



SUPPORTING SOCIAL ENTERPRISE:

The role of government

Australia's social enterprises can make a significant contribution toward a more equitable society, but are constrained by limited financial, public policy and other 'ecosystem' supports.

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SOCIAL ENTERPRISES NEED ENABLING POLICY AND INVESTMENT TO CONTRIBUTE TO A MORE EQUITABLE SOCIETY

Social enterprises need government support

[Social enterprises](#) are organisations that aim to create positive social or environmental impacts through commercial activity. These impacts include economic and social benefits delivered in financially sustainable ways.

Many social enterprises support inclusive employment by providing opportunities for people facing barriers to economic participation, such as people with disability, migrants or those recently released from prison. Other social enterprises devote a proportion of profits to addressing social problems, such as homelessness.

Social enterprises require a supportive ecosystem to grow and flourish. [Important elements](#) include finance, specialist intermediaries, enterprise development support and appropriate public policy.

Australia's social enterprise sector has been expanding but is currently limited by an ineffective and underdeveloped [entrepreneurial ecosystem](#).

The social entrepreneurial ecosystem needs to better support social enterprise to sustainably address deeply entrenched social problems, such as long-term unemployment and inequitable access to services.

To date, policy and resource support has been patchy and fragmented. Currently, there are two major and interrelated [ecosystem gaps](#):

- Lack of affordable and appropriate development support programs, such as specialised accelerators and incubators focused on the specific needs of social enterprises.
- Barriers in access to affordable – and appropriate – capital.

Limits on access to affordable – and appropriate – capital

Investors are increasingly looking for ways to achieve positive social and environmental outcomes as well as financial benefits from their investments. Markets appear to be responding to this demand – [specialist funds are growing](#), [industry superannuation funds](#) are providing impact investment options, and [international impact investment](#) players are entering Australia.

There has been strong growth in the social impact investing market in Australia – sized at \$20b today with predictions that it will reach over \$100b in less than five years.

Very little of this capital directly benefits social enterprises. Market growth has been almost entirely in 'finance-first' social and environmental investments that promise market-rates of financial return.

In contrast to finance-first capital, impact-led capital sees investors concede some degree of financial return to enable the generation of deeper impact, supporting social enterprises to deliver benefits in areas such as youth unemployment, homelessness, social housing, mental health and aged care. To support growth in financing social enterprise, policy and resourcing support should emphasise 'impact-led' capital programs and their flow-on benefits to Australian society.

There is currently an inadequate supply of impact-led capital. In 2018, less than 1% of all [social impact investment capital](#) was impact-led.

There is also a tension for investors between the desire to support social impact generation and the need to meet fiduciary obligations. As a result, many social enterprises, particularly those incorporated as not-for-profits, describe a lack of access to [affordable finance](#) as a major constraint on growth.

Untapped potential of impact-led social impact investment

The Commonwealth Government's [Social Impact Investing Taskforce](#) found 'the full potential of social impact investment is as yet untapped'.

In 2017 only 4% of [impact investments](#) were in socially focused initiatives. The vast majority were environmentally focused, where a mainstream investment market has emerged. Socially focused investments constitute the majority of impact investments in terms of the number of transactions – suggesting demand for novel enterprise responses to social issues.

Due to the complexity of transactions and the need to make concessions in relation to financial return, resourcing support for socially focused impact-led investment needs to be carefully targeted and backed up by policy if we are to see growth.



There are not enough supports to enable social enterprise to develop – and grow.

There is also a shortage of development supports and learning opportunities for social enterprises.

[Many support programs](#) do not provide social enterprises with the knowledge and skills they need to access capital appropriate for their circumstances, such as expertise in complex financial forecasting, financing scenarios and implementation planning.

As social enterprises get closer to accessing capital, their support needs become very specific to their ventures – a range of development support across the enterprise lifecycle needs to be considered.

GOVERNMENTS CAN SUPPORT IMPACT-LED GROWTH

Many of the ecosystem constraints that social enterprises face were highlighted by the Commonwealth's [Social Impact Investing Taskforce](#).

There is a need for:

- Funding targeted towards ecosystem gaps faced by social entrepreneurs to access support and capital, including a specialist fund to support early-stage enterprises and entrepreneurs.
- An increased range of outcomes-based funding opportunities.
- The establishment of an impact investing wholesaler in Australia.

The Department of Prime Minister and Cabinet is yet to respond to the Taskforce's final report and recommendations, and the 2022-23 Budget contained no new announcements in relation to social enterprise support.

Governments need to play a leadership role

Governments [need to play](#) a leadership role in the development of ecosystem supports to promote the growth of impact-led socially focused investment.

A model for government-supported approaches to social investment is the UK Government supported the development of [Access: The foundation for social investment](#). In 2022, the Government made the policy choice for £20m from dormant bank accounts to be made available to support charities and social enterprises working in disadvantaged communities.

Social enterprises, particularly those structured as charities/not-for-profits, face specific challenges around accessing capital and support. Therefore, the Access Foundation works through specialist

intermediaries to provide:

- Blended finance – a combination of grant funding and repayable loans to facilitate smaller or unsecured loans tailored to the capital needs of social enterprises.
- An enterprise development program – support to charities to develop new social enterprise initiatives or grow existing ones.
- Investment readiness support – grants to support smaller social enterprises to help them become investment ready.

Existing specialist organisations that work to grow social enterprises are [constrained by the lack of funding structures](#) such as those provided in the UK.

Australia should follow the lead of the Access Foundation and establish a social impact investment wholesaler, as recommended in the interim report of the Social Impact Investing Taskforce and by Impact Investing Australia.

Currently, [ecosystem gaps](#) that Australian social enterprises face and the fragmented nature of the available support, generally align with the presence or absence of a comprehensive government strategy.

For example, in both [Queensland](#) and [Victoria](#), which have state-wide social enterprise strategies, there is greater support available. The ecosystem gaps that social enterprises face nationally could be addressed through the development of a national social enterprise strategy.



WHAT CHALLENGES REMAIN?

There is a risk that policymakers will mistake the promising growth in mainstream social impact investment – largely through institutional investors and increasingly in environmental and renewable energy investments – as a sign that government leadership and support to expand impact-led, socially focused social enterprise is not required.

Yet the evidence – including that provided to Prime Minister and Cabinet – is clear: enabling public policy is required to support social enterprise in Australia to address complex social issues, such as unemployment and homelessness, in ways that align with governments' policy objectives.

Supporting social enterprise is precisely the space that the Commonwealth Government and its agencies should be operating in.

Government must ensure that the support that is required at the pointy and more financially precarious end of the spectrum – organisations tackling complex social issues – receives targeted and specialised support and funding that is fit-for-purpose in developing and building sustainable social enterprise.

RECOMMENDED NEXT STEPS

The Commonwealth should provide support for a specialist fund that provides blended finance to support access to capital by social enterprises, particularly charities and other not-for-profits that cannot access mainstream finance or impact investment.

Like the UK's Access Foundation, an Australian fund could partner with existing social impact investment intermediaries already working with social enterprises.

An Australian fund could provide enterprise development support and back existing incubators and accelerators to better support the needs of social enterprises, particularly charities and other not-for-profits.

CSI RESOURCES/REPORTS

- [Australia's social venture ecosystem – understanding the support and development landscape: A report for the Paul Ramsay Foundation investigating early-stage social venture support programs and Apex organisations](#)
- [Benchmarking Impact: Australian Impact Investment Market Activity and Performance Report](#)
- [Finding Australia's Social Enterprise Sector](#)
- [Map for Impact: The Victorian Social Enterprise Mapping Project](#)
- [Social Enterprise Development and Investment Funds \(SEDIF\) Evaluation Report](#)

OTHER RESOURCES

- [Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report](#)
- [Impact Investing Australia: Pre-Budget Submission 2021-22](#)
- [Social Impact Investing Taskforce – Interim Report](#)

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