

Chapter 8

Financing social enterprise

8.1 A social enterprise is a business model designed to deliver services for the purpose of providing a social benefit, rather than to provide a profit.¹ As such, earned income is by far the dominant financial input for social enterprises, and represented 85 per cent of income for social enterprises in the 2007–08 financial year in a recent sample survey.² However, social enterprises are 'multi-resource organisations' whose inputs consist of a mix of earned income, grants and bequests, paid staff and volunteer inputs.³

8.2 As discussed in chapter 1, the majority of social enterprises within the sector operate using a not-for-profit legal structure. However, some enterprises take on a for-profit trading structure and are often referred to as social businesses. There has been some discussion that social enterprises should not be considered part of the third sector but should instead occupy a Fourth Sector to reflect the cross-over between the private sector and the third sector (see chapter 1).⁴

8.3 Foresters Community Finance (Foresters) acknowledged the excitement and innovation in the field of social enterprise, but cautioned that it is not the sole means to 'get off the funding treadmill':

'Social enterprise' as a concept has been widely embraced and there is much excitement around its potential to bring energy and innovation to the social sectors in Australia. Alongside this excitement, however, is a degree of hype and a resultant array of fairly unrealistic expectations of what social enterprise could achieve (often without any real or extended support systems in place). Social enterprise is not, in our opinion, a magic solution for addressing wicked social problems, nor is it an alternative pathway for social sector organisations wishing to find ways to get off the funding

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

Social enterprises are organisations that 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. (Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, 'Finding Australia's Social Enterprise Sector: Final Report', June 2010, p. 4.)

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

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

4 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.

treadmill. Rather, it is an addition to the stable of ways in which we can address the most pressing issues facing our society today. Social enterprise is a hard road – it asks us to tread the slippery path between social objectives and commercial practices. It is not for the fainthearted nor for idealists. It calls for ‘practical visionaries’.⁵

8.4 This chapter begins with a brief overview of social enterprise in Australia and its three broad categories. It then examines the following issues:

- building capacity;
- legal structures and compliance;
- the Social Enterprise Development and Investment Fund (SEDIF);
- procurement; and
- the role of community investment and member-owned enterprises.

8.5 A balanced approach to finance for social enterprise will be explored and how to appropriately direct capital to foster sustainability. The importance of capacity is touched on, building on from discussions in chapter 3. The challenges associated with legal structures, and bridging the divide between for-profit and not-for-profit structures is also discussed. The chapter will then examine some means of generating capital for social enterprises using the SEDIF, procurement and member-owned enterprises, concluding with recommendations to improve the role of government as a catalytic investor for social enterprise.

Social Enterprise in Australia

8.6 A June 2010 report by the Australian Centre for Philanthropy and Nonprofit Studies (ACPNS) and Social Traders estimated that there are up to 20 000 social enterprises operating in Australia.⁶ According to the Giving Australia study in 2003–04 over one quarter (29 per cent) of not-for-profits operated as a social enterprise.⁷

8.7 Three main categories of social enterprises have been identified in the Australian context, as outlined below.⁸

- *Type A: Social Objectives and Social Outcomes*—an enterprise whose focus and purpose is to address a social issue using enterprising means. Whilst

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

6 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, pp 18–19.

7 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, p. 18.

8 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, pp 7–8.

present across all forms of economic production, social enterprises operate predominantly within the service economy.⁹

- *Type B: Employment Creation*—an enterprise that seeks to create employment and integrate people who have been excluded from employment into the workforce. If such an enterprise focuses on people who have been excluded from employment because of a disability or health related issues, these enterprises are referred to as ‘social firms’.
- *Type C: Social Wealth Generation*—an enterprise that is often linked with a non-profit organisation, that has at its core social objectives and which generates a financial return for the non-profit organisation. Also, social businesses may be established as subsidiary companies by charities, usually as proprietary limited companies. These businesses pay a dividend back to the not for profit for its charitable purposes. Similarly, social enterprises may exist as a stand-alone commercial entity that provides funding through donations or dividends to organisations that have a social benefit.¹⁰

8.8 There are a number of structures a social enterprises can adopt, all of which fall within the three broad categories outlined above.¹¹ In most cases an organisation will use a hybrid model enlisting a number of typologies in order to meet a core objective.¹²

8.9 The federal government has recently initiated the Social Enterprise Development and Investment Fund (SEDIF) to improve access to finance and support for social enterprises. The objective of the SEDIF is to assist the development of social enterprises and in turn, to increase the impact of their work in communities. On 9 August 2011, the government committed \$16 million to the initiative and announced that Foresters Community Finance and Social Enterprise Finance Australia (SEFA) had been selected as the fund managers for the SEDIF.¹³

9 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, 'Social Enterprise in Australia: a preliminary snapshot', June 2010, p. 7.

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

11 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, 'Social Enterprise in Australia: a preliminary snapshot', June 2010, p. 2; Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4—attachment 3*, pp 7–8; Social Business Australia and the National UN International Year of Co-operatives (IYC) 2012 Steering Committee, *Submission 14*, p. 3.

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

13 Department of Education, Employment and Workplace Relations, 'Social Innovation: The Social Enterprise Development and Investment Fund', <http://www.deewr.gov.au/Employment/Programs/SocialInnovation/SocialEnterprise/Pages/SEDIF.aspx> (accessed 22 November 2011).

Financing sustainable social enterprise

8.10 Challenges facing social enterprise are not dissimilar to those of the wider sector (see chapter 3). There is a need to develop financial products that can be applied at each stage of the life-cycle of social enterprises. In particular there is an acute need for start-up capital for emerging enterprises.

8.11 The capital needs of social enterprises need to be met without endangering either the social or business purpose of the entity. It is crucial that tools and structures to finance social enterprise build sustainability and impact and do not result in liability.¹⁴ The committee heard that providing finance to a social enterprise could unintentionally dilute the social impact of an organisation. High costs associated with raising capital and a focus on profit raising could detract from a social focus. Christian Super have opted to channel finance through a CDFI in order to mitigate the risk of unintentionally compelling a profit focus:

There are sectors where the gap between what, as investors, we desire and the social outcomes that are important for the community are just too great, and at times we actually run a danger of becoming too profit focused. If we go into those sectors, we will force those sectors to change in character, and ultimately that is bad for them and bad for the community. Where we do see the value is where we can get involved in sectors in a way that improves the ability of not-for-profits to deliver those services, whether that is because we have capital that they need or because we can enter in such a way, as we have done with the SEDIF program, that those not-for-profits can access money at what is probably a lower rate than they would from a commercial bank...¹⁵

8.12 Foresters conclude that the core motive behind any funding or finance should be to increase a venture's ability to generate impact and deliver social returns.¹⁶

8.13 Examining the work of social enterprises engaged in employment creation is a good illustration of where a social enterprise has additional expenses incurred due to its social mission. Social firms are typically small to medium sized businesses operating as divisions of larger not-for-profits (NFPs) competing against commercial operators.¹⁷ In addition to the challenges facing the NFP sector more generally, social firms face unique hurdles associated with employing a high proportion of disadvantaged employees:

14 Social Traders, *Submission 7*, p. 3; Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4-attachment 3*, p. 41.

15 Mr Tim Macready, Chief Investment Officer, Christian Super, *Committee Hansard*, 23 September 2011, p. 8.

16 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4-attachment 3*, pp 42, 54.

17 Social Firms Australia, *Submission 22*, p. 1.

Although there are a range of supports and subsidies available to any employer who recruits staff with a disability, the ongoing demands on a workplace which commits to a high level of staff with complex needs can affect the business's ability to maintain high standards and competitive pricing. This can be particularly challenging if the subsidy has expired but the support needs of the individual are still significant, particularly in the case of mental illness where the condition is episodic. This, combined with the fact that social enterprises will generally have a high number of part time staff, will need to meet a high standard of HR practice, and unlike many small businesses where the owner operator may not remunerate themselves at an hourly rate based on the relevant award, ensure that all staff are paid at a level commensurate with their skills and experience, can put the commercial viability of the enterprise at risk.¹⁸

8.14 To offset the additional operating costs generated by the social mission, Social Firms Australia (SoFA) proposed that a modest but ongoing subsidy be made available to all employers, including social firms, which commit to a certain number of employees with a disability or disadvantage.¹⁹ Social Ventures Australia also highlighted that social enterprises focusing on employment allocate a greater portion of profit to cover impact costs, and that government support should target these costs:

Social enterprises that siphon off large chunks of their profits to meet these employment support costs will be less likely to be able to repay social investors, hence are stuck in a catch 22 situation. If the government wishes to encourage employment creation for social enterprises to grow and scale and investors to fund them, then employment support cost funding should be required within the current JSA [Job Services Australia] contracts.²⁰ This doesn't need to be new money, just flexible use of current expenditure which acknowledges the inherent employment support costs working with the excessively long term unemployed.²¹

8.15 Foresters argued that using grants or gifts to cover core operational costs (as opposed to impact costs) could be detrimental to a social enterprise's ongoing viability.²² A Canadian report on social cooperatives discussed specifically the need to ensure that a venture is viable in the early stages of its life-cycle:

18 Social Firms Australia, *Submission 22*, p. 3.

19 Social Firms Australia, *Submission 22*, p. 3.

20 Job Services Australia (JSA) is a government funded network of organisations, private and community, managed by DEEWR to deliver employment services to unemployed job seekers on government income support payments and employers. JSA providers are allocated business through a competitive tender process, with contract periods varying in lengths of time determined by the government.

21 Social Ventures Australia, *Submission 2*, p. 3.

22 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4-attachment 3*, pp 35–37, 50.

It is relatively easy to start a co-op if there is developmental support. Keeping one going requires a lot of hard work. It requires that the co-op business is essentially viable, and that the co-op takes care of both the group development and the business side of things. There is some indication that if funding is too readily available in the beginning co-ops may be launched without laying a strong enough social or educational foundation.²³

8.16 Financial statements of social enterprises should include all the traditional costs of running a small to medium enterprise (SME), and additionally take into account the impact costs for the enterprise. Some enterprises choose to cross-subsidise to ensure that income from operations will cover operation and impact costs. For other enterprises, impact costs can be met through support organisations in the form of grants or donations.²⁴

Building capacity

8.17 Lack of capacity has been cited as one of the major obstacles to capital for social enterprises.²⁵ Data from the *Finding Australia's Social Enterprise Sector* (FASES) survey suggests however that social enterprises make good use of strategic plans, formal business plans, budget forecasts, and regular income/expenditure reports:

...our sample report relatively greater use of most business planning and performance measurement activities than mainstream business respondents. For example, 81.5% of our respondents compared with 31.7% of ABS respondents report using budget forecasting.²⁶

8.18 The FASES survey showed that the majority of respondents occasionally or regularly engage with others in the industry for business support. Many of the respondents report frequent access to external accountants, the Australian Taxation Office and banks. When compared to mainstream business practice, the results for accessing external accounting, financial and legal services were higher. The FASES

23 Social Business Australia and the National UN International Year of Co-operatives (IYC) 2012 Steering Committee, *Submission 14–attachment 1*, Co-operative Secretariat, Government of Canada, *Innovative Co-ops in the Social Services Sector: A research study to benefit people with developmental disabilities and mental illness*, p. 21.

24 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, pp 37, 50.

25 Social Ventures Australia, *Submission 2*, p. 3; Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, p. 22; Productivity Commission, *Submission 6*, p. 2; *Submission 9*, pp 24–25; Community Council for Australia, *Submission 15*, p. 3; JB Were, *Submission 19*, p. 5; Social Finance Pty Ltd, *Submission 21*, pp 1–2.

26 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, p. 32.

report acknowledges that this may reflect the regulatory environment for the sample survey which consisted mostly of organisations incorporated as not-for-profits.²⁷

8.19 Despite this evidence, lack of capacity or 'investment readiness' has been cited as one of the major obstacles to capital for social enterprises throughout this inquiry.²⁸ For example, Foresters interviewed a number of social enterprises; none of the interviewees had a formal education in financial management. The majority of respondents rated their current skill levels in financial management around five out of ten. Key workers within the organisations had identified the need to improve their skills and knowledge of the financial aspects of their work, some by learning on the job, others receiving formal training and mentoring.²⁹

The committee notes the government funding of \$1 million provided to Social Traders to administer a national business development and support service for 105 social enterprises that received funding from the Community Jobs Fund³⁰ and the Innovation Fund.³¹ The National Social Enterprise Development Support Project will assist the ongoing sustainability of the enterprises with tailored business development utilising coaching, networking and specialist advisory and support services. This work will be overseen by an Advisory Group from the Australian Social Innovation, Entrepreneurship and Enterprise Alliance and delivered in partnership with Job Futures.³²

27 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, pp 32–33, 36.

28 Social Ventures Australia, *Submission 2*, p. 3; Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, p. 22; Productivity Commission, *Submission 6*, p. 2; *Submission 9*, pp 24–25; Community Council for Australia, *Submission 15*, p. 3; JB Were, *Submission 19*, p. 5; Social Finance Pty Ltd, *Submission 21*, pp 1–2.

29 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4–attachment 3*, p. 22.

30 The Jobs Fund (JF) was announced in April 2009 and supports and creates jobs and skills development through projects that build community and social infrastructure. Funding of \$171 million was announced for 225 projects across Australia under the Local Jobs and Get Communities Working streams of the JF. One-off grants of up to \$2 million were made to support the delivery of innovative projects that maximise job and training opportunities in local communities and deliver positive environmental, heritage and social outcomes. The majority of JF projects were completed by 30 June 2011.

31 The Innovation Fund is a component of Job Services Australia. It is designed to address the needs of the most disadvantaged job seekers through funding projects that will foster innovative solutions to overcome barriers to employment which they may face. The government has provided \$41 million over three years from 2009–2012 for Innovation Fund projects. To date, a total of 77 projects have been funded.

32 The Hon. Kate Ellis MP, Minister for Employment Participation and Minister for Child Care, '\$1 million for social enterprises to help long term job seekers', *Media Release*, 31 May 2011; Social Traders Ltd, 'Social Traders to lead national social enterprise development support project', *Media Release*, 14 June 2011.

8.20 Social Traders noted that lack of business acumen stunts the growth of many enterprises. Social Traders created the Social Enterprise Development Fund in 2010, and invested \$950,000 towards five social enterprises in order to highlight the needs of the sector. Nine social enterprises were selected to participate in 'The Crunch' where, over a 5 month period each established a rigorous and detailed investment business plan. Of these nine, five were selected to receive finance totalling \$702,000 of which \$410,000 was repayable as patient capital at sub-commercial rates of interest.³³ The second round of 'The Crunch' is currently underway.³⁴

8.21 The pilot program highlighted that lack of business experience in the sector exacerbates the risk associated with investment in an enterprise. This same lack of business acumen translates into reluctance for many smaller enterprises to take on debt to achieve sustainability and growth.³⁵

8.22 Limited capacity also affects the ability of social enterprises to respond to tender opportunities. Social firms, for example, often have limited resources within the firm to respond to multiple tender opportunities and compete in the commercial market for large, sometimes multi-million dollar contracts.³⁶

8.23 The Productivity Commission (PC) report acknowledged that government can play a role in the development of capacity for social economy organisations by collaborating with peak bodies. The report also recommended expanding the Enterprise Connect program to include a centre for social enterprise.³⁷ The Enterprise Connect program is part of the Department of Innovation, Industry, Science and Research. It consists of a network of 12 centres across Australia that provides business improvement services to eligible small and medium businesses. Eligible businesses are able to request a comprehensive, confidential and independent business review at no charge, and the program also offers a number of targeted support programs to address specific business and regional development needs.³⁸

8.24 The report on Canadian cooperatives proposed that cooperatives, and non-profit enterprises, should be eligible for existing government programs that support small business:

There are many federal government programs to support and invest in the small business sector -- this in recognition of the net benefit to the community. It is not recognized as a subsidy, but rather as an investment.

33 Social Traders, *Submission 7*, p. 2.

34 Social Traders News, Edition No. 10, October 2011, p. 1.

35 Social Traders, *Submission 7*, p. 2.

36 Social Firms Australia, *Submission 22*, p. 4.

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

38 Enterprise Connect website, <http://www.enterpriseconnect.gov.au/Pages/Home.aspx> (accessed 28 October 2011).

We need more investment in co-ops in recognition of their benefit to communities...

Social co-ops could benefit enormously if programs to support small business start-ups were extended to them. The correspondent argues, "If you want the benefits of a diversified economy and the benefits of small business enterprise you should care nought whether the beneficiary has an individual as the recipient of the growth or whether the community as a whole is built into the residual benefit through non-profit enterprise or the co-op model".³⁹

8.25 The New Enterprise Incentive Scheme (NEIS) is a self employment program for unemployed people who wish to start their own independent business. NEIS providers assess the viability of potential business owners' projects and offer them training and support.⁴⁰ Mr Benny Callaghan, Chief Executive Officer of the School for Social Entrepreneurs, highlighted that whilst some social entrepreneurs could access NEIS, it was not the most suitable option for them as it did not offer expertise in social enterprise:

The NEIS program, the National Enterprise Incentive Scheme, as you would be familiar with, allows people to bring forward their ideas to set up commercial businesses by providing them with a small allowance on a weekly basis for a year while they complete a certificate IV in small business. This provides them with the skills to set up that business.

While the NEIS program has been highly effective for commercial business, it has not been effective for social entrepreneurs. Indeed, we have had people go through that program and then come to us because they have not found the appropriate support in that program. We have also had people look at the two programs and choose our program, despite not being able to get the financial support through it. They choose ours because we have expertise in social enterprise and social business, whereas the NEIS program does not, and setting up businesses, organisations or projects in a social space is inherently more complex in some ways.⁴¹

8.26 Social Traders told the committee that there was anecdotal evidence that some NEIS trainers have discouraged applicants to the program from pursuing the social enterprise approach as it will not maximise personal profit making.⁴²

39 *Submission 14-attachment 1*, pp 13–14.

40 Centrelink, 'New Enterprise Incentive Scheme', <http://www.centrelink.gov.au/internet/internet.nsf/services/neis.htm> (accessed 28 October 2011).

41 *Committee Hansard*, 23 September 2011, p. 10.

42 Ms Libby Ward-Christie, Investment and Growth Manager, Social Traders Ltd, *Committee Hansard*, 9 September 2011, p. 18.

Committee view

8.27 The committee is encouraged by the evidence in the FASES report that some social enterprises are developing their capacity and accessing external accounting, financial and legal services. However, evidence to this inquiry attests to an insufficient level of capacity in many small to medium social enterprises. The committee agrees with the PC recommendation that the Enterprise Connect program be extended to support social enterprise. The committee believes that the government has a role in supporting social enterprises and that relevant government programs which support small and medium sized business initiatives, such as NEIS, should be adapted to support social enterprises.

Legal structures and compliance

8.28 Social enterprises are subject to many of the inconsistencies and inefficiencies of regulation that the wider not for profit sector experience. Unique to social enterprises, however, is the additional complexities of navigating between the for-profit and not-for-profit sectors.

8.29 There is no single legal entity that applies to social enterprises⁴³ and as a result, social enterprises are not regulated by a single body. A recent sample survey revealed that the majority of social enterprises were incorporated associations (51.6 per cent) followed by companies limited by guarantee (24.5 percent).⁴⁴ These structures are associated with limited access to capital through debt financing, and equity investments are not appropriate for structures prevented from disbursing dividends.⁴⁵

8.30 For-profit social enterprises have expressed frustration with the limitations of their legal structures in accessing philanthropic and grant support.⁴⁶ Mt Buffalo Community Enterprise commented on the difficulties of being recognised as a community venture while having a for-profit structure:

These assumptions are akin to the treatment of the notion of profit as ‘evil’ in regard to the pursuit of social, community and public good. It fails to recognise the fact that profit plays a legitimate role as the price of private capital. By treating ‘not-for-profit’ status and being a socially motivated organisation as synonymous, this conspires to largely eliminate the

43 Social Business Australia and the National UN International Year of Co-operatives (IYC) 2012 Steering Committee, *Submission 14*, p. 3.

44 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, p. 26; Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4—attachment 3*, p. 38.

45 Centre for Social Impact, *Submission 27*, p. 9.

46 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4—attachment 3*, p. 38.

potential for socially motivated organisations to access and raise private capital.⁴⁷

8.31 Social Traders argued that although many social enterprises clearly exist for a social purpose, and not for personal gain, an enterprise's legal structure can limit the number of capital options available to it:

Many social enterprises, despite achieving significant and long-term social impacts and having a legal structure that does not allow the distribution of profits or surpluses for personal gain, are not eligible for Deductible Gift Recipient status; rendering them unable to attract significant funds from philanthropy, unable to raise capital from equity and unlikely to be able to access commercial finance due to a perception of high-risk by commercial lenders and low profit margins that hamper their ability to service traditional financial products.

Other social enterprises, such as many community enterprises, community banks and co-operatives have a for-profit legal structure and achieve significant social impact. While there is an opportunity to raise capital from equity or in the case of co-operatives from members, there is not the opportunity to access tax-deductible philanthropic capital and many have profit margins that preclude commercial lending.⁴⁸

8.32 Social Traders argued that the lack of a not-for-profit legal structure 'severely constrains the development and growth potential of these organisations, and forces debt financing in those instances where equity would be a more suitable form of capital'.⁴⁹ The Fundraising Institute of Australia (FIA) identified that 'Australian regulation does not differentiate between social enterprises and charities, and does not address the differences in their operations'.⁵⁰

Overcoming legal structure barriers

8.33 Foresters offered the following three potential options to overcome the barriers created by various legal structures for social enterprise:

- the creation of a legal structure specifically for social enterprise;
- the use of hybrid models where organisations incorporate not-for-profit and for-profit legal entities (for example having one entity wholly own the other) enabling the social enterprise to receive the benefits of both forms of structure; and
- creating legal structures and entities that are external to the core of the social enterprise that allow capital raising (such as is the case with legal structures

47 Mt Buffalo Community Enterprise, *Submission 24*, p. 6.

48 Social Traders, *Submission 7*, p. 3.

49 Social Traders, *Submission 7*, p. 2.

50 Fundraising Institute of Australia, *Submission 23*, p. 4.

like the Limited Liability Partnership (LLP) that has been developed in the UK and is now spreading to other countries).⁵¹

8.34 The Centre for Social Impact (CSI) argued that 'a systematic investigation into the efficacy and suitability of existing and possible legal forms for Australian social businesses' needs to be undertaken.⁵² The regulatory regime for social enterprises and NFPs is discussed further in chapter 9.

A new legal structure to support social enterprise

8.35 Social Traders argued that the lack of a not-for-profit legal structure tailored specifically to social enterprise that allows access to equity capital 'severely constrains the development and growth potential of these organisations, and forces debt financing in those instances where equity would be a more suitable form of capital'.⁵³ The Fundraising Institute of Australia urged that Australia adapt the UK model of Community Interest Companies administered by the Regulator of Community Interest Companies.⁵⁴

8.36 In the UK, a Community Interest Company (CIC) has been specifically designed to accommodate social enterprises who seek to use their profits for the public good. The PC report expands on the functions of a CIC:

CICs provide social enterprises with the flexibility of operating 'commercially' under the company form, but with special features – asset lock and capped dividend distribution – to ensure they are working for the benefit of the community without the need for charitable status. From a financing perspective, the CIC form expands access to finance for social enterprises as CICs are able to raise capital from issuing shares, albeit a capped share that restricts the level of dividends in order to protect community benefit.⁵⁵

8.37 Social Ventures Australia noted that CICs were designed to encourage investment in the sector and argue that Australia needs to 'shift to a more innovative and sympathetic tax structure'.⁵⁶

8.38 In the US states of Vermont and Michigan a new legal form for a low-profit, limited liability company (L3C) has been created. The structure facilitates investment in socially beneficial, for-profit ventures. The L3C differs from a standard limited

51 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4-attachment 3*, p. 39.

52 The Centre for Social Impact, *Submission 27*, p. 9.

53 Social Traders, *Submission 7*, p. 2.

54 Fundraising Institute of Australia, *Submission 23*, p. 4.

55 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. 194.

56 Social Ventures Australia, *Submission 2*, p. 3.

liability company (LLC) by holding an explicit primary charitable mission and only a secondary profit concern. Unlike a charity however, a L3C is able to distribute the profits to owners or investors.⁵⁷

8.39 Foresters, however, cautioned against creating a purpose-built legal structure for social enterprise:

Though legal structures can act as a barrier for accessing certain types of capital, it would be erroneous to think that the development of 'new' or social-enterprise specific legal structures will automatically or simply solve issues of undercapitalization in this sector.⁵⁸

8.40 The joint submission from the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of the Prime Minister and Cabinet (PM&C) also questioned whether a new legal structure is the appropriate response for overcoming some of the barriers to equity for social enterprises. They proposed that the needs of organisations and investors could be better met by designing the 'right' capital to meet the flexibility requirements of organisations and the exit strategies for investors.⁵⁹

8.41 The departments' submission highlighted that these international organisational forms that have developed are still relatively new and it is unclear whether they will be effective in promoting investment. The department argued that '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'.⁶⁰

Social Enterprise Development and Investment Funds (SEDIF)

8.42 As mentioned earlier, the SEDIF is the main government initiative helping to improve access to finance for social enterprises. The main target for the SEDIF is social enterprises that require seed and growth capital to move past the start up phase and grow into viable businesses. The departmental joint submission describes the SEDIF as an interim step in market development to provide a 'buffer' to test the market.⁶¹

The initial stage of selecting the fund managers has been illustrative of the interest in new ways for government, investors and community organisations to work together on finance options for the delivery of social impact.

57 Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. 194.

58 Foresters Community Finance, 'Financing Social Enterprise: Understanding Needs and Realities', *Submission 4-attachment 3*, p. 39.

59 DEEWR and PM&C, *Submission 9*, p. 30.

60 *Submission 9*, p. 30.

61 *Submission 9*, p. 29.

For government, the program demonstrates the wider application of a model already in use to attract investment to areas like green technology, one where government acts as a catalytic investor rather than contractor. For social organisations, the SEDIF presents a model that focuses on long term financial viability and moves away from grant dependence. For investors, the SEDIF demonstrates that the social sector can represent a viable investment, one that can produce social as well as financial dividends.⁶²

8.43 The government conducted a consultation process from 28 October 2010 to 3 December 2010 to assist in the development of guidelines for the SEDIF process. The guidelines were released on 22 December 2010 along with a call for applications for eligible fund managers. The SEDIF Advisory Committee supported this process. The Advisory Committee consisted of members with expertise in relevant aspects of finance, funds management, social enterprise, social investment and legal and governance consideration.⁶³

8.44 As mentioned earlier, the two organisations selected for funding through the competitive grant process are Social Enterprise Finance Australia (SEFA) and Foresters Community Finance. The funds are to receive \$10 million and \$6 million respectively.

8.45 SEFA, established on 1 July 2011, intends to provide finance to social enterprises on commercial terms. An integral objective is to help customers build their capacity to manage debt and to become financially sustainable over time. SEFA will focus on three broad areas of social impact: community development; indigenous community enterprises; and community environment enterprises. Loans will only be given to social enterprises with tangible social outputs. SEFA has partnered with a number of organisations including:

- Triodos, a leading social impact finance institution founded in the Netherlands—providing significant loan funding and sharing its experience, intellectual property, resources and seconded personnel;
- Community Sector Banking—contribution of investment funds, generating loan applications, full banking services and supply of personnel experienced in investment in social enterprise and the community sector;
- the Macquarie Group Foundation—business mentoring to applicants;
- the NSW Aboriginal Land Council—founding investor and partner in Aboriginal enterprises;
- Bush Heritage Australia—expert land valuation for conservation;

62 Additional information received from DEEWR, cover letter, 12 August 2011.

63 Additional information received from DEEWR, 'Social Enterprise Development and Investment Funds (SEDIF) – Frequently Asked Questions', 12 August 2011.

- the University of Sydney Business School, Innovation and Entrepreneurship Research Group (IERG)—development of key performance indicators and metrics to measure social impacts;
- Mallesons Stephen Jaques—pro bono legal services; and
- the Institute of Strategic Management—development of a Certificate IV for social entrepreneurs.⁶⁴

8.46 Foresters has partnered with the Christian Super Fund, which contributed \$6 million towards the establishment of two new investment funds. These funds are:

- the Community Finance Fund (CFF) which will provide a range of tailored financial products to established social enterprises; and
- the Social Enterprise Finance Fund (SEFF) which will assist innovative and emerging social enterprises to build their capacity to meet the criteria of mainstream financial institutions. The SEFF may utilise quasi-equity or patient loans that put social returns ahead of financial returns.

8.47 Social Investment Australia Limited, a subsidiary of Foresters, will be the trustee to manage the two funds. Both funds will assist applicants with targeted business advice to ensure financial sustainability of the enterprise over time. Applicants to the CFF and SEFF will only be accepted if they demonstrate social value.⁶⁵

8.48 Submitters welcomed the development of the SEDIF and the new capital it has attracted to the market.⁶⁶ Christian Super highlighted that the SEDIF was a particularly attractive mode of investment as it lowered the risk associated with investing in the sector:

Currently, direct investments into the not-for-profit sector can expose a fund to risks that cannot be justified by the returns, and making such an investment would not be prudent for our fund members. However, sharing the risk with government, as we did with the SEDIF program, improves the risk-adjusted return and allows us to make meaningful investments that make a real difference in the community. In our view, the shared risk and

64 Additional information received from DEEWR, 'Social Enterprise Finance Australia Ltd (SEFA) profile', 12 August 2011.

65 Additional information received from DEEWR, 'Foresters Community Finance profile', 12 August 2011.

66 Ms Libby Ward-Christie, Investment and Growth Manager, Social Traders Ltd, *Committee Hansard*, 9 September 2011, p. 17; Ms Susan Bowman, Manager, Business Development, Social Firms Australia, *Committee Hansard*, 9 September 2011, p. 37; Mr Simon Lewis, Head of Strategic Partnerships, Communications and Community, The Trust Company, *Committee Hansard*, 9 September 2011, p. 44.

reward model is a key component of any investable structure that seeks to improve both the financial and the social return of the investment.⁶⁷

8.49 DEEWR outlined that the two funds would be open for operation before the end of 2011, making their first loans not long after.⁶⁸ SEFA informed the committee that 70 applicants have contacted them in relation to the SEDIF in their first six weeks of operation, estimating that roughly a dozen of these would translate into viable investment loans.⁶⁹ SEFA provided some commentary on the applications received so far:

The inquiries we have followed up are all good business ideas, and ideas are what they are. The first challenge is to make a social business idea into something that can work from a viability point of view. On the one hand there is a need for some mentoring, for education and to have people on their teams who can do business plans. A number we have spoken to so far are yet to have a business plan. When I have asked if they could write one they have said they do not have the consultants or the funding to do it. On the one hand that says that perhaps there is a lack of funding but much more relevantly it says that the CEOs of these initiatives by and large do not have the ability to write their own business plans. There are obviously some issues out there.⁷⁰

8.50 Dr Ingrid Burkett of Knode Pty Ltd acknowledged that the injection of capital in the market has developed the supply side, but noted that the big challenge is going to be whether the demand is up to the mark in terms of accessing the SEDIF finance. Dr Burkett recognised that the fund managers and intermediaries in the sector are presented with a challenge to build the capacity for social enterprises to access the new credit supply.⁷¹

Monitoring the SEDIF

8.51 Social Business Australia and the National UN International Year of Co-operatives (IYC) 2012 Steering Committee, (SBA and the IYC steering committee) recommended that the government provide guidelines to define the tasks of social enterprise fund managers. The guidelines would provide advice to ensure that successful applicants for funding are viable and sustainable, comply with the Fair Work Act, health and safety regulations and environmental standards. SBA and the

67 Mr Peter Murphy, Chief Executive Officer, Christian Super, *Committee Hansard*, 23 September 2011, pp 1–2.

68 Ms Rosemary Addis, Social Innovation Strategist, DEEWR, *Committee Hansard*, 23 September 2011, p. 60.

69 Mr Duncan Power, Chief Executive Officer, Social Enterprise Finance Australia, *Committee Hansard*, 23 September 2011, pp 34, 35.

70 Mr Duncan Power, Chief Executive Officer, SEFA, *Committee Hansard*, 23 September 2011, p. 34.

71 *Committee Hansard*, 9 September 2011, p. 35.

IYC steering committee argued that fund managers should use legally binding and enforceable loans, and produce public lending guidelines to enhance accountability.⁷²

8.52 In relation to performance evaluation, under the guidelines for the SEDIF, successful fund managers are required to adopt a robust approach to measuring the social value created by their investments and to benchmark against international standards.⁷³ SEFA is working with the IERG at the University of Sydney to develop key performance indicators and metrics to measure social impacts.⁷⁴ Foresters uses Impact Reporting and Investment Standards (IRIS) to provide transparent and consistent social impact measurement.⁷⁵ DEEWR has opted not to prescribe a form of evaluation, but instead develop systems in consultation with the fund managers taking into account best practice.⁷⁶

8.53 While the government has taken an 'arms' length⁷⁷ approach to managing the work of Foresters and SEFA, DEEWR has committed to regular reviews of the progress of the SEDIF:

In terms of making too many judgments, it is going to take a while. This is a change process, too. It is conversation with the sector; it is a conversation with investors. We will certainly be looking at this at regular intervals to see how it is tracking. The way that we have thought about it conceptually in setting this up is that there will be an establishment phase—getting doors open and getting things tracking in the first little while. Then there is whatever the remainder of the first three years is. Then, hopefully, there is a successful business as usual phase.⁷⁸

Committee view

8.54 The committee acknowledges the government's work in developing the SEDIF initiative. The SEDIF provides a positive example of strategically directing funds to deter dependence on government and encourage sustainability in the sector. It is a means to build the capacity of social enterprises, strengthen the work of financial

72 Social Business Australia and the National UN International Year of Co-operatives (IYC) 2012 Steering Committee, *Submission 14*, p. 5.

73 Additional information received from DEEWR, 'Social Enterprise Development and Investment Funds (SEDIF) – Frequently Asked Questions', 12 August 2011.

74 Additional information received from DEEWR, 'Social Enterprise Development and Investment Funds (SEDIF) – Frequently Asked Questions', and 'Social Enterprise Finance Australia Ltd (SEFA) profile', 12 August 2011.

75 Foresters Community Finance, *Submission 4a*, p. 8.

76 Ms Rosemary Addis, Social Innovation Strategist, DEEWR, *Committee Hansard*, 23 September 2011, p. 59.

77 Additional information received from DEEWR, 'Social Enterprise Development and Investment Funds (SEDIF) – Frequently Asked Questions', 12 August 2011.

78 Ms Rosemary Addis, Social Innovation Strategist, DEEWR, *Committee Hansard*, 23 September 2011, p. 60.

intermediaries in the sector and attract investors to the market. The committee commends this approach to other departments.

8.55 The committee emphasises the importance of reviewing the SEDIF. This analysis will enhance the learning for the wider sector, government and future potential investors. A thorough analysis may also reveal whether further capacity development is required on the demand side before supply is further reinforced. The committee looks forward to the public reports of both Foresters and SEFA evaluating both the work of the fund managers and the social impact of the loan recipients.

Social procurement

8.56 Social procurement is an approach used by governments, councils and other service providers that focuses on generating social benefits and social impact.⁷⁹ It allows organisations (or individuals) to choose to purchase a social outcome when buying goods or services.⁸⁰

8.57 The process of social procurement can involve:

- social tendering (directly identifying a social purpose business rather than competitive tendering);
- engaging a principal provider (who delivers services through the use of sub-contracts with social benefit organisations);
- including a community/social benefit criterion in the call for and assessment of competitive tenders; and
- procuring goods and services only from suppliers who demonstrate socially responsible work practices.⁸¹

8.58 Social procurement is another option for government in promoting social enterprises. Social procurement policies from government play a key role in the development of the social enterprise sector. As SoFA commented:

[Social procurement] initiatives will assist social enterprises with opportunities to secure a stable source of longterm revenue. There needs to be an associated capacity building mechanism to support not-for-profits to respond to commercial opportunities... In the area of social procurement SoFA has recently launched a 'Partnerships With Industry project' that works specifically to identify opportunities and develop relationships between government, business, and social firms to increase contracts for existing social firms. Ultimately this work will lead to increased

79 Ingrid Burkett, *Social Procurement in Australia*, December 2010, p. 5.

80 Social Traders, 'Social Procurement', <http://www.socialtraders.com.au/social-procurement> (accessed 2 August 2011).

81 Social Firms Australia, *Submission 22*, p. 4.

employment opportunities for people with a mental illness, SoFA's primary target group, to secure durable employment.⁸²

8.59 Social Traders suggested that all levels of government should encourage, and partake in, social procurement through purchasing goods and services that deliver public benefit and in turn strengthen the diversity of social enterprise models.⁸³

8.60 The Victorian government administers the 'Expert Support Program' which purchases goods and services from social enterprises. In doing so, the government is able to unlock strategic value in procurement of social outcomes in addition to their required products.⁸⁴ In October 2010, the Victorian Department of Planning and Community Development (DPCD) launched *Social Procurement: A Guide for Victorian Local Government* to assist councils in their efforts to procure with positive social impacts. The guide forms part of the Procurement Excellence Program led by Local Government Victoria. The guide will build upon current initiatives to enhance triple bottom line procurement:

The triple-bottom line approach to procurement is frequently explored by councils wanting to achieve strategic objectives around economic, environmental and social outcomes. The economic and environmental objectives delivered through procurement are increasingly recognised by councils; however, the social objectives of the triple-bottom line approach are often underdeveloped.

Social procurement involves using procurement processes and purchasing power to generate positive social outcomes in addition to the delivery of efficient goods, services and works. For local government, social procurement builds on initiatives already undertaken by the sector in enhancing sustainable and strategic procurement practice, enabling procurement to effectively contribute to building stronger communities and meeting the social objectives of councils.⁸⁵

8.61 As part of the Expert Support Program, tools and templates will be released including advice on implementing social procurement initiatives, social procurement mapping methodology and a *Social Procurement Engagement and Awareness Strategy*. The Centre for Social Impact considers it 'a good model for how to drive that sort of change at the local government level'.⁸⁶

82 Social Firms Australia, *Submission 22*, p. 4.

83 Social Traders, *Submission 7*, p. 3.

84 Social Traders, *Submission 7*, p. 3.

85 Department of Planning and Community Development, State Government of Victoria, 'Social Procurement', <http://www.dpcd.vic.gov.au/localgovernment/councils-reforming-business/procurement/social-procurement> (accessed 28 September 2011).

86 Associate Professor Cheryl Kernot, Director of Social Business, Centre for Social Impact, *Committee Hansard*, 1 August 2011, p. 41.

8.62 Large councils such as the Brisbane City Council and Parramatta City Council have also supported social enterprise through purchasing arrangements.⁸⁷ The Nundah Community Enterprise Co-operative (NCEC), for example, creates sustainable employment and training opportunities for people with mental illness, learning difficulty or intellectual disability. The City of Brisbane contracted NCEC to maintain initially three, and later eight city parks. This gave the cooperative a significant revenue stream, and its members an interface with the community.⁸⁸

8.63 The development and promotion of 'purchasing directories' is another area in which government could bring a positive influence to social procurement. Social Traders is in the process of developing an online directory of social enterprises across Australia. 'The Social Enterprise Finder' will stimulate demand for the products of social businesses and enable government, corporate and community organisations and individuals to purchase and procure from social enterprises. Other purchasing directories include the Australian Indigenous Minorities Supply Council, the Industry Capability Network, Australian Disability Enterprises and 'Ecobuy' in Victoria.

Community investors and member owned businesses

8.64 Member owned businesses represent a considerable proportion of the social enterprise sector in Australia, and rank as the second most common ownership structure (18.1 per cent) in the FASES survey.⁸⁹ The main types of member owned businesses are cooperatives, associations, and mutuals.⁹⁰ Member owned businesses strengthen and encourage diversity in the economy through job creation, the development of skills and encouraging business investment in rural and regional Australia. In addition to a member owned business' specific mission, its activities serve a dual purpose of improving the economic and social wellbeing of its members and the community.⁹¹

8.65 The CSI and SENTECH (Social Enterprise Technologies) argued that utilising community investment to raise capital for business ventures is often

87 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, p. 8.

88 Social Business Australia and the National UN International Year of Co-operatives 2012 Steering Committee, *Submission 14—attachment 1*, p. 12; Nundah Community Enterprise Co-operative, <http://ncec.com.au/content/view/12/26/> (accessed 30 August 2011).

89 Australian Centre for Philanthropy and Nonprofit Studies and Social Traders, *Finding Australia's Social Enterprise Sector: Final Report*, June 2010, p. 25.

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

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

overlooked within the social investment debate in Australia.⁹² The emphasis is instead placed on 'disengaged institutional investors':⁹³

...much of the debate around social investment here seems to be an extension of the “grants culture” and pays little heed to community engagement and the provision of locally based finance for social ventures. This is especially a problem when the evidence is that it is “community investment” that provides the breadth of support that will see a trading social enterprise through to long term sustainability.⁹⁴

8.66 SENTECH argued that there are greater amounts of potential capital in community investors than traditional mechanisms of giving, and that community investors provide a sustainable means to finance social enterprises:

The full potential of community investment is easy to imagine. Most people's savings and investments are far greater than the amount they could afford to donate to good causes. So if mechanisms are created to enable people to invest and save in good causes in their communities, there is the potential to raise far greater sums of money than are currently raised through charitable giving.⁹⁵

8.67 Hepburn Community Wind Park Co-operative Limited consists of 1900 members and has successfully financed a community owned and operated renewable energy generator on a commercial scale (\$13.5 million). It is designed to accommodate the energy needs of the local community in Daylesford, Victoria. The finance for the venture consists of Victorian State Government grants, bank debt and members equity in the form of shares. Members of the co-operative include 'retail investors' (individual local investors), self-managed super funds and philanthropic investors who have contributed more than \$8.7 million to build the farm. Profits generated from the venture will be distributed to members annually, and profits will also fund community programs.⁹⁶ Hepburn Wind states that the broad-base support from local community members, 'demonstrates the ability of these projects to tap into local capital':⁹⁷

...the idea is to channel institutional and retail investors who want to pursue something which has an objective that is not entirely profit driven. So, at the same time, as I said, our objective is to deliver a healthy investment return to them, but we are not all about profit. We are fundamentally about coalescing our community, delivering renewable power and providing hope

92 Centre for Social Impact, *Submission 27*, p. 9.

93 SENTECH, *Submission 18*, p. 1.

94 SENTECH, *Submission 18*, p. 2.

95 SENTECH, *Submission 18*, p. 2.

96 Centre for Social Impact, *Submission 27*, p. 20.

97 Hepburn Community Wind Park Co-operative Limited, *Submission 20*, p. 1.

and opportunity for people in regional Australia, because it gives them a chance to energise—all puns intended—their community.⁹⁸

Employee Share Ownership

8.68 An Employee Share Ownership Plan (ESOP) provides a means for employees to acquire shares in the company in which they are employed. The shares are held in a trust or similar mechanism and can be purchased or granted free of charge. Purchases may be through a loan, salary deductions, bonuses or profit shares. ESOPs allow employees to become part-owners of their employer's business. The concept of the ESOP revolves around employee incentive, and productivity and profitability for the employer.⁹⁹ ESOPs can also be instrumental in job creation, particularly via employee buyouts.

8.69 SBA and the IYC steering committee noted that one of the success stories of the Global Financial Crisis was the rescue and restructure of failing local business into community owned and operated businesses.¹⁰⁰ SENTECH argued that the buy-out of failing businesses by employee ownership structures provides a 'democratic community engagement' which 'provides a powerful competitive advantage over other business models in these cases'.¹⁰¹ Ms Elena Kirillova of the Australian Employee Buyout Centre provided a recent example of the benefits of an employee buyout:

In a recent case study, which has just been completed by us for a company called CMAC Industries, an ageing owner with a marginal financial business and no serious prospects of selling on any trade basis or transferring the business to her children, introduced an employee share ownership plan which was offered to all the employees. Twenty-nine out of 31 decided to participate, and we paid for all the advisers that were necessary for this which of course included financial due diligence by independent accountants; a valuation of the business; and marketing advice to improve their prospects and customer base. There has been an immediate shift in the employee attitudes towards the business and the productivity has increased apparently—I was speaking to the adviser yesterday—18 per cent in three months. It has brought them the job security, which they for some years have been worrying about. They are participating in what is happening in the business. There is transparency and of course there is

98 Mr Martin May, Director, Hepburn Community Wind Park Co-operative Limited, *Committee Hansard*, 9 September 2011, p. 24.

99 Employee Ownership Group, <http://www.employeeownershipgroup.com.au/default.asp?id=43> (accessed 2 August 2011); see also Australian Employee Ownership Association, Australian Institute of Company Directors and Australian Shareholders Association, 'Employee Share Ownership Plan Guidelines', February 2007, <http://www.aeo.org.au/docs/0024/Employee%20Share%20Ownership%20Plan%20Guidelines.pdf> (accessed 7 November 2011).

100 Social Business Australia and the National UN International Year of Co-operatives 2012 Steering Committee, *Submission 14*, pp 1–2.

101 SENTECH, *Submission 18*, p. 2.

ownership and, over time, the idea is that they will wholly own the business based entirely upon the company transferring part of the profits as the productivity increases.¹⁰²

8.70 CSI agreed that cooperatives, and in particular employee buy-outs, present opportunities for regional areas to remain economically viable. However, it noted that there can be limited capital and capacity for employees to negotiate buyouts:

...in those communities where maybe the for-profit organisations are finding it unviable, how you can facilitate community ownership and also employee buyout where there is the concept of shared ownership? These are huge opportunities to ensure that communities continue to be viable in remote, rural and regional areas. However, you need to have a pool of capital ready to support such initiatives. The problem at the moment is that there is probably insufficient focus of capital on those types of problems. Unfortunately, the community cannot get organised quickly enough or the employees do not have access to the expertise they need to enter into an employee buyout situation. Once again, I think there would be an opportunity if there was a fund that was actually dedicated to providing bridging capital until the community or the employees could get organised.¹⁰³

8.71 A number of submitters recommended that a Shared Ownership Centre be established with a mandate to support SMEs and social businesses 'for the benefit of saving jobs and assisting local communities with start up initiatives and businesses'.¹⁰⁴ The Centre would act as an intermediary and engage private sector advisors to provide advice to SMEs and community start up initiatives. Submitters argued that government support is required to establish the Centre as existing support agencies for employee shared ownership operate almost entirely on a volunteer basis:

Government support is required for the Shared Ownership Centre, to drive change and to provide support for broad stakeholder ownership, grass roots social innovation and self help initiatives, as well as to contribute to the debate for legislative, tax and industry reforms on behalf of stakeholder owned social businesses...

We also envisage that some funding on a matched basis could be provided in due course by the relevant professional membership bodies, in a manner similar to the way that community legal centres function with the support of Government and the legal profession to allow access to professional

102 *Committee Hansard*, 23 September 2011, p. 46.

103 Mr Les Hems, Director of Research, Centre for Social Impact, *Committee Hansard*, 1 August 2011, p. 41.

104 Australian Employee Ownership Association Inc, Social Business Australia; Australian Employee Buyout Centre Ltd and the IYC 2012 Secretariat Ltd, *Submission 37*, p. 1.

services, inter alia, in the public interest, where it would otherwise not be available.¹⁰⁵

8.72 The Centre would bring recognition of the importance of community initiatives for social enterprise, 'as they reflect actual need at a grass roots level' and support existing and start-up business initiatives.¹⁰⁶

Conclusion

8.73 The committee emphasises that social enterprises must be 'investment ready' in order to engage with a capital market. In this context it acknowledges the government's partnership with the intermediary, Social Traders, to provide the continuation of business development and support services to enterprises that have recently concluded engagement with the Jobs Fund and Innovation Fund. The committee recommends that the government continue to examine ways to partner with intermediaries to develop the capacity of social enterprises, particularly those that have procured government funding. In addition, relevant government programs that support small and medium sized business initiatives should be expanded to provide further opportunities for social enterprises to strengthen their capacity.

8.74 The committee notes the measures taken by a number of state governments to further procure the services of social enterprises. It highlights the work of the Victorian government's Expert Support Program and recommends that targeted social procurement should be adopted at a federal level. The committee recommends the Department of Finance and Deregulation, responsible for the competitive tendering and contracting framework, should review the framework with a view of increasing social procurement options.

Recommendation 8.1

8.75 The Office for the Not-for-Profit Sector identify relevant current and future government programs, such as Enterprise Connect and the New Enterprise Incentive Scheme, that could be extended to offer specialised support for social enterprises. The programs should be extended to include support for cooperatives, employee share ownership plans and employee buyouts.

Recommendation 8.2

8.76 The Department of Finance and Deregulation, Treasury and the Office for the Not-for-Profit Sector should jointly conduct a review of the competitive tendering and contracting framework and examine the costs and benefits of:

105 Australian Employee Ownership Association Inc, Social Business Australia; Australian Employee Buyout Centre Ltd, IYC 2012 Secretariat Ltd, *Submission 37*, p. 1.

106 Australian Employee Ownership Association Inc, Social Business Australia; Australian Employee Buyout Centre Ltd, IYC 2012 Secretariat Ltd, *Submission 37*, p. 1.

- **social tendering to identify a social purpose business rather than a competitive tendering process; and**
- **including a community/social benefit criterion in the call for and assessment of competitive tenders.**

