and Cabinet (PM&C), *Submission 9*, p. 7.

11 Australian Centre for Philanthropy and Nonprofit Studies, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, p. 35.

## ***Social businesses***

1.15 Although all social enterprises trade to fulfil their social purpose, the majority still operate using a not-for-profit legal structure. Social enterprises which take on a for-profit trading structure are often referred to as 'social businesses'.

1.16 A recent report by Foresters Community Finance (Foresters), *Financing Social Enterprise: Understanding Needs and Realities*, defined a social business as 'a commercial business that has social objectives at its core'. The report noted:

A social business, unlike a social enterprise, is a commercial entity, so all its income is derived from commercial undertakings rather than from grants or gifts. It may, however, undertake activities that are non-commercial in nature (or approach issues from a 'more-than-commercial' frame of reference) or conduct itself as a hybrid between the commercial and social spheres.<sup>12</sup>

1.17 Social Business Australia, an organisation created to assist the development of social businesses in Australia, notes that these businesses have social objectives at their core and often diversify ownership through democratic membership and governance structures.<sup>13</sup> There is a range of organisational models considered under the 'social business' umbrella, including co-operatives, mutual businesses, employee owned businesses and social firms.<sup>14</sup> These organisations are considered in detail in chapter 8.

## ***Towards a 'Fourth Sector'?***

1.18 Social economy organisations have been characterised as constituents of the 'third sector'. The term 'third sector' describes organisations that are neither private businesses ('first sector' organisations) nor related to government ('second sector' organisations). The terms 'third sector' and 'social economy' are seen by many to be interchangeable.

1.19 However, some submitters to the inquiry, including Foresters and SENTECH, have contended that social enterprises and social businesses could be considered as populating a new 'fourth sector'.<sup>15</sup> This new sector sits between the three traditional sectors, sharing features of each but with a new form, as shown in Diagram 1.3.

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12 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, p. 8.

13 Social Business Australia and the National UN International Year of Co-operatives (IYC) 2012 Steering Committee, *Submission 14*, p. 1.

14 Social Business Australia and the National UN International Year of Co-operatives (IYC) 2012 Steering Committee, *Submission 14*, p. 1; Social Firms Australia, *Submission 22*, p. 1.

15 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, p. 9; SENTECH, *Submission 18–attachment 2*, Heerad Sabeti, Fourth Sector Network, *The Emerging Fourth Sector: Executive Summary*, pp 1-2.

**Diagram 1.3: The 'Fourth Sector'**



Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, p. 9.

### ***Promoting access to capital for a diverse sector***

1.20 The diversity of purpose, organisational structure and resourcing requirements for social economy organisations is particularly pertinent when considering mechanisms for developing a capital market for social economy organisations. Organisations within the social economy have different financial needs, goals and capabilities, and a prescriptive approach to developing new financing options will inhibit the progress of the sector. As Foresters noted:

One of the difficulties of working in the sphere of social enterprise is the sheer diversity of organisations / entities that are starting to identify as social enterprises and populate space under this umbrella. It is increasingly difficult to make meaningful comparisons across social enterprises and it is important to realise that broad generalisations and 'one-size-fits-all' solutions are not the answer to addressing the undercapitalisation and financial exclusion of social enterprise. This also means, unfortunately, that this is a space that is not straight-forward to operate in.<sup>16</sup>

### **Context of the inquiry**

1.21 This inquiry occurs at a significant time for the social economy both in Australia and globally. In Australia, the significant growth of the NFP sector over the last decade, combined with the current support to improve the efficiencies and the accountability of the sector, has created a pressing need to develop adequate capital arrangements for social organisations. Simultaneously, there is a global trend towards the convergence of the business and social economy sectors through the emerging field of 'social impact investment'—for-profit investments which deliver some measure of both financial and social returns.

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16 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, p. 11.

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### ***The need for a capital market for social economy organisations***

1.22 The Australian NFP sector has grown significantly over the last decade, with average annual growth for the sector of 7.7 per cent from 1999–00 to 2006–07. The 2010 PC report noted that despite this rapid growth in the sector, many NFP organisations in Australia struggle to access the capital they require to grow to scale and achieve their potential.<sup>17</sup> Similar concerns have been raised regarding social enterprise in Australia, most notably by Foresters.<sup>18</sup> The financial needs of social economy organisations are discussed in chapter 3.

1.23 This lack of access to adequate financial products and services is not unique to social economy organisations. A recent report by the National Australia Bank and the Centre for Social Impact detailed, for the first time, the extent of financial exclusion for individuals in Australia. The report noted that over 15 per cent of Australian adults are either fully or severely excluded from basic financial services.<sup>19</sup> These individuals often require the most support from the NFP and charitable sector, making it even more important that these organisations have adequate financial resources to continue delivering services to the most underprivileged in Australian society.

### ***Global context—the rise of 'social impact investment'***

1.24 In the current era of fiscal restraint and ongoing economic uncertainty, it is imperative that governments, philanthropists and mainstream investors maximise the value of their financial investments. Governments are increasingly constrained in their ability to fund social service delivery, and there is an emerging realisation that 'the resources of government and philanthropy alone are insufficient to address the world's biggest problems'.<sup>20</sup>

1.25 In this context, there is a great need for innovative and creative solutions to social and environmental problems, and governments around the world are turning to the emerging fields of the innovation of social enterprises and 'impact investment'<sup>21</sup> to foster these solutions. These approaches involve mobilising capital from a broader range of sources than traditionally associated with the social economy sector,

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17 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, pp xxiii, pp 184–187.

18 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4—attachment 3*.

19 Centre for Social Impact, University of New South Wales, for National Australia Bank, *Measuring Financial Exclusion in Australia*, May 2011, p. 4.

20 Insight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University, *Impact Investing: A Framework for Policy Design & Analysis*, January 2011, preface; as cited in DEEWR and PM&C, *Submission 9*, p. 10.

21 In the literature, the terms 'impact investment' and 'social investment' have both gained some currency as descriptors of this kind of investment. For the purposes of this report they are considered synonymous and used interchangeably.

including mainstream banks, superannuation funds, wholesale investment funds and retail investors. Sir Ronald Cohen, one of the world's leading private-equity investors and a key proponent of impact investment in the UK,<sup>22</sup> stated in his submission to this inquiry:

Just as hi-tech business enterprise and venture capital, working in tandem, have attracted increasing numbers of talented risk-takers since the 1970s, so social enterprise and impact investment are now attracting a new generation of talented and committed innovators seeking to combine new approaches to achieving social returns. Social enterprise and impact investing, in short, look like being the wave of the future.<sup>23</sup>

1.26 Internationally, organisations such as the Global Impact Investing Network (GIIN) have emerged to champion the role of impact investments and seek to develop them as an emerging asset class worldwide.<sup>24</sup> Infrastructure to support this asset class is being developed, through initiatives such as the Global Impact Investment Ratings System (GIIRS). The GIIRS is a project which acts as an independent ratings agency for social economy sector businesses and investment funds, providing impact investors with social and environmental impact ratings for potential investment opportunities.<sup>25</sup>

1.27 Concurrently, governments around the world have increasingly focussed on developing investment in the social economy sector. In the UK, a government Social Investment Taskforce operated from 2000—2010, making key recommendations to encourage social investment. The Taskforce's final report noted that in the decade of its operation, a social investment market emerged in the UK, marked by an increase in the flow of investment to disadvantaged communities, the establishment of new and innovative types of social investment organisations offering a range of financial

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22 Cohen founded Apax partners in the early 1980s, which has grown to be Europe's largest private equity firm, with over \$20 billion under management. He has subsequently been a pioneer in the area of social investment. In 2000, he became Chairman of the Social Investment Task Force (SITF). In 2002, he co-founded and became chairman of Bridges Ventures, a sustainable growth investor that delivers financial, social and environmental benefits. In 2007 he co-founded and became a non-executive director of Social Finance, an organisation which provides access to capital, designs social finance interventions and offers advice to investors and social sector entities. In September 2010 the organisation initiated the first Social Impact Bond pilot (see chapter 6). He is currently the chair for Big Society Capital (formerly Big Society Bank), a pioneering UK social investment bank that aims to develop a social investment market.

23 Social Finance Ltd, *Submission 16*, p. 7.

24 Global Impact Investing Network website, <http://www.thegiin.org/cgi-bin/iowa/home/index.html> (accessed 1 September 2011).

25 Global Impact Investing Ratings System, 'What GIIRS Does', <http://giirs.org/about-giirs/about> (accessed 29 August 2011).

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products to the third sector, and increased interest in social investment from the mainstream financial sector (see chapter 2).<sup>26</sup>

1.28 In Canada, a similar taskforce has been established, making its initial report to government in December 2010 and setting out seven primary recommendations to mobilise new capital for social purposes (see chapter 2). The report stated:

Canadians have long relied on governments and community organizations to meet evolving social needs, while leaving markets, private capital and the business sector to seek and deliver financial returns. However, this binary system is breaking down as profound societal challenges require us to find new ways to fully mobilize our ingenuity and resources in the search for effective, long-term solutions.

Mobilizing private capital to generate, not just economic value, but also social and environmental value, represents our best strategy for moving forward.<sup>27</sup>

1.29 In the United States, several key government initiatives, including strong tax incentives and requirements for mainstream financial institutions to invest in underdeveloped areas, have attracted tens of billions of dollars worth of private investment to the social economy sector over the last fifteen years.<sup>28</sup> More recently, the Obama administration has allocated up to US\$100 million in its 2011–12 budget to fund a new social investment vehicle known as pay-for-success bonds (an investment vehicle originally developed in the UK under the name 'social impact bonds'—see chapter 6).<sup>29</sup> In recognition of the growing importance of impact investment and social entrepreneurship, the White House recently hosted a forum of over 150 key social and financial sector leaders to discuss the future of the 'Impact Economy'.<sup>30</sup>

1.30 In Australia, there is recognition within government of the importance of social investment. As the Office for the Not-for-Profit Sector within the Department of the Prime Minister and Cabinet noted during this inquiry:

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26 UK Social Investment Task Force, *Social Investment Ten Years On: Final Report of the Social Investment Task Force*, April 2010, pp 2, 6.

27 Canadian Task Force on Social Finance, *Mobilizing Private Capital for Public Good*, December 2010, p. 1.

28 US Department of the Treasury, *CDFI Fund: New Markets Tax Credit Program*, [http://www.cdfifund.gov/what\\_we\\_do/programs\\_id.asp?programID=5](http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5) (accessed 27 May 2011).

29 The White House Office of Management and Budget, *Paying for Success: The Federal Budget Fiscal Year 2012*, <http://www.whitehouse.gov/omb/factsheet/paying-for-success> (accessed 29 August 2011).

30 Melody Barnes, US Domestic Policy Council, *The White House Blog – Building an Impact Economy*, <http://www.whitehouse.gov/blog/2011/06/22/building-impact-economy> (accessed 29 August 2011).

From the Department of the Prime Minister and Cabinet's perspective, encouraging increased social investment is critical for at least three reasons. The first is that the social sector is growing rapidly, and we have seen the Productivity Commission's estimates of the contributions of not-for-profits and how that has grown over the recent decade. Second, there are increasing demands on government's limited resources, and yet many policy problems are actually growing in their complexity, so we have got a real tension in that area. Thirdly, leveraging community and private assets is not only likely to promote efficiency and help bridge the resource gap; it is likely to promote broader community ownership of the social change that we are trying to seek as well. There is not only a good resource reason; there is actually a deeper policy benefit from this area.<sup>31</sup>

1.31 While Australia has a less developed capital market for social economy organisations than some overseas jurisdictions, the committee has heard there are encouraging developments in the nascent Australian market. Additionally, being able to learn from international experiences in this area will enable Australia to take confident steps in the coming years.

### *Current Australian reforms*

1.32 As noted earlier, the Australian government is currently seeking to implement a reform agenda within the intention of the Australian government to strengthen the NFP and social economy sector in Australia. Some of the key developments over the last two years provide important context for this inquiry.

#### *The National Compact*

1.33 In March 2010, a national compact between the federal government and the NFP sector was released. The *National Compact: Working Together* is described as an agreement which outlines shared principles, aspirations and priorities for action that will facilitate the government and the NFP sector working together to improve social, cultural, civic, economic and environmental outcomes, enhancing community wellbeing across Australian society.<sup>32</sup>

#### *The Productivity Commission report and subsequent reforms*

1.34 The PC was tasked with assessing the contribution of the NFP sector in Australia and impediments to its development. In January 2010, it presented its report to the government. The report examined various aspects of this contribution including funding by government, the sector's workforce, its productivity and knowledge base,

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31 Mr Paul Ronalds, First Assistant Secretary, Department of the Prime Minister and Cabinet, *Committee Hansard*, 1 August 2011, p. 55.

32 Australian Government, *National Compact: Working Together*, [http://www.nationalcompact.gov.au/sites/www.nationalcompact.gov.au/files/files/national\\_compact.pdf](http://www.nationalcompact.gov.au/sites/www.nationalcompact.gov.au/files/files/national_compact.pdf) (accessed 7 July 2011).

as well as the ability of the sector to build relationships with business. The report stated:

Given the sectors' wide reach and diversity, improving its efficiency and effectiveness will have broad benefits, especially in the field of human services. While there have been a number of reviews and inquiries over the years, implementing identified reforms has been slow.

While the future of the sector rests largely in its own hands, a wide range of regulatory, institutional and funding reforms are needed to enhance its effectiveness and achieve even better outcomes for the community.<sup>33</sup>

1.35 The report examined the issue of access to capital for NFP organisations, and recommended that Australian governments should assist in the development of a sustainable market for NFP organisations to access debt financing. This inquiry seeks to build on the work of the PC report in this area and examine in some detail the options for developing a robust capital market for social economy organisations.

1.36 The PC report made a total of 38 recommendations about various aspects of the sector. The government agreed 'in principle' to all but one of these recommendations<sup>34</sup> and has implemented a significant suite of reforms in the sector in response to the report.

#### *Office for the NFP Sector and the Reform Council for the NFP Sector*

1.37 In October 2010, the Office for the Not-for-Profit Sector was established within the Department of the Prime Minister and Cabinet, with a mandate to drive and coordinate the NFP sector policy reform agenda and the national compact between government and the sector.

1.38 In December 2010, a Reform Council for the Not-for-Profit Sector was established for a three year term. The Council is comprised of prominent individuals from within the sector, with the role of advising the government on various issues relating to NFP reform.<sup>35</sup> The Council has established working groups in the following areas:

- scoping of a national regulator (see below);
- red tape reduction for the sector;
- harmonisation of legislation across Australian jurisdictions;

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33 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. iii.

34 Not-for-profit-Sector Reform Council Communiqué, 18 May 2011, <http://www.notforprofit.gov.au/node/140> (accessed 24 October 2011). The one recommendation not supported was recommendation 9.5 pertaining to program related social innovation funds.

35 Australian Government, *Office of the Not-for-Profit Sector: About the Office*, <http://www.notforprofit.gov.au/about-us/about-us-page-1> (accessed 7 July 2011).

- National Compact and other reforms; and
- better targeting tax concessions for the sector.<sup>36</sup>

*Establishment of the Australian Charities and Not-for-Profits Commission*

1.39 In the 2011–12 budget, the government allocated funds for the establishment of an implementation taskforce for the new regulator: the Australian Charities and Not-for-Profits Commission (ACNC). The ACNC is designed as a new one-stop-shop regulator for the sector, and is due to commence operations on 1 July 2012. The ACNC's initial responsibilities will be:

...determining charitable, public benevolent institution, and other NFP status for all Commonwealth purposes; providing education and support to the sector; implementing a 'report-once use-often' general reporting framework for charities; and establishing a public information portal by 1 July 2013.<sup>37</sup>

1.40 The implementation taskforce has been established within the Department of Treasury, and commenced work in July 2011 to ensure that the ACNC can commence its activities as planned from 1 July 2012. The implementation taskforce launched its website in October 2011 to ensure the sector is informed on developments of the ACNC.<sup>38</sup>

1.41 Currently, the Implementation Taskforce for the ACNC is receiving advice from the Reform Council, of which Mr Fitzgerald is an ex officio member. An ACNC Advisory Board will be established on 1 July 2012 to support the work of the ACNC. Mr Robert Fitzgerald<sup>39</sup> of the PC will chair this board.

1.42 The infrastructure of the NFP sector reforms is detailed in Diagram 1.4.

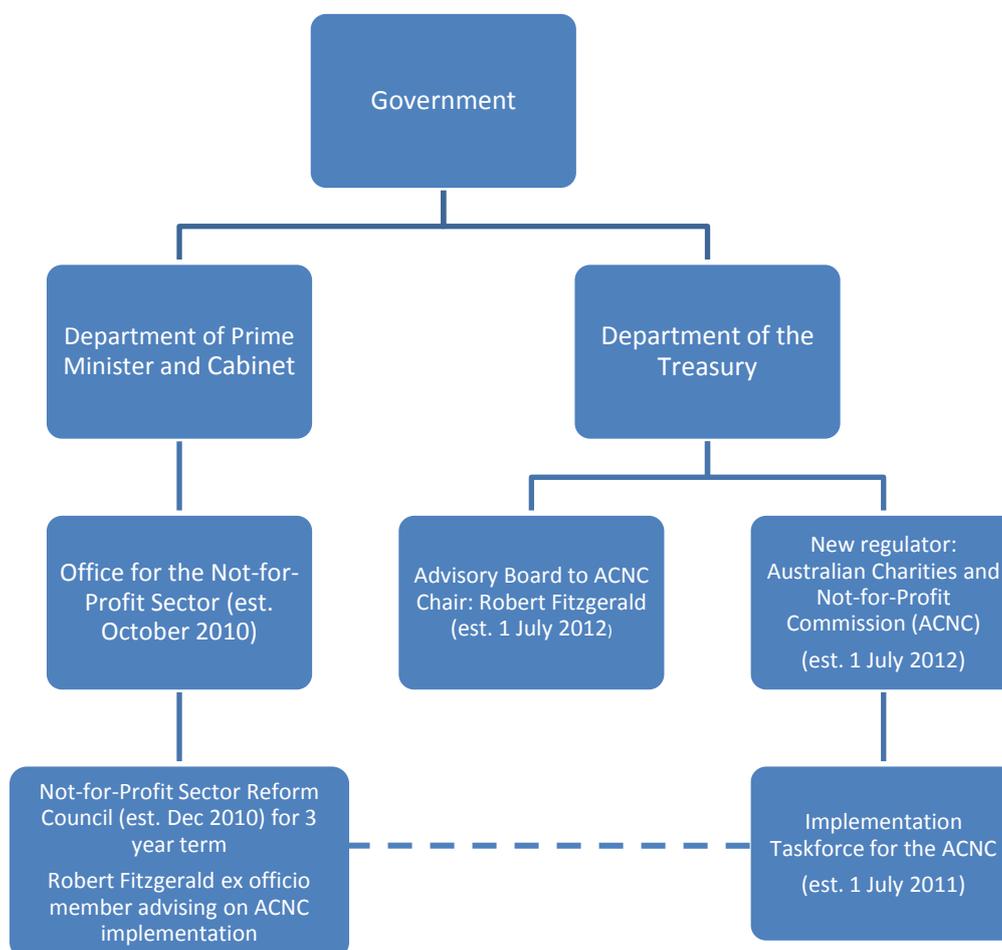
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36 Australian Government, *Office of the Not-for-Profit Sector: Reform Council Working Groups*, <http://www.notforprofit.gov.au/about-office/not-profit-sector-reform/not-profit-sector-reform-council/reform-council-working-groups> (accessed 28 October 2011).

37 The Hon Bill Shorten MP, Assistant Treasurer, 'Next Stage for Not-for-Profit Reforms Announced', *Media Release*, no. 2011/ 083, 27 May 2011.

38 Australian Charities and Not-for-Profits Commission Implementation Taskforce website, <http://acnctaskforce.treasury.gov.au/content/content.aspx?doc=home.htm> (accessed 15 November 2011).

39 Mr Robert Fitzgerald AM was a member of the Commonwealth Inquiry into the Definition of Charities and Related Organisations in 2001. He was appointed as a full-time Productivity Commissioner in January 2004 and has recently been reappointed until 2014. During this time (January 2010), the PC released its *Contribution of the Not-for-Profit Sector* report.

**Diagram 1.4: Primary infrastructure of NFP sector reforms**

Committee secretariat, adapted from The Treasury, Australian Charities and Not-for-Profits Commission Implementation Taskforce, *Submission 35* and the Office for the Not-for-Profit website, 'Not-for-Profit Sector Reform' <http://www.notforprofit.gov.au/office-not-profit-sector> (accessed 27 October 2011).

#### *Additional reform announcements*

1.43 As well as the establishment of the ACNC implementation taskforce, two other announcements were made in the 2011–12 Federal Budget relating to the NFP sector. These are a tightening of the tax concessions available to NFP organisations (discussed further in chapter 9) and the introduction of a statutory definition of 'charity'.<sup>40</sup> Additionally, the government announced on 14 July 2011 that Public Ancillary Funds, a commonly used financial structure for philanthropic organisations,

40 A consultation paper on the definition of charity was released by the Treasury on 28 October 2011, see <http://www.treasury.gov.au/contentitem.asp?NavId=037&ContentID=2161> (accessed 9 November 2011).

will be reformed 'to improve their governance and accountability'.<sup>41</sup> A public consultation process on these proposed changes is currently underway.

### *Australian Government initiatives in the sector*

1.44 Several government initiatives designed to make an impact in the social economy have been brought to the attention of the committee over the course of this inquiry.

#### *Social Enterprise Development and Investment Funds (SEDIF)*

1.45 In July 2010, the federal government announced it would provide a \$20 million investment for the establishment of at least two SEDIF funds, to be managed by fund managers appointed through a competitive tender process. The main objectives of the investment funds are to improve access to finance and support for Australian social enterprises, and to catalyse the development of the broader social impact investment market in Australia.<sup>42</sup> In August 2011, the government announced Foresters and Social Enterprise Finance Australia as the two successful applicants for the management of the SEDIF funds. The SEDIF initiative is discussed in chapter 8 of this report.

#### *National Rental Affordability Scheme (NRAS)*

1.46 As a response to poor housing affordability, the NRAS was created in 2008 as a supply-side initiative to encourage the construction of 50 000 affordable rental properties. The scheme is now expected to be extended to fund up to 100 000 properties. Tax credits or cash payments are provided over 10 years to investors providing affordable housing, which is then leased to residents at a minimum of 20 per cent below the market rate. In practice, nearly all NRAS properties are managed by not-for-profit housing providers, where the credit is provided as an equivalent cash payment.<sup>43</sup>

#### *Community Development Finance Institution (CDFI) pilot program*

1.47 In January 2010, the federal government announced a CDFI pilot program to be administered by the Department of Families, Housing, Community Services and

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41 The Hon Bill Shorten MP, Assistant Treasurer, 'Changes to the way Philanthropic Funds are Managed', *Media Release*, no. 2011/113, 14 July 2011.

42 Department of Education, Employment and Workplace Relations website, *Social Innovation, The Social Enterprise Development and Investment Fund (SEDIF)*, <http://www.deewr.gov.au/Employment/Programs/SocialInnovation/SocialEnterprise/Pages/SEDIF.aspx> (accessed 1 September 2011).

43 Centre for Social Impact, *Submission 27*, p. 25.

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Indigenous Affairs (FaHCSIA).<sup>44</sup> Under the program, the government is investing in the CDFI sector by providing \$6 million to five Australian CDFIs to fund operational and business development costs. This organisational funding is being matched by investment from the private sector for service delivery, enabling the CDFIs to offer products to help address financial exclusion in Australia.

### **Conduct of inquiry**

1.48 The committee advertised its inquiry on the Senate website and in *The Australian*, calling for submissions by 15 April 2011. The committee also wrote directly to a range of key individuals and organisations inviting written submissions. These included government departments, social organisations, academics, and research and policy institutes. The committee received 39 submissions, which are listed at Appendix 1.

1.49 The committee held four public hearings for the inquiry: in Canberra on 1 August 2011 and 26 September 2011, in Melbourne on 9 September 2011, and in Sydney on 23 September 2011. A list of the committee's public hearings and the names of the witnesses that appeared is found in Appendix 2.

1.50 The committee thanks all those who made a contribution to the inquiry, and acknowledges the many NFP organisations that made submissions to the inquiry with limited time and resources available to them.

1.51 In particular the committee would like to thank officers from the Department of Education, Employment and Workplace Relations and the Office for the Not-for-Profit Sector for their assistance in providing resources and suggestions to the committee; the Community Council for Australia, for bringing together a roundtable of experts to provide additional input to the inquiry; Dr Richard Seymour from the University of Sydney for providing information to the committee; and Mr Stephen Nash of Home Ground Services for giving secretariat staff a tour of the Common Ground facility in Melbourne.

### **Structure of report**

1.52 The report consists of nine chapters, divided into four parts.

#### *Part I: Introductory comments*

1.53 Chapter 1 has introduced the types of organisations that comprise the social economy in Australia, and outlined the international and domestic context for this inquiry. Chapter 2 draws together the main arguments presented to the committee on

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44 Department of Families, Housing, Community Services and Indigenous Affairs, 'Community Development Financial Institution Pilot', <http://www.fahcsia.gov.au/sa/indigenous/funding/Pages/CommunityDevelopmentFinancialInstitutionPilot.aspx> (accessed 11 May 2011).

the need for a Social Finance Taskforce to bring cohesion and direction to the development of a robust capital market within the social economy.

*Part II: Demand, supply and the role of intermediaries*

1.54 Chapter 3 discusses the main financial needs amongst organisations within the social economy, in particular the challenges of attracting investment and the importance of different types of finance.

1.55 Chapter 4 outlines the main sources of financial investment available to the social economy, and discusses options for expanding the pool of capital available to social economy organisations and encouraging investment in the sector.

1.56 Chapter 5 discusses the role that intermediary organisations play in helping develop capital markets for the social economy by supporting social organisations and building links between investors and investment opportunities.

*Part III: Emerging investment vehicles and innovation*

1.57 Chapter 6 discusses innovative new financial instruments being developed in the social economy, particularly focusing on the use of social bonds, social impact bonds and social investment funds.

1.58 Chapter 7 discusses the need to develop a measurement framework that will enable emerging investment vehicles, facilitate analysis and performance comparison, establish track records and offer potential investors an assessment of the risks and returns related to different investments.

1.59 Chapter 8 discusses the specific needs and challenges relating to social enterprises in Australia, and mechanisms for strengthening the diversity in social business models.

*Part IV: The role of government in promoting access to finance for social economy organisations*

1.60 Chapter 9 discusses the current regulatory framework for social economy organisations, its implications for the financing options for different types of social organisations, and possible regulatory reforms. It also offers concluding thoughts from the committee on the role of government within the sector.