

Response to Inquiry into Finance for Social Organisations

(a) the types of finance and credit options available to not-for-profit organisations, social enterprises and social businesses, the needs of the sector and international approaches;

The finance and credit options available to not for profit organisations have been limited. Philanthropic trusts and foundations have occasionally providing finance to enable the purchase of key real estate, usually through the provision of bridging finance. One excellent example of this was the loan giving to Trust for Nature Victoria by The R E Ross Trust to enable the purchase of Ned's Corner Station, a site of conservation significance on the Murray near Mildura. Trust for Nature was able to fundraise and repay the large grant within a reasonable period. This was considered quite ground breaking and is a model that could be replicated more often.

Philanthropic trusts and foundations have also funded microcredit programs, such as the No Interest Loans Scheme and various women's social enterprise projects. This type of support is well understood within philanthropy.

The area that requires additional support is the space between charitable activity and commercial activity. For example, where a microenterprise, which was funded as a program of a charity for the public benefit, develops to a stage that the enterprise leader wants to grow the enterprise into a business it may no longer eligible for a charitable grant. Depending on the structure and purposes, the enterprise may now be a private benefit and the project may no longer be charitable at law. However, the enterprise may not yet be ready to seek finance or credit from a commercial entity, such as a bank. The enterprise needs another form of financial support to enable it to grow and gain the skills and track record required to gain a mainstream commercial loan or an equity partner.

The Social Enterprise Development Investment Fund program has real potential to help fill this gap.

(b) the role and current activity of financial intermediary organisations and how these can be strengthened;

Broader provision of training to the CEOs and CFOs of not for profit organisations to assist in dealing effectively with financial intermediary organisations would be useful. This would help not for profits present themselves professionally when seeking loans or investments in social enterprises. Most not for profit organisations are used to seeking funding from government or philanthropy but not from the commercial sector. However, they do professional staff or Board Members who could increase their skills in this area.

The cost of finance also needs to be reasonable and financial intermediaries need to understand this constraint.

(c) strengthening diversity in social business models;

I would suggest that clarity rather than diversity is the key issue in relation to social business models. Lack of clarity could make social businesses less appealing to traditional charitable or commercial sources of finance and investment. There are a number of diverse structures and purposes at present and terminology can be a bit loose and confusing.

There could be a clearer distinction between social business structures. The recent announcement by the Assistant Treasurer in the 2011/12 budget that *unrelated commercial activities of charities that are not directed back to their altruistic purpose will be subject to income tax* is perhaps a consequence of a lack of clarity in this area.

Social businesses may be established within a charity or not for profit i.e. as a division. These may be a core service, i.e. an employment service for people with disabilities which operates as a business, or entirely unrelated. The latter is essentially a fundraising business to support the organisation's charitable purposes.

Social businesses may also be established as subsidiary companies by charities, usually as proprietary limited companies. These businesses pay a dividend back to their holding company (charity or not for profit) for its charitable or community purposes. This is a very clear structure and is easy for third parties to understand.

Social businesses may also be established as commercial entities with social purposes such as providing funding for projects or organisations that have a public benefit through donations or dividends.

A commercial business may also have a social outcome while operating on business principles and using a commercial structure.

(e) government actions that would support the potential for social economy organisations involved in the delivery of government services to access capital markets;

The Social Enterprise Development Investment Fund initiative is a good start in this area. When complete, the learnings from this process could be shared within government.

(g) making better use of the sector's own financial capacity, including practices relating to purchasing of products and services and use of reserve capital;

Again, this is an area where training of CEOs and CFOs might make an impact in more effective purchasing practices and use of reserve capital. Peak bodies could also be encouraged to facilitate national or state wide purchasing programs to enable a better negotiating position for large numbers of organisations working in similar settings, facing similar risks and sharing similar needs.

(h) making better use of the corpus of philanthropic foundations and trusts to make investments in Australia's social economy organisations, expand socially responsible investments and impact investments and any current barrier to their investment;

Philanthropic foundations and trusts need to comply with any limitations in their constitutions and/or trust deeds and, where they are trusts, with the Trustee Act in their state or territory. It

would be unlikely that they could invest in untried, speculative businesses. However, they could apply various ethical screens when investing. The US Rockefeller Foundation has undertaken a lot of work in this area.

There is also untapped potential to work with community foundations around Australia to help them leverage additional philanthropic funding and to enable them to manage local charitable trusts established under wills that are currently being managed by local accountants and solicitors. Previous pro bono work has been done for the former Prime Minister's Community Business Partnership around establishing a Register of Community Foundations, which would enable a community foundation to be endorsed as an Item 1 Deductible Gift Recipient, rather than the current structure which is limiting. Further work could also be done investigating the appropriate financial services licensing to support the local trust management role. Additional information can be provided on the earlier work if required.

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14 June 2011