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Media release
Senate Committee recommends Social Finance Taskforce

The Senate Economics Committee tabled a report on 25 November 2011, *Investing for good: the development of a capital market for the not-for-profit sector in Australia*, which explores finance options for the not-for-profit sector. During its inquiry, the committee heard that mainstream finance institutions are cautious of lending to not-for-profit organisations and do not always understand the needs and realities of how these organisations operate. As a result, many not-for-profit organisations have limited access to suitable debt and equity finance options and are heavily reliant on untied grants and traditional philanthropy. In addition, many of these organisations lack a steady revenue stream and the collateral to guarantee loans and are risk averse to debt and equity capital.

The committee has recommended that a Social Finance Taskforce be established to bring strategic direction and prominence to the development of a robust capital market for not-for-profit organisations. The Taskforce should be comprised of influential members of the mainstream finance sector, the superannuation industry, the philanthropic sector and the social sector. It should bring advice to government and identify and publicise opportunities for not-for-profit organisations and the investment community at large.

Currently within Australia, financial intermediaries—also known as Community Development Finance Institutions (CDFIs)—are a key source of financial support for the social sector. CDFIs offer financial products that are tailored to suit the needs of not-for-profit organisations. These include new debt instruments, equity-type investments and long term 'patient finance'. The committee recommends that the Taskforce examine initiatives to encourage the development of the CDFI market.

The committee also recommends that the Taskforce consider social infrastructure bonds and 'pay-for-success' financing models that have the potential to engage institutional investors such as superannuation funds that have not traditionally provided capital to the sector. Social bonds offer investors a lower yield than a commercial bond in exchange for the investor receiving a social dividend.

The committee has heard that Social Impact Bonds may offer a higher yield and are used to finance preventative social schemes where government rewards investors with a financial dividend when the project they have invested in achieves a specified social outcome. The delivery of improved social outcomes generates cost savings for government which are used to pay investors. The NSW government has launched a pilot tender process for 'Social Benefit Bonds'

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and the committee has recommended that the federal government identify policy areas where social impact bonds could be applied, including intractable problems in indigenous communities.

For comment: Senator David Bushby, Chair
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For inquiry information: Senate Economics Committee secretariat
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Terms of Reference of the inquiry

Mechanisms and options for the development of a robust capital market for social economy organisations in Australia, including:

(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;

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

(c) strengthening diversity in social business models;

(d) the development of appropriate wholesale and retail financial products and services;

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

(f) incentives to support investment in the sector;

(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;

(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;

(i) policies, practices and strategies that affect the availability of capital markets for social economy organisations on social innovation, productivity, growth and workforce issues in these sectors; and

(j) any other related matters.