Background Policy Paper: Social Enterprises and Not-for-profit organisations scaling for impact
April 2018
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Introduction and Recommendations</strong></td>
<td></td>
</tr>
<tr>
<td>1.1 Introduction</td>
<td>3</td>
</tr>
<tr>
<td>1.2 Recommendations</td>
<td>4</td>
</tr>
<tr>
<td><strong>2. Policy Background</strong></td>
<td></td>
</tr>
<tr>
<td>2.1 Australian Government policy priorities and supporting evidence</td>
<td>5</td>
</tr>
<tr>
<td>2.2 Development of the Australian social enterprise sector</td>
<td>12</td>
</tr>
<tr>
<td>2.3. Stakeholder views on the development of the social enterprise sector in Australia</td>
<td>19</td>
</tr>
<tr>
<td><strong>Attachments:</strong></td>
<td></td>
</tr>
<tr>
<td>Appendix A – Detailed recommendations</td>
<td>25</td>
</tr>
<tr>
<td>Appendix B – Overview of international social enterprise frameworks</td>
<td>32</td>
</tr>
<tr>
<td>Appendix C – Scaling models and strategies for social enterprises</td>
<td>35</td>
</tr>
<tr>
<td>Appendix D – Spring Impact Scale Accelerator Initiative</td>
<td>37</td>
</tr>
</tbody>
</table>
1. Introduction and Recommendations

1.1 Introduction

Policy Context

Social enterprises are an important vehicle for providing job opportunities to people who face barriers to entering the workforce, particularly those who are at-risk of long-term unemployment i.e. people with disabilities, Indigenous Australians, disadvantaged young people and refugees. Gaining work in a social enterprise can be an effective stepping-stone towards entering mainstream employment.

There are also potential benefits for Government from the growth of the social enterprise sector through stimulating innovation to improve quality of services, deliver better outcomes and achieve better value for money in service delivery.

There is strong international recognition of, and evidence, for the employment and service delivery benefits generated by social enterprises, and the business case for Governments and the market to grow the social enterprise sector.

The 2015 McClure Welfare Review Final Report noted, “… the potential for social enterprises to play a part in the new social support system and the need for support of their development.” It recommended, “… a long term strategy to support social enterprise development. Such a strategy could consider how to increase demand for investment by enterprise, increase supply of investment to enterprises and improve the enabling environment.”

Promoting social investment in Australia

On 18 April 2017, the Partnership met with the Prime Minister, the Hon Malcolm Turnbull MP, and the former Minister for Social Services, the Hon Christian Porter MP, who affirmed the Australian Government’s commitment to the Partnership’s role in promoting social investment in Australia. The continuing priorities discussed were:

- support the growth of social impact investment (SII) in Australia, including social enterprises
- explore as a key priority the potential of social investment and franchising structures to realise outcomes for social issues aligned with the Government priorities
- identify policy and regulatory ‘enablers’ of government, business and community collaboration, and
- continue to build strong linkages with community, business and social enterprise to achieve positive outcomes, in particular for the most vulnerable people.

Subsequently Angela Perry refocused the Social Impact and Partnerships Working Group towards social franchising (achieving scale) and creating enablers for the social enterprise sector and not-for-profit (NFP) sector scaling for impact.

This Working Group held two roundtables, first engaging with the SII sector, its peak bodies, key advisors and funders and secondly, with social enterprises and NFPs that had or were seeking to scale their impacts through social franchising or other methods and strategies.

Based on stakeholders views and the available evidence (summarised in the Policy Background section below) the Partnership considers the role of the Australian Government should be as a
Background Policy Paper: Social Enterprises and Non-for-profits scaling for impact

market enabler and developer of the social enterprise and impact investor sector in the following priority areas raised in stakeholder roundtables:

1. Capacity building of enterprises
2. Procurement and market opportunities
3. Cost and complexity of appropriate legal structures
4. Access to start-up capital and funding streams, and
5. Legitimising the social enterprise sector.

1.2 Recommendations

A summary of the recommendations is provided below that address each of the five priority areas above. Detailed recommendations are provided at Appendix A.

1. Capacity building of enterprises

1.1 The Impact Circle: A series of national and state/territory-based quarterly face-to-face forums and an online forum (managed by a relevant peak body or key intermediary in the sector) to enable SE/NFP mentoring, networking and collaboration and support ongoing sharing of ideas, experiences and research.

1.2 Skills Matching Portal: An online portal/platform hosted by the sector to enable the improved matching of potential Board members (and their relevant skills, expertise and experience) with the needs of SEs/NFPs.

2. Procurement and market opportunities

2.1 Longer term funding arrangements: Longer term grant funding and stability for the sector.

2.2 Encourage sector collaboration and alliances: Government embedding sector collaboration and alliances as a key principle in Government procurement policy and processes and in relevant program funding contracts and processes.

2.3 Impact Measurement and Reporting: Online tools, guides and checklists to enable SE/NFP service providers to build their capacity/expertise in impact/outcome measurement. Commission an appropriate organisation to oversee development and promotion of an outcomes/impacts reporting framework for the sector to track and report on the impacts of charities and provide greater transparency and consistency across the sector.

3. Cost and complexity of appropriate legal structures

3.1 Formal Consultation on Legal Structures: Australian Law Reform Commission to initiate a formal inquiry into the optimal legal structure for SEs and NFP organisations.

4. Access to start-up capital and funding streams

4.1 Introduce a Program Related Investments (PRI) Framework

5. Legitimising the social enterprise sector

5.1 Scoping the SE Sector: Research that better defines the sector and its characteristics (including its economic and social impacts) to provide a robust evidence base for future social impact investing market opportunities and government policy interventions in the
sector. Develop and promote a set of 30 detailed case studies, highlighting lessons learnt to promote best practice and social innovation in the sector.

5.2 Clear Ministerial responsibility for Social Enterprises: Placing responsibility for social enterprise sector policy development under a single lead Ministerial and portfolio.

2.1 Australian Government policy priorities and supporting evidence

Social Impact Investing Principles

In 2017 the Partnership made a submission to the Treasurer, the Hon Scott Morrison MP, in relation to the Treasury social impact investing (SII) discussion paper¹. The Partnership noted in its response to the Treasurer that it considered the proposed SII principles to be incredibly sound. The Partnership noted however that there was one key principle missing – that of sustainability and scale. It is important that impact businesses can compete in the profitable sector, are sustainable and can scale so that the impact they make can increase over time and benefit more people.²

This was not reflected however in the final set of SII principles jointly released by the Treasurer and the Minister for Social Services on 8 August 2017³. The Partnership remains strongly in support of those principles to guide Australian Government is involvement in the SII market⁴:

- Government as market enabler and developer
- value for money
- co-design with stakeholders
- fair sharing of risk and return
- robust outcomes based measurement and evaluation, and
- outcomes that align with Australian Government policy priorities.

The Partnership continues to believe in the importance of sustainability and scale being achieved practically in the implementation of these principles.

Investing in Social Innovation

The Partnership notes the Government’s 2017 consultations and report⁵ on innovation which found the role for Government should be as a catalyst for innovation, including innovative service delivery.

The report noted that the Australian Government can ensure that the innovation system delivers social as well as financial returns by addressing specific failures in the emerging SII

---

² Partnership submission to the Treasurer on SII discussion paper, 27 February 2017. p.6
⁶ Innovation and Science Australia 2017, Australia 2030: prosperity through innovation, Australian Government, Canberra
market. A lack of reliable, information, benchmarks and recognised investment framework are deterrents to investors.

The report identified two strategic opportunities for Government as:

- encouraging investors to pursue opportunities that generate both financial and social returns, and
- stimulating national innovation by using government procurement as a strategic lever.

The report recommended that the policy environment be further strengthened to encourage investors to pursue opportunities that provide both social and financial returns.

Key issues identified in the consultations were:

- a growing interest in innovation around government service provision and funding social enterprises\(^6\)
- innovation in environmental and social domains is likely to be a major contributor to productivity change and key opportunities for the social and community services sector lay in communications, understanding of service need, monitoring and access
- a need to focus on breakthroughs, discovering new technologies, and new ways of creating value, including social value, and
- building connections and connectivity emerged as a very strong message - utilising the new network forms that are emerging, particularly around social media, and creating ‘space’ for businesses to connect and collaborate.

**Emerging Markets Impact Investment Fund (EMIIF)**

The Minister for Foreign Affairs, the Hon Julie Bishop MP, on 14 November 2017 announced the $40 million *Emerging Markets Impact Investment Fund* (EMIIF)\(^7\) aimed at leveraging private investment in small and medium enterprises to promote economic growth and reduce poverty in the region. The EMIIF will invest $2 million or more in funds to help a range of businesses access capital to grow.

Enterprises will benefit from a new approach that provides loans, equity, guarantees and other market-based finance solutions. The Fund will also encourage investment in enterprises that positively affect women, building on the work of Australia’s $44 million *investing in Women* program that commenced in 2016.

The Partnership suggests that some features of the EMIG model may be worth considering in the Australian context, notably targeting investment to Australian-based social enterprises in priority service sectors or servicing priority target groups, such as:

- the NDIS and Aged Care markets, and
- priority groups identified under tranche two of the Try, Test and Learn initiative e.g. At-risk young people, older people, and migrants and refugees on income support payments.


\(^7\) https://foreignminister.gov.au/releases/Pages/2017/jb_mr_171114.aspx
The Partnership notes that the EMIG Tender documentation highlights the three to five year timeframe as the growth stage for enterprises seeking to scale their impact and expand their operations. Many of the challenges and policy options identified in the EMIG tender documentation are as equally relevant for many small social enterprises in Australia i.e.

“Early-stage SMEs often face challenges in accessing adequate capital to grow, which can result in a stunted growth path. Despite their progression along the business life cycle, these SMEs remain small, as they are not able to fully realise their growth potential. Companies comprising this segment of the market are often referred to as the “missing middle” because they are too large to qualify for MFI loans yet too small to be considered by commercial private equity or debt funds; at the same time, they are too far along their business life cycle to be considered by angel investors, yet their underlying growth model is too conservative for venture capital. Furthermore, as the financing gap analysis earlier in this section explained, bank loans are challenging to obtain in these markets, and even more so for smaller-scale enterprises which have little or no collateral.”

The EMIG Tender documentation goes on to conclude that, “There is a significant need of capital for both early-stage SMEs and small-sized SMEs that experience a stunted growth path. Based on their business life cycle and financing needs, these two SME segments typically represent a ticket size of USD 250,000 to USD 2 million.”

**Linkages with Human Services Reforms**

The Productivity Commission (PC) Inquiry into the Reform of Human Services and the issues it identifies were also raised by stakeholders in the social enterprise sector, notably:

- the length, complexity and lack of flexibility of Government funding contracts for service providers
- challenges and issues for service providers scaling impacts, and
- collecting and harnessing information on what works and improving the measurement of impacts and outcomes.

The Partnership supports Draft Recommendation 7.5 of the PC Draft Inquiry Report that would involve the Australian, State and Territory Governments setting the length of family and community services contracts to allow adequate time for service providers to establish their operations and have a period of stability in service delivery.

The Partnership agrees that Governments should:

- increase default contract lengths for family and community services to seven years, and
- allow exceptions to be made, such as program trials and pilot projects which could have shorter contract lengths.

The PC Draft Report identified both opportunities and challenges for service providers scaling their impacts:

“Larger providers may achieve economies of scale and scope that makes them more able to dedicate resources to provider selection processes and to invest in service improvement. However, smaller, niche providers may be more efficient at providing particular services, or

---

8 EMIIF | Design for procurement – October 2017, Department of Foreign Affairs, October 2017 p25
10 Draft PC Report Inquiry into Introducing Competition and Informed User Choice into Human Services, June 2017 p41
servicing a part of the larger population of users. Some participants stated that processes that favour larger organisations can be an existential threat for smaller providers and can reduce the overall quality of service provision.” 11

The PC Draft Report echoes the views of some social enterprise stakeholders that government systems for building and making available the evidence base on ‘what works’ (and doesn’t work) to achieve outcomes for service users is underdeveloped. Similarly, the Partnership agrees with the PC Draft Report conclusion that the lack of evidence is an impediment to planning the service system to achieve efficient resource allocation and deliver quality services to people in need.

In this regard, the Partnership supports draft recommendations 7.3 and 7.4 of the Draft PC Report involving:

- development of outcome measures for family and community services, for use in provider selection and provider program and system level evaluations, and service providers expanding their capabilities in data management and analysis
- monitor the performance of providers in achieving outcomes for service users, and evaluate service providers, programs and systems in ways that are commensurate with their size and complexity, and develop processes to disseminate the lessons of evaluations, and
- proactively support the sharing of data between governments and departments, and the release of de-identified data to service providers and researchers.

Lastly, the Partnership agrees with the Draft PC Report conclusion that governments’ risk aversion feeds into contract management, constrains innovation that would improve service quality and efficiency12 and runs counter to the Australian Government’s social impact investing approaches.

**Linkages with SII Readiness Fund and TTL Fund**

In engaging with key stakeholders and formulating its advice, the Partnership has been mindful of potential linkages with the Australian Government’s SII Readiness Fund, which aims to build capacity in the non-government and private sector to develop social impact investment proposals.

The SII Readiness Fund was announced in the 2017-18 Budget and provides $8 million over four years to help organisations to build their skills and capabilities to develop projects and business plans for SII opportunities13.

The Australian Government also announced it would invest $10.2 million over 10 years to trial the use of SII aimed at improving housing and welfare outcomes for young people at risk of homelessness. The trials will be undertaken in partnership with States and Territories and target priority groups, including those supported by specialist homelessness services exiting the out-of-home care system or institutions such as juvenile detention.

The Partnership notes the potential for social enterprises to play a role as a partner in these trials, given:

---

11 Draft PC Report Humans Services Reform, p.214
12 PC Draft Report pp207-209
13 Budget 2017-18 ‘Fact Sheet 1.9 - Encouraging Social Impact Investing’ May 2017
• around one-third of social enterprises target young people and around 13% target homeless people, and

• other social enterprises target groups are often over-represented in the young homeless population i.e. people with mental illness (targeted by around 20% of social enterprises); and People with alcohol, drug or substance use issues (targeted by around 12% of social enterprises).\footnote{Finding Australia’s Social Enterprise Sector 2016: Final Report, Centre for Social Impact Swinburne Social Traders, By Jo Barraket, Chris Mason and Blake Blain. June 2016. p.20}

The Partnership also has considered linkages with the Government’s Try, Test and Learn (TTL) Fund\footnote{Try, Test and Learn Fund, DSS website https://www.dss.gov.au/review-of-australias-welfare-system/australian-priority-investment-approach-to-welfare/try-test-and-learn-fund} and its’ aim to test new approaches, capture lessons learnt and inform future policy to improve peoples’ lives by reducing welfare dependency, in particular the links between the priority groups identified for tranche two and the target groups of social enterprises:

• around one-third of social enterprises target young people, a quarter target unemployed people and 17% target migrants, refugees or asylum seekers. Nearly a quarter of an estimated 20,000 social enterprises in Australia operate in the Health and Social Assistance sector,\footnote{Finding Australia’s Social Enterprise Sector 2016: Final Report, Centre for Social Impact Swinburne Social Traders, By Jo Barraket, Chris Mason and Blake Blain. June 2016. p.20} and

• this is highly relevant for three of the TTL tranche two priority groups i.e. At-risk young people aged 16-21 and receiving income support; Newstart Allowance recipients aged 50 and over; and Migrants and refugees aged 16-64 and receiving income support.

**NDIS market development**

We also had regard to the development of the new disability services market across Australia to meet the growing demand under the NDIS and the need for more investment to assist existing providers and organisations to expand the scale or range of services and make the very large adjustments required to transition from the old system to the new one.

Earlier SII research\footnote{Social impact investing research: Final Report, DSS for the Partnership, EY, 23 March 2016.pp.38-39.} commissioned by the Partnership found however limited evidence of the use of SII mechanisms specifically in the field of disability services. The Ernest & Young (EY) 2016 Research Report prepared for the Partnership noted that there may be pockets of difficulty meeting unmet demand for disability services in regional and remote areas but that the NDIS and the provision of personal budgets most likely creates the scope for innovative service delivery to evolve.\footnote{EY Report, 23 March 2016 p.39}

However that report further noted that it is likely that the rollout of NDIS will need time to settle first prior to injection of further SII in this sector.

However, it is worthy of consideration of potential avenues through which SII could make significant future impacts, particularly in the context of the transformed landscape for delivery of services that the NDIS will establish. There may be a greater scope for SII to expand home and community care options, and so reduce hospital or primary care costs. Possible areas of disability services that might be amenable to a SII construct could include:

---

18 EY Report, 23 March 2016 p.39
• expansion of service capacity
• support greater service co-ordination
• capital for affordable, suitable housing, and
• specific employment services.\textsuperscript{19}

The latest available evidence suggests that new industry providers are emerging and existing providers are adjusting to take advantage of new opportunities provided by the NDIS, while 90% of providers are maintaining or expanding the scale or range of services\textsuperscript{20}.

The \textit{State of the Disability Sector Report 2017} however highlights several concerns about the pace and impact of disability services sector reform: Provider pressures; Dampening business confidence; Work development challenges; and The need for data to inform market planning and investment decisions. In this report, peak body National Disability Services (NDS) identified the need for increasing workforce flexibility and the sector embracing innovation and productivity improvements.

The Partnership notes that the Government established the Sector Development Fund (SDF) to provide a pool of funds to ensure that people with disability, the disability services sector and its workforce are assisted with the transition to the NDIS through:

• building community capacity and engagement
• building individual support capacity and service provider readiness to manage the transition
• increasing disability sector capacity and service provider readiness to manage the transition
• assistance with the required expansion and diversification of the workforce, and
• building the evidence base.

To date, 83 projects totalling over $109 million have been funded through the SDF but the Partnership notes that the SDF will cease in June 2018.

The Partnership notes that the peak body NDS in its submission\textsuperscript{21} to the Treasury SII discussion paper expressed its interest in how SII could support and drive innovation alongside the NDIS.

The NDS noted that many providers of disability services do not have adequate capital resources to support service innovation, upgrade plant and equipment, drive innovation in assistive technology or build research capability and outcome measurement, and that SII could be one way of assisting providers and the sector.

The NDS highlighted areas where research into the use of SII for people with disability:

• \textit{Stimulate procurement from Australian Disability Enterprises} (ADEs) - ADEs employ 20,500 people with disabilities, many of whom would otherwise be excluded from the workforce. NDS suggests that SII could be explored as an avenue to stimulate the capital investment required for ADEs to upgrade plant and equipment and to grow

\textsuperscript{19} EY Report, 23 March 2016 p.39
\textsuperscript{21} National Disability Services (NDS), ‘Social Impact Investing Submission to Treasury’ March 2017
• **Accessible and affordable housing development** – The NDS suggests that equity investment programs such as Social Impact Bonds should be among the options assessed for their efficacy in stimulating investment in good housing for people with disability and the urgent need for such housing should make it a priority for Government.

• **Innovation in assistive technology** – The NDS urges consideration of the merits of using SII to drive the development of assistive technology (aids and equipment) for people with disabilities. For example, NDS is seeking development of electric wheelchairs that are driven by brain waves or by eye pointing. NDS notes that despite the potential, investment in the development of new assistive technology is low due to development costs. NDS argues the economic and social benefits from greater investment in assistive technology would reduce the need for (and costs of) personal care and increase participation in work, education and community and greater work productivity for people with a disability, and

• **Building the evidence about measuring outcomes** – The NDS argues that SII requires a measurement of outcomes but that this area is still under-developed. NDS suggests this is an impediment to using SII in the sector. There is strong interest in the sector in measuring outcomes but current disability research funding is inadequate and research is poorly coordinated. The NDS urges the Government to provide funding to support the establishment of a disability research structure (similar to the Australian Housing and Urban Research Institute (AHURI)\(^{22}\) as a new entity to drive an Australian disability research agenda and facilitate system-wide innovation.

**Social enterprises and the NDIS market**

The Partnership considers the development of the social enterprise sector could play an important role in the evolving NDIS market and the emergence of new providers to take advantage of new opportunities provided by the NDIS, noting around one-third of existing social enterprises target people with disabilities and 20 per cent target people with mental illness.\(^{23}\)

Research suggests however that some social enterprises have mixed views regarding NDIS. There is guarded optimism that the NDIS will offer business and service development opportunities but some social enterprises are concerned that changes to the market will intensify competition at the cost of collaboration, and also create confusion for service users.\(^{24}\)

---

\(^{22}\) AHURI is a national independent research network with an expert not-for-profit research management company, AHURI Limited, at its centre. [https://www.ahuri.edu.au/](https://www.ahuri.edu.au/)


\(^{24}\) ‘A Year in the Life of Western Australia’s Social Enterprises’, Issue#7 April 2017, BankWest Foundation Social Impact Series WA, Centre for Social Impact (Swinburne) & University of WA pp10-11
2.2 Development of the Australian Social Enterprise Sector

Potential benefits of growing the social enterprise sector

Social enterprises are an important vehicle for providing job opportunities to people who face barriers to entering the workforce, particularly those who are at-risk of long-term unemployment i.e. people with disabilities, Indigenous Australians, disadvantaged young people and refugees.\(^{25}\) Gaining work in a social enterprise can be an effective stepping stone towards entering mainstream employment.\(^{26}\)

There are also potential benefits for Government from the growth of the social enterprise sector through stimulating innovation to improve quality of services, deliver better outcomes and achieve better value for money in service delivery.\(^{27}\)

While there is limited evidence on the benefits from social impact investment in social enterprises in Australia, there is substantive evidence from the UK where social enterprises outperform small and medium sized enterprises in terms of start-ups, growth in revenue, job creation, innovation, diversity in leadership, and business optimism. Comparing the Australian and UK social enterprise sectors, there is considerable potential for direct investment in Australian social enterprises.\(^{28}\)

There is strong international recognition of and evidence for the employment and service delivery benefits generated by social enterprises, and the business case for Governments and the market to grow the social enterprise sector.

The World Bank has commented\(^{29}\) that,

“Governments around the world are recognizing the potential of Social Enterprises (SE) in order to build more inclusive social and economic agendas. For instance, the UK Government is praising innovative solutions of social enterprises as a vehicle to close the gap on the provision of public services, such as education and health.

Other countries like the United States (US) and Italy are seeing in SEs the opportunity to improve the quality, affordability, and equity of service provision, and Chile, South Korea, Canada, and Poland envision SEs as a way to increase social cohesion and derivable economic benefits for their nations.

SEs are demonstrating that they can generate sizeable national-level returns and the sector as a whole is becoming an important contributor to gross domestic product, like in South Korea where, according to the British Council, the contributions of the sector accounts for 3% of the GDP. It is also outperforming profit-driven small-sized enterprises on a number of indicators in the UK.

The Social Enterprise UK Survey reports that 41% of SEs created jobs in the past 12 months compared to 22% of small-sized enterprises, while in the US, SEs are proving to have a high economic rate of return, especially over the long term.

---

27 The Treasury. Impact for Investing Discussion paper. 2017 Canberra page viii
28 Social impact investing research: Final Report, DSS for the Partnership, Ernest & Young, 23 March 2016.
The US report on *Economic Self-Sufficiency and Life Stability* shows that one year after starting a SE job, the return of investment of SEs include an economic multiplier of 2.23 and savings for US taxpayers of $1.31 for every dollar invested in SE due to reductions in government transfer benefits.

SEs are also proving to reduce inequalities by providing stable employment to those typically excluded from the labour market. In Manitoba, Canada, the sector contributed more than $200 million each year in saved costs associated with unemployment.”

The OECD has also remarked on the multiple benefits offered by social enterprises,

“Social enterprises are a vehicle for efficient and effective service delivery, creating new jobs, boosting citizens’ participation in community and turning ‘innovative ideas into action for the benefit of the common good. They account for an important percentage of private employment in European Union (EU) member states and have demonstrated resilience during economic crisis.”

The 2015 McClure Welfare Review Final Report noted, “... the potential for social enterprises to play a part in the new social support system and the need for support of their development.”

It recommended that, “Australia would benefit from a long term strategy to support social enterprise development. Such a strategy could consider how to increase demand for investment by enterprise, increase supply of investment to enterprises and improve the enabling environment.”

**Profile of the Australian Social Enterprise Sector**

The Centre for Social Impact defines social enterprises as organisations that:

- are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit
- trade to fulfil their mission
- derive a substantial portion of their income from trade, and
- reinvest the majority of their profit/surplus in the fulfilment of their mission.

The Finding Australia's Social Enterprise Sector (FASES) 2016 survey data show that social enterprises are located in every state and territory of Australia, and located in urban, regional, rural and remote areas. There is, unsurprisingly, a greater concentration of social enterprises in urban locales and larger States.

There are an estimated 20,000 Australian social enterprises, where:

- the majority of enterprises surveyed reported operating as a single venture (73.5%)
- the majority of responding enterprises reported investing all their profits/surplus in the fulfilment of their mission (81%)

---


• the majority of social enterprises are small (73%), 23% medium-sized and 4% large
• social enterprises indicated they engaged a median number of 5 volunteers. Enterprises received a median of 300 hours of unpaid work from their members and volunteers
• social enterprises engaged a median number of 7 full-time equivalent staff
• the greatest proportion of identified social enterprises were more than 10 years in operation (38%), with 2-5 years the second most frequent category (33.8%)
• responding social enterprises most frequently cited incorporated association as their legal status (32.8%) and company limited by guarantee ranked the second most cited legal status (31.3%). Pty Ltd company ranked the third most cited legal status (18%), and
• social enterprises operated within all industries of the Australian economy, with the two most frequently identified industry categories being Retail Trading (24.5%), and Health and Social Assistance (22.2%). The majority of identified social enterprises operated within the service economy (68%).

Social enterprises’ (operating for 5 years or less) identified their main sources of income as:
• goods or services provided directly to the consumer (72%)
• philanthropic grants or bequests (17%), and
• general purpose funding from government (9%).

Social enterprises predominantly indicated they exist primarily to fulfil a public or community benefit (61%). Social enterprises seek to serve a diversity of missions and beneficiary groups, and the most frequently cited purposes (34% each) were:
• creating meaningful employment opportunities for people from a specific group, and
• developing new solutions to social, cultural, economic or environmental problems.

As well as serving a diversity of missions, social enterprises focus their work on benefitting particular demographic or geographic groups, where the most targeted groups are:
• people with disabilities (35%); and
• young people (33%).

Challenges and Opportunities for Social Enterprises

The 2016 FASES survey asked participating social enterprises about the role of governance in enabling and constraining their performance (both business and mission-related). Strong themes that emerged in their responses were:
• board networks and capabilities play a significant role in social enterprise start-up and expansion
• board cultures in hybrid organisations – particularly those that combine traditional social service delivery or charitable purpose with social enterprise models – can have a negative effect on advancing social enterprise or balancing multiple purposes within organisations
• some profit for purpose social enterprises reported purposefully choosing business structures that do not involve boards, or establishing boards post start-up, in order to avoid perceived constraints that these governance arrangements may create
• the significant majority of respondents to the survey (65%) either agree or strongly agree that their boards play a substantial role in advancing their enterprise’s mission, and

• an issue that emerged during the workshop discussions was whether Australia needed a bespoke legal form, to both render visible and ensure effective regulation of social enterprises. The discussions revealed no consensus on this matter.

During workshop discussions, participants in multiple workshops said their organisation and/or the social enterprise field as a whole needed to improve its marketing and communications capacity. This related both to marketing products and to communicating the social impacts of social enterprises to core stakeholders and the public at large. This need was reinforced by the survey findings, in which 86% of respondents agreed or strongly agreed that their organisation would benefit from greater marketing and communications.

With regard to their social impacts, some workshop participants expressed a desire to do more around measuring and/or communicating these. A lack of consistency in measurement frameworks and cost were two issues frequently cited as barriers to measuring and communicating impacts. Sixty-four percent of respondents agreed or strongly agreed that lack of affordable approaches to social impact measurement was a barrier.

**Evaluation of the Social Enterprise Development Infrastructure Fund (SEDIF)**

The Partnership notes the former Social Enterprise Development Infrastructure Fund (SEDIF) that was announced by the Australian Government in 2010 and operated 2011-2016. The Government allocated $20 million dollars in the form of a non-refundable grant to seed the establishment of investment funds, to be used specifically for investment in social enterprises, with the broader aim of stimulating the social impact investment market in Australia.

SEDIF’s principal objective was to establish two or more investment funds, and its’ short-term objectives included:

• provide a catalyst for market development

• test capacity for and existing barriers to social impact investment and access to capital for social enterprises

• capacity building for social enterprises, and

• target investment in priority areas for impact.

SEDIF’s long-term objectives were to:

• support development of infrastructure to build a marketplace for social impact investment

• support innovative product development, and

• attract longer-term investment in priority areas for impact. 34

The Partnership notes the SEDIF Evaluation Report finding that if the impacts of the social enterprise sector are to be increased, it is important that new social enterprises and existing social enterprises have opportunities to appropriately scale their impacts. The SEDIF Evaluation Report went on to recommend that future investments in social enterprise development should include business capability development.

---

The SEDIF Evaluation Report recommended that future policy initiatives in social enterprise development should take into account the need to grow the development ecosystem by funding specialist social enterprise development intermediaries, which were identified by social enterprises and fund managers as central to effectively developing the sector.

The SEDIF Evaluation Report further recommended that:

- future policy initiatives support social enterprise development through market stimulation, by extending current commitments to Indigenous procurement to include social procurement from social enterprises
- work be done with social enterprise sector leaders, other levels of government, and philanthropy to assess the need for establishing a national representative body that supports industry development and industry-government relations in the social enterprise sector
- any future initiatives targeted at increasing social enterprises’ access to finance include a breadth of social finance options – particularly grant finance, patient capital, and early-stage risk capital
- future policy initiatives recognise the role of social enterprises in generating employment and providing employment pathways for people disadvantaged in the labour market, and
- any future funding for social enterprise programs that seek to generate social impact include: evaluation and impact measurement from the program design stage; baseline data; build evaluation costs to providers into funding; and mandate consistent and program-logic relevant reporting frameworks for financial and social impact data.35

**Victorian Social Enterprise Strategy**

The partnership notes the recent release, in February 2017, of the Victorian Government’s Social Enterprise Strategy36, being the first of its type in Australia. It sets out how the Victorian Government will partner with the social enterprise sector to provide strategic leadership and proactive support. It defines social enterprises as:

- led by an economic, social, cultural, or environmental mission consistent with a public or community benefit
- deriving a substantial portion of their income from trade, and
- reinvesting the majority of their profit/surplus in the fulfilment of their mission.

The Partnership notes favourably how the Strategy lays out a vision through a Social Enterprise Strategic Framework, which encompasses three key action areas and related initiatives and outcomes for development of the sector:

1. **Increasing impact and innovation** through three main initiatives:
   
   (i) *Opening Doors for Social Enterprises*, including updating relevant information on websites and in program guidelines, and a program of meetings and training on social enterprises for government staff in regional offices
   
   (ii) *Connecting the Community*, establishing a state-wide Victorian Social Enterprise Network with the Victorian government can work with to implement the strategy. This

---

will be a virtual and actual, branded network that will include project-based activities and issue-based meetings to reinforce other strategy initiatives. It will support engagement of social enterprises with government, intermediaries, buyers and each other. Activities will include meetings, events and information exchange to develop communities of practice for social enterprises and sector stakeholders in regional offices and across digital media platforms.

(iii) **Valuing Social Enterprise’s Impact**, involving government support for a program of research on the potential for social enterprises in Victoria, including valuing social impact. It will include an in-depth study and mapping of Victorian social enterprises to better understand their demographics and impact.

2. **Building business capacity and skills** through two main initiatives:

   (i) **Building Skills to Grow Your Business**, involving creation of a skills development for social enterprise founders and managers. Training will include a focus on business skills stages such as feasibility and business case preparation, participating in tender activity, investment attraction and scaling up.

   (ii) **Assisting Intermediaries**, involving pilot funding to test new initiatives supporting the development of intermediary sector to provide specialist business support, advice, mentoring and signposting to social enterprise networks, investors and buyers.

3. **Improving market access** through three main initiatives:

   (i) **Social Procurement Framework** to leverage public investment in supporting social outcomes, providing whole of government purchasing guidance to government departments and agencies regarding opening more accessible tender and procurement opportunities to social enterprises.

   (ii) **Social Enterprise Recognition**, involving government support for development of a recognition scheme to help identify social enterprises and build the confidence of buyers, creating a directory-like information source identifying Victorian social enterprises, and

   (iii) **Marketplace Partnering – Online Matching Platform and On-ground Events Calendar**, linking government and corporate buyers with social enterprises and supporting a calendar of metropolitan and regional marketplace events to link buyers with social enterprises.

The Partnership considers the Victorian Social Enterprise Strategy provides a good template for the development of social enterprise strategies in other jurisdictions and of a possible overarching national strategy for development of the social enterprise sector across Australia.

**International social enterprise scaling frameworks**

The Partnership notes that several frameworks on social enterprises’ development and scaling for growth have been developed and promoted by leading international organisations, the
European Commission (EC)\textsuperscript{37}, the OECD\textsuperscript{38} and the World Economic Forum\textsuperscript{39}. Each of these frameworks is outlined at Appendix B.

These frameworks could be drawn on to inform the development of a national strategy for the social enterprise sector across Australia, with particular focus on these key elements:

- legal framework
- engage market stakeholders
- build market infrastructure and capacity
- grow and direct private capital
- prepare enterprises to scale for growth
- specialist business development services and support
- networks and mutual support mechanisms, and
- impact measurement and reporting systems.

\textbf{Scaling Strategies for Social Enterprises}

The Australian office for Spring Impact\textsuperscript{40} (formerly known as the International Centre for Social Franchising (ICSF)) provided the Partnership in December 2017 with a report on scaling models and strategies\textsuperscript{41} and how these might be utilised for social enterprises in Australia.

The report recommends that consideration be given to the full range of scaling models and strategies available when reviewing the best options for an organisation. A process of discussion and then elimination of other models is helpful in mapping out the logic that leads to the eventual vehicle chosen by an organisation.

The report found that in terms of scaling models a range of strategies are adopted, which depends on what is being replicated (complexity and risk), what the underlying business model is, and the organisation itself (maturity, ambition, capacity).

The report further suggests that in summary, the range of scaling models and strategies lie along a replication spectrum and that the major factor that affects positions (and choices) along the spectrum is the extent to which the originator (or owner) of the project has control of its implementation. This replication spectrum and examples of the range of scaling models and strategies is expanded on below.

In thinking through the pros and cons of these scaling options (and eliminating many of them at an early stage) will reply on the enterprise having close consideration of the principles that underlie its’ Business Plan and how it answers such key questions as:

- desired degree of control: to what extent does it wish to set boundaries around the activities of the program to be scaled?

\textsuperscript{37} A map of social enterprises and their eco-systems in Europe: Synthesis Report, Directorate-General for Employment, Social Affairs and Inclusion, European Commission (EC) 2015

\textsuperscript{38} Policy Brief on Scaling the Impact of Social Enterprises: Policies for social entrepreneurship. European Union/OECD 2016


\textsuperscript{40} https://www.springimpact.org/. Spring Impact is a UK based organisation that provides social replication (social franchising) services and support to non-profit organisations for their projects and programs across the globe.

\textsuperscript{41} Prime Minister’s Community Business Partnership: Social Franchising and Achieving Scale for Social Impact  A Report to the Department of Social Services  Spring Impact  December 2017
• level of ambition; which strategy or combination of strategies is likely to be most conducive
to striving for its’ desired financial and impact targets/outcomes?
• quality assurance; how closely does it wish to manage quality of services?
• relationship development; what is the scope and nature of the relationships and
interactions that it wishes (needs) to establish with others?

Spring Impact outlines a five-stage approach to scaling social impact for social enterprises:
• Stage 1 – Prove
• Stage 2 – Design
• Stage 3 – Systematise
• Stage 4 – Pilot, and
• Stage 5 - Scale

Each of these five stages is expanded in Appendix C.

Spring Impact concludes its report by noting the launch in the UK 2015 of its Scale Accelerator initiative and how this might be adapted and modified for Australia (building on the main issues and outcomes of the recent stakeholder roundtables) Its’ objectives are:
• create an ambitious yet realistic two-year acceleration plan – defining strategy, developing
a business model and building a detailed implementation plan
• build leadership and other critical capability, and
• improve the monitoring and evaluation processes of the chosen programs.

Further details of the Scale Accelerator initiative are provided at Appendix D.

2.3. Stakeholder views on development of social enterprise sector in Australia

Six social enterprise development and SII intermediaries made submissions to the Treasury on
its SII discussion paper and key issues and recommendations on social enterprise development
are summarised below.

Centre for Social Impact (CSI)

The CSI noted these challenges and strategies for the development of social enterprises:
• the transaction costs of finding suitable legal advice and the capital costs of establishing
particular businesses are identifiable challenges for social enterprises. Much of the focus
on new legal forms concerns the increasing visibility and public legitimacy of social
enterprises, rather than accessing finance or resolving legal constraints.
• access to diverse forms of social finance is important to meeting the needs of diverse social
enterprises.
• capacity building for social enterprises, especially for start-ups is required in relation to:

---

42 A support package for organisations wanting to scale up their most impactful projects. 
https://www.springimpact.org/what-we-do/accelerator/
• understanding and apprenticing the social problem they seek to resolve
• establishing business model, governance and operations
• developing peer support and networks, and
• fostering market opportunities.

• Government investment in specialist intermediaries is likely to improve social enterprise start-up and performance. Educating legal and financial advisors about diverse business forms, including social enterprises, is also likely to improve the quality and accessibility of advice to start-up and established social enterprises.

The Partnership notes that the CSI has more recently43 made some further recommendations:

• policy leadership to establish clarity over the reporting requirements for social enterprises entering, or operating in the NDIS
• state governments should support social enterprises’ capacity building activities through policy leadership in key areas, such as the Victorian Social Enterprise Strategy
• Government social procurement policies to allow social enterprises (and other social benefit providers) to tender for government service contracts on a level playing field
• creation of an online portal to promote partnership and collaboration opportunities, and meet the rising demand for collaboration
• better understanding of both the benefits and potential pitfalls of collaborations
• a review of mainstream lenders’ attitudes and practices towards social enterprises as investible businesses
• development of a robust, easy-access, data collection and reporting system for social enterprises, and
• closer engagement between professional bodies/institutes and the social enterprise sector, on accountancy, human resources management, marketing and governance issues.

Impact Investing Australia

Impact Investing Australia suggested the following actions to support development of the social enterprise sector:

• encouraging and building social enterprises’ capabilities to enable attraction of capital and management of investments, including strengthening technical expertise and developing scalable models, to achieve variety and scale in the market
• strengthening the business case for investment, building awareness, developing and documenting track record, and encouraging shifts in culture and practice
• developing talent, tools, knowledge and sector leadership
• raise awareness, reduce costs and develop data to inform decision making, and
• creating and growing intermediaries.

---

43 ‘A Year in the Life of Western Australia’s Social Enterprises’, Issue#7 April 2017, BankWest Foundation Social Impact Series WA, Centre for Social Impact (Swinburne) & University of WA p18
Justice Connect

Justice Connect recommended that the Australian Government:

- provide a package of funding to support the work of intermediaries providing free and low cost assistance to social enterprises and NFPs seeking to become impact investment ready, and those providing a linking role between investors and impact investment ready enterprises
- either define “social enterprise” or provide guidance on appropriate use of the term.
- prioritise extending access to crowd sourced equity fundraising to proprietary companies, as the vast majority of for-profit social enterprises are structured as proprietary companies.
- address issues regarding the legal structural framework for social enterprises by:
  - preparing a modification to directors’ duties under the Corporations Act 2001 that addresses concerns about the potential conflict between directors’ duties and social purpose-based decision making, and
  - draft legislation for a hybrid legal structure for consultation that has both classic not-for-profit features and the ability to issue shares and make distributions to investors, informed by the UK Community Interest Company (CIC) model
- support a clearinghouse for non-legal professional services to democratise access to pro bono non-legal professional services for social enterprises, and
- set pro bono targets for non-legal professionals such as accountants and management consultants to improve the ecosystem for social enterprises and not-for-profits.

Philanthropy Australia

Philanthropy Australia recommended that the Australian Government:

- provide funding for capacity building support for organisations seeking to become ‘impact investment ready’, with a Budget allocation of $2-3 million per year over four years for this purpose
- administer this funding either directly as grants to organisations seeking capacity building support to become ‘impact investment ready’, or where this could be provided to an existing intermediary as part of a competitive tender process, with the intermediary managing the distribution of the grants [as per the earlier SEDIF arrangements]
- evaluate the impacts and outcomes of the funding at the end of the four years
- acknowledge that the current range of legal structures and options are not sufficient to meet the needs of a broad range organisations, such as social enterprises), seeking to achieve social change as well as make a financial return, and that reform is needed, building on the earlier work done by the Partnership in this area, and
- introduce an enhanced Program Related Investment (PRI) framework that would:
  - allow ancillary funds to make concessional (below market interest rate) loans to DGRs and count the full amount of the loans as part of their minimum annual distribution
  - provide that repaid principal from the loan be added to the minimum annual distribution in the year of repayment or the following year.
The Partnership had commissioned 2015 Philanthropy Australia in 2015 to prepare a report on PRI opportunities in Australia\(^{44}\). It recommended the introduction of a PRI framework in Australia based on a model where PRIs could be made in both DGRs and organisations that are not DGRs.

The report went on to recommend that the category of non-DGR organisations would be limited to registered charities, organisations issuing social impact bonds in partnership with a government agency, and organisations attracting investments made through suitable impact investment intermediaries.

**Social Traders**

Social Traders recommended that the Australian Government:

- both advance development of the SII market and promote social enterprise development, drawing on the SEDIF Evaluation Report as a framework
- play a role in early market infrastructure and capacity building, in particular developing the abilities of social enterprises by supporting and facilitating a suite of products and support services
- creating an enabling environment through social procurement, and
- steward growth in the entire ecosystem – supply, demand and intermediaries – to realise growth in the SII market, by developing a Social Enterprise Strategy for Australia.

**Social Ventures Australia (SVA)**

SVA recommended that the Australian Government play an active role in:

- boosting the investment readiness of social enterprises
- supporting social enterprises to become ‘investment and contract ready’
- using government purchasing power to create social value through social procurement, and
- bolstering social impact investment intermediaries.

**Stakeholder roundtables on achieving scale and franchising for social impact**

The Partnership engaged with a broad cross section of stakeholders and experts and we have had two roundtables in Melbourne with the key stakeholders in the impact investment community and social enterprise sector.

The key priority areas raised in those roundtables were:

**Capacity building of enterprises**

- skills and expertise to support scale and franchising of impacts and business expansion
- diversity of skills, business acumen and strategic thinking of Boards
- networking and information sharing

**Procurement and market opportunities**

---

\(^{44}\) Program Related Investments – an Opportunity for Australia. A report prepared by Philanthropy Australia for DSS to assist the Prime Minister’s Community Business Partnership, November 2015
• market intelligence and access
• social procurement opportunities
• better access to market/customer data
• skills, expertise and resources to support impact measurement and outcomes evaluation

Cost and complexity of appropriate legal structures
• appropriate legal structures to support scale and franchising and business expansion
• appropriate legal structures for access to SII market and attract investment
• information, tools and advice on appropriate legal structures

Access to start-up capital and funding streams
• skills and expertise to access the SII market and other social finance
• mismatch between enterprises’ and SII market return on investment (RoI) horizons
• the need for ‘Patient Capital’

Legitimising the social enterprise sector
• social enterprise framework
• building the evidence base on social enterprises, including case studies, and
• better public awareness and understanding.

Other stakeholder roundtables

Hybrid Legal Models

On 29 March 2016, the impact investing and partnerships Working Group of the Partnership convened a roundtable meeting of experts on Hybrid Legal Models45, to discuss models that could assist the growing social benefit, impact investing sector. Relevant issues for development of the social enterprise sector included:

• while there is more work to do create a new hybrid legal model, considerable work has already done should be utilised. The ideal would be a new structure that has at a minimum purpose as part of the governing rules, entities can then also add a mission lock if it is appropriate and an asset lock if it is appropriate
• cost and complexity – helpful to have standard templates and products draw parallels with Private Ancillary Funds (PAFs) and Public Ancillary Funds (PuAFs) and fair shares, with potential enormous benefit, and
• need for a new model in Australia – world has moved on now in an era of ‘blended value’ but Australia’s legal and regulatory framework does not facilitate this. While it may be feasible but how it can be achieved needs more work on a tiered solution. It needs to be mainstream, not pigeonholed in the ‘charitable sector’. It also needs to be inclusive if possible of lessons from both CICs in the UK and Benefit Corporations in the US.

Social Procurement

During 29-31 March 2016, the Impact investing and partnerships Working Group of the Partnership convened roundtable meetings of experts to discuss the benefits and barriers of social procurement and identify possible strategies to increase the level of social procurement in Australia. Relevant issues for development of the social enterprise sector included:

- the desirability of social procurement is not a given – it only works if it is a tool that can achieve the social outcomes required. It is just one lever, noting that targeting social enterprises can displace existing suppliers

- social procurement may be a critical tool in addressing place-based disadvantage and in creating employment for groups that other interventions are not moving such as multicultural groups, Indigenous, people with a disability or rural/regional, and

- the role for Government in social procurement includes:
  - providing leadership to raise the profile of social procurement to business, including leading by example through government procurement policy and practices and broadening the profile of social procurement beyond those tied to Reconciliation Action Plans and Disability Action Plan to encompass a ‘strategic commissioning framework’
  - building the evidence base on the value of social procurement
  - specifying the use of social procurement as part of interventions and the social outcomes to be achieved
  - better defining and strengthening Value for Money criteria to include social impact
  - linking social and economic policy and being clear about the social benefits that government is interested in through procurement, directly linked to policy initiatives
  - developing tools for Treasury to measure social impact through procurement in order to make it easier to assess tenders and make these tools publicly available;
  - increasing cross-government collaboration within this space, where many government departments are undertaking forms of social procurement
  - supporting the matching of procurers with suppliers and increasing the capacity of Supply Nation and other such intermediaries to improve their impact
  - possible tax concessions for businesses that engage in social procurement
  - funding the certification of and public access of business directories to assist potential suppliers
  - driving quick change in business procurement practices through strategies with specific targets such as those in the Federal Government’s Indigenous Procurement Policy (IPP)
  - embedding social procurement in the corporate world by influencing corporate social responsibility (CSR) tools such as the Dow Jones Sustainability Index, the London Business School benchmarking and the Global Reporting Index, and
  - referring the issue to the Productivity Commission, in the same way the NDIS was examined before being approved, which would provide an independent analysis of the value of social procurement and help change business perceptions and adoption.
<table>
<thead>
<tr>
<th>Key Issue</th>
<th>Recommendation</th>
<th>Priority Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Capacity Building</td>
<td>1.1 The Impact Circle: A series of national and state/territory-based quarterly face-to-face forums and an online forum (managed by a relevant peak body or key intermediary in the sector) to enable SE/NFP mentoring, networking and collaboration and support ongoing sharing of ideas, experiences and research.</td>
<td>High / Medium-term</td>
</tr>
</tbody>
</table>

**Details:** The participants in roundtable two indicated they have learnt more through speaking and networking with other not-for-profits (NFPs) and social enterprises (SEs) than through other resources.

The Partnership therefore recommends that a series of national and state/territory-based quarterly face-to-face forums be organised for at least three years by relevant peak bodies and key intermediaries in the sector. The intent would be to establish an ongoing culture and process to enable a self-sustaining virtuous circle of NFP/SE mentoring and collaboration to exist independent of the forums.

The Partnership further recommends that an online forum (managed by a relevant peak body or key intermediary in the sector) be established to support ongoing sharing of ideas, experiences, research and networking and collaboration. Government attendance and participation in the face-to-face and online forums could be mutually beneficial for both parties.

This recommendation fits well with the SII principles of ‘Government as market enabler and developer’ and ‘Co-design with stakeholders’.

Financial support for this measure could be initial seed funding from within existing Australian Government funds or by Australian Government consideration to seeking additional new funds in the Budget context.

---

46 Assigned priority is based on identified sector and stakeholder needs and priorities and other supporting evidence on sector needs and capacity.

47 Notional implementation time horizon assigned of either short-term (<12 months), medium-term (1-3 years) or long-term (3-5 years), depending on the anticipated scope, cost and complexity of each proposal and in the context of existing SII measures and other agency comments.
<table>
<thead>
<tr>
<th>Key Issue</th>
<th>Recommendation</th>
<th>Priority/Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional financial and in-kind support from other sources, for example philanthropic sources, relevant state/territory government agencies and sector peak bodies and intermediaries, could also be sought to broaden support for this measure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1.2 Skills Matching Portal:</strong> An online portal/platform hosted by the sector to enable the improved matching of potential Board members (and their relevant skills, expertise and experience) with the needs of SEs/NFPs.</td>
<td>High / Medium-term</td>
<td></td>
</tr>
</tbody>
</table>

**Details:** The Partnership notes that most SEs/NFPs have similar skills/knowledge deficits, which relate to legal, financial, strategic, scale and governance skills, knowledge and experience.

The Partnership further notes that there are existing programs and corporates which offer independently their staff time and expertise in pro bono roles as Board members for NFPs/SEs e.g. major legal, accounting and banking firms and sector intermediaries such as Scale Angels and Social Venture Partners (SVP).

The Partnership recommends that what is needed is improved coordination and consolidation of these existing resources through a relevant peak body, for example the Australian Institute of Company Directors (AICD) and/or key intermediary in the sector, to enable the improved matching of potential Board members (and their relevant skills, expertise and experience) with the needs of SEs/NFPs. The Partnership further suggests that this would be best offered and delivered as an online portal/matching platform hosted by the sector.

This recommendation fits well with the SII principle of ‘Government as market enabler and developer’.

Financial support for this measure could be initial seed funding from within existing Australian Government funds or by Australian Government consideration to seeking additional new funds in the Budget context.
<table>
<thead>
<tr>
<th>Key Issue</th>
<th>Recommendation</th>
<th>Priority46/Implementation47</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Procurement and Market Opportunities</td>
<td>Additional financial and in-kind support from other (non-government) sources, for example philanthropic sources and sector peak bodies and intermediaries, could also be sought to broaden support for this measure.</td>
<td></td>
</tr>
<tr>
<td>2.1 Longer term funding arrangements: Longer term grant funding and stability for the sector.</td>
<td>High/Long-term</td>
<td></td>
</tr>
<tr>
<td>Details: The Partnership endorses those recommendations of the Productivity Commission (PC) Inquiry into the Reform of Human Services that would meet the sector’s call for long term grant funding and stability.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For example, Government increasing funding contracts for family and community services to seven years (from the existing three years), while still providing flexibility of shorter funding contracts for particular purposes such as pilot projects.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>This recommendation fits well with the SII principle of ‘Government as market enabler and developer’.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2 Encourage sector collaboration and alliances: Government embedding sector collaboration and alliances as a key principle in Government procurement policy and processes and in relevant program funding contracts and processes.</td>
<td>Medium/Medium-term</td>
<td></td>
</tr>
<tr>
<td>Details: The Partnership considers that current procurement process encourages sector competition rather than collaboration, which has a flow on effect of favouring larger providers as well inhibiting NFPs and SEs working together.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Partnership considers that a greater culture and practice of sector collaboration would encourage mergers of NFPs and potentially a reduction in the overall number of NFPs providing similar services, and greater market efficiency.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Partnership recommends that this could be driven by Government embedding sector collaboration and alliances as a key principle in Government procurement policy and processes and in relevant program funding contracts and processes.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key Issue</td>
<td>Recommendation</td>
<td>Priority/Implementation</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>2.3 Impact Measurement and Reporting: Online tools, guides and checklists to enable SE/NFP service providers to build their capacity/expertise in impact/outcome measurement. Commission an appropriate organisation to oversee development and promotion of an outcomes/impacts reporting framework for the sector to track and report on the impacts of charities and provide greater transparency and consistency across the sector.</td>
<td>Details: The Partnership notes that most NFPs and SEs struggle with measurement and reporting their social outcomes and impacts. This is largely because they do not have the skills or resources for this type of complex measurement or reporting. The Partnership considers that this need would be meet by developing and promoting a set of online tools, guides and checklists to enable SE and NFP service providers to build their capacity and expertise in impact/outcome measurement, hosted by a relevant sector peak body or intermediary. The Partnership suggests that there may also be opportunity for Government, in the context of the ACNC Review process, to commission an appropriate organisation to oversee development and promotion, in co-design with sector peak bodies and intermediaries, an outcomes/impacts reporting framework for the sector to track and report on the impacts of charities and provide greater transparency and consistency across the sector. This fits well with the SII principles of ‘Robust outcomes based measurement and evaluation’ and ‘Co-design with stakeholders’ to guide Government involvement in the SII market. Financial support for this measure could be initial seed funding from within existing Australian Government funds or by Australian Government consideration to seeking additional new funds in the Budget context.</td>
<td>High / Medium-term</td>
</tr>
</tbody>
</table>
### Key Issue: Cost and Complexity of Legal Structures

**Recommendation:** Additional financial and in-kind support from other (non-government) sources, for example SII market investors, philanthropic sources and sector peak bodies and intermediaries, could also be sought to broaden support for this measure.

**3.1 Formal Consultation on Legal Structures:** Australian Law Reform Commission to initiate a formal inquiry into the optimal legal structure for SEs and NFP organisations.

**Details:** The Partnership notes that there are a number of different bodies of work now emerging on this issue by major legal firms, Justice Connect, the Legal Models Working Group and BLab.

The Partnership recommends that the Government request the Australian Law Reform Commission to initiate a formal inquiry into the optimal legal structure for SEs and NFP organisations.

This recommendation fits well with the SII principle of ‘Government as market enabler and developer’.

### Key Issue: Access to start-up capital and funding streams

**Recommendation:** Introduce a Program Related Investments (PRI) Framework

**Details:** The Partnership considers that any funding initiatives by Government need to have parallel funding support from the philanthropic sector, and that some work needs to be done in relation to encouraging more patient capital for innovative ideas and to help catalyse the market for SEs.

The entry to PRIs would only be available to DGRs and in the short to medium term take up is expected to be low and hence only benefit a very small number of DGRs that make profits. However, it will send clear signal as to the importance of the issue to the Government and will in turn send strong signals to the sector and the wider SII marketplace.
Hence, the Partnership considers that the PRI would serve an important purpose and recommends its’ introduction as a high priority for the sector.

This recommendation fits well with the SII principle of ‘Government as market enabler and developer’.

<table>
<thead>
<tr>
<th>Key Issue</th>
<th>Recommendation</th>
<th>Priority / Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Legitimising the social enterprise sector</td>
<td><strong>5.1 Scoping the SE Sector:</strong> Research that better defines the sector and its characteristics (including its economic and social impacts) to provide a robust evidence base for future social impact investing market opportunities and government policy interventions in the sector. Develop and promote a set of 30 detailed case studies, highlighting lessons learnt to promote best practice and social innovation in the sector.</td>
<td>High / Medium-term</td>
</tr>
<tr>
<td>Key Issue</td>
<td>Recommendation</td>
<td>Priority(^46/)Implementation(^47)</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td></td>
<td>practice and social innovation in the sector, including possible case studies drawn from relevant TTL Fund and Sector Readiness Fund projects.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>This recommendation fits well with the SII principle of ‘Government as market enabler and developer’.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial support for this measure could be from within existing Government funding or by Government consideration to seeking additional new funds in the Budget context.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Additional financial and in-kind support from other (non-government) sources, for example philanthropic sources and sector peak bodies and intermediaries, could also be sought to broaden support for this measure.</td>
<td></td>
</tr>
<tr>
<td>5.2 Clear Ministerial responsibility for Social Enterprises: Placing responsibility for social enterprise sector policy development under a single lead Ministerial and portfolio.</td>
<td>Medium / Short-term</td>
<td></td>
</tr>
<tr>
<td><strong>Details:</strong></td>
<td>The Partnership notes that SII is growing in influence and impact, and considers that it is a critical part of the sustainability of the SE and NFP sector, which the Government recognised in its 2017-18 SII Budget announcements.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Partnership notes that sector is currently seeking engagement with several Ministers and portfolios to gain traction in this space, which divides and diminishes its potential.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>While SEs operate in a range of industry and market sectors which are handled by individual relevant Ministers, the same is true of small business, and policy responsibility for small business policy currently falls under a single portfolio, with appropriate coordination and consultation with other portfolios as needed.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Partnership suggests that by placing responsibility for SE sector policy development under a single lead Ministerial and portfolio responsibility will send clear signal as to the importance of the issue to the Government and will in turn send strong signals to sector and the wider marketplace.</td>
<td></td>
</tr>
<tr>
<td>Key Issue</td>
<td>Recommendation</td>
<td>Priority(^{46})/Implementation(^{47})</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td></td>
<td>This recommendation fits well with the SII principle of ‘Government as market enabler and developer’.</td>
<td></td>
</tr>
</tbody>
</table>
Overview of International Social Enterprise Frameworks

World Economic Forum

This report offers a Framework for Government Action based around six elements of public effort to bolster social enterprises, where the interaction between the different stages of policy development is multi-directional, represented by the figure below.

## Organisation for Economic Co-operation and Development (OECD)

The OECD has identified a set of key challenges and policy options for scaling enterprises and their impact, which could from the basis of a foundation for policy framework for social enterprises (summarised below).

<table>
<thead>
<tr>
<th>Key Challenges for Scaling Social Enterprises and their Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets</td>
</tr>
<tr>
<td>Finance</td>
</tr>
<tr>
<td>Skills</td>
</tr>
<tr>
<td>Networks</td>
</tr>
<tr>
<td><strong>Policy Options</strong></td>
</tr>
<tr>
<td><strong>Use public procurement tendering rules and procedures</strong></td>
</tr>
<tr>
<td><strong>Synergies</strong>                                                                        &lt;ul&gt;&lt;li&gt;Range of resources &amp; tools&lt;/li&gt;&lt;li&gt;Intermediaries&lt;/li&gt;&lt;li&gt;Funder collaboration&lt;/li&gt;&lt;/ul&gt;</td>
</tr>
<tr>
<td><strong>Enhance the capacity of social enterprises to participate in tenders</strong></td>
</tr>
<tr>
<td><strong>Training &amp; capacity building</strong></td>
</tr>
<tr>
<td><strong>Access to private markets</strong></td>
</tr>
<tr>
<td><strong>Awareness and visibility</strong></td>
</tr>
</tbody>
</table>


## European Commission (EC)

The concept of a social enterprise eco-system is based on commonly recognised features that contribute to an enabling environment for social enterprises including the potential to address key constraints and obstacles. The key features of a social enterprise eco-system (and by default a policy framework for social enterprises) is represented in the figure below (extracted from the EC Report and its analysis and mapping of individual EU countries).
SCALING MODELS AND STRATEGIES FOR SOCIAL ENTERPRISES

The range of scaling models and strategies lie along a replication spectrum and the major factor that affects positions (and choices) along the spectrum is the extent to which the originator (or owner) of the project has control of its implementation.

### GROWTH AND REPLICATION STRATEGIES

- **Flexibility**
- **Control**

The major factor that shifts along the spectrum as the strategy moves from left to right is the extent to which the originator of the project has control of the implementer. If we break down the three major categories above into sub-sets, we see further important differences.

#### DISSEMINATION

- Open Sourcing
- Training
- Consultancy
- Loose Networks

At the “flexible” end of the spectrum is dissemination. The originator creates resources that enable an independent other to implement the venture in a new location. There is generally no ongoing financial or legal relationship between the two parties. It is most appropriate when a project can be quickly and easily copied or adopted by others. In the best cases, the venture will “go viral” and replicate rapidly. Dissemination works less well when a venture is likely to be misinterpreted or misused, and should not be pursued where this significantly reduces the social impact or could be harmful to intended beneficiaries and/or the brand.

#### AFFILIATION

- Accreditation
- Federations
- Social Licensing
- Social Franchising
- Joint Ventures
- Subcontracting

Affiliation is when an official on-going relationship with independent individuals or organisations is formed to help them implement the venture. Often there is a financial relationship between the two parties involved. Affiliation can be an effective way to replicate where local resources and expertise are needed but a closer relationship between originator and implementer is also required to make sure a program is implemented well.

This brings us to licensing and franchising as the remaining two options within the spectrum:

#### WHOLLY OWNED

- Mergers
- Branching

In this model, the originator carries out direct delivery of the program in new locations by, for example, setting up local or regional offices. The greatest benefit is the high degree of control since the person delivering the project is employed by the central organisation and so should follow rules and standards provided by them.
Spring Impact uses a five-stage approach to social replication outlined below. Every project we work with lies at a different level of development and replication readiness. Again, the value of this set of steps is to foster a conversation about the Business Plan and Work Plan document for the organisation and whether they integrate a sequential scaling in a way that best suits the likely demands of a growing program.

**STAGE** | **GOALS**
--- | ---
1 PROVE | • Validate business model  
• Validate social impact

2 DESIGN | • Define scale objectives  
• Assess business plan/financial implications  
• Gap and SWOT analysis  
• Create expansion strategy

3 SYSTEMATISE | • Develop replication system  
• Codify and document operations  
• Draft legal documents  
• Develop marketing strategy and materials

4 PILOT | • Pilot replication in 3 - 6 varied locations  
• On-going monitoring and evaluation  
• Feedback loop to improve systems

5 SCALE | • Rapid roll out of replications  
• On-going support  
• Continued learning and innovation

Source: Prime Minister’s Community Business Partnership, Social Franchising and Achieving Scale for Social Impact: A Report to Department of Social Services, Spring Impact, Melbourne, Dec 2017
SPRING IMPACT SCALE ACCELERATOR INITIATIVE

The Scale Accelerator initiative aims to ensure UK non-profits and social enterprises can access the support package they need to scale up their proven solutions to social issues to reach more people. Many will often need additional skills, resources and capacity to make this happen.

Its’ core outputs include:

- creation of an ambitious yet realistic two year acceleration plan from strategy and business model development to detailed implementation from Spring Impact
- group leadership training from the School of Social Entrepreneurs (SSE), and
- support to better improve their monitoring and evaluation processes from The Social Innovation Partnership (TSIP)

Alongside individual and group participant support, the Scale Accelerator aims to capture and share learnings from the programme to help other non-profits, social enterprises and supporting organisations to understand what it really takes to scale, from practical experience.

Spring Impact’s Scaling Social Impact in the UK: Insights from Scale Accelerator report captures lessons from the 2015/16 pilot Scale Accelerator. These learnings can be applied to current and future cohorts of the program. The insights may also be of benefit to social purpose organisations aiming to scale their impact and those who wish to support them.

Key insights

For Organisations Looking to Scale their Impact

- Invest Time Upfront: Take the time to assess readiness and be clear on intended impact. This may take time upfront, but will be extremely useful in guiding decisions on what the best way to replicate will be.
- Understand Your Core: Be clear on what specific elements of the intervention need to be replicated to achieve impact. This can potentially streamline your intervention and reduce overall costs whilst providing clarity on what level of flexibility partners have in replicating the intervention.
- Find the Right Partners: Build a clear profile of the essential and desirable characteristics of partners before thinking about specific organisations. Taking a bottom up approach may help identify new types of partner.
- Prepare for Change: Many types of replication strategy require a shift from being a delivery focused organisation to one with a focus on supporting others to deliver, which can lead to significant internal cultural change. Think through how these cultural changes can be supported, especially regarding the types and skills of new team members you may require.

For Funders and Other Supporters

- Encourage Innovative Thinking: Scaling through replication is innovative. Challenge organisations to explore different replication models, and provide them the time and space required to design a robust plan to scale their impact.
- Look Beyond Impact: Evidence of social impact is an important prerequisite to scaling up, but without the right underlying business model, great interventions will rarely be able to achieve scale.
• **Support the Initial Stages of Social Replication**: In the early stages of replication organisations typically need three types of financial support: resource and expertise to systemise i.e. put in place all the processes and systems required to support scale, increasing central capacity and skills and finally providing initial investment to networks to pilot and grow before they reach a critical mass and are sustainable, and

• **Enable Connections and Knowledge Sharing**: Supporting the sharing of knowledge between social sector organisations looking to scale with those who have achieved scale is valuable.