Background Issues to Addressing Disadvantage in Social Investment

Dr Janette Corcoran
Executive Director
Asia Pacific Centre for Social Investment & Philanthropy
Swinburne University of Technology

and

Kylie Charlton 2009
Heloise Waislitz Fellow
Asia Pacific Centre for Social Investment & Philanthropy
Swinburne University of Technology

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Introduction

The aim of this paper is to consider the role of social investment in addressing social disadvantage.

In view of the state of play in Australia regarding appreciation of its "third sector" and so social investment, it is suggested that a concise yet broad-brush approach to this topic be undertaken with the expectation that ensuing conversations will expand upon specific areas of interest.

Accordingly, this paper has been crafted in three parts in order that the various "levels" of issue are presented.

In essence, there are three "levels" (ie categories) of issue that warrant attention:

Part A – identifies key conceptual / framing issues (ie foundation notions) that shape understanding and acceptance of undertakings in this area

Part B – overviews pragmatic issues (ie concerns raised by those operating in the sector and by those attempting to introduce "solutions")

Part C – highlights government issues pertinent to engaging with the field of social investment as a "tool" in addressing social disadvantage

Two authors have come together to prepare this paper – Dr J Corcoran who addresses the conceptual issues in Part A and K Charlton who is currently engaging with social investment practitioners as part of her fellowship. Ms Charlton incorporates her recent experiences in Part B.

PART A: CONCEPTUAL / FRAMING ISSUES

Dr Janette Corcoran – Swinburne University of Technology

In Australia, the need for funding for "third sector" activities is widely recognised as an important and challenging area (see for instance SEEEN and Perpetual 2007) – with the focus of much discussion being on the need for greater, more reliable and "independent" sources of funding, and with current endeavour seeking ways to "free the flow" through developing/redesigning regulatory, institutional and financial mechanisms (refer Part B).

This type of funding is often referred to as social investment (SI) which is defined by Nicholls and Pharoah (2008,p.3) as the flow of resources – either market or non-market generated – that fulfils the funding needs of organisations that primarily create social or environmental value.

However, this is not a meaning shared by all.

Indeed, in looking more closely, much discussion (and action) is impaired due to fundamental differences in views about the purpose of SI, which is complicated by the fact that often times these differences are not made explicit. This is due in large part to the failure in Australia to engage in robust debate on issues concerning the nature and role of our own "third sector" (typically dismissed as "esoteric time-wasting"). Yet, without a firm – and agreed – understanding of the concepts that underpin this area, the situation in Australia will likely remain ambiguous and fractured.

As a starting point, two concepts are highlighted for SIU attention.

The first is the *target* of SI which is variously described as "non-for-profits", "third sector organisations" and/or the "social economy" – terms which are often used interchangeably in Australia. The point here is that these terms are not synonymous concepts and the selection of one brings with it a particular perspective that influences subsequent endeavour. Section 1 provides an overview of the SI "target space" and argues that the Australian Government must take a lead role in advancing this "yet-to-be-had" discussion.

The second concept relates more specifically to the role of SI, for while it is a term widely used (and so appearing to be agreed), there is growing division as to how SI is understood. In particular, there is a growing "business" perspective of SI (ie one which emphasises the "commercial return" aspect of investment). Section 2 outlines key features of the SI field and suggests a role for government in clarifying the focus of this field.

1. The "Other" Sector

According to the OECD (Noya and Clarence 2007), this "other" sector – the target for SI - plays a core and growing role throughout all member nations in addressing:

i. the problems of socio-economic inclusion and poverty

ii. and in fostering active citizenship and solidarity together with democratic participation.

Accordingly, the OECD advises member nations to purposively construct public policies which create an enabling environment that harnesses the special contributions of this sector. The importance of this sector is agreed by many governments including the UK which explicitly recognises the vital role of their "third sector" in giving people a voice, strengthening communities, and enabling socio-economic regeneration (Cabinet Office: Office of the Third Sector 2007). Similarly, the Canadian Government asserts the importance of its social economy which it introduced into its policy agenda in 2004 Speech from the Throne (Chantier De L'Economie Sociale 2005).

As regards the focus of this paper, the foregoing highlights two points of particular importance:

- first, there is wide spread agreement (at national and international levels) as to the importance of this "other" sector

  and

- secondly, there are differing views of this "other" sector that are employed by each OECD nation.

If it is accepted that SI funds – at least in some capacity – this "other" sector, then it seems imperative that a clear understanding is required of what – in general terms – constitutes this "other" sector and how – specifically – it manifests in Australia (ie third system, not-for-profit sector, social economy, citizen sector, etc).

This section provides a brief overview of:

i. generic role of the "other sector"
ii. differing national perspectives & configurations of the "other sector"
iii. the Australian situation

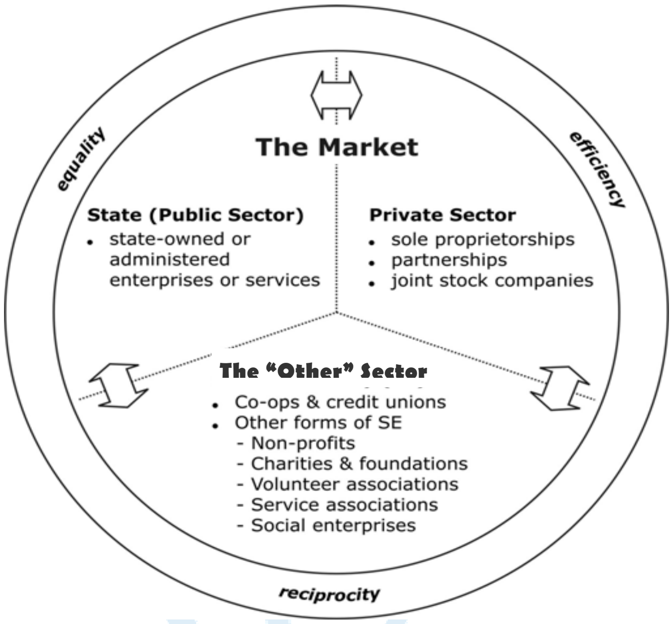
Generic role of the "other" sector

Industrialised nations have variously constructed themselves in terms of three "spaces" or systems. While these three systems exist concurrently, they play different roles and operate along distinct principles. The work of Lewis (2007) (who has drawn upon Pearce 2003) provides a useful overview of these three systems (refer Table1 for details).

In essence, as illustrated in Figure 1, there is:

- a private or business system that is profit-driven and operates on principles of *quid pro quo*
- a public or government system that focuses upon public planning and administration and operates along principles of equality
- a social or community system that is engagement-driven and operates on principles of inclusion and mutuality.

FIGURE 1



(Lewis 2007, p2)

In general terms, this 'space' has been noted in Australia, but it has been viewed (most especially by those outside it) as somewhat peripheral, capturing those activities that do not readily fit into business or government – hence some of its labels: "not-for-profit" and "non-government". To a large extent, the paucity of economic theory has contributed to this lack of appreciation (losing over the last century its holistic focus and concentrating on commercial exchange). This has contributed to the view that these "social sector" organisations only exist where there are market and/or state failures, rather than as inherently important actors within society.

However, work by institutions such as the OECD and the EU explicitly recognise this "other sector" as representing a distinct space for the advancement of issues pertinent to the primacy of individuals and communities through giving voice and fostering engagement (ie people as a status - more than customer and more than citizen – see for instance Laville, Levesque and Mendell (Noya and Clarence 2007)).

TABLE 1

Private sector - "first system" • is profit-driven • seeks to maximise financial returns to individual owners (shareholders) • is the dominant system in much of the world today • facilitates the commercial exchange of goods and services on the basis of agreed-upon value – the exchange of equivalents • is based on competition, defines success in terms of individual gain, and makes financial return the first priority • operates on the central economic principle of *efficiency*
Public sector - "second system" • is about redistribution and planning • focuses on the provision of public goods and services • has central economic goal of greater equality • challenged by the "first system" to free the marketplace to be the prime determinant of value
"Other" sector - "third system" • is about citizens taking action to meet and satisfy needs themselves and working together in some collaborative way to do this • includes the range of ways people exchange with each other in local areas on a volunteer basis (barter, recreation, clubs, self-help groups, etc) and to a wide range of more formally structured organisations, some of which organise their affairs as charities (eg faith-based organisation) or member-based associations (eg trade unions, service clubs) and others that explicitly pursue social goals using business means • values mutuality, self-help, caring for people and the environment • operates on economic principle of reciprocity • emphasises mutual and collective benefit and aims to foster a greater measure of solidarity among human beings, their communities and society as a whole

(*Drawn from* Lewis 2007)

Differing national perspectives & configurations of the "other" sector

The point here is that while agreeing the general role, each nation crafts its own version of the "other sector". Indeed, just as with the partner systems of government and business, while there is general agreement as to their role, there are differing national configurations.

As regards government, for instance, the UK has constructed a constitutional monarchy, while the USA and France each employ a form of republic. So too with the business system, differing nations – due to their differing laws and ways of "doing business" – have their own forms of corporate entities.

It follows then that differences would also occur in the manifestation of each nation's "other sector". In fact this is a point specifically noted by the EU which routinely deals with the reality of distinct national approaches (see for instance CIRIEC 2007 for a comparative discussion about the social economy in the EU). The fact of conceptual diversity is also examined by *Laville, Levesque and Mendell (Noya and Clarence 2007, p179/180)* who consider the deviations that occur (even) within the Canadian context:

> *"… highlights the great diversity of experiences in the social economy and of the theoretical approaches that attempt to describe them. This diversity can be observed in a variety of practices in different countries, as well as in different regions as is illustrated clearly by the case of Quebec and its influence on the rest of Canada. These socio-economic initiatives, regardless of what they are called ("social economy", "solidarity economy", "third sector" or "third sector") are an integral part of a new political economy that recognises the importance of the social in the economic, that makes the initiatives of civil society visible and legitimate and more recently, that reflects citizen demands for a more responsible economy. From this perspective, the social economy is increasingly being recognised not only for its stated objectives (satisfaction of unfulfilled needs) but also for its potential for transforming our societies and our economies, including its capacity, from today, to fulfil hopes for another form of development, for another globalisation."*

Broadly, a distinction can be drawn between:

- the United State's conception of the "non-profit sector" (and more recently the "citizen sector") which has its historical roots in the notion of philanthropy, having a focus on voluntary entities that do not distribute profits (including social clubs, professional organisations, universities and hospitals etc) but excludes co-operatives

- the UK's notion of "third sector" which has its origins in nineteenth century discussions on "charity" as a social principle and as an essential component of a democratic society - this has resulted in the development of framework that supports autonomous activity while recognising these organisations as integral to the state

- France's idea of "social economy" (or *solidarity*) which is grounded in the ideal of social harmony and republican egalitarianism and the conception of solidarity as a social democratic link.

The point of importance here is that a country's "other" sector is a product of their respective and distinct history, culture and aspirations (referred to as path dependencies). This means, as cautioned by the OECD, that while the work of other nations can be learnt from, it cannot simply be copied. Translating this into Australian terms, this means that we cannot simply decide that our "other" sector should manifest along the lines of the UK's third sector or the USA's not-for-profit - and so then copy their mechanisms and initiatives. Rather, we need to determine what our particular orientation is and how we can best describe it in terms meaningful to ourselves.

The Australian situation

As regards the situation in Australia, there are two points of especial note:

First, Australia has a long established "other" sector – dating from the time of European settlement where the *tyranny of distance* necessitated community inspired collaboration. Over the ensuing years, the focus of these activities has changed in response to the needs of the time (eg health, education, advocacy, etc).

Secondly, unlike our OECD counterparts, Australia has expended little effort in understanding the nature of our own domain (with the notable exception of a few, such as Professor Mark Lyons – see for instance Lyons 2001). This has resulted in Australia having little appreciation of the "flavour" of our own sector. That Australia has a distinct manifestation is not in question (though it is acknowledged that we may share traits with some nations due to our history). The key impediment in redressing this involves the appetite (ie tolerance) for such discussions in Australia ("quibbling over semantics"). Yet, our pragmatic drive for action has already "misdirected" activities (consider the brief given to The Productivity Commission concerning "not-for-profits").

ISSUE: Develop understanding and promote acceptance of the dynamics and role of Australia's "other" sector.

Just as with the governments of other OECD nations (UK, Canada, etc), the Australian Government could take a lead role in facilitating understanding of this area.

It is suggested that, as with other OECD nations, the Australian Government tackle this task in partnership with an academic institution. CSI (Centre for Social Impact) would appear well placed for such collaboration.

2. Field of Social Investment

The second area of conceptual challenge is our understanding of the purpose of social investment (SI) – *what it is and what it is not* (note: Part B addresses the operational deficiencies).

There are three points related to our understanding of SI that are believed significant to SIU:

i. "umbrella" term - within Australia, the use of the term SI is becoming commonplace. However, there is variation as to what is actually meant by this term. Australia is not alone in this as noted by Nicholls and Pharoah (2008) who observe that SI means different things to different people: money used for specific social purposes; investment bringing blended value returns; a special class of financial products; finance for special types of organisation and activities such as social enterprise; a form of ownership and so on.

As regards the situation in Australia, there are two trends of especial note:

First, SI is being used interchangeably with terms that are not synonymous with its meaning. These include:

- Ethical investment – which has more to do with screening (ie not investing in tobacco, ammunition, prostitution etc)
- Impact investing – which emphasises "profit" in seeking investment to generate social and environmental good

Other terms include socially responsible investment (SRI), conscious investment, community based investment and economically targeted investment, all of which have a subtle emphasis not synonymous with SI. It is also noted that in Australia the term philanthropy is often given a multiplicity of meanings ranging from acts of generosity through to SI.

Secondly, there is the charge of "sector creep" (ie hijacking by the commercial sector).

The notion of investment is well established in the business sector and necessarily incorporates a return (profit) element. In using the term "investment", those from a business perspective translate SI in these terms. This often means that the "social" aspect in SI comes to denote simply a market, rather than a differing style (ie intent) of investment.

However, such an approach undermines the view that the purpose of SI is to provide resourcing for the "other" sector by employing practices that encapsulate its distinct ethos. This is an important point as its resolution will influence subsequent approaches and acceptance.

(ii) complex system – SI is a multifaceted, multi-actor exchange event. It is to the detriment of this field that many instances of SI are depicted as single one-way interactions. For instance, philanthropic giving is often portrayed in these terms (ie a one-way donation). However, this overlooks the involvement of intermediaries such as legal advisors as well as the contribution of "for-benefit" organisations (which will likely spend the funds to create the intervention designed for the ultimate beneficiaries).

This complexity is well recognised in the international realm of development finance (refer Figure 2). However, as regards national SI systems, many OECD nations are still actively engaged in the iterative task of mapping, altering and remapping the flow of funds into and within their social sectors (see for instance Figure 3).

The point of importance here is that a SI system (including the one in Australia) incorporates:

- diversity of sources
- diversity of products
- networks / federations
- opportunities for individual, collective and institutional investors
- enabling policy and legislative environment
- international cooperation and knowledge sharing
- international organisations

(Mendell and Nogales 2007).

Challenges here include access to relevant data to populate proposed models / mapping for often times, needed data is fragmented, incomplete and/or inaccessible (eg owned by organisations that restrict access).

In Australia, we are not yet at the stage of describing and/or accessing all relevant existing data sets (refer Appendix B).

iii) specific to the nation in which it operates

This point revisits the notion of path dependencies, in that the particular context in which SI occurs is shaped (formally) by the specific regulatory framework as well as (informally) by the cultural mores of the nation.

Recognising this, many OECD nations have already embarked upon dedicated investigations to map their own SI landscapes. It is a point of significance that many of these endeavours have been undertaken in conjunction with academic institutions:

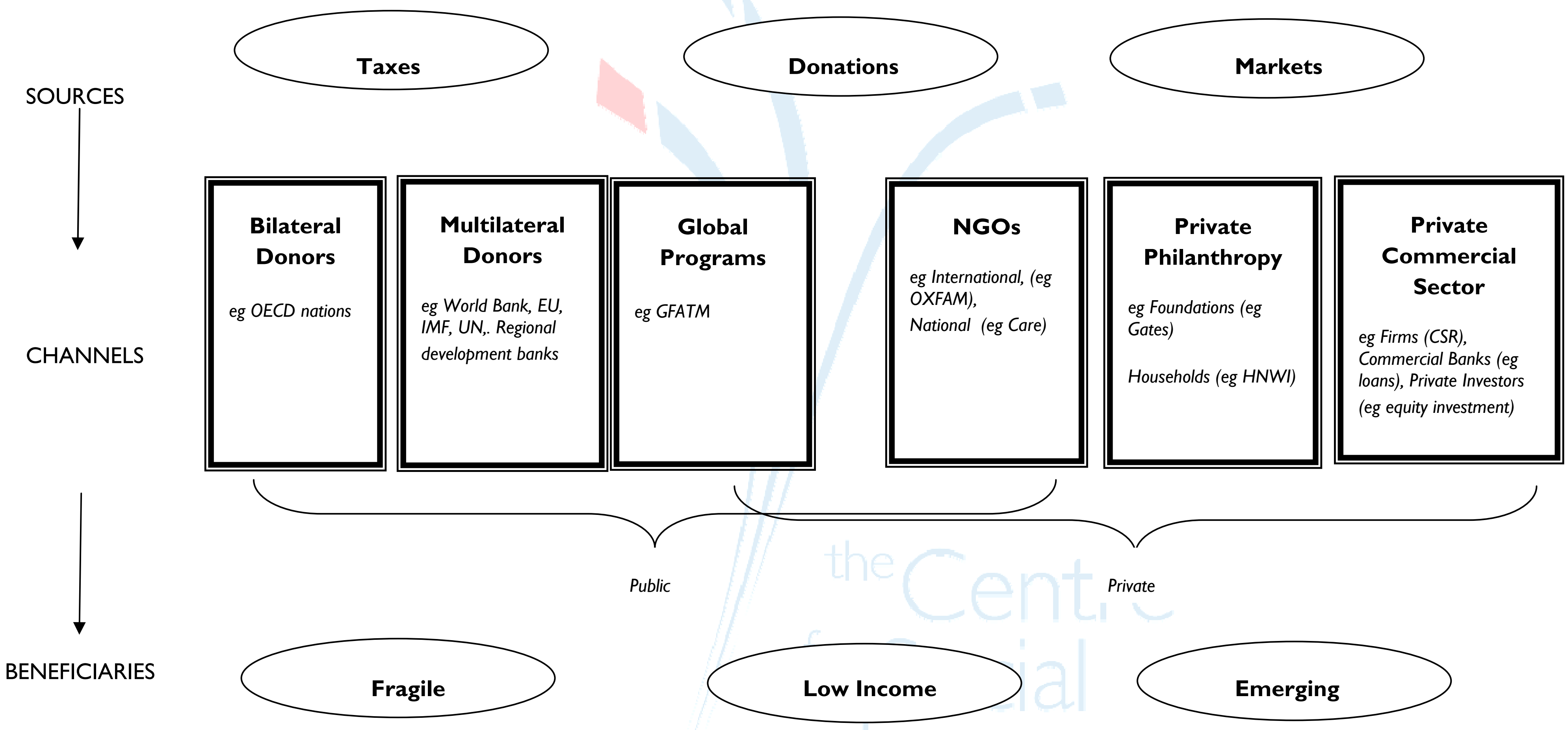
- UK – Office of Third Sector and Skoll Centre for Social Entrepreneurship at Oxford University
- Canada – see for instance CAUSEWAY (a national collaborative working on effective pathways for financial investment and public benefit)

ISSUE: Develop understanding of SI system.

The critical challenge for government is advancing understanding of (as well as developing) the SI system in Australia. In noting the experiences of other nations, it is suggested that the Australian Government approach these challenges through partnership and in this regard, attention is drawn to Appendix A: *Mapping Australia's SI Landscape* and Appendix B: *Enabling Collaborative R&D in Social Investment.*

FIGURE 2

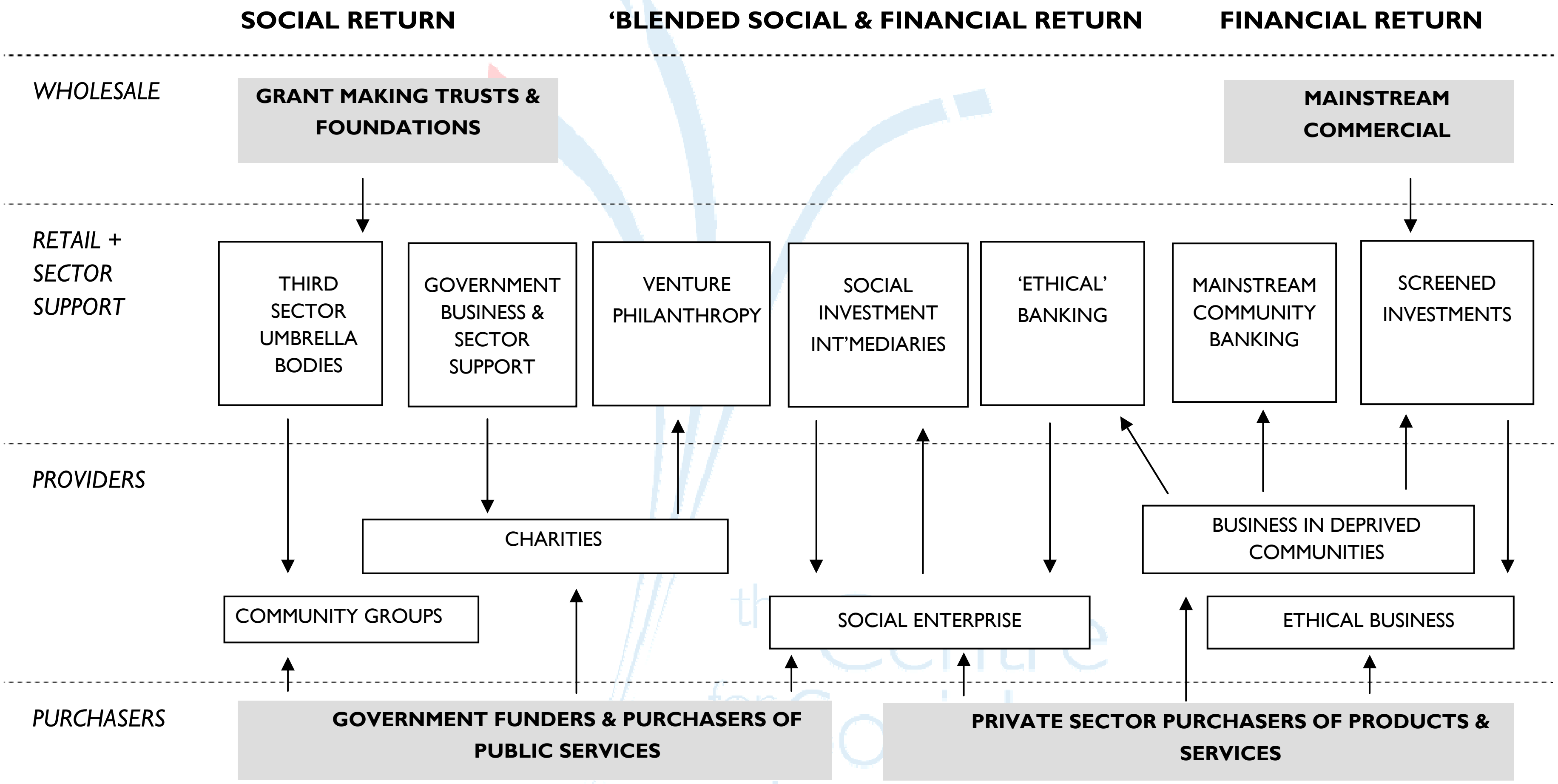
The International Development Finance Architecture: Global Level



Drawn from Mavrotas and Reisen 2007)

FIGURE 3 Landscape of Social Finance by Contractual Arrangements (UK)

(Nicholls and Pharoah 2008, p42)



PART B: PRAGMATIC ISSUES

Kylie Charlton – 2009 Heloise Waislitz Fellow

4. Concerns of the Sector

Relatively limited formal research has been conducted to date on the challenges faced by organisations working within the social economy in Australia in respect of accessing capital. Lyons identified that difficulties in accessing capital are experienced by many players in the social economy leading to many being unable to grow or new organisations with potentially important social innovations being unable to move beyond concept (Lyons 2006). A common refrain heard from across the sector is that urgent attention needs to be given to establishing new ways for the sector to access capital in order to ensure the important role it plays in establishing a socially inclusive Australia is not constrained. Moreover, a strong desire is expressed by many in the sector to move away from heavy reliance and dependence on government funding which has been a historical hallmark of much activity in the sector.

In pursuit of the 2009 Heloise Waislitz Fellowship, Kylie Charlton has had an opportunity to meet and talk with a range of participants and stakeholders across Australia's social economy. While these meetings have not been conducted in a manner that constitutes formal research a number of common themes have become apparent across conversations in respect of the challenges facing the supply and demand of capital within the social economy and summarised in Table 2. In reviewing these challenges it is important to keep at the forefront of one's mind that the structure, form and way in which capital is delivered to social economy organisations, along with the quantum, has an enormous impact on the ability of an organisation to conduct its work thus impact the lives of its beneficiaries.

TABLE 2: Challenges to Capital Supply and Demand in Australia's Social Economy

Challenges to Capital Supply
Taxation Measures: While only about one in four dollars donated is claimed for tax purposes, taxation measures have a significant impact on fostering giving especially for wealthier Australians (Giving Australia 2005). Moreover, the tax status of foundations determines who is an eligible recipient of any grants from the foundation thus impacts directly on the supply of capital to the social economy. For example, Ancillary Funds and PPFs are restricted to making grants to charitable organisations that also have Deductible Gift Recipient (DGR) status thus the universe of organisations within the social economy that can benefit from the capital of such foundations is limited to a subset of social economy organisations. Such restrictions on eligible gift recipients significantly influences decisions as to the form of legal entity chosen to undertake activities and acts as a disincentive, or at the very least a hurdle, for social entrepreneurs looking to undertake activities in a for-profit entity that has social benefit at the core of its foundation.
Blurring Boundaries: The traditional boundaries between business, government and the "other" sector are increasingly blurring. Organisations whose primary purpose is social benefit can be found incorporated as a variety of legal forms including for profit entities. Suppliers of capital have not however kept pace with such change. Thus, social economy organisations not fashioned as non-profits

struggle to attract capital from traditional philanthropic sources of capital and yet are rejected by for-profit investors as maximisation of profit is not the sole guiding principle by which the business operates. A paradigm shift is required by the providers of capital to recognise the expanding universe of social economy organisations and that an entity can exist to provide both financial return along with social and environmental return.

Fiduciary Duty of Trustees: The fiduciary duty imposed upon trustees charged with managing the assets of foundations (including testamentary or will trusts, private charitable trusts, prescribed private funds (PPFs), ancillary funds) requires they must exercise "the care, diligence and skill that a prudent person would exercise in managing financial affairs of others". Investments must be managed for both income and capital growth, and it is generally accepted that the duty of the trustees extends to preserving the value of the income producing capital base and maximising its value. This duty, particularly in cases where the trustees have no power to distribute capital, inhibits trustees aligning the foundation's investment portfolio, or some part of the portfolio, with the mission of the foundation or actively participating in impact investments – profit seeking investments to generate social and environmental good – as such activity can be seen as an extension of the foundation's grant making activities and contrary to the trustees fiduciary duty to preserve and grow the income producing capital base of the foundation (Ward 2008). Accordingly, the corpus of foundations in Australia which for PPFs alone total in excess of $1.3 billion are unavailable for use within the social economy with exception of the income generated from these assets combined with any compulsory distribution.

The trustees of superannuation funds in Australia are subject to similar duties to maximise value thus the potential of channeling even a small proportion of the $1.17 trillion held in superannuation funds to the social economy through impact investment is difficult if not impossible.

Challenges to Capital Demand

Project vs Whole of Organisation Cost: Funding sources - public or private – are often not willing or are ignorant of the need to fund the total cost of a project inclusive of organisational overhead. A "project" versus "whole of organisation" harms social economy organisations by limiting ability to develop organisations and to plan, innovate, measure results and respond to change.

Bias for Innovation: Funding sources have a bias towards innovation leading to a preference for short term or single cycle grants for the latest innovative projects and, in many cases, means there is little opportunity for a project to run until its impact can be fully realised or before alternative funding needs to be secured. This bias poses significant challenges in respect of the scaling and replication of successful projects as new sources of funding need to be found to build scale if, which is often the case, scale cannot immediately be funded by project generated income. The challenge then becomes circular for with funders heavily focused on innovation it is difficult to identify funders willing to commit limited resources to scale pre-existing projects.

Lack of Risk Appetite: Despite a bias for innovation it is commonly believed that funders have a general lack of appetite for risk or failure. This therefore inhibits innovation as very few organisations have the flexibility in funding to test early stage concepts and take a portfolio approach to trialing multiple concepts to address a given issue knowing that many will fail while one or two will succeed and be able to move forward to a proof of concept and scale.

Limited Forms of Capital: The form of capital available to the social economy in Australia is largely limited to grants or generated revenue with few efforts being made to create flexible capital products – such as debt, working capital lines of credit, equity, etc. A broad range of capital products are needed to provide social economy organisations with the financing required throughout their life cycle from concept design, proof of concept, scale to maturity and which work to build financial strength of organisations over the long term. The lack of financial skill within social economy organisations is certainly a contributing factor to the restricted form of capital made available as without such skill it is difficult for organisations to in fact know what to ask for.

Lack of Collaborative Funding: Frustration exists at a general lack of collaboration between philanthropists – specifically corporate philanthropists - or between governments and philanthropists in respect of the funding of social economy organisations. The most prominent reason cited for lack of collaboration is that much corporate philanthropy is heavily driven by corporate branding or influenced by building relationships important for the business. A Survey of Business conducted for Giving Australia in 2005 looking at the reasons for business giving reported that business factor are important in giving with 30.4% of businesses making donations because it was 'good for their business's image', 21% because it was 'good publicity', and 17% because it was good for their relationships with certain clients and suppliers. The business factor driving corporate philanthropy serves to inhibit collaboration given the potential dilution of business benefits if kudos is spread between a number of funding partners. This concern is especially magnified if cooperation with a corporate competitor is placed on the agenda for consideration.

5. Responses to the Sector

There is no single solution to address the multitude of challenges raised in respect of capital for the social economy in Australia, nor is there a template solution from international experiences that can be directly overlaid into Australia to establish a robust platform to drive capital to the social economy. Collaborative tri-sectoral – public, private and third – engagement is essential to understanding the current state of play in Australia, identifying international best practice, contextualising international experiences to the Australian environment, and developing a holistic solution leading to the establishment of a robust SI sector in Australia.

Broadly speaking the development of a holistic solution can be likened to the building of a marketplace that facilitates effective supply and demand of product, in this case, capital for social change. In a recent report Monitor Institute (2009) identified three foundations to building a market place for impact investment: (1) efficient intermediation; (2) enabling infrastructure; and (3) absorptive capacity. Efficient intermediation is required to unlock the supply of capital. Enabling infrastructure is essential to facilitate transactions. Absorptive capacity must be developed to ensure opportunity is created for capital to flow to and support the development of scalable and sustainable social change. While impact investment is a subset of SI, the foundations identified by Monitor Institute serve as a useful framework in which to think about a SI sector in Australia and to give consideration to potential sector building initiatives including policy and regulatory reform and institutional development. Regardless of the initiatives selected and prioritized to build a SI sector in Australia the end objective should be to optimise the flow of capital to and allocation of capital within the social economy.

TABLE 3: Building Social Investment Marketplace for Australia

Foundation	**Efficient Intermediation**
Initiatives for Consideration	**Establishing a range of Community Development Financial Institutions (CDFIs).** CDFIs are sustainable, mission-driven, independent financial institutions that supply capital and business support to individuals and organisations whose purpose is to create economic opportunity and social capital in disadvantage communities or under served markets. Inherent to their nature CDFIs provide social and financial returns to their investors. CDFIs use flexible capital products to meet the needs of social economy organisations to effectively serve these markets while managing their inherent risks. There a four types of CDFIs: community development banks, community development credit unions, community development loan funds (including microenterprise loan funds) and community development venture capital companies.[1] **Establish a pool of risk capital to catalyse CDFIs or other catalytic financial intermediaries or structures.** This pool may be funded from government or may draw from a combination of philanthropic, public and private money. Private money may be "pulled" into such a pool through utilising policy initiatives like the Community Reinvestment Act (CRA) in the US, or the Community Investment Tax Relief (CITR) or voluntary disclosure of individual bank lending activities in disadvantaged communities in the UK. In Australia, careful consideration should be provided as to how superannuation funds can be pulled into investment in the social economy. **Launch and grow dedicated social investment banking capabilities.** The Commission on Unclaimed Assets in the UK following consultation with more than 1,000 third sector organisations recommended using money from dormant accounts to create a Social Investment Bank to provide the third sector with greater access to a wider variety of investment instruments thus increasing their capacity to innovate, grow and meet emerging social needs. This recommendation was in response to the conclusion of the Commission that, "if the third sector is to continue to grow and meet its goal of supporting marginalized communities in a way that neither the state nor the private sector can, it urgently needs greater investment and professional support. Suitable capital should be available for organisations at all stages of development, from charities without trading revenue all the way to social enterprise that reinvest

[1] More detail of CDFIs and the integral role they have played in providing finance to the social economy in the US and UK is available in submission #41 to the Productivity Commission in respect of the review currently in progress on the "Contribution of the Not for Profit Sector" available for download at http://www.pc.gov.au/__data/assets/pdf_file/0007/89458/sub041.pdf

	some or all of their profits in their mission and commercial businesses with social purpose."[2] **Incorporate new forms of legal entities**. Legal entities that recognise the value of hybrid organisations spanning the boundaries of traditional non profit organisations and for profit businesses or encourage and facilitate increased cooperation between diverse funding sources ranging from trusts and foundations, institutions and private individuals. International examples include: *Community Investment Companies* (CICs) in the UK which 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[3]; and the *low-profit, limited liability company (L3C)* recently enacted in a number of US states to bridge the gap between non-profit and for-profit investing by providing a structure that facilitates investments by a wide range of investors in socially beneficial, for-profit ventures[4]. **Develop innovative financial vehicles and products to increase accessibility.** Create investment vehicles and develop investment products capable of attracting varying forms of capital across a range of investors – philanthropic, public and private – and which can be incorporated into the investment platform of mainstream asset managers (including those charged with management of superannuation assets). Greater latitude and encouragement should also be considered for charitable trusts and foundations to undertake social investment, even when such investment may include a for-profit element.
Foundation	**Enabling Infrastructure**
Initiatives for Consideration	**Establish a common and responsible voice within government.** Examples include UK's Office of Third Sector[5]. **Establish peak industry bodies for actors within the social economy.** Examples include Community Development Financial Association[6] or the Social Enterprise Coalition[7] in the UK, or the Coalition of Community Development Financial Institutions in the US[8]. **Coordinate development of a common language and social measurement platform.** As the world of business has developed a common language and utilises agreed principles for the measurement of financial return,

[2] For detail refer www.unclaimedassets.org.uk
[3] For detail refer http://www.cicregulator.gov.uk/
[4] For detail refer http://americansforcommunitydevelopment.org/links.html
[5] For detail refer http://www.cabinetoffice.gov.uk/third_sector.aspx
[6] For detail refer http://www.cdfa.org.uk/
[7] For detail refer http://www.socialenterprise.org.uk/
[8] For detail referhttp://cdfi.org/

	a system of SI requires a common language and a generally accepted measure of return. **Launch targeted public relations campaign to raise awareness and promote demonstrated successes.**
Foundation	**Absorptive Capacity**
Initiatives for Consideration	**Support management capacity development.** A capable and experienced management team is more often than not the defining factor separating business success from failure, a truth that holds across both private businesses and social businesses. Management capacity may be developed as a pre condition of SI, integrated into SI or provided independent of SI. The key is to ensure management capacity in the social economy is nurtured to enable capital to flow confidently into the social economy. **Support for research.** Independent and objective academic and practitioner research to inform debate and track success and failures.

5. Moving Forward

The most valuable role that government can play in developing a robust SI sector in Australia is to catalyse the creation of the sector. Government could view its role as providing political support coupled with a supportive legislative environment and catalytic investment - directly or indirectly - that together work to leverage private investment into creating a more socially cohesive and inclusive society. In the words of Cohen (2005):

> *"The role of government now is an enabling one, to provide significant incentives for the creation of the 'social investment' system and the development of mission-driven organisational and investment models that are capable of wide replication."*

Taking the role of a catalyst enables government to minimise the inefficiencies that would arise from uncoordinated innovation, yet recognises any effort by government to "own" the sector would adversely impact optimisation of the sector and greatly inhibit innovation and flow of capital.

While Table 3 identifies a multitude of initiatives for consideration by government, it is not possible at this stage to identify which of these initiatives should be selected and prioritised for implementation. Fundamental gaps exist in the knowledge and understanding of the capital needs of the social economy in Australia and the impact that adoption of international initiatives would have on establishing a robust SI sector.

Accordingly, it is recommended government proceed to establishing a "Social Investment Taskforce" that is a tri sectoral partnership across the government, private and social sectors to examine how Australia can achieve radical improvement in attracting and allocating capital to enable a socially inclusive and fairer Australia where all Australian, regardless of background or circumstance, can fully participate in the economic, social and civic life of local communities. The terms of reference of the

Taskforce should be sufficiently broad to enable the social economy in its entirety – current and future – to be considered, and to enable all Australians to become participatory investors in a social economy that leverages philanthropic and government money. Simultaneous to the establishment of the Taskforce government could consider identifying a pool of risk capital it is willing to commit to support the implementation of the recommendations of the Taskforce, thus signaling clear and unambiguous empowerment of the Taskforce.

Removing the financial constraints of and optimising the financial resources for Australia's social economy is a vital component to building a socially inclusive Australia. Valuable lessons are available from initiatives that have been undertaken around the world to promote the social economy within respective countries which, when combined with comprehensive research of the needs and current state of Australia's social economy, can be used to inform the development of a SI sector in Australia. The first element critical to success is however a willingness of all stakeholders to work collaboratively to adopt new approaches, approaches, that while inevitably involving risk, have the potential to yield benefits that far outweigh the risk of not trying and being left with a financially constrained, thus sub-optimal, social economy.

PART C: ISSUES FOR GOVERNMENT INVOLVEMENT

In appreciating that the focus of this paper is upon "addressing disadvantage", this final section identifies issues pertinent to supporting the field of SI, and by virtue of this, Australia's "social sector".

6. Engaging with the field of Social Investment

In particular, three issues are noted for attention:

1. **Ownership**: the point here is that those who are part of the SI system must *own* the associated policies and practices if these financial flows are to reduce poverty or stimulate engagement. This is a well established point in development finance and is also recognised by international aid organisations such as the UNDP in their discussion on the imperative of organic development (see for instance the 2002 Monterrey Consensus and 2005 Paris Declaration on Aid Effectiveness).

   The message here is that for interventions to be effective, they must be (and be seen) to be *of* the sector. For this reason, it is suggested that Government carefully consider intentions to approach SI "as a tool" and/or to intervene to "align" with government objectives.

2. **Role**: in view of the foregoing, the question arises as to what role Government might best play in relation to the field of SI. In the view of the authors of this paper, the most critical role for Government is that of "catalyst & enabler". While it is acknowledged that Government will also have other roles (such as funder e.g. grant-maker), this catalytic role is one which only Government can play. In Part A of this document, two key concepts were identified (nature of Australia's "other sector" and configuration of SI) as requiring immediate attention. It is believed that dedicated consideration may be best achieved through the formation of (for example) a task force along the lines of the one utilised by the UK Government (i.e. SI Task Force formed in 2000). Particular matters of focus (identified by the OECD (Noya and Clarence 2007)) should include:

   i) *building an enabling environment and implementing supportive policies*: this incorporates a meaningful recognition of the role of "social economy" organisations by other actors from both the public and private sector as well as ensuring that the necessary legal frameworks exist which enable social economy organisations to be formed and developed. For example, start-ups and innovation in the social economy need to be encouraged, financial instruments (either public or private) need to be available to meet the short, medium and long-term sustainability needs of social economy organisations.

   ii) *developing mechanisms for financial sustainability:* "social economy" organisations need the opportunity to exploit the full range of potential resources, including selling goods and services. Also, in the same way that historical, cultural and political features cannot be overlooked in the development of an enabling environment, so it is with the development of mechanisms for financial sustainability.

3. **Capacity**: it has been noted in this paper that a key feature of other OECD nations' approaches to advancing their respective "social" domains and SI systems involves inter-sectoral partnerships. In general, these have manifested in two types of engagement:

   i) government & academia partnerships: examples of these partnerships include:

- UK – Office of Third Sector and Skoll Centre for Social Entrepreneurship at Oxford University
- Canada - CAUSEWAY

Typically the focus of these types of connections is R&D. In this regard, CSI would appear well placed as it has established academic networks.

ii) dedicated task groups: these may include a task force of the type previously mentioned (eg UK's SI Task Force).

In closing, the work of the Government is fundamentally linked to the field of SI, and by virtue of this, has a stake in its robust development. While Australia is not well advanced in terms of appreciating our own configurations, such understanding is fundamental to promoting vibrant community endeavour that advances matters that are key to redressing social disadvantage.

APPENDIX A: Mapping Australia's SI Landscape

As with mainstream financial markets, the landscape of social investment is highly differentiated, ranging from those needing grants or loans to those requiring access to venture capital (Nicholls and Pharoah 2008).

In countries such as the UK, Canada, France and the US, great attention has been given to portraying their individual social investment landscapes. In the UK, this has involved a partnership between the government's Office of the Third Sector and Oxford Said Business School (Skoll Centre for Social Entrepreneurship). The Canadian experience involves Government project initiation with execution by business and academia. Such efforts have yielded information that has since been used to inform local policy.

In contrast, the social investment terrain in Australia remains largely uncharted.

This presents significant barriers to devising strategies that assist local social economy / third sector organisations - as the lessons of other countries are relevant only to a certain extent.

What is now needed is an understanding of the "state of play in the emerging field of social investment" in Australia that captures both the issue of access to finance as well as the underpinning power relations. This understanding must be built upon an appreciation of the entire event – spanning supply, intermediation and demand with the aim that, over time, a new blended value discourse can be established.

In appreciating this imperative, APCSIP (Swinburne University) is embarking upon an endeavour to map Australia's SI Landscape.

Specifically, four themes are to be explored:

i) Understanding the present social investment system, including:

   Which actors, flows, instruments and channels characterise the system? How do they interrelate? How are they evaluated?

ii) Putting ownership into practice, including:

   What do social economy/third sector organisations need and demand from the social investment system? What are the features of a true "recipient" led system? How can their capacity to use and access social investment, their commitment to desired outcomes, and their representation in national dialogue and decision-making be improved?

iii) Matching instruments to needs, including:

   How can instruments be combined and designed to respond to diverse social investment scenarios? What is the role of private actors and public/private partnerships? How can instruments catalyse local resource mobilisation?

iv) Changing the national social investment architecture, including:

What are the options for institutional reform? What incentives support reform, what bottleneck slow it down?

Appendix B: Enabling Collaborative R&D in Social Investment

"For Australian researchers, collaboration with peers both in Australia and internationally, through (global) research networks, is essential. Connecting to such networks provides a strong incentive to share data, and around these networks or communities of interest there appears to be a growing awareness of the value of data and the need to deposit and manage them"[9].

The Australian Government has recognised the value in enabling collaboration and data sharing among research organizations e.g. through the National Collaborative Research Infrastructure Strategy (NCRIS) and associated programs.

However, to date the primary focus has been upon the "harder" sciences.

In recognising the need to similarly support the humanities, arts and social sciences (HASS), the Australian Government has expanded its Roadmap to include a purposeful focus on these (diverse) disciplines.

APCSIP, in conjunction with CSI, seeks to advance a collaborative R&D capability in the area of social investment. To this end, APCSIP is developing a discussion paper on this topic and it is envisaged that a draft will be circulated by mid July 09.

[9] Working Group on Data for Science, Report to the Prime Minister's Science, Engineering and Innovation Council (PMSEIC), *FROM DATA TO WISDOM: Pathways to Successful Data Management for Australian Science*, December 2006, www.dest.gov.au/NR/rdonlyres/D15793B2-FEB9-41EE-B7E8.../15103/From_Data_to_Wisdom_Pathways_data_man_forAust_scie.pdf, Accessed 7 April 2009

Appendix C: Financing for Social Innovation

While securing funding for social economy / third sector organisations is often challenging, the financing of social innovation is especially problematic.

This is because, as with business, the "new and untried" presents a double edged sword. On the one hand, it is lauded for the advances that it can bring. On the other, it is often avoided by investors due to the risk it presents. The net result is that these new ventures typically experience systematic financial stress and so often fail to deliver their potential socio-economic returns. Yet, as with the traditional business sector, failure to support innovation and entrepreneurship has serious long term consequences for Australia's wellbeing.

In terms of addressing this situation, currently there is a paucity of information regarding the specific challenges encountered by the various institutions / actors that engage in this exchange, with most accounts tending towards anecdotal experiences.

What is now needed is an understanding of social innovation – including social entrepreneurship - in relation the challenge of financial sustainability. This understanding must be built upon an appreciation of the nature of social innovation and its particular challenges.

APCSIP, in conjunction with CSI, is developing a research agenda focusing on financing for social innovation.

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About the Authors

Dr Janette Corcoran is currently Executive Director, Asia Pacific Centre for Social Investment & Philanthropy (APCSIP), Swinburne University, holding responsibility to ensure the long-term intellectual, social and financial sustainability of the Centre. Previously, Janette worked as Program Director "Research" with Ashoka Southern Africa (in Johannesburg) and GIBS (University of Pretoria), investigating 'social entrepreneurship' and its contribution to community development. Prior to this, Janette was an academic in the Faculty of Business and Economics, Monash University where she investigated the merging worlds of the 'corporate and the social', specialising in the commercial exchange of knowledge. Prior to returning to academic, Janette worked in a range of government areas, managing branches of information management and corporate services, and leading commercialisation initiatives.

Kylie Charlton is the 2009 Heloise Waislitz Fellow at the Asia Pacific Centre for Social Investment and Philanthropy (APCSIP), Swinburne University. The theme of her work under the Fellowship is entitled "Can For-Profit be For Good" with specific focus on impact investing - profit seeking investment to generate social and environmental good - in the work of social entrepreneurs both in Australia and more broadly throughout Asia Pacific.

Kylie is a founding team member of Unitus Capital, a financial advisory firm specializing in arranging capital for microfinance institutions (MFIs) and other social enterprises benefiting those at the bottom of the economic pyramid. Unitus Capital was founded in July 2008 by the international non profit Unitus Inc. and several committed investors. Kylie led the capital markets strategy at Unitus for four years during which time she arranged debt for 12 Unitus MFI partners across six countries, provided capital structuring advice to the portfolio of Unitus MFI partners, advised investment funds and banks on their portfolio of microfinance loans, and played a leading role in the development and launch of the Unitus Equity Fund I, L.P. Previously, Kylie was Vice President in the Project and Structured Finance Group at Citigroup with 11 years experience in commercial and investment banking in Sydney and New York.

Kylie holds a B.A. in Commerce (Banking and Finance) from the University of Canberra and an M.B.A from the Said Business School at Oxford University, where she was a founding member and student co-chair of the Oxford Business Network for Social Entrepreneurship.

Centre for Social Impact
Level 6 East Wing
Australian School of Business
University of New South Wales
Sydney NSW 2052
Tel: 61 2 9385 6568
Fax: 61 2 9385 6161
www.csi.edu.au