



The Commissioner
Productivity Commission
GPO Box 1428,
Canberra City
ACT 2601 Australia

1 December 2009

Contribution of the Not for Profit Sector

Dear Commissioner,

HSC & Company is a leading philanthropy and community investment strategy consulting firm. Much of our work involves operating as an intermediary at the intersection between the public, private and non profit sectors. As such we have an active interest in optimizing mechanisms that enhance philanthropy as well as individual and corporate community investment. Our firm also focuses on applying collaborative innovation to help address and solve systems level issues that hinder the progress of organisations wishing to contribute toward or participate in the delivery of social impact.

We would like to congratulate the Productivity Commission on a well articulated, insight-rich draft research report.

Our response to the draft findings focuses on specific topics and is based on our internal global research, insight from commercial engagements and discussions with members of the philanthropic, private and non profit sector leadership communities.

In the interest of pragmatism and a desire to see practical implementation of key recommendations, our response also offers cautions and guidance on how the design of a outcome-focused, non profit sector 'blueprint' may be approached.

In summary our response covers:

1. Building stronger, more effective relationships for the future
Effective representation and leadership of the NFP sector to inform and collaborate with the Australian Government, intermediaries and the private sector
2. Sector Development
Increased contribution by the NFP sector based on consistent input and outcome evaluation
3. Stimulating social investment
Tangible benefits linked to removing roadblocks that prevent the establishment of sustainable social enterprises and fostering social innovation.

HSC & Company welcomes the opportunity to work closely with Productivity Commission on these critical, sector-shaping issues. We welcome the opportunity to contribute further specific research input prior to the finalisation of your report.

Regards,

A handwritten signature in black ink, appearing to read 'Phil Hayes-St Clair', written in a cursive style.

Phil Hayes-St Clair
Chief Executive Officer



RESPONSE TO THE PRODUCTIVITY COMMISSION DRAFT RESEARCH REPORT ON THE CONTRIBUTION OF THE NOT FOR PROFIT SECTOR

1 DECEMBER 2009

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EXECUTIVE SUMMARY

HSC & Company is a leading philanthropy and community investment strategy consulting firm. Much of our work involves operating as an intermediary at the intersection between the public, private and not-for-profit (NFP) sectors. As such we have an active interest in optimizing mechanisms that enhance philanthropy as well as individual and corporate community investment. Our firm also focuses on applying collaborative innovation to help address and solve systems level issues that hinder the progress of organisations wishing to contribute toward or participate in the delivery of social impact.

We would like to compliment the Productivity Commission on their efforts in researching and presenting the Contribution of the Not for Profit Sector draft research report.

When considering proposed recommendations in the context of the advancements other developed nations have made in understanding and improving the contribution of their NFP sectors, we believe Australia is placed in a unique and advantageous position. Although the Australian NFP sector is subject to various historic systems and processes, the access to learnings and perspectives from international peers can expedite design and implementation of best practice in the NFP sector, its intermediaries and the way in which other sectors engage with the NFP sector.

Our comments are made in our specialised capacity as an advisor on corporate and public sector community investment and in our role as philanthropy advisors to families and individuals. We recognise that whilst these two types of guidance are very different, they remain interconnected. That said, we reiterate Philanthropy Australia's position¹ that "the Productivity Commission recognise the special role of philanthropy as a separate, specific and key segment of the NFP sector".

In acknowledging and lending our support to the general direction of recommendations from this report, there is a need to prioritise and apply focus to selected items that will underpin tangible and positive change at the core of the NFP sector and at the intersection points where it engages other sectors.

It is our view that implementation of three critical recommendations will lay the essential foundations that will result in:

1. Building stronger, more effective relationships for the future

Effective representation and leadership of the NFP sector to inform and collaborate with the Australian Government, intermediaries and the private sector.

2. Sector Development

Increased contribution by the NFP sector based on consistent input and outcome evaluation.

3. Stimulating social investment

Tangible benefits linked to removing roadblocks that prevent the establishment of sustainable social enterprises and fostering social innovation.

We have also included some independent strategic thinking relating to models that we believe will promote social innovation (Appendix A) and enhance NFP sector effectiveness as it related to duplication of effort by NFP organisations (Appendix B).

In addition HSC & Company are prepared to share privately with the Productivity Commission proprietary tools and platforms designed to address and solve some of the challenges more broadly outlined in the draft research report.

We look forward to working with the Productivity Commission and the Australian Government to advance and support the implementation of these recommendations. Our experience and learnings as an intermediary facilitating greater capital to the NFP sector positions us well to assist the Productivity Commission in further researching and validating key items prior to the issue of the final report.

¹ Philanthropy Australia 2009, Draft Submission to PC on Draft Report, Melbourne

1. BUILDING STRONGER, MORE EFFECTIVE RELATIONSHIPS FOR THE FUTURE

Effective representation and leadership of the NFP sector to inform and collaborate with the Australian Government, intermediaries and the private sector

<p>A. CONTEXT</p> <p>In our experience we see a gradual blurring of the traditional sector divisions that historically meant the NFP sector operated in isolation from the public and private sectors.</p> <p>As collaborative efforts increase to improve the effectiveness of the NFP sector and enhance the unique impact the NFP sector can deliver, there is a need for ensure cross-sector, well supported leadership - that respects historic perspectives and which caters for the views and motivations of emerging leaders - is established to provide focus to the design and implementation of strategic blue prints and initiatives that will deliver positive, multi-sector results.</p>	<p>B. RELEVANT DRAFT RECOMMENDATIONS</p> <p>13.2 The Australian Government should establish an Office for NFP Sector Engagement within the Prime Minister’s portfolio, for an initial term of five years. The Office would support the Australian Government in its efforts to:</p> <ul style="list-style-type: none"> ▶ implement sector regulatory and other reform and the implementation of the Government’s proposed compact with the not-for-profit sector ▶ promote the development and implementation of the proposed Information Development Plan ▶ initially fund and oversee the establishment of the proposed Centre for Community Service Effectiveness ▶ implement the proposed contracting reforms in government-funded services ▶ act as a catalyst for the promotion and funding by government agencies of social innovation programs ▶ facilitate stronger community and business collaboration. <p>The Office should, through the relevant Minister, report publicly on an annual basis on its achievements.</p>
<p>C. RATIONALE FOR IMPLEMENTING RECOMMENDATION</p> <p>Implementing this recommendation will provide the NFP sector, the Australian Government and the private sector with a leadership point that can be accountable for driving progress on key items and issues.</p> <p>To date the lack of leadership:</p> <ul style="list-style-type: none"> ▶ has been a fundamental point of frustration for stakeholders within the NFP sector and adjoining sectors ▶ is likely to contributed significantly to a lack of progress in implementing recommendations from previous Australian Government reports including 1995 Industry Commission Inquiry, the 2001 Charities Definition Inquiry, and the 2008 Senate Economics Committee Inquiry into Disclosure Regimes (Baldwin C, 2009. Social Sector Reform: An Overview of Current Australian Government Initiatives, Centre for Social Impact - UNSW, Sydney) 	<p>D. TIMELINE</p> <p>1. Detailed design by a cross sector leadership team - 12 months. Detailed design should include (but not be limited to) the development of:</p> <ul style="list-style-type: none"> ▶ leadership protocols ▶ strategic blue prints and accompanying implementation schedules ▶ public reporting standards <p>2. Program of work to commence immediately after detailed design phase.</p>
<p>E. SHORT TERM BENEFITS</p> <p>Appoint a well supported leadership group - comprising of cross sector, multi-generation leaders with access to the Prime Minister - will signal a commitment by the Australian Government to NFP sector participants seeking the necessary reform leadership.</p>	<p>F. MEDIUM TO LONG TERM BENEFITS</p> <p>Office for NFP Sector Engagement is a key stakeholder to implementing other key recommendations (refer to Section H below). This office also will provide a central point of contact, information and collaboration to NFP peak bodies and other government agencies that to date has been unavailable.</p>
<p>G. PRACTICAL ISSUES TO CONSIDER</p> <p>We understand the Australian government is unlikely to support an imposed NFP sector leadership structure. As such we encourage the Productivity Commission to consider options to include active participation of NFP sector and private sector professionals in the design and operation of an Office for NFP Sector Engagement.</p> <p>Furthermore much of the changes outlined in the Productivity Commissions report, if implemented, are likely to span a longer term time frame. As such, the perspectives of existing and emerging leaders within and engaged with the NFP sector in developing the way forward should be considered.</p>	<p>H. OTHER RECOMMENDATIONS THAT CAN NOW BE IMPLEMENTED</p> <p>DRAFT RECOMMENDATION 5.2 & 5.3 Improving comparability and usefulness of information collected</p> <p>DRAFT RECOMMENDATION 5.4 Improving evidence-based practice through better evaluation</p> <p>DRAFT RECOMMENDATION 6.2 & 6.3 Reducing unnecessary compliance burdens</p> <p>DRAFT RECOMMENDATION 6.4 Consolidating Commonwealth regulation and improving transparency</p> <p>DRAFT RECOMMENDATION 7.3 & 7.4 Improving the environment to support sector access to funding</p>

2. SECTOR DEVELOPMENT

Increased contribution by the NFP sector based on consistent input and outcome evaluation

<p>A. CONTEXT</p> <p>The decade to 2009 has witnessed a increased global focus on the effectiveness, sustainability and efficiency of NFP organisations and non government organisations (NGO's). This has largely resulted from humanitarian crisis events (e.g. 2004 Tsunami) and publications (e.g. Charities – How much of your donation is gobbled up by fundraising fees and expenses, Choice Magazine, 2008) which have highlighted a need for a more consistent understanding of how these organisations function and deliver outcomes consistent with their mission.</p> <p>In the same period an array of 'self-regulator' style platforms have been developed including Charity Navigator, Guidestar and GiveWell. Enjoying mixed success, the evolution of these platforms signals a desire to promote greater effectiveness and transparency of investment in and delivery of social impact.</p>	<p>B. RELEVANT DRAFT RECOMMENDATIONS</p> <p>5.3</p> <p>To minimise compliance costs and maximise the value of data collected, Australian governments should agree to implement a reform agenda for reporting and evaluation requirements for not-for-profit organisations involved in the delivery of government funded services. This should:</p> <ul style="list-style-type: none"> ▶ commit to basing reporting and evaluation requirements in service delivery contracts on a common measurement framework (appropriately adapted to the specific circumstances of service delivery) ▶ require expenditure (input) measures to be based on the Standard Chart of Accounts ▶ ensure that information generated through performance evaluations are returned to service providers to enable appropriate learning to take place and for organisations to benchmark their performance ▶ embody, where practicable, the principle of 'report once, use often'
<p>C. RATIONALE FOR IMPLEMENTING RECOMMENDATION</p> <p>The inputs and outputs of evaluation are of equal relevance and importance.</p> <p>INPUTS</p> <p>Notwithstanding other inputs, the need to have a consistent basis for accounting and financial management is critical to achieving useful and insightful 'input' evaluation. The Centre for Philanthropy and Non Profit Studies (CPNS) at the Queensland University of Technology has made material advancements in developing a fit for purpose (and well received) Standard Chart of Accounts for NFP organisations. A coordinated, incentive-based, national effort to implement this Standard Chart of Accounts will underpin a variety of future initiatives and reduce costs and effort associated with a diversity of current practices.</p> <p>OUTPUTS</p> <p>A common measurement framework is appropriate for Australian Government funded service delivery contracts. Incentivising NFP organisations and NGO's that operate independently of these contracts (or are developing capability to participate in such contracts) to adopt other appropriate measurement frameworks including Social Return on Investment (SROI), Results-based accountability (RBA) or Logical framework ('log frame') will help create the paradigm shift to an outcome focused NFP sector.</p> <p>NOTE: Implementing consistent evaluation should not be limited to organisations involved in the delivery of government services but extended to organisations granted DGR or TCC status.</p>	<p>D. TIMELINE</p> <p>INPUTS</p> <p>Leveraging existing experience:</p> <ol style="list-style-type: none"> 1. Assemble a task group (overseen by the Office for NFP Sector Engagement) whose mission is to identify, outline a plan and begin addressing implementation challenges relating to Standard Chart of Accounts - 12 months 2. Implement and transition to a nation wide Standard Chart of Accounts* - 24 months <p>OUTPUTS</p> <ol style="list-style-type: none"> 1. Detailed design of common evaluation methodology (including other specific evaluation mechanisms) and related implementation schedule - 12 months 2. Implement and transition to a common evaluation methodology* - 24 to 36 months <p>* This includes ongoing training and support to maximise medium and long term benefits relating of high standards of information quality.</p>
<p>E. SHORT TERM BENEFITS</p> <p>A forecast move to a sensible approach to evaluation may encourage philanthropists to streamline and increase contributions to NFP organisations.</p>	<p>F. MEDIUM TO LONG TERM BENEFITS</p> <p>Tangible understanding of the contribution of the NFP sector and decreased costs to NFP organisations and NGO's.</p>
<p>G. PRACTICAL ISSUES TO CONSIDER</p> <p>Evaluation providers (Section A above) have noted the challenges and significant investments linked to creating useful and useable technology solutions to meet large scale data capture and analysis needs. The Productivity Commission should note that whilst capture of this data may have been achieved, it is often difficult to mobilise this information for other uses (e.g. reporting and large scale grants management).</p>	<p>H. OTHER RECOMMENDATIONS THAT CAN NOW BE IMPLEMENTED</p> <p>DRAFT RECOMMENDATION 5.1 Measuring the contribution to the sector in the future</p> <p>DRAFT RECOMMENDATION 5.2 Improving comparability and usefulness of information collected</p> <p>DRAFT RECOMMENDATION 5.4 Improving evidence-based practice through better evaluation</p> <p>DRAFT RECOMMENDATION 6.2 Reducing unnecessary compliance burdens</p>

3. STIMULATING SOCIAL INVESTMENT

Tangible benefits linked to removing roadblocks that prevent the establishment of sustainable social enterprises and fostering social innovation.

<p>A. CONTEXT</p> <p>Tax concessions (e.g. Deductible Gift Recipients - DGR, and Tax Concession Charity - TCC) and Private Ancillary Funds (formerly Prescribed Private Funds - PPFs) have been fundamental in promoting public and private philanthropy. Social enterprises (for profit and non profit) and the innovations they promote have difficulty accessing funding, particularly from philanthropic funds. These enterprises therefore try and secure traditional commercial or government funding often with limited success.</p> <p>A recent innovation from the USA (also being investigated by the Singapore Government) is a hybrid corporate structure called an L3C which allows philanthropic foundations to invest in limited liability companies that have a social mission whilst generating profits.</p> <p>We believe implementing an L3C or similar structure in Australia will result in unlocking resources to fund sustainable social enterprises.</p> <p>Refer to Appendix A for more detailed information.</p>	<p>B. RELEVANT DRAFT RECOMMENDATIONS</p> <p>7.4 The Australian Government should establish a joint working party made up of representatives of the not-for-profit sector, business, philanthropic and other government to explore obstacles to not-for-profits raising capital and evaluate appropriate options to enhance access to capital by the sector.</p>
<p>C. RATIONALE FOR IMPLEMENTING RECOMMENDATION</p> <p>Although there is a desire in Australia to embrace social innovation and social enterprise, there is no vehicle to facilitate investment in social enterprise.</p> <p>Much like in the USA, charitable foundations in Australia are required to disperse 5% of their assets per annum, why not allow them to contribute (and invest in) organisations that have a clear social mission and choose to operate profitably in order to be sustainable.</p> <p>A joint working party can further investigate the L3C as an option for implementation in Australia given the research that has already occurred.</p>	<p>D. TIMELINE</p> <p>1. Assemble a joint working party (overseen by the Office for NFP Sector Engagement) to explore obstacles to NFP organisations and social entrepreneurs raising capital and evaluate options to enhance access capital by the sector - 12 months</p>
<p>E. SHORT TERM BENEFITS</p> <p>Leveraging experience from the USA, existing legal structures can be used to trial and if successful, implement the L3C structure.</p> <p>Access to capital to support social innovation and social enterprise (which NFP organisations can adopt as a means to diversify income sources).</p>	<p>F. MEDIUM TO LONG TERM BENEFITS</p> <p>Australia will realise the employment and social benefits delivered by an industry of self sustaining, social outcome focused organisations.</p>
<p>G. PRACTICAL ISSUES TO CONSIDER</p> <p>Charitable foundations will require support in identifying suitable social enterprises and in doing so be prepared to accept the related risks of investing in a business.</p>	<p>H. OTHER RECOMMENDATIONS THAT CAN NOW BE IMPLEMENTED</p> <p>DRAFT RECOMMENDATION 9.1 Promoting social innovation</p>

APPENDIX A - L3C Hybrid Corporate Structure

In early 2009 HSC & Company identified the work of Robert Lang in founding and helping introduce into US law the L3C hybrid corporate structure.

The principle features of the Low-profit Limited Liability Company (L3C) are that it:

- ▶ Must have a socially beneficial purpose.
- ▶ Is designed to let foundations make program-related investments (PRI) more easily.
- ▶ Enables some investors can earn a market return and hold equity in the company.
- ▶ Is not tax-exempt, and contributions to L3Cs are not tax-deductible.

Lang, a US based philanthropic foundation chairman, recognised how existing corporate structures could be adjusted to create the L3C and used to as a vehicle that philanthropic foundations could invest in - to help create sustainable social impact focused organisations - as part of their annual grant making commitment.

We have been collaborating with Robert Lang to better understand the L3C structure and how the L3C might be introduced into Australia. The next major milestone in this investigation involves participating in a law symposium in Vermont, USA in February 2010. We would welcome appropriate representation by officers of the Productivity Commission at this symposium.

NOTE: Also refer to 'Examples of L3Cs' at the end of our response.

ENGAGEMENT SUMMARY

A conversation with Robert Lang (CEO L3C Advisors L3C, CEO of the Mary Elizabeth & Gordon B. Mannweiler Foundation and creator of the L3C) and Phil Hayes-St Clair (CEO, HSC & Company)

Date: 11 September 2009

Topic: L3C hybrid business structure operating social enterprise²

SUMMARY

A new business organizational structure that will give social enterprise a new operating and funding vehicle.

A law creating L3Cs (Low-profit Limited Liability Company) as a variant form of LLC has been passed in the states of Illinois, Michigan, Vermont, Utah, Wyoming and the Ogalal Souix and Crow Indian Nations has been passed that allows the organization of a new hybrid corporate structure (called L3C) for for profit ventures that have a primary goal of achieving a socially beneficial purpose.

L3C facts:

- ▶ An L3C must have a socially beneficial purpose.
- ▶ It's designed to let foundations make program-related investments (PRI) more easily.
- ▶ Some investors can earn a market return and hold equity in the company.
- ▶ L3Cs are not tax-exempt, and contributions to L3Cs are not tax-deductible.

20 other states are considering the law.

BACKGROUND

Robert Lang created the concept based on logic that:

- ▶ Charitable foundations in the USA were dispersing funds anyway, why not allow them to contribute (and invest in) organisations that have a clear social mission and choose to operate profitably in order to be sustainable. Under US law a PRI replaces a grant. Foundations are required to make grants equal to 5% of their assets every year.
- ▶ Although there was an active desire to embrace such social enterprises, there was no vehicle to facilitate such a relationship.
- ▶ An easy to use and understand vehicle like the (L3C) was some thing that charitable foundations could embrace.
- ▶ There was no magic momentum to this, the development of the L3C concept has been 4 years in the making.

APPROACH

1. A principle based journey

- ▶ The less (new) law, the better - the Limited Liability Company (LLC) laws on the books in all 50 states already contained the necessary framework(s) and provide the equivalent of corporate protection to an organization that is otherwise structured in many ways like a partnership in which the governing document is a contract known as the operating agreement.
- ▶ Think of the interaction between the charitable foundation(s) and the other investors and members as a partnership organized to operate a social enterprise which is self sustaining.
- ▶ Don't establish a new structure, leverage the existing and most common structure (Limited Liability Company - LLC).
- ▶ Consider the legislative path of least resistance and therefore make the L3C concept 'non partisan', therefore position accordingly:
 - ▶ If conservative = Increase in free enterprise and decrease in government size
 - ▶ If liberal = more funding to social problems

² For the purpose of this conversation a social enterprise is defined as a for profit entity that operates with a clear social mission and purpose. It is recognised that a social enterprise may also be a non profit organisation.

- ▶ Tranche the investment structure and leverage the program related investments to take the highest risk at the lowest return in order to provide opportunities for market rate investors to participate. The result expands the pool of potential dollars available for social investment and reduces demand on charitable dollars.

2. An innovative team with vested interest was assembled to drive the L3C concept

- ▶ Robert Lang
- ▶ Mark Owen an attorney who was previously Director of the Exempt Division of the Internal Revenue Service (IRS), currently a partner in Caplin & Drysdale in Washington, DC.
- ▶ Arthur Wood - Social Finance Director for Ashoka.
- ▶ Other major supporters include John Tyler, Secretary and General Counsel, the Marion Ewing Kaufmann Foundation in Kansas City (The largest US charitable foundation actively supporting entrepreneurs) and Steve Gunderson, CEO, The Council On Foundations. The community development staff of the Federal Reserve Bank have also become active supporters.

Key foreign supporters or those interested in the L3C work include:

- ▶ Penny Low - Member of Singapore Parliament
- ▶ Joseph Anderson - Partner in Morrison & Foerster, Singapore
- ▶ Paul Martin former PM of Canada
- ▶ Stephen Lloyd - UK - author of the UK CIC law

Many others were also involved.

3. Choke points were identified early on:

- ▶ Identification of suitable L3C's by charitable foundations could be an issue.
- ▶ Entrepreneurs (social and otherwise) seeking to establish an L3C have to find balance between making profit and doing good - this can be a challenge - this requires an appropriate integration of business planning with social ambition.

4. Creating momentum is key

- ▶ The first state to write the L3C into law was Vermont (Under US law since LLCs were legal in all states and since the L3C was a type of LLC the passage in Vermont made L3Cs legal in all the states.).
- ▶ There are approximately 80 - 90 L3C's already established.

NEXT STEPS

- ▶ Other countries including Singapore have started investigating how an L3C can be introduced. HSC & Company will begin conversations with key stakeholders in Singapore in November 2009.
- ▶ On February 18 & 19, 2010 the Vermont Law School Symposium will host an international panel on the subject and where hybrids or where similar L3C type organizations exist or hope to exist in other countries. Tentative attendees include Stephen Lloyd (author of the British CIC law) and Paul Martin (former PM of Canada). There is the opportunity for an appropriate party from Australia to participate.
- ▶ A short outline of several L3C's currently being created is being compiled and will be distributed shortly.

END

APPENDIX B - Aggregation Incentive Program

HSC & Company has been exploring concepts relating to how similar Australian non profit sector organisations (NPO's) may be encouraged to better coordinate and leverage more efficient operating models to become more sustainable, increase delivery of social impact and reduce duplication of effort. This information brief is designed to present our initial thinking.

INFORMATION BRIEF

Topic: Preliminary thinking on Non Profit Sector focused Aggregation Incentive Programs (AIP)
 Date: 7 October 2009

BACKGROUND

HSC & Company has been exploring concepts relating to how similar Australian non profit sector organisations (NPO's) may be encouraged to better coordinate and leverage more efficient operating models to become more sustainable, increase delivery of social impact and reduce duplication of effort. This information brief is designed to present our initial thinking.

CONTEXT

- ▶ There is a growing appetite by:
 - NPO's to become sustainable - key part of that equation is reducing cost whilst increasing revenue
 - Funders to support aggregation to reduce duplication, improve efficiencies and increase the (eventual social) impact of their funding
- ▶ Government does not have an approach to aggregating NPO's largely due to the lack of data profile on duplication
- ▶ Merger's have been achieved (and documented) in the non profit sector – largely driven by boards
- ▶ Key challenges include vested interests', lack of strategy and deficient infrastructure to support aggregation
- ▶ Corporate organisations (e.g.. Westpac) beginning to explore 'shared services' platforms for NPO core capabilities like fundraising
- ▶ Few intermediary service firms have the required expertise or orientation to support aggregation

AGGREGATION MODELS

An aggregation model is a concept with an objective to streamline operations and consolidate similar functions for strategic benefit. Given the diversity of organisations operating in the Australian non profit sector it is unlikely that a 'one size fits all' approach exists. Due to an absence of contemporary market forces the take up of these models will require incentives (noted below). Aggregation models can take the form of structural and/or virtual

1. Shared Services
 Areas along the value chain where scale benefits can be gained without losing non profit identity and founder control e.g. Accounting, HR, receipting, governance, advertising, investment vehicles, fundraising infrastructure
2. Joint Ventures (JV)
 JV for delivery of services where NPO's come together to fulfill the needs of a community or cause and to access funding
3. Mergers
 Create scale efficiencies where interests and intent compliment
4. Consolidation
 Coordinated rationalisation of federated NPO's
5. Umbrella structures for disaster response
 Establish scale response partnerships to meet demands beyond capability of any one entity – forerunner then to mergers and JV's

INCENTIVES

CARROT	STICK
1. Remove barriers e.g. taxes, streamline administration to support set up Incentives for NPO participation – financial set up assistance, positive discrimination regarding milestones and accreditations 2. Publish principles and guidelines for good practice for NPOs using 'if not, why not' approach 3. Put in place protections for participating entities e.g. circumstances that trigger right to withdraw, customer data rights 4. Incentives for corporate organisations that have developed technologies and capabilities that could apply to participate e.g. Wealth platform managers, mortgage aggregators, outsourcing companies. 5. Support intermediaries with tailored development programs	1. Set governance and sustainable entity hurdles for future compliance 2. Lock non participants out of some markets 3. Skew funding towards desired portfolio reshape 4. Increase transparency of metrics and benchmarks

OUTSTANDING CONSIDERATIONS

- | | |
|---|---|
| <ul style="list-style-type: none"> ▶ Governance model and ownership structure of any shared services entities ▶ Key factors for success ▶ Key metrics and how to measure | <ul style="list-style-type: none"> ▶ Transaction structures ▶ Role of parties – Gov't/NPO associations/NPO leadership ▶ What could derail progress |
|---|---|

END



Examples of L³Cs

Background

The L³C is now legal in all 50 states as a result of legislation signed into law in Vermont in April 2008, Michigan in Jan. 2009, the Crow Indian Nation in Jan. 2009, Wyoming in Feb. 2009, Utah in March 2009, the Oglala Sioux in July 2009 and Illinois in August 2009. A Vermont, Wyoming, Utah, Illinois or Michigan L³C, like a Delaware corporation, can be used anywhere. The L³C is pending in some form in Missouri, Arkansas, Montana, Oregon, Washington State, North Carolina, Maine, Massachusetts, Ohio, Tennessee, California, Colorado, Kentucky, Virginia, North Dakota, Florida, and Georgia. The following L³Cs have either been formed or are in process. We know very little about many of the ones already formed because they have not been in touch with us. The ones listed that are still being formed are ones we are working with.

L³Cs Already Formed

Allegheny Greenworks (Pittsburgh PA)
Consults with nonprofit organizations and companies "on green enterprises and program development."

Green Omega (Vergennes, VT)
Works with other organizations on justice issues relevant to bringing victims and offenders together to try as much as possible to correct wrongs caused by the crimes.

Farm Fresh for ME (Bangor, ME)
An intermediary to connect small family farms with consumer buying clubs through an online ordering system.

Hemp Amalgamated (Montpelier, VT)
Promotes a better understanding of hemp and its

potential uses for medicine, food, fabric, etc.

Maine's Own Organic Milk Company (Augusta, ME)
Created to organize family-run organic dairy farms and provide for the processing, marketing, and distribution of their milk and eventually to create other organic milk products.

ParentRise (Austin, TX)
Works with single parents and their children to provide educational and other support primarily through a Web site.

Radiant Hen Publishing (Orleans, VT)
Publishes books for children and adults that "encourage kindness to all living things" while helping promising authors and artists.

Sporting Philanthropy (Denver, CO)
Created to aid professional athletes plan and carry out their charitable giving.

Zirgoflex (Norwich, VT)
Software developer that operates the Web site of OpenMuseum.org, a program of a charity called Heritance that "allows people who like museums, art, and culture to visit exhibits online and get to know other people who also like and visit museums."

L³Cs Being Formed

The Montana Food Bank Network is creating a new company **Endless Sky L³C** to operate the Endless

The logo for Endless Sky features a stylized blue and yellow wave above the text 'Endless Sky' in a blue, sans-serif font.
Sky Food Processing facility in Deer Lodge, Montana. The company will produce and market a retail and commercial line of fresh iconic food products. The revenue from this

operation will finance the operations of the entire company which will also process food for the food banks all over Montana. Organized as an L3C, it will place mission above profit to insure that the shelves of the food banks are well stocked.

Endless Opportunities (Deer Lodge MT)



The Endless Sky facility will be located in a new industrial park. It became apparent in early planning that the entire park lacked tenants and had environmental challenges. We are now working with the state and town to organize the park as an L3C to be constructed and managed by Endless Opportunities L3C. The goal will be to expand upon the concept of the Endless Sky L3C food packing facility. We tentatively plan to have an animal processing facility which will handle all types of animals but specialize in hogs. That facility will also handle the processing of both domestic and game meat available to the Montana Food Bank Network. Although Endless Sky will help the small farmers of Montana, they are restricted by both kinds of crops and length of growing season. Endless Sky, of course intends to be a year round operation with a wide variety of products.

We are going to have a state of the art greenhouse from Home Town Farms, L3C. This facility will permit the sale by Endless Sky of a variety of products grown and packed fresh year round. It will also improve the ability of the Food Bank to deliver fresh vegetables and fruits to its clients year round.

The fourth component of the park will be a biomass waste processing and energy generating facility that can utilize the waste and garbage from the park, the prison and the city. The plant will produce gas that will be used to power generators for electricity, heat will be used in the greenhouses and buildings of the park and the resulting compost will be sold to farmers. Waste water may be used in additional greenhouses to grow a special oil producing algae for biodiesel and flowers for the cut flower market.

Blue Earth Bistros (Atlanta, GA)

Blue Earth Bistros will be a new concept in cafes for college campuses. Created to be pop up stores located in common areas and other convenient locations on college campuses they will be served

from a central kitchen in a region. The central kitchen will be staffed with individuals who are disadvantaged or challenged in some way and the bistros themselves will be connected to each other worldwide via special internet connections designed to facilitate better understanding among different cultures.

YouPharma (San Diego, CA)

YouPharma will engage in the discovery and development of novel therapeutics for global unmet medical needs, using the power of social responsibility. As such, YouPharma will not be competing with existing players, but rather addressing those healthcare needs not well served by the current marketplace and its participants. It will do so by creating a PRI fund for foundations and will invest in the high risk proof of concept stage of product development.

Home Town Farms (San Diego CA)



This is a new state of the art concept in indoor, organic, urban farming especially designed to operate facilities of all sizes to create high end food opportunities for disadvantaged areas and populations. It targets a zero waste, zero carbon environment.

Summary

These reflect only a small number of the existing and proposed L3Cs as of October 2009. We are in the process of creating an organization for L3Cs which we hope will not only assist them as they pioneer in this new area but will permit us to provide potential L3C users with more information about the path already taken by the first few hundred.

L3C Advisors L3C is the first L3C created in the world and was organized to help others organize and finance L3C s.

Social Impact Financial Network
Social Impact Development Group
Education And Marketing Group
Social Enterprise Management Group

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