Social enterprises and charitable outcomes: social finance in Australia

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The increase in prominence of social enterprises in recent years has provided new opportunities for charities and not-for-profits to carry out their mission objectives.

In 2010, the Australian Government established the Social Enterprise Development and Investment Fund (SEDIF). The purpose of the SEDIF is to provide financial products and related capacity building for social enterprises. On 9 August 2011, the Australian Government **announced** the successful fund managers for SEDIF.

In the background, the Senate Economics References Committee is currently undertaking an **inquiry** into the possibilities of a framework of financial products and services for the not-for-profit sector, with a view to supporting investment in the sector. Submissions closed in April 2011 and the reporting date is 31 October 2011.

One of the items to be addressed in the inquiry is likely to encompass a consideration of the interrelationship with existing financial services regulation. For example, in the United Kingdom, there are calls for the establishment of a regulatory regime for social finance as a subset of the existing financial services regulation framework to recognise the unique features of the not-for-profit sector.

Social enterprises

Social enterprises share the following general characteristics:

- operate to target a social benefit
- trade to carry out their mission
- apply income from trading activities to be reinvested toward the mission.

Examples of social enterprises include organisations that provide employment opportunities to disadvantaged job seekers.

SEDIF

The government has provided $20 million as a seeding allocation to establish the SEDIF to provide financial products and similar services to build social enterprises. It is intended that this will enable social enterprise to access seed and growth capital where:

- government and philanthropic funding is uncertain and does not encourage long-term planning
- traditional investment and financing are unsuitable due to a sub-financial market rate of return for investors

- collateral is either not available or not appropriate to secure debt finance.

The SEDIF funds will not be provided as grants, but as financial products and services to social enterprises delivering social outcomes.

Issues for charities and not-for-profits and investors

Social enterprises, as well as their investors, will need to be aware of certain issues in considering whether an organisation is suitable for effective social investment. The key considerations include:

- legal structure – the most common being companies limited by guarantee and incorporated associations

- eligibility and endorsement for tax concessions (income and input taxes)

- eligibility and endorsement to receive deductible gifts

- robust governance structures and procedures in place – board and management awareness and management of risks

- appropriate clarity and level of disclosure of outcomes and returns (financial and social).