

# CONTRIBUTION OF THE NOT FOR PROFIT SECTOR

## Submission to the Productivity Commission's Issue Paper

Social Traders welcomes the opportunity to make this brief submission to the Productivity Commission's Issue Paper (April 2009) on the contribution of the not for profit sector.

### Social Traders

Social Traders is an independent company established to facilitate, support and advocate for the development of social enterprise in Australia. Established in late 2008, Social Traders has been actively working with social enterprises and other intermediary organisations in 2009 on a range of initiatives including a research project to map the social enterprise sector in Australia, developing a virtual social enterprise hub, co-hosting (with Social Ventures Australia) the 2009 Social Enterprise World Forum (SEWF) and promoting greater collaboration on a range of policy issues across the social enterprise sector.

The strategic priorities of Social Traders are to:

- demonstrate the benefits of social enterprise
- open up markets to social enterprise
- increase finance available to social enterprise
- increase the trading capacity of social enterprise
- establish a coordinated approach to social enterprise development in Australia.

### An introduction to Social enterprise

Social enterprises are businesses that are set up for the principal purpose of delivering social outcomes through trading activity. Profit-making social enterprises utilise the majority of their profits to advance their social goals.

Social enterprises are diverse; they work in a wide range of industries taking different legal forms and delivering wide ranging social outcomes. Perhaps the best known and most prolific social enterprises in Australia are the 'opportunity shops' that are found in every suburb or town. Most people would also be aware of credit unions and community banking models and lots of people participate in food cooperatives. Social enterprises exist for very different social purposes. The motivations for social enterprise include:

- providing training and employment
- providing community engagement
- responding to the need for specific goods and services
- responding to environmental issues, and
- raising revenue to deliver community services

There is a high level of enterprising activity occurring within the Australian not for profit sector. The Johns Hopkins Comparative Nonprofit Sector study found that the Australian not for profit sector ranks fourth in the world, ahead of both the UK and the US, in income generated through fees and subscriptions. Significantly, 38% of non profit sector revenue is derived from the sale of goods and services (excluding government purchasing) according to

2006-07 ABS survey data. Commercial activity is a critical means of both delivering and funding social outcomes in the not for profit sector.

This data suggests that in terms of financial contributions, social enterprise activity actually exceeds government funding and purchasing from the not-for-profit sector. Notwithstanding the scale of social enterprise activity, there is limited understanding of social enterprise in Australia and consequently there is:

- little recognition of the value generated by social enterprise.
- limited assistance to social enterprise through government policy settings,
- a lack of scholarship and research activity in this field

It could be argued that social enterprise is the elephant in the not-for-profit sector room.

As part of our priority to build the evidence base of social enterprise, Social Traders has commissioned a research project being undertaken by the Australian Centre for Philanthropy and Non Profit Studies at Queensland University of Technology, to map the social enterprise sector across Australia. The base information being provided through the *Finding Australia's Social Enterprise Sector (FASES)* project will provide a greater understanding of the number, location, industry, scope, scale, social motivation and specific needs and challenges facing social enterprises. The first phase of this project is due for completion in January 2010. Further information is available at [www.socialeconomy.net.au](http://www.socialeconomy.net.au)

It is perhaps worth noting that some social enterprises would not regard themselves as operating within the not for profit sector. In Australia, there are many social enterprises that see their activities more closely aligned to the business sector than the not for profit sector. Some social enterprises have adopted for-profit structures. This range of views reflects the hybrid nature of social enterprise, which is reliant on sound business discipline as a tool for delivering social outcomes.

### **Specific comments on the Issues Paper**

#### *Trends in Government Funding and Service Delivery*

The only reference to social enterprise in the Issues Paper is on page 41 in the section on Trend and Developments identifies social enterprise as a Trend or Development (p41). This reflects the general lack of awareness and understanding of the benefits of social enterprise referred to earlier. This 'trend' identified in the report may be a reference to the emergence of a new wave of social enterprises and social enterprise intermediaries over the last ten years that are interested in social enterprise as a tool for community building, job creation and community engagement. Whilst social enterprises have performed these roles for hundreds of years, there appears to be growing impetus in Australia for social enterprise to play an increasing role in meeting economic and social needs.

There is a heightened level of innovation in social enterprise occurring at present. The role of government has tended to be different in each state. In Victoria the government has supported the development and start up of over 80 social enterprises. In other states and federally, there has been less government engagement. As is often the case with innovation, it takes time to get it right and understand the costs. The bulk of resources and effort for this activity is coming from the not for profit and philanthropic sector.

In some cases, social enterprises that focus on generating benefits for the most marginalised are unable to fully cover operating costs due to the existence of a “productivity deficit”. Such social enterprises can be successful in meeting a social objective that is not being effectively dealt with through government funded programs designed to achieve the same outcome. In the UK and many European countries there is significant support and direct financial contributions to social enterprises working effectively with the most marginalised groups. Government has an important role to play in supporting the operations of social enterprises that deliver significant social outcomes.

#### *Measuring contribution in the not for profit sector*

Social Traders believes that government should take a lead in the development of a framework for impact measurement. We support the government’s proposed approach outlined by the Commission to capture outcomes and outputs. In developing a framework there needs to be recognition that different models for measuring impact will be more relevant to certain organisational types; while **output** collection methods can and should be prescriptive, **outcome** collection methods necessarily need to be diverse. Any framework developed needs to accommodate differences, yet generate meaningful data.

It is important that the measurement of outputs and outcomes is affordable to small, medium and large organisations. Developing benchmark data would assist many organisations to measure their impact. For example, by understanding the savings to society associated with individuals moving from long-term unemployment into ongoing employment, organisations are able to quantify the financial impact of their work, by providing other templates and approaches they will be able to develop an understanding of other areas of impact. There needs to be some further work done to provide the sector with the information required to understand the true impact of its work.

Social Traders is about to undertake work with the Westpac Foundation and the Brotherhood of St Laurence to pilot different impact measurement models for social enterprises.

#### *Access to human resources*

The strongest social enterprises are those that have a balanced mix of employees with both commercial acumen and community expertise. Attracting people with these combined skills is difficult; it usually requires multiple employees with different backgrounds and experience who collectively bring the required skills to the business. Unfortunately, many social enterprises have failed because they were unable to attract the right mix of employee skills.

Strategies to develop and attract the skills for social enterprise could include:

- promoting social enterprise in the consciousness of those working in business who are looking for a change or a way of using their skills to provide social value.
- building the skills of those working in the sector through formal tertiary training or otherwise targeted and tailored skills development programs, and
- providing mentors to social enterprise practitioners who can provide reflective support and advice on a range of planning and operational issues.

### *Access to financial resources*

Social enterprise has developed in Australia with limited financial support from government. In recent times, the Victorian Government has taken a proactive approach in supporting social enterprise by investing \$10 million over six years directly through community enterprise grants and by funding support agencies and intermediaries.

There is a need for greater investment in the development of social enterprises, including direct investment in social enterprises and the development of a social enterprise support structure. An area of social enterprise development in Australia that trails far behind many countries is the availability of finance to social enterprises. Whilst approaches differ there are structures in many countries to provide commercial debt, low or no interest loans and grants to social enterprises. Government has a role in funding and supporting the establishment of this type of investment framework.

### *Capacity to innovate*

Thought needs to be given to some of the creative media available to share information. The use of weekly e-newsletters, podcasts, list serves and other forms of creative meeting such as innovation camps can creatively link people with ideas and knowledge.

The Innovation Panel established by the Department of Employment Education and Workplace Relations (DEEWR) presents a great opportunity to showcase methods of innovation in the employment and training field and build a hub of innovation that can be shared more broadly. The Innovation Panel should be used to pilot a creative commons as a means of sharing innovation and knowledge in relation to employment pathway creation.

### *Government funding and service delivery*

It is important to differentiate between grant funding and purchasing goods and services by government. In some circumstances social enterprises are winning contracts from government that would normally be won by for-profit organisations. Government purchasing through social enterprise represents a significant opportunity to support the growth of social enterprise throughout Australia.

There has been significant work undertaken in Europe, the UK and Canada around social procurement (purchasing social outcomes as well as purchasing goods and services). There is a strong recognition by both the government and private sectors in these countries that by purchasing from social enterprises, they are able to get better value (social/financial) for money with little or no budgetary impact. They are effectively tapping into a new pool of funds to deliver social outcomes.

Social Traders is currently investigating the possibility of undertaking a national pilot project on social procurement involving government at all levels and the private sector that draws on best practice models and processes both here in Australia and overseas.

### **Further Information**

The government should be commended for undertaking a review into the contribution of the not for profit sector. If you require further information or wish to discuss our submission, please contact Mark Daniels (E: [mark.daniels@socialtraders.com.au](mailto:mark.daniels@socialtraders.com.au) M: 0414 241 766)