Chapter 2

A Social Finance Taskforce for Australia

2.1 The social economy sector has grown rapidly over the past decade. There are approximately 600 000 social economy organisations in Australia, of which around 59 000 are economically significant. As reported in January 2010, the sector makes up just over four per cent of GDP (around $43 billion) and has close to five million volunteers contributing $14.6 billion in unpaid work.[1] The sector is diverse, comprising small, medium and large enterprises residing in both the for-profit and not for profit (NFP) sectors. And there is no single legal entity that applies to social economy organisations. Often, they will enlist hybrid models to achieve their social objectives.[2]

2.2 A strong and vibrant social economy sector depends on offering a wide variety of financial options to the full spectrum of social economy organisations. These options are important if social economy organisations are to diversify their revenue streams.

2.3 This inquiry has collected considerable evidence concerning deficiencies in the ability of social economy organisations to access mainstream capital, particularly non-grant and non-gift capital.[3] Some of these deficiencies relate to the shortcomings of the social economy organisations themselves:

- they lack a steady revenue stream to attract investment;
- they lack the collateral required to guarantee loans;
- there are limited organisational structures that are suitable for social organisations to raise equity capital;
- they are generally accustomed to a culture that is reliant on grant capital and are often risk averse to debt and equity capital;
- they often lack the capacity to manage new forms of capital; and
- small and medium sized social economy organisations often have difficulty accessing start-up capital and finance to invest in new capacity.

2.4 Other aspects of social economy organisations' difficulties in attracting mainstream capital reflect deficiencies in mainstream financial institutions:

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1 Productivity Commission, *Contribution of the Not-for-Profit sector*, January 2010, p. iii, xxiii, xxvi.

2 The Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, 'Social Enterprise in Australia: a preliminary snapshot', June 2010, p. 2.

3 Social Ventures Australia, *Submission 2*, p. 1; Foresters Community Finance, *Submission 4–attachment 3*, 'Financing social enterprise: understanding needs and realities', 2010, p. 5.

- the majority of these institutions have limited understanding of the capital needs of social economy organisations; and
- the current range of financial products that they offer carry large transaction costs relative to the capital required by social economy organisations.

2.5 In addition, there are a limited number of specialist intermediaries to build a support framework for the sector and connect commercial finance institutes with social organisations. And finally, there are specific challenges for government:

- the sector needs a measurement framework to provide consistent terminology and metrics to enhance transparency and reporting for social organisations and to build investors' confidence; and
- during a time of rapid international developments in the social economy landscape, there is limited awareness of emerging finance options among social organisations and investors in Australia.

2.6 This report examines each of these challenges and explores the options to address them. In broad terms, the solutions will require:

- structuring traditional forms of grant capital to direct funds towards infrastructure costs and capacity building, to attract additional investors and to encourage collaboration amongst stakeholders in the sector;
- strengthening specialist intermediaries that cultivate 'investment ready' social organisations and connect them with mainstream financial institutions and a range of suitable financial products such as debt and equity capital;
- building a new asset class—social impact investment—which blends social and financial returns to engage with a broader spectrum of investors, including institutional investors such as superannuation funds;
- supplying adequate seed capital to foster innovation in the sector by developing viable social enterprises; and
- a crucial role for government to implement legislative reforms and tax incentives designed to attract further investment to the sector.

2.7 In the committee's view, this represents a significant program of action for the social economy sector, mainstream financial institutions, existing and prospective financial intermediaries and government. Crucially, there is a need to coordinate these efforts among these four groups. If opportunities to finance the social economy sector are to be realised, they need to be planned and publicised. It is in this context that the convening power of government is important.

2.8 The committee also believes that, the task of matching the complex and disparate financing needs of the sector with the emerging financing options requires direction and advice from a body with expertise in both the social and financial sectors. It is the view of the committee that this oversight is best suited to an expert taskforce that is facilitated by government.

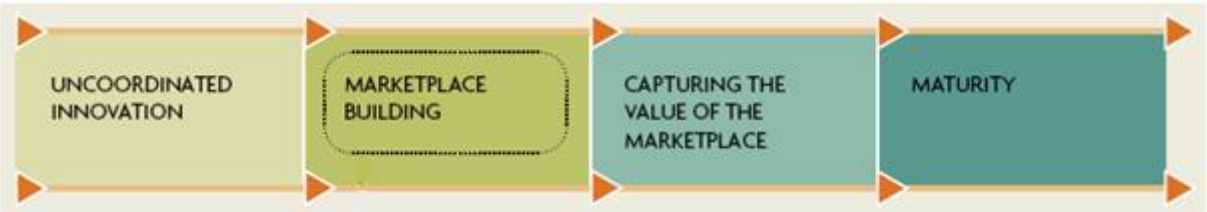
2.9 The idea of a high level taskforce to assist in the development of a social economy capital market is not new. The United Kingdom and Canada have both implemented successful social finance taskforces (see below). In the Australian context, the recent Productivity Commission (PC) report, *Contribution of the Not-for-Profit Sector*, recommended that an advisory panel be established to provide options for the development of a sustainable market of debt products for the sector.[4]

The need for a Social Finance Taskforce

2.10 The principal benefit of a Social Finance Taskforce is to provide strategic policy direction to raise awareness of finance and investment opportunities in the social economy and to encourage collaboration in the sector. The social economy sector in Australia is currently at a stage where there is a need for this direction, awareness and collaboration.

2.11 In their joint submission to this inquiry, the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of the Prime Minister and Cabinet (PM&C) highlighted the work of the Monitor Institute in the United States, which developed a framework outlining the stages of development for a social impact investment market (see Diagram 2.1).

Diagram 2.1: Phases of development in a social impact investment market



Monitor Institute 2009, as cited in Department of Education, Employment and Workplace Relations and Department of the Prime Minister and Cabinet, *Submission 9*, p. xi.

2.12 The Monitor Institute characterised the essential activities necessary for the marketplace building stage under three broad categories:

- building efficient intermediation in the market;
- building enabling infrastructure for the industry; and
- developing the absorptive capacity of social organisations seeking investment capital.[5]

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4 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p.195.

5 Monitor Institute, *Investing for Social and Environmental Impact: A design for catalyzing an emerging industry*, 2009, p. 45. As cited by Department of Education, Employment and Workplace Relations (DEEWR) and Department of Prime Minister and Cabinet (PM&C), *Submission 9*, p. xi.

2.13 The current stage of development for the social finance market in Australia is best described as being at the 'uncoordinated innovation stage', with some early marketplace building activities occurring.[6] There is a need for a coordinated approach across government, the social and financial sectors in order to ensure that marketplace building occurs as efficiently and effectively as possible.

2.14 Infrastructure needs to be developed to manage the sector's evolution and to support it with sound institutional and regulatory arrangements.[7] Commonwealth, state and territory government agencies will need to prepare their staff with skills and knowledge of the sector to progress the reforms.[8]

Raising awareness of investment opportunities in the social economy

2.15 The committee has received evidence that there is limited awareness of financial options among social economy organisations, investors and the general community. An awareness of these options is crucial. As one witness highlighted:

> I know you have talked about investment readiness, and I think this is a really critical point, but it is almost as though there is a step before that about investment awareness and understanding within not-for-profits and the sector as a whole about the need for moving away from funding as an all-consuming source of revenue and to include possibilities such as debt and equity.[9]

2.16 In this context, the committee also heard that the financial industry must become more engaged with the social economy sector and the emerging opportunities presented by social impact investment (see chapter 6). Mainstream financial institutions often struggle to understand the unique nature of social economy organisations when undertaking credit assessments.[10] The trustees of many philanthropic foundations are unaware of the opportunities to make social investments with their corpus of funds.[11]

2.17 Moreover, institutional investors are often wary about engaging with new or unproven investment classes. The 'blended value' proposition offered by social investment projects, offering both financial and social returns, is difficult for some investors to understand:

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6 Ms Kylie Charlton, private capacity, *Committee Hansard*, 26 September 2011, pp 8–9; DEEWR and PM&C, *Submission 9*, pp 22–23.

7 Productivity Commission, *Contribution of the Not-for-Profit sector*, January 2010, p. xxxiii.

8 Productivity Commission, *Contribution of the Not-for-Profit sector*, January 2010, p. xxxix.

9 Dr Ingrid Burkett, Knode Pty Ltd, *Committee Hansard*, 9 September 2011, p. 31.

10 Ms Therese Wilson, Chairperson, Foresters Community Finance, *Committee Hansard*, 1 August 2011, p. 30.

11 Ms Julie White, Global Head, Macquarie Group Foundation, *Committee Hansard*, 23 September 2011, p. 54.

> With the notion that you are either investing or supporting, it is really hard to get to the middle ground—'Am I investing or am I supporting?' It is much easier for people conceptually to think it is either an investment or it is supporting. My understanding from talking to people involved in providing high-level financial advice to high-wealth individuals is that many of them are confused by the notion of reduced return for social benefit. They are happier to say, 'Let's just do a social benefit. What is the return stuff about? That's just confusing.'[12]

2.18 Mr Toby Hall, the Chief Executive Officer of Mission Australia, told the committee that if social investment products are to be developed to leverage finance from institutional investors, a forum that brings together the various sectors involved is necessary:

> In terms of unlocking superannuation funds there needs to be some government interaction with the superannuation funds to look at how this can happen. It is complicated and I understand where they are coming from. However, I think it is something that is achievable. It is about having the right instrument. That takes a partnership with the superannuation funds to say, 'Can we work together to create the right instrument?' ...
>
> I think there needs to be a round table with superannuation funds, the major banks, some of the non-profits and the guys from Bendigo [Bank] to actually nut through what the product looks like, what tax requirement is needed and what risk model we are comfortable with. You are then in a position to look at legislation to enable that.[13]

2.19 Fundraising Institute Australia argued that the public, as major contributors to the social economy, should be informed of the financial innovation opportunities in the sector.[14] The Community Council of Australia (CCA) highlighted that while the Australian community is actively engaged in the sector through receiving services, volunteering and financial giving, most are not aware of the emerging financial options available to support the sector:

> ...this is fundamentally an issue of awareness, knowledge, having appropriate products available and having appropriate ways of engaging, allocating, monitoring, and reporting on financial investment and other products. There is clearly untapped potential here to influence the extent and nature of giving if appropriate products can be developed.
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> Without appropriate brokerage and awareness campaigns, it is difficult to see how demand for more innovative NFP investment and financing options might become more accessible.[15]

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12 Mr David Crosbie, Community Council for Australia, *Committee Hansard*, 1 August 2011, p. 28.

13 *Committee Hansard*, 23 September 2011, p. 55.

14 Fundraising Institute Australia, *Submission 23*, p. 5.

15 Community Council for Australia, *Submission 15*, p. 4.

2.20 The Centre for Social Impact argued that government has a key role to support initiatives to raise awareness of finance options among stakeholders.[16] Mr Paul Ronalds of PM&C elaborated on the need for government to collaborate with a range of stakeholders to promote the growth of the sector and address policy changes:

> Responding to today's policy challenges can no longer just be the role of government or even bureaucrats such as myself. This is particularly the case in a constrained fiscal environment. Instead it must be much more of a collaborative effort involving the public, private and not-for-profit sectors working together to bring their respective strengths and resources to the table.
>
> In this context, government must become much better at using its convening power to catalyse, promote and to encourage the private and not-for-profit sectors as well as individual citizens to become active agents of a change that we would like to see in our society.[17]

2.21 In the committee's view, a taskforce of talented and experienced people with high-profile positions within banks, the superannuation sector, consulting firms and the social economy sector could promote interest in, and galvanise support for, a robust social capital market and emerging financial products and investment vehicles.

Collaborative efforts

2.22 The challenge of developing a social economy capital market is fundamentally about communicating the benefits for stakeholders in becoming involved and promoting partnerships. As the National Australia Bank (NAB) has argued:

> If Australia is truly to build a robust not-for-profit capital market we need to clearly articulate the benefit of such a market. This will also require cross sector collaboration and commitments from diverse stakeholders.[18]

2.23 Mr Ronalds of PM&C told the committee that the department is considering collaboration, or co-creation, as a means of tackling social problems:

> Examples perhaps to draw to the committee's attention would be more effective use of existing grant money—so going out with your tenders and rather than perhaps saying, 'The government would like to have an organisation do X for it', say, 'This is a social policy goal that the government has. What organisations, for-profit and not-for-profit, are willing to come together and co-create in relation to the sorts of things?' ...

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16 Mr Les Hems, Centre for Social Impact, *Committee Hansard,* 1 August 2011, p. 38.

17 Mr Paul Ronalds, First Assistant Secretary, The Department of the Prime Minister and Cabinet, *Committee Hansard*, 26 September 2011, p. 28.

18 Mr Tim O'Learly, General Manager Corporate Responsibility, National Australia Bank, in Foresters Community Finance, 'Finance and the Australian Not-for-Profit Sector', *Submission 4–attachment 2,* p. 4.

> That is a bit of a culture shift again for government. The whole notion round co-creation of these sorts of things challenges some cultural settings in government. It can raise issues around accountability and a whole range of political issues and things like that. So we are having to work through all of those in these sorts of trials.[19]

2.24 The PC highlighted new configurations to raise finance for the sector.[20] Mr Robert Fitzgerald told the committee:

> What we are starting to see around philanthropy—and you will see this in Australia at the moment—is that a number of philanthropists are saying, 'We are prepared to put in $2 for the project provided government puts in $1 and the not-for-profit organisation puts in X', which might be in-kind or other. Those sorts of arrangements are very exciting. Again, there is certainly no reason why the government could not and should not look at the opportunities to provide some sort of support.[21]

2.25 A recent example of collaboration in the sector is the GoodStart Consortium, comprised of four not-for-profits and the assistance of Social Ventures Australia (SVA). The transaction included $15 million in government support, $45 million in social finance and $120 million of debt from the NAB. The capital was used to purchase 659 child care centres which are now run with business disciplines for social purposes.[22]

2.26 Joint ventures within the sector increase the ability to raise capital for projects of significant scale. A number of submitters highlighted the trend of cross-sector collaboration, and the advantages of pooling resources from the public, philanthropic and corporate sectors. Finance, human capital, networks, knowledge and expertise can be combined to maximise impact and cost-sharing across organisations.[23] Christian Super argued that collaboration also encourages accountability between organisations and acts to provide default diversification for investors.[24] The law firm Catherine Brown and Associates suggested that peak bodies in the sector could be encouraged to facilitate national or state-wide purchasing programs to enable a superior negotiating position for organisations sharing similar needs and facing similar risks.[25]

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19 Mr Paul Ronalds, First Assistant Secretary, The Department of the Prime Minister and Cabinet, *Committee Hansard,* 1 August 2011, p. 61.

20 Productivity Commission, *Contribution of the Not-for-Profit sector*, January 2010, p. xxiv.

21 Mr Robert Fitzgerald, Commissioner, Productivity Commission, *Committee Hansard*, 26 September 2011, p. 26.

22 Social Ventures Australia, *Committee Hansard,* 1 August 2011, pp 18–19; Social Ventures Australia, *Submission 2,* p. 1.

23 Social Ventures Australia, *Submission 2,* p. 2; DEEWR and PM&C, *Submission 9,* pp 10–11.

24 Christian Super, *Submission 12,* p. 5.

25 Catherine Brown and Associates Pty Ltd, *Submission 11,* p. 2.

2.27 A key role of a Social Finance Taskforce should be to design and commend collaborative projects between mainstream financial institutions, social economy organisations and governments. The Taskforce should provide policy advice to government on the most effective ways to encourage these stakeholders to finance the social economy sector.

Social Finance Taskforces in the United Kingdom and Canada

2.28 Several witnesses to this inquiry drew the committee's attention to the important role that social finance taskforces played in the UK and Canada to develop a capital market for the social economy.[26]

The UK Social Investment Task Force (SITF)

2.29 The UK SITF was established at the request of Treasury in April 2000. Its purpose was 'to set out how entrepreneurial practices could 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'.[27] The first report of the SITF, *Enterprising Communities: Wealth Beyond Welfare*, was published in October 2000 and was followed by two progress reports published in 2003 and 2005. Thereafter, the taskforce met periodically to monitor progress and consider ways to progress the social investment agenda. A final report, *Social Investment Ten Years On*, reviewed the achievements of the taskforce and considered further policy development.[28] A number of policy suggestions from the final report were included in the UK Cabinet Office's *Growing the Social Investment Market*, which was published in February 2011.[29]

2.30 The initial report of the taskforce made five recommendations which were all (at least partially) implemented, resulting in:

- the introduction of Community Investment Tax Relief;
- matching finance to help set up the first community development venture capital fund;

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26 Foresters Community Finance, *Committee Hansard*, 1 August 2011, p. 31; Social Ventures Australia, *Committee Hansard*, 1 August 2011, pp 18, 23; Department of Education Employment and Workplace Relations, *Committee Hansard*, 23 September 2011, p. 60; Ms Kylie Charlton, private capacity, *Committee Hansard*, 26 September 2011, p. 9; Department of the Prime Minister and Cabinet, *Committee Hansard*, 26 September 2011, pp 28-29; Foresters Community Finance, *Supplementary Submission 4*, p. 10; The Centre for Social Impact, *Submission 27*, p. 12; Community Council for Australia, *Submission 15a*; Knode Pty Ltd, *Submission 30*.

27 Social Investment Task Force, *Final Report: Social Investment Ten Years On*, April 2010, p. 2.

28 The Social Investment Task Force, http://www.socialinvestmenttaskforce.org/ (accessed 30 September 2011).

29 Ms Kylie Charlton, 'Does Australia need a social investment taskforce?', *Centre for Social Impact blog*, 8 April 2011.

- additional disclosure by banks of their lending activities;
- legislative and regulatory changes to provide greater latitude and encouragement for charitable trusts and foundations to invest in community development finance; and
- the creation of the Community Development Finance Association (CDFA), a trade association to provide support for community development finance institutions (CDFIs).[30]

2.31 Sir Ronald Cohen, the Chair of the UK SITF, told the committee how the SITF encouraged social investment:

> ...in the UK, this whole process started at the end of 2000, when the Social Investment Task Force reported that, in addition to philanthropy, there was the possibility of bringing in social investment to play a major role in resolving social issues.
>
> Basically, our capitalist systems deals brilliantly with its business and financial consequences but does not really have a part of the system that is powerful enough to deal with the social issues, and that between the public sector and the private sector there is a very considerable social sector, generally called the voluntary sector or the third sector. In the UK it comprises about 100 billion pounds of foundation assets and 800,000 full-time equivalents working in not-for-profit organisations. If one wants to focus on developing the capability of the social sector to deal with social issues then we need to create a system to support that role, and we need to innovate in order to make it effective.[31]

2.32 JBWere, a subsidiary of the National Australia Bank, noted that the UK SITF assisted in efforts to avoid a disjointed and sporadic approach to reform and was important to setting the agenda for impact investing.[32]

The Canadian Taskforce on Social Finance

2.33 The Canadian Task Force on Social Finance (TFSF) was conceived by Social Innovation Generation, a social innovation think-tank, in partnership with the MaRS Discovery District. The TFSF's charter was to alter the mindset about investing and philanthropy in Canada. The TFSF report, *Mobilizing Private Capital for Public Good*, was published in December 2010. It made seven recommendations including:[33]

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30 Social Investment Task Force, *Final Report: Social Investment Ten Years On*, April 2010, p. 2.

31 *Committee Hansard*, 1 August 2011, p. 64.

32 JBWere, *Submission 19*, p. 22.

33 Canadian Taskforce on Social Finance, *Mobilizing Private Capital for Public Good*, December 2010; Canadian Taskforce on Social Finance, http://socialfinance.ca/taskforce, (accessed 30 September 2011).

- encouraging Canadian public and private foundations to invest at least 10 per cent of their capital (totalling $34 billion) in mission-related investments (MRI) by 2020, potentially unlocking $3.4 billion for social enterprise;
- establishing a federal partnership with private, institutional and philanthropic investors to create the Canada Impact Investment Fund that will support existing and new regional funds using a range of instruments (debt, equity, quasi-equity); and
- increasing the engagement of Canadian pension funds in impact investing through clarification of fiduciary duty and annual disclosure of impact investing allocations.[34]

2.34 The work of the Canadian Taskforce has been well received, with members of the investment and social enterprise sectors and government departments expressing interest in advancing the taskforce's recommendations.[35] The committee was informed that a ministerial committee will examine the work of the taskforce, headed by the Canadian Minister for human development and human capital and the Deputy Minister for Finance.[36]

The demand for a social finance taskforce in Australia

2.35 A number of submitters to the inquiry proposed that Australia should establish a Social Finance Taskforce, similar to that in the UK and Canada.[37] Mr Michael Traill, Chief Executive Officer of SVA commended the work of the UK SITF, and highlighted that the taskforce had been influential in the development of a sophisticated and sustainable social capital market:

> That [UK] task force in the late nineties was instrumental in establishing it in a structured and coherent way with the best input from heavyweight players from across the sectors driven by Sir Ron himself. It created a structural and sustainable framework that means the UK is now quite a sophisticated developed market. I think there is a bit of light on the hill

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34 MaRS Discovery District, 'Canada's opportunity: Mobilizing private capital for public good', http://www.marsdd.com/2010/11/30/canada%E2%80%99s-opportunity-mobilizing-private-capital-for-public-good (accessed 27 October 2011).

35 Ms Kylie Charlton, 'Does Australia need a social investment taskforce?', *Centre for Social Impact blog*, 8 April 2011.

36 Ms Julie White, Global Head, Macquarie Group Foundation, *Committee Hansard*, 22 September 2011, p. 53.

37 Foresters Community Finance, *Committee Hansard*, 1 August 2011, p. 31; Social Ventures Australia, *Committee Hansard*, 1 August 2011, pp 18, 23; Department of Education Employment and Workplace Relations, *Committee Hansard*, 23 September 2011, p. 60; Ms Kylie Charlton, *Committee Hansard*, 26 September 2011, p. 9; Department of Prime Minister and Cabinet, *Committee Hansard*, 26 September 2011, pp 28–29; Foresters Community Finance, *Supplementary submission 4*, p. 10; The Centre for Social Impact, *Submission 27*, p. 12; Community Council for Australia, *Supplementary Submission 15*; Knode Pty Ltd, *Submission 30*.

> around some of the opportunities and lessons from the UK that we should think about applying here.[38]
>
> My sense is, having observed the UK and having visited there... the footprints from that, now 10 or 12 years down the track, are everywhere. What it also galvanised was a level of interest in support for and where it is back to: 'the war for talent'. Ron Cohen and others have made that market interesting... This is drawing highly talented, experienced people out of the top end investment banks and consulting firms, as well as experienced people from the non-profit sector. So people arrive in that space thinking about scale opportunities with access to capital... I think it is both a combination of doing the homework and coming up with practical recommendations and also being a bit of a magnet for talent in terms of drawing people into the idea that they can be constructively involved.[39]

2.36 The PC report has extensive commentary on deficiencies in the supply of capital to the sector and observed many barriers and limitations within the capital market for social economy organisations.[40] To address these deficiencies, the PC recommended that the government establish an Advisory Panel to:

> ...consider options and assess progress in developing a sustainable market for not-for-profit organisation debt products with the aim of establishing mainstream financial products for investors who are willing to accept a lower risk adjusted financial return for an accompanying social return.[41]

2.37 In evidence to the committee, Mr Robert Fitzgerald, who chaired the PC inquiry into the NFP sector, emphasised that an Advisory Panel was foundational to the development of a capital market for social economy organisations. He particularly emphasised the practical advice that such a Panel could provide to government to advance a social investment agenda:[42]

> **Senator MARK BISHOP:** We are hearing different approaches to solving this issue of appropriate products for social investment. Who is best charged with doing that type of work?
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> **Mr Fitzgerald:** We saw that the first step in that was this advisory panel by Treasury, which would bring together the various parties and then, having identified the opportunities, work out a pathway by which you could actually turn the opportunities into reality. I suppose that is the only place we can start. This is why government is so essential. It can bring the

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38 *Committee Hansard*, 1 August 2011, p. 18.

39 *Committee Hansard*, 1 August 2011, p. 23.

40 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, pp 155–195.

41 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, (recommendation 7.5), p. xlvii.

42 Mr Robert Fitzgerald AM, Commissioner, Productivity Commission, *Committee Hansard*, 26 September 2011, p. 21.

> relevant parties together, identify the appropriate opportunities and then work out those implementation pathways.[43]

2.38 The PC report recommended that the Office for the Not-for-Profit Sector should facilitate the establishment of an advisory panel.[44] However, the committee notes that the office is quite small, with only 12 staff and that it has 'a far-reaching agenda'.[45]

2.39 Foresters Community Finance (Foresters) suggested that a taskforce could progress development of intermediaries in the industry, such as CDFIs, that bring financing institutions and social economy organisations together:

> One thing that would be great would be coordination across various government agencies about the pursuit of this goal. This is where the market and the industry look at something like a social investment task force. Whether it is exactly that or not, it seems to make some sense because it would create that forum in which various players could come together in one place and have this kind of debate and discussion regularly, with a common set of goals to be in pursuit of.[46]

2.40 Ms Kylie Charlton, an expert in social finance, also called for a forum similar to that of the UK and Canadian taskforces to coordinate the development of the capital market in the social economy:

> In both these jurisdictions the respective task forces were instrumental in galvanizing stakeholders across the private, government and non-profit sectors around a common vision and strategy for development of a social capital market. While there is an increasing level of conversation in Australia on the topic it is largely uncoordinated and needs to be structured to ensure that we move forward in a considered manner that truly recognises success is dependent on cross sectoral engagement.[47]

The CCA roundtable

2.41 In response to this evidence, in September 2011, the CCA convened a roundtable of 15 social finance experts including intermediaries, financial institutions, philanthropists, foundations, government and NFPs. The purpose was to discuss their shared priorities to develop a capital market for the social economy.

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43 *Committee Hansard*, 26 September 2011, p. 23.

44 Productivity Commission, *Contribution of the Not-for-Profit sector*, January 2010, p. liii.

45 *Committee Hansard*, 26 September 2011, p. 31.

46 Ms Belinda Drew, Chief Executive Officer, Foresters Community Finance, *Committee Hansard*, 1 August 2011, p. 34.

47 Ms Kylie Charlton, private capacity, additional information (received 26 September 2011), p. 3.

2.42 The roundtable recommended that an expert taskforce be established to shape a policy framework, build on the work of this inquiry, and provide recommendations to government. The roundtable suggested that the taskforce examine four key areas:

- capacity of the sector;
- access to capital;
- strengthening the role of intermediaries; and
- reviewing structural barriers to investment (including regulation, legislation and terminology).

2.43 It also highlighted the need to develop an evaluation of social impact and other forms of performance measurement.[48]

2.44 The roundtable suggested that the taskforce operate for 6 to 12 months and, given the extensive regulatory and taxation reforms for the sector over the next 12 months, 'the Taskforce should work rapidly to provide some clear guidance that aligns with these processes'.[49] It outlined that the taskforce should consist of a range of key players across sectors and 'have a high level inter-face with government, particularly with involvement of the Treasury as well as the other central federal government agencies':

> An Expert Taskforce would require some resources to work effectively. In bringing together the roundtable discussion, it is apparent to CCA there are a small but passionate group of players who have many ideas about what can be done to grow the finance capacity of the sector. By bringing these champions together in a coherent way a solid and innovative policy framework can be established.[50]

2.45 Knode Pty Ltd and Foresters both suggested that the Australian taskforce should be led from outside government.[51] Foresters argued that the taskforce 'should not be prone to the influence of vested interests and should be capable of engaging both sides of the political divide'.[52]

2.46 The PC recommended in its report that the proposed advisory panel should be chaired by Treasury.[53] In evidence to the committee, Mr Fitzgerald explained that having Treasury chair the panel included government in consideration of

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48 Community Council for Australia, *Supplementary submission 15*, pp 1–2.

49 Community Council for Australia, *Supplementary submission 15*, p. 2.

50 Community Council for Australia, *Supplementary submission 15*, p. 3; Knode Pty Ltd, *Submission 30*, p. 2.

51 Knode Pty Ltd, *Submission 30*, p. 2; Foresters Community Finance, *Submission 4a*, p. 10.

52 Foresters Community Finance, *Supplementary submission 4*, p. 10.

53 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, pp 188, 194–95.

recommendations relating to government costing and tax arrangements for the social economy. However, he added that the PC report was not prescriptive about the model of the taskforce.[54]

Building on the work of the previous taskforces

2.47 Mr Ronalds of PM&C supported the calls for a taskforce to accommodate a coordinated approach to developing a robust social capital market. He argued that the taskforce could have a more ambitious timeframe than the UK's SITF as Australia is in a position to build on the work that has been done in other jurisdictions:[55]

> The Office for the Not-for-Profit Sector in Prime Minister and Cabinet has been continuing to work on many of the issues that have come before this committee, and we believe three initiatives in particular have significant merit. The first is a social investment taskforce that could lead a national dialogue, report on developments in social investment both here and internationally, advise on steps to support the emergence of an effective social impact investment market, oversee the development of initiatives to encourage the emergence of new social enterprises, and build new collaborations to support the role of social investment.[56]

2.48 Ms Rosemary Addis from DEEWR also highlighted the importance of focused dialogue and convening multiple sectors to develop the capital market for the social economy:

> **Ms Addis:** Dialogue and leadership are incredibly important. There is no doubt that in the UK, as evidenced by the profile that Sir Ronald Cohen now has in this space, that the task force there has been hugely influential.
>
> ...
>
> In any kind of innovation it is helpful to have both shared spaces and credible people to coalesce people around the issues and conversations. It is also helpful to have people who are fluent and able to talk about the issues across sectors because the cultural issues are different. Whether they are in government, the community sector or the private sector in investment, the issues of everybody's landscapes are absolutely legitimate and real. If we are going to carve new paths, we have to work out how we do that well, how we work out what parts of the system are there for very good reason and really matter, and where the room for change is. I think people do look to high-profile leaders to also set an example and to help create the view that these things are possible as well as paint a picture in concrete terms, as some of those reports have done, of how people might actually go about making some of it real.[57]

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54 Mr Robert Fitzgerald AM, Commissioner, Productivity Commission, *Committee Hansard*, 26 September 2011, p. 21.

55 *Committee Hansard*, 26 September 2011, p. 30.

56 *Committee Hansard*, 26 September 2011, p. 28.

57 *Committee Hansard*, 23 September 2011, p. 60.

2.49 Knode considered Australia could take advantage of the work of the international taskforces to 'leap-frog' the development of a policy framework for a robust capital market for the social economy in Australia.[58]

Conclusion

2.50 From the foregoing discussion, three things are apparent. First, the financing of the social economy sector in Australia is at an important stage of its development. To catalyse potential financing opportunities for the sector and move beyond the 'uncoordinated innovation' that has occurred to date, there is a clear need for a body to advise stakeholders on how best to raise awareness and promote collaboration. Second, this type of body has worked well overseas. The UK and Canadian taskforces attest to how they can provide strategic direction and encourage social investment. Third, on the evidence received during this inquiry, there is clearly the demand for such a body. Broad-based stakeholder support is important if the new body is to be effective. In this regard, it would seem that the positive international experience has been influential.

2.51 The committee recommends that a Social Finance Taskforce be established to explore mechanisms and options for the development of a robust capital market for social economy organisations in Australia. The taskforce should build on the evidence of both the PC report and this inquiry, and can expedite progress by examining the direction and accomplishments of the UK and Canadian taskforces.

2.52 The Taskforce should include high profile, influential members who can raise awareness of the progress of social investment in Australia. Taskforce members should have a financial background and a keen appreciation of the needs of the sector. The taskforce should have representation from:

- the Departments of Treasury, Prime Minister and Cabinet and Finance and Deregulation;
- the mainstream finance sector;
- CDFIs;
- the superannuation industry;
- the philanthropic sector;
- the social sector (including social enterprise); and
- academia.

2.53 Importantly, the creation of a Social Finance Taskforce should be distinct from the current arrangements to establish and advise the Charities and Not-for-Profit Commission (ACNC) and the work of the Office for the Not-for-Profit and the NFP Sector Reform Council (see Diagram 1.4). The Taskforce should be a separate body,

58 Knode Pty Ltd, *Submission 30*, p. 1.

focused on financing the social economy sector. If it is not, it would lose profile and the imperative of building a capital market could be subsumed within other, albeit important, not-for-profit issues. It is unclear how the mandate to increase social investment is currently being addressed by the government, beyond the limited scope and resources of the Office for the Not-for-Profit Sector. A taskforce will address this gap.

2.54 That noted, the committee believes that the Taskforce should be established while the current regulatory reforms of the sector are underway to ensure that these developments align with the social investment agenda.

2.55 A Social Finance Taskforce will have several benefits:

- it will provide strategic policy direction and recommend architecture for a sustainable framework for a sophisticated capital market within the social economy;
- it will provide ongoing advice to government to improve efficiencies in funding of the sector and ensure that the provision of ongoing government funding does not distort the market or constrain long-term progress;
- it will guide the development of this emerging social capital market and balance the supply of capital with the quality of organisations and projects requesting it. Supply and demand must be progressed in parallel to avoid imposing substandard products on investors, or a surge of social projects with inadequate finance available. A taskforce will analyse supply and demand within the social economy, and recommend options to coordinate the development of social projects that correlates with an equivalent increase in financial products and investors;
- it will consider options to develop a viable and vibrant financial intermediary market and assist financial intermediaries and financial institutes to develop products that are suitable to the unique needs of social economy organisations; and
- it will raise the profile of social investment options in Australia for social organisations and financial investors, and diversify the investment options for the philanthropic sector.[59] A taskforce could investigate options to create social investment opportunities of the scale to attract institutional investment to the sector.

Recommendation 2.1

2.56 The committee recommends that the government establish a Social Finance Taskforce to assess mechanisms and options in the progress and

59 JP Morgan, *Impact Investments: An emerging asset class*, November 2010, p. 5; Mr Michael Traill, Chief Executive Officer, Social Ventures Australia, *Committee Hansard*, 1 August 2011, p. 20.

development of a robust capital market for social economy organisations in Australia. The taskforce should initially report to government by July 2012.