

4<sup>th</sup> December 2009

## **Social Ventures Australia**

### **Submission to Productivity Commission Draft Research Report, Oct 2009 'Contribution of the Not-for-Profit Sector'**

#### **Submission Approach**

The following commentary is provided on Section 7 'Not-for-profit funding' of the Productivity Commission's draft report. The submission is made in relation to a specific project Social Ventures Australia (SVA) is currently scoping - the establishment of a Social Enterprise Investment Fund (SEIF). The aim of this fund is to help social enterprises obtain appropriate funding, investment and other business support.

The submission contains an overview of SVA, an overview of the SEIF as an alternative source of funding/investment for social enterprises as well as a summary of the key legal issues highlighted in the attached letter by Allens Arther Robinson (AAR), who have been engaged, through PILCHConnect, to conduct high level analysis on the issues involved in establishing a fund like the SEIF in the context of the current regulatory environment.

This letter does not cross reference specific sections of the Productivity Commission's draft report, however, the key legal issues raised relate to sections 7.2 'Taxation arrangements affecting not-for-profits'; 7.3 'Philanthropic support by individuals and business'; and 7.4 'Access to capital'.

#### **About Social Ventures Australia**

SVA was established in 2002, as an independent non-profit organisation which aligns the interests of philanthropists with the needs of social entrepreneurs to address some of Australia's most pressing social challenges.

SVA's purpose is to work with innovative non-profit organisations to increase their growth and impact to drive transformational social change.

Our activities are focused on three areas:

- 1) Supporting a selected portfolio of non-profit organisations and social enterprises
- 2) Providing consulting services to the broader non-profit sector, including both organisations and funders
- 3) Developing cross sector initiatives to assist in scaling and growing social impact in a sustainable manner.

Specifically, SVA has established a venture fund that provides multi-year funding and tailored support to a limited and carefully selected portfolio of non-profit organisations led by social entrepreneurs. This tailored support includes assistance with strategic planning, financial sustainability, governance and performance measurement and evaluation. SVA also leverages its significant networks to help these organisations meet their growth, infrastructure or communication challenges.

SVA Consulting works with a range of non-profit organisations on customised, results-driven solutions which improve organisational performance and social impact. The consulting team also supports funders, including foundations, philanthropists and governments, to make informed decisions about their social investments.

Social Ventures Australia | investing in social change

Sydney | Melbourne | Brisbane | Suite 203 Level 2, 120 Clarendon Street, Southbank VIC 3006 | ABN 94 100 487 572  
Phone 03 8688 0000 | Fax 03 8688 0001 | info@socialventures.com.au | www.socialventures.com.au

We work in partnership to assist the non-profit sector to find new ways of addressing deep-rooted community challenges. This includes developing social enterprises to create employment for those disadvantaged in the labour market and fostering best practice.

In October 2009, SVA convened and co-hosted the second Social Enterprise World Forum in Melbourne, with over 500 delegates from around the world who gathered to learn about, discuss and debate the potential for social enterprise solutions to entrenched social disadvantage. A key focus of the forum was on understanding the financial needs of the community sector and the disadvantaged individuals they support as well as hear about new and innovative models from both local and international experts in this field.

### **About the Social Enterprise Investment Fund (SEIF)**

Social enterprises<sup>1</sup> are businesses run for a social purpose. Within SVA we focus on developing social enterprises that are developed by non-profit organisations that create employment opportunities for people disadvantaged in the labour market, including people with disabilities, refugees, those suffering from homelessness, Indigenous Australians, disadvantaged youth and other long-term unemployed people.

Like any business, social enterprises need access to finance for business development and working capital. Unlike other businesses, social enterprises also need investment to help them achieve their social aims. As social enterprises blend commercial focus and social purpose, current funding and finance models premised purely on financial return are not appropriate for developing social enterprises. Over the last three years SVA together with its partners have been working to create a favourable environment for social enterprises to 'do business' in Australia. This has been through the provision of both location based support and direct funding. However, SVA believes that lack of availability to appropriate finance, including a mixture of debt and equity, has restricted the sector's growth in Australia.

New hybrid approaches encompassing the best of investment, philanthropy and government funding have been and continue to be developed in Scotland, England, Canada and the USA. Today Australia lags behind these countries in developing innovative social investment models that can create sustainable social impact.

SVA therefore welcomes and endorses the recommendation to establish a joint working party made up of representatives of the not-for-profit sector, business, philanthropic and other government departments to explore obstacles to not-for-profits raising capital and evaluate appropriate options to enhance access to capital by the sector.

SVA also supports the Commission's recommendation to widen the scope for gift deductibility. In addition, we would add that gift deductibility status should also be available to social enterprise intermediary organisations and community finance institutions that have at their core a social rather than financial mission. This is critical if we are to encourage matched contributions to funds such as the SEIF.

Currently both community foundations, philanthropic foundations and the majority of non-profit organisations cannot make "program-related investments" due to the current tax and legal obstacles to providing loans in accordance with their general goals. For example some foundations (PPFs and Public Funds) have as sole purpose the giving away of funds to Deductible Gift Recipients (DGRs) only. The fact that the money will go into a fund, which may tranche the capital into an "investment package" and will collect both capital and interest repayments, might also affect the DGR status of the foundations.

---

<sup>1</sup> There are numerous definitions of and approaches to social enterprise. We have focused on one approach definition where the role of the business is to create employment for people seriously disadvantaged in the labour market.

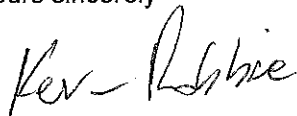
We also believe that new initiatives to encourage funding from other sectors into intermediaries or specifically designed community finance vehicles, such as the 'New Market Tax Credit Program' in the USA, should be investigated. This permits tax payers to receive a credit against federal income taxes for making qualified equity investments in designated Community Development Finance Institutes.

We believe that these initiatives would help both encourage and prepare the ground for future development of financing models that are specifically targeted at growing the Social Enterprise Sector and its impact on a range of activities targeting disadvantaged individuals and communities.

SVA is continuing to explore the issues of developing a SEIF in Australia. This includes working closely with government, philanthropic sector and the private sector. SVA is also continuing to test this proposal with all sectors as well as social enterprises.

If there is any further information that can be provided to clarify any of the points that SVA has made we are open to further dialogue.

Yours sincerely



Kevin Robbie  
Director Social Enterprise  
Social Ventures Australia