



Australian Government

Department of Education, Employment and Workplace Relations

Mr Richard Grant
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Dear Mr Grant

DEEWR is very pleased to be able to provide the Committee with an update on the Social Enterprise Development and Investment Funds (SEDIF) initiative. On 9 August 2011, the Hon Kate Ellis MP, Minister for Employment Participation and Child Care and Senator the Hon Mark Arbib, Minister for Indigenous Employment and Economic Development jointly announced the successful fund managers selected to implement the SEDIF initiative.

The SEDIF initiative is in part intended as a testing of the market for social impact investing in Australia. The initial stage of selecting the fund managers has been illustrative of the interest in new ways for government, investors and community organisations to work together on finance options for the delivery of social impact.

For government, the program demonstrates the wider application of a model already in use to attract investment to areas like green technology, one where government acts as a catalytic investor rather than contractor. For social organisations, the SEDIF presents a model that focuses on long term financial viability and moves away from grant dependence. For investors, the SEDIF demonstrates that the social sector can represent a viable investment, one that can produce social as well as financial dividends.

The successful recipients of the SEDIF grants, Foresters Community Finance and Social Enterprise Finance Australia (SEFA), represent a dynamic combination of organisations that offer important opportunities for the development of the social impact investment market.

Foresters Community Finance, an established Community Development Finance Institution, has for the first time in the Australian context attracted \$6 million from a superannuation fund, Christian Super, specifically for social impact investment purposes. The attraction of an institutional investor to social impact investing sends an important market signal about the potential presented by this kind of investment opportunity.

Social Enterprise Finance Australia brings together a range of non-traditional partners with expertise in social finance, business development, community development, research and training. Importantly, the SEDIF has been a catalyst for Triodos of the Netherlands, one of the

world's leading social finance institutions, to enter the Australian market as part of the SEFA consortium. The organisation brings a wealth of social finance experience and intellectual property to the developing Australian market.

The SEDIF has the potential to make an important contribution to developing investment willingness and capacity in the sector. The availability of different finance options will drive change both for social enterprises and others understanding of the dynamics of a different market potential.

Yours Sincerely



Rosemary Addis

Social Innovation Strategist

Department of Education, Employment and Workplace Relations

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Department of Education, Employment and Workplace Relations

Social Enterprise Development and Investment Funds (SEDIF) - Frequently Asked Questions

What is the Social Enterprise Development and Investment Funds (SEDIF)

The Social Enterprise Development and Investment Funds (SEDIF) is a \$20 million Australian Government initiative to improve access to finance and support for Australia's social enterprises to help them grow their business, and by doing so, increase the impact of their work in their communities. By establishing SEDIF, the Australian Government is also seeking to catalyse the development of the broader social impact investment market in Australia.

See the SEDIF Guidelines for further details on the objectives of this initiative

<http://www.deewr.gov.au/Employment/Programs/SocialInnovation/SocialEnterprise/Pages/ApplicationProcess.aspx>

What is a social enterprise?

While there is no universally accepted definition of social enterprise, the term is generally used to describe business models which combine market trading with a social or environmental purpose. Social enterprises are characterized by the fact they trade to fulfill their mission, derive a substantial portion of their income from trade and reinvest the majority of their profit/surplus in the fulfillment of their mission.

How were the funds managers selected?

The Australian Government conducted a consultation process from 28 October 2010 until 3 December 2010 to seek feedback from a range of people and organisations with a contribution to make on social impact investment in an Australian context and to provide an important source of input for developing guidelines for the SEDIF process. The consultation aimed to gather expert advice from the social, legal, financial and philanthropic sectors on the development of social impact investment opportunities in Australia. For more information go to <http://www.deewr.gov.au/Employment/Programs/SocialInnovation/SocialEnterprise/Pages/Consultation.aspx>

The SEDIF Grant Program Guidelines were released on 22 December 2010 with a call for application from eligible fund managers. The Guidelines are available at

<http://www.deewr.gov.au/Employment/Programs/SocialInnovation/SocialEnterprise/Pages/ApplicationProcess.aspx> Applications closed on 18 February 2011.

The SEDIF Advisory Committee supported the Department on the development of the SEDIF Grant Program Guidelines and throughout the assessment process. The members of the Advisory Committee were selected for their expertise in relevant aspects of finance and funds management, social enterprise and social investment, legal and governance consideration. For more information go to <http://www.deewr.gov.au/Employment/Programs/SocialInnovation/SocialEnterprise/Pages/AdvisoryCommittee.aspx>

The SEDIF fund managers were selected through a rigorous two stage assessment process. During the first stage of the assessment, applications were assessed against the eligibility and selection criteria and

a shortlist was identified. In the second stage, the Department entered into discussion with shortlisted applicants and sought clarification as appropriate. The process and assessments were informed by the expert advice of the SEDIF Advisory Committee. After a thorough comparative analysis, a recommendation was made to the departmental delegate. The successful fund managers are yet to be announced.

How will the funds work?

The SEDIF funds will provide flexible, tailored financial products and support to social enterprises to help them to grow their business and achieve greater social outcomes. The funds do not provide grants to social enterprises. The fund managers will attract further investors into the funds over time, which will further increase the pool of capital and support available to social enterprises. The funds managers will set their own eligibility requirements for social enterprises consistent with the principles of addressing unmet need in the sector, building organizational capacity in social enterprises and demonstrating social impact.

What kinds of things might be financed by the funds?

Some examples might include:

- Flexible financing to expand the operations of a restaurant training young people so it can take on more trainees, open another site or develop a catering business thereby increasing training and employment opportunities.
- A loan to purchase or grow the operations of a business such as a recycling, packaging, bonsai nursery, cleaning or IT operation which might offer flexible working conditions for people with a disability or mental illness.
- A tailored suite of advice and financing to enable a large community based organisation to open a social enterprise at scale, like a supermarket, employing and training young people and new immigrants.
- A mortgage to purchase property on which traditional land owners can establish tourism or other enterprises and at the same time increase access to land and cultural and environmental management of country.

How do social enterprises apply to the funds?

Fund managers will require some time to get the funds up and running. It is anticipated that the funds will be open for business in the coming months. Social enterprises and investors can register their interest directly with the successful fund managers from the time of announcement.

How will communities benefit?

Social enterprises assist communities by creating innovative and cost effective solutions to complex and entrenched social problems such as unemployment, poverty, disadvantage and homelessness. By increasing the pool of capital that is available to social enterprises, the SEDIF funds will help communities by enabling the achievement of greater social impact.

How is the government funding being used?

The grant is being used to seed the establishment of social impact investment funds by acting as a catalyst to encourage investors to invest in the funds and the broader social impact investor market. The

government funding allows the risk to be spread across investors and builds investor confidence to grow opportunities for social enterprises to access capital to build longer term sustainable organisations.

Will the Australian Government have an ongoing role in managing the SEDIF?

The SEDIF funds will operate at arms' length from the Australian Government. Independent fund managers have been selected through a competitive grants process and they will be responsible for the ongoing management of the funds.

The Australian Government funding has been provided as a grant and does not need to be repaid (except in circumstances agreed as conditions of funding specified in the funding agreements). The Australian Government will receive agreed financial, impact and investment reports from fund managers and will monitor progress of the SEDIF.

How will the funds be accountable for results?

The SEDIF fund managers are required to demonstrate a robust strategy for risk management, including control and mitigation processes. This includes strategies around financial risks, risks to the core funding and credit risk. The SEDIF fund managers have developed sound structural approaches to investment failures and will be accountable for the performance of the funds to the Australian Government and the other investors in the funds.

How do you measure social impact?

Social impact measurement is aimed at clearly demonstrating the tangible benefits or social value created by organisations and programs. There is a growing body of international evidence about useful approaches to measuring social impact. Successful SEDIF fund managers will be required to demonstrate a robust approach to measuring the social value created by their investments, including methods of assessment and reporting frameworks, and will benchmark performance against international standards.

Can investors still invest in the SEDIF funds?

The SEDIF fund managers are responsible for attracting new investors into the funds over time. Fund Managers can consider sourcing investment from any source which can lawfully contribute on terms that will meet the requirements of their licensing arrangements. These might include retail, philanthropic, institutional and private investors.

PROFILE: FORESTERS COMMUNITY FINANCE

Foresters is a leading Australian Community Development Finance Institution providing financial support and services to individuals, social enterprises and not-for-profits who are underserved by mainstream financial institutions. Established in 1999, but with its origins dating back to the 1850s, Foresters has been providing both lending and business development support to a range of Australian social enterprises and community organisations for a number of years. Foresters has been a pioneer in the field of social investment in Australia through its Community Investment Fund, the establishment of Social Investment Australia Limited (SIA) and its leading research and publications program.

Investors

The Australia Government will provide \$6 million to Foresters, which has been fully matched by a \$6 million cornerstone investment from Christian Super Fund. The capital will be used by Foresters to establish two new investment funds to provide lending and business development support to social enterprises.

Funds

SIA will be the trustee of the two funds. Eligible social enterprises will be able to apply to either:

1. The **Community Finance Fund (CFF)** - which will provide a range of tailored financial products, such as mortgage loans and enterprise loans. These loans will be provided to established social enterprises to allow them to grow and scale their operations. Mortgage Loans assist Social Enterprises by providing loan finance secured by first mortgage over real estate. Mortgage loans may assist in the acquisition of a Social Enterprise's principal place of business or to secure a finance facility for the strategic growth of the social enterprise. Existing real estate may be offered as security for this purpose. Enterprise Loans are designed to provide flexible, structured finance to Social Enterprises segregated into two tiers ranging from high level structured finance (secured or unsecured) of between \$25,000 and \$250,000 or lower level flexible finance of less than \$25,000.
2. The **Social Enterprise Finance Fund (SEFF)** - which will provide similar loans as the CFF, but with a focus on incubating innovative and emerging social enterprises. The broader goal is to help social enterprises build their capacity to be able to meet the criteria of more mainstream financial products. In addition, the SEFF may invest in what is called "social equity" or quasi equity arrangements. Social equity investments are typically described as patient investments that put social returns ahead of financial returns. This kind of approach is a new offering to social enterprises in Australia.

Both the CFF and SEFF will assist eligible social enterprises with targeted business advice and support during the application and assessment process to ensure the social enterprise's ability to become financially sustainable over time.

Examples of the types of proposals that may be funded

The funds will require a social enterprise to demonstrate social value but will not limit applications to any one sector. The focus of social enterprises will be wide and varied and could include a focus on such social values as employment, social inclusion, affordable housing, cultural production, and the environment. In many instances a social enterprise may deliver more than one of these outcomes.

The funds will build a portfolio of investments ranging from the acquisition of a property from which a social enterprise will operate through to loans that support growth and increased social impact.

Proposals from social enterprises may come in many forms and may include:

- An independent social enterprise who wants to access finance for business growth but who would not meet the criteria of a mainstream financier.
- An enterprising not-for-profit looking to increase its social impact through a business proposal.
- Flexible finance to a lawn care social business employing people with a disability wanting to acquire new lawn mowers and garden equipment to expand their business.
- A secured property loan to help a social enterprise that assists parents returning to the workforce to purchase its place of business.
- Flexible finance that allows a centre for people with disabilities to purchase equipment to expand a hospitality social enterprise creating employment opportunities and increasing social inclusion.
- Tailored support and financing to purchase property enabling traditional land owners to establish tourism, cultural activities and improve environmental management of country.

PROFILE: SOCIAL ENTERPRISE FINANCE AUSTRALIA LTD (SEFA)

The Australian Government is providing \$10 million in funding to SEFA with a further \$10 million being invested by a range of corporate and individual investors to seed the \$20 million SEFA Loan Fund.

Social Enterprise Finance Australia (SEFA) was created on 1 July 2011. The SEFA Loan Fund intends to provide finance to social enterprises on commercial terms, drawing on the expertise of one of the world's leading social impact finance organisations, Triodos of the Netherlands. Integral to this business objective is a commitment to helping its customers build their capacity to manage debt and become financially sustainable over time. SEFA aims to create positive social and environmental impact whilst generating financial returns for investors.

SEFA is committed to developing a long-term market for debt (and equity) finance for the social enterprise sector in Australia and has set an aspirational goal of working towards becoming Australia's leading social lender within the next 5 years. SEFA intends to increase its capital base beyond the initial \$20 million in order to support the growth of its loan book.

The SEFA Loan Fund

The SEFA Loan Fund will focus on the following three broad areas of social impact:

- **Community Development:** loans to a range of social enterprises such as community housing enterprises and employment generation projects.
- **Aboriginal Community Enterprises:** loans to social enterprises led by Aboriginal people or providing services in Aboriginal communities.
- **Community Environment Enterprises:** loans to social enterprises dedicated to land conservation and environment protection as well as community benefit.

SEFA will also include an incubator fund that will cover all three categories by providing finance and capacity building opportunities for less established social enterprises that are able to demonstrate the potential for significant social impact.

Products and Services

SEFA will offer social enterprises loan products in tandem with targeted business advice and support to help build their capacity to manage debt and become financially sustainable over time. The financial products and services provided by the SEFA Loan Fund aim to:

- leverage successful organisations that have a social, ecological and/or cultural remit, and which seek to provide substantial benefits to local communities;
- lift capacity and improve sustainability within the sectors they serve;
- increase awareness and understanding of the uses of debt and equity finance to service capital requirements in the social enterprise space; and
- increase sustainable economic activity that benefits communities and individuals most in need.

Applications will be open to all Australian social enterprises nationwide. However, loans will only be made to social enterprises or community businesses where there are key, tangible social outputs. No loans will be made to individuals or to private business.

The SEFA operational model will include education and mentoring to contribute to the development of capacity within social enterprises and the sector to engage with a range of financial options to support success. SEFA will provide access to a recognised training qualification that focuses on business management and responsible debt financing.

Together with The Macquarie Group Foundation and other members of corporate Australia, SEFA will connect social enterprises with experienced business people and entrepreneurs by introducing a mentoring program to provide them with support, guidance and advice.

Partners

SEFA brings together a unique range of enterprise partners with expertise in social finance, business development, community development, and research and training. Current consortium and associate partners are:

Triodos

Triodos is a founding investor and is providing significant loan funding to the SEFA Loan Fund. It is also sharing its experience, intellectual property, resources and seconded personnel.

One of the world's leading social impact finance organizations, Triodos was founded in the Netherlands in 1980 and now operates in a number of European countries, with EUR 5.6 billion assets under management. The mission of Triodos is to make money work for positive social, environmental and cultural change, and it only finances enterprises that create added value in these areas. Key sectors include organic food and farming, renewable energy, social housing and fair trade. The Triodos principles and independence are protected through a special shareholding trust.

Community Sector Banking

Community Sector Banking (CSB) is supporting SEFA and the SEFA Loan Fund through the contribution of investment funds, generation of loan applications, the provision of full banking services to applicants and the supply of high-level personnel with expertise in investment, social enterprise and the community sector.

CSB is a joint venture between the Bendigo and Adelaide Bank and 20 not-for-profit organisations. Founded in 2000, CSB is the only banking business in Australia solely dedicated to the not-for-profit sector. CSB's intimate connection with the sector enables it to design and deliver tailored products and services with the aim of contributing to a strengthened and more sustainable sector in Australia. CSB shares the same values as its customers and the communities they work with – integrity, leadership and commitment.

The Macquarie Group Foundation

The Macquarie Group Foundation will provide business mentoring to successful applicants of the SEFA Loan Fund.

The Macquarie Group Foundation, the philanthropic arm of Macquarie Group, is one of Australia's oldest and largest corporate benefactors. It has contributed more than \$A145 million to approximately 1,300 community organisations globally since 1985. The Foundation also builds and strengthens Macquarie staff involvement and engagement in community activity. The Foundation supports community organisations that Macquarie staff are personally involved with, through: a staff donation and fundraising support scheme; through Macquarie staff as volunteers and board members; and a range of other initiatives.

The NSW Aboriginal Land Council

The NSW Aboriginal Land Council is a founding investor in the SEFA Loan Fund and a partner in Aboriginal enterprises.

The NSW Aboriginal Land Council (NSWALC) is the peak representative body in Aboriginal affairs for New South Wales. The NSWALC aims to protect the interests and further the aspirations of its members and the broader Aboriginal community. It is committed to ensuring a better future for Aboriginal people by working for the return of culturally significant and economically viable land, pursuing cultural, social and economic independence for its people and being politically pro-active and voicing the position of Aboriginal people on issues that affect them. The NSWALC is the largest member-based Aboriginal organisation in NSW.

Bush Heritage Australia

Bush Heritage Australia is a SEFA non-financial partner providing expert land valuation for conservation.

Bush Heritage was founded in 1991 as a non-profit conservation organisation dedicated to protecting Australia's unique animals, plants and their habitats. Bush Heritage has a simple, practical formula for protecting the bush – it buys land of outstanding conservation value, and then cares for it. Bush Heritage currently owns and manages 33 reserves (947,000 ha) throughout Australia. The reserves are managed in a similar way to national parks – the land is legally protected, with the intention of safeguarding it forever. Bush Heritage also builds partnerships with private landowners and Indigenous groups to manage important areas of their land for conservation.

The University of Sydney Business School, Innovation & Entrepreneurship Research Group

The Innovation & Entrepreneurship Research Group (IERG) will work with SEFA to develop key performance indicators and metrics to measure the social impacts achieved by the SEFA Loan Fund.

IERG is a cross-disciplinary team of researchers that focuses on business innovation and entrepreneurial ventures and people. Areas of focus include internationalisation pathways, strategic management and entrepreneurship (both business and social). The IERG recognises that the process of identifying and exploiting new opportunities requires relevant participants, including creative individuals, entrepreneurs, businesses, investors and government bodies. These people are supported by educators and researchers who provide new insights and education.

Mallesons Stephen Jaques

Mallesons Stephen Jaques has provided SEFA with pro bono legal services.

Mallesons is a leading law firm in the Asian region and couples high performance with intellectual rigour to provide legal solutions that are innovative and often ground-breaking. This approach enables Mallesons to help its clients to adapt to the increasingly challenging markets in which they operate and to ensure that they have a voice to help them shape the legal and regulatory landscape. Mallesons invests in attracting, recruiting, retaining and nurturing the very best talent in its nine offices across Australia's major commercial centres, as well as in Asia and the UK.

Institute of Strategic Management

The Institute of Strategic Management will develop a Certificate IV course for social entrepreneurs to achieve a formal qualification where appropriate.

The Institute of Strategic Management (ISM) is a Registered Training Organization (RTO) that delivers training in financial services and business services. ISM is focused on becoming the preferred learning partner for individuals and business. It seeks to achieve this by facilitating leading edge training and development programs and providing high-quality nationally recognized training.