Social Enterprise and Social Finance

A PATH TO GROWTH

A REPORT TO THE MINISTER FOR THE COMMUNITY AND VOLUNTARY SECTOR

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Convened by the Department of Internal Affairs

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Executive summary

In comparable countries to New Zealand, social enterprises are contributing strongly to social, environmental and economic outcomes. G8 governments, and others, have strategies in place to enable and stimulate growth in social enterprise and social impact investment.

New Zealand also has the potential to develop a robust market of flourishing, capable social enterprises, and to unlock new capital to scale their impact. However, the New Zealand market is nascent and no strategy exists to support its growth. This report reviews challenges – including social enterprise development needs and barriers for investors – and proposes practical actions.

The Government's 2014 *Position Statement on Social Enterprise* commits the Government to identifying any policy barriers and working collaboratively to create an enabling, supportive environment where more social enterprises can grow and attract investment. Social enterprise and social finance can support government strategies such as the Business Growth Agenda and Social Investment approach by:

- tackling persistent social and environmental problems
- fostering innovation and entrepreneurship
- creating jobs and driving inclusive regional economic development
- providing community-led solutions to local issues
- growing Māori economic activity.

Social enterprises are organisations that trade to support their social or environmental mission.

Social finance describes the full range of financial products social enterprises need to grow, including development grants, debt and equity.

Social impact investment is an emerging investment approach where positive social outcomes are achieved alongside financial returns.

By combining social and commercial approaches, the social enterprise model appeals to business-minded entrepreneurs wanting to achieve social good, and to community organisations seeking to diversify their income streams.

Although some social enterprise successes are evident, a robust pipeline of investable social enterprises is lacking. Business development training tailored to the hybrid nature of social enterprise is vital, as are grants suitable to early stage ventures. New sources of finance need to be freed up, drawing on investors who are seeking socially responsible investments, engaged citizens, and philanthropists willing to back new approaches to social change. Currently there are no investment mechanisms offering both social and financial returns.

This emerging market needs policies and a support infrastructure specifically designed to assist its growth, paralleling supports that exist for mainstream for-profit and non-profit organisations. Central and local government, philanthropy, corporates and social enterprise networks all have roles to play in growing this market. The report details a range of actions to support six outcomes:

- **Measurement and research**: Quality data is available on social enterprise and social finance
- **Policy and regulation**: Legislation and policy supports social enterprise growth and the flow of capital
- **Business development**: More social enterprises are successful and sustainable

- **Social finance**: Capital is mobilised to support social enterprise development and growth
- **Social procurement:** Social enterprises win more government and private contracts
- **Social enterprise coordination and promotion**: Social enterprise grows as a sector and is widely understood.

Priority actions

Priority actions proposed for the Government in 2016 are:

- **Collect core data** on the social enterprise sector and the potential social impact investment market
- **Establish a cross-agency Social Enterprise Unit** in government to address policy barriers and link to government priorities
- **Support a development intermediary** to spearhead social enterprise growth
- **Establish a development grant fund** for early stage social enterprises
- Participate in sector-led work to **develop a Social Impact Investment Fund**, to kick-start a dynamic social finance market and support social enterprises that are investment-ready.

Leading up to the Social Enterprise World Forum 2017 in Christchurch, the authors hope this report will stimulate wide discussion about accelerating growth in this market.

Report purpose and the opportunity

Purpose of the report

This report proposes a pathway for growing social enterprise and social finance in New Zealand. It represents the views of a 'strategic group' convened by the Department of Internal Affairs (DIA) to report to the Minister for the Community and Voluntary Sector by March 2016.

The report's proposals aim to enhance social, environmental and economic outcomes by:

- supporting the growth of a successful, sustainable social enterprise market
- unlocking new finance for social enterprises, particularly through the emerging field of social impact investment.

New Zealand's social enterprise sector is in an early stage of development, and social impact investment has untapped potential. Building on a range of current initiatives in New Zealand, this report outlines actions to build a flourishing economy of social enterprises.

The opportunity

Social enterprise and social impact investment are growing fast across the world in both developed and developing countries. This is in part a response to the failure of traditional approaches to address complex and intractable problems, including inequalities in health, wealth and opportunity, resource depletion, population growth, climate change and environmental degradation.

Social enterprise is a different approach to doing business, harnessing the talents of entrepreneurs who want to create change, and enabling community organisations to achieve social goals with commercial rigour and greater financial sustainability. Social enterprises are creating innovative and locally-responsive approaches to wide ranging community needs. Obtaining income from trading and socially-motivated investors, social enterprises can be less reliant on government funding to achieve their social goals. However, government can play an important role in creating an enabling environment for this emergent market, removing policy barriers and stimulating new sources of finance for social initiatives, including through public-private partnerships.

After ten years of investment and government support, Scotland (a similar population size to New Zealand) now has more than 5000 social enterprises, employing more than 112,000 people, and contributing £1.68 billion to the economy (Social Value Lab, 2015).

A collaborative, strategic approach could see social enterprise in New Zealand achieve similar growth and benefits.

Where governments have supported social enterprises, the benefits are evident. In the United Kingdom, social enterprises are outperforming mainstream small and medium-sized enterprise (SMEs). In 2014/15 annual turnover grew for 52 per cent of social enterprises compared to 40 per cent of SMEs, and 41 per cent created new jobs compared to 22 per cent of SMEs (Social Enterprise UK, 2015). Research indicates that one in three British consumers will pay more for products with

positive social or environmental outcomes and 60 per cent of millennials (those born between 1980 and 2005) want to work for organisations with a social purpose (House of Commons Library, 2015).

> As investors add the third dimension of "impact" to risk and financial return in their decision-making, we expect there to be a considerable pool of capital looking for opportunities to invest in achieving measurable social impact." (G8 Social Impact Investment Taskforce, 2014)

Considerable interest in social impact investment is evident internationally. A 2015 JP Morgan survey of 146 investors found USD 60 billion was being placed in social impact investments, with a 7 per cent growth in the capital committed to such investments between 2013 and 2014, and a 13 per cent growth in the number of investments. Global Impact Investing Network research in 2015 indicated that the industry has trended towards more market-rate investments, and the quality of investment opportunities has improved.

Social enterprise and social impact investment are in the early stages in New Zealand and, as outlined in this report, a range of issues are impeding growth of this sector. Despite the challenges, interest in social enterprise is burgeoning in New Zealand, with a raft of new ventures emerging and increasing numbers of initiatives to support market growth.

For increasing numbers of corporates, high-net-worth individuals and engaged citizens, the opportunity to contribute to a better world, while getting a financial return, is enticing. Philanthropic trusts and private investors are beginning to consider ways to pool funds and invest in social impact ventures. For philanthropic trusts this means using their balance sheets more strategically, enabling additional funds to be leveraged, while encouraging recipients to be less grant dependent. The balance sheets of the 12 statutory Community Trusts alone exceeds $3 billion, and if even a small percentage of their investment portfolios was able to be applied to social impact investment, this would have a significant impact on social outcomes.

A strategic, coordinated approach is needed to develop social enterprise capability, mobilise finance, build knowledge and awareness, and address policy barriers. The Government has an opportunity to support development of a strong social enterprise sector based on diverse and sustainable models of funding. A flourishing sector will support government goals such as regional economic development, effective services for vulnerable New Zealanders, and Māori economic development.

In October 2017, Christchurch will host the Social Enterprise World Forum. This will provide a platform for New Zealand to present its best to leaders and investors from around the world. Leading up to this, there is the opportunity to build a greater consensus across government, philanthropic trusts, businesses and social enterprise networks on the way forward. This report is a contribution to that dialogue, proposing priority actions in key achievable areas.

> "It is time for New Zealand to boldly pursue social businesses that will contribute to healthier communities, more sustainable social change mechanisms and innovative ventures that will make their mark in New Zealand and throughout the world." (Kaplan, Ian Axford Fellow, 2013)

The nature of social enterprise, social finance and social impact investment

Social enterprise

Social enterprises develop in several ways. Community organisations may decide to increase their focus on trading activities, sometimes establishing separate trading enterprises to manage assets and deliver local services. Some of these social enterprises have existed for many years; more are emerging as community organisations seek to diversify their income streams. Many social enterprises develop from community-led action aimed at creating change and providing local employment. Another approach involves business-minded entrepreneurs creating enterprises aimed at solving social and environmental problems in innovative ways while seeking trading success.

Although there is no universally agreed definition of a social enterprise, these initiatives commonly:

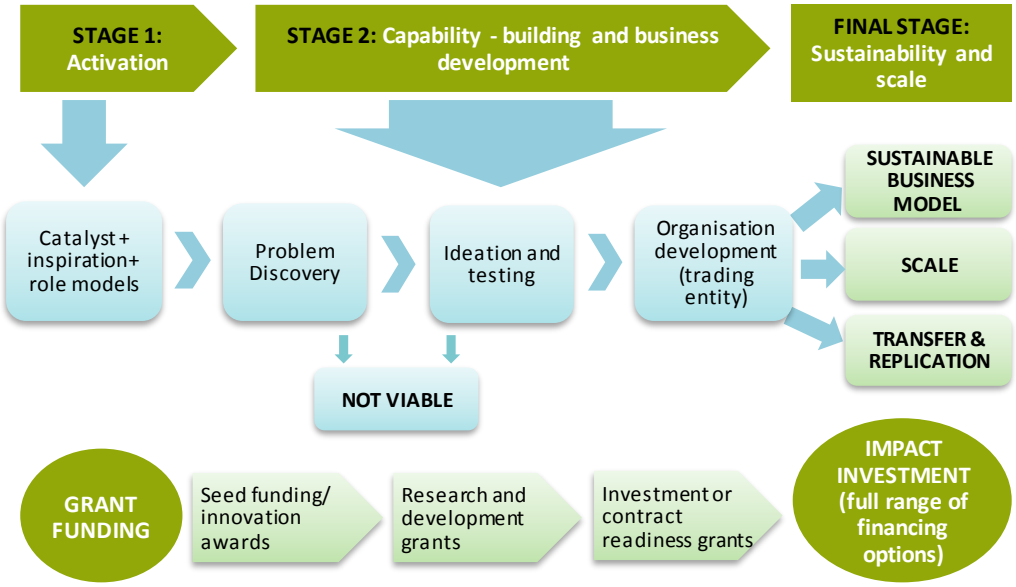
- have a social, cultural, or environmental mission
- derive a substantial portion of income from trade
- reinvest all or the majority of profit/surplus in the fulfilment of their mission
- are separate from the state.

The table below illustrates the hybrid nature of social enterprises, which sit in the middle of a continuum between classic non-profit organisations and traditional for-profit businesses.

Non-profit organisations reliant on grants and donations	Non-profit organisations with some trading activity	**Social enterprises**	Businesses with social responsibility policies	Traditional for-profit businesses
Primarily incorporated societies and charitable trusts		May form as companies, incorporated societies, or charitable trusts	Primarily limited liability companies	

New Zealand and overseas research shows social enterprises are active in economic sectors as diverse as education, social services, recreation and sports, arts and heritage, heath care, training and employment, environment and recycling, housing, hospitality, energy, and tourism.

The figure below shows the social enterprise lifecycle, and the changing financial and development needs.

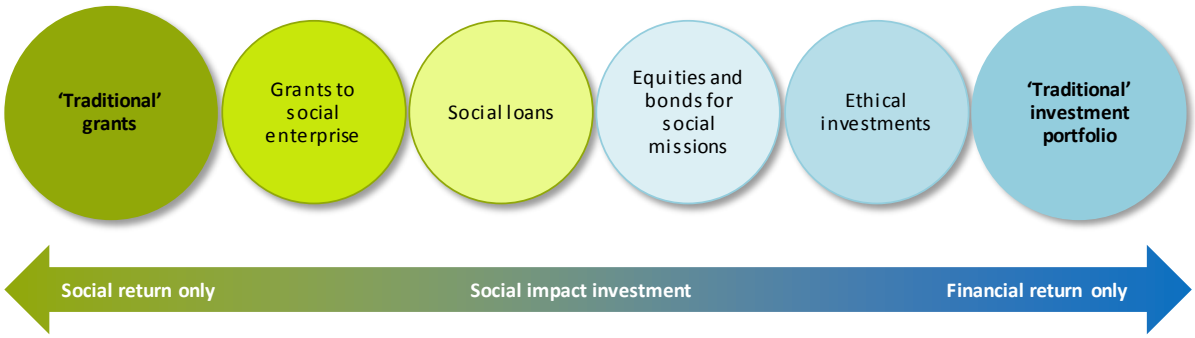


Social finance and social impact investment

This report uses the term "social finance" to denote the full range of financial support and products that social enterprises may access. In the early stages of development, social enterprises often need seed funding, and research and development funding, in the form of grants and donations. Later on, loans and equity become important for social enterprises wishing to achieve scale, but a strong trading base and business case is required to attract investors.

Newer forms of social finance include crowd-funding for donations, equity, and lending. Social impact bonds, currently being trialled by the Government, may eventually generate private investment in some social services delivered by larger social enterprises.

The finance spectrum:



Adapted from Kate Frykberg

"Social impact investment" involves investment into organisations or funds with the intention to generate measurable beneficial social or environmental impact alongside a financial return. Given the financial return aspect, this does not include grants and donations. Internationally, social impact

investment is receiving considerable attention, and offers significant growth potential, so is emphasised in this report. UK Trade and Investment (2015) provides the following description:

Social impact investment is …	• focusing on economic value alongside social dividends • aiming to see financial returns for the investor • tracking and reporting social outcomes • compounding positive social effect by recycling original capital • motivated by engagement with social causes
Social impact investment is not …	• philanthropy which expects no financial return • socially responsible investment where negative investments are avoided but positive impacts are not always targeted

Social impact investment enables private and philanthropic funds to multiply the resources that government applies to social and environmental issues. Philanthropic trusts can supplement their grant programmes with a range of investment instruments, utilising their balance sheet assets to align their investments with their mission and achieve increased social impact alongside a financial return (which may be less than market rate). Unlike grants, funds invested are recycled and reinvested repeatedly.

For corporates, high-net worth individuals, and engaged citizens, social impact investment enables social good to be achieved alongside financial returns. It is a step further than traditional approaches to corporate social responsibility and to “ethical investment” which simply avoids harmful products (such as cigarettes). Some impact investors accept concessionary rates of return in order to support social goals.

The vision for a flourishing sustainable sector

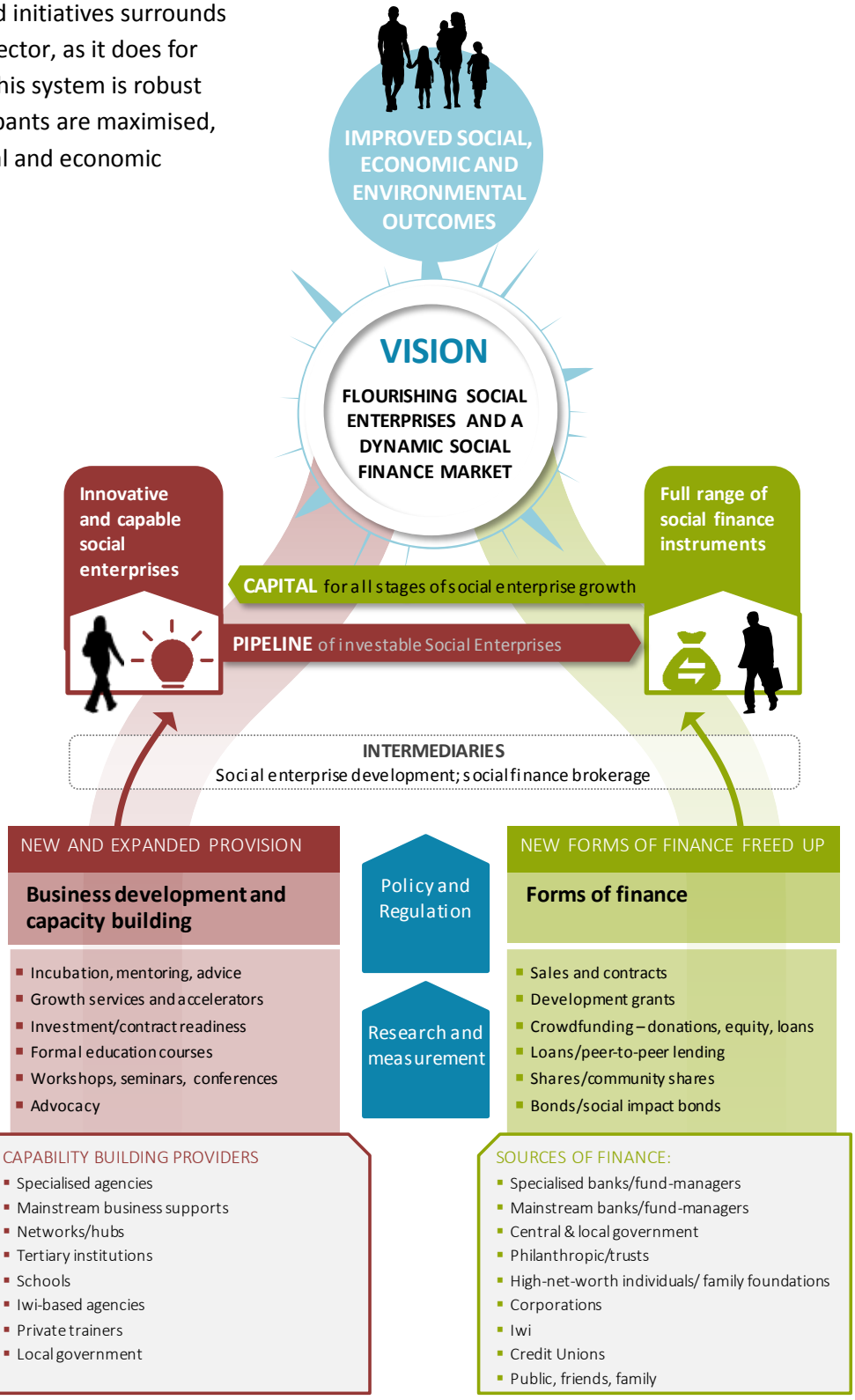
A thriving ecosystem

An ecosystem of structures and initiatives surrounds a successful social enterprise sector, as it does for mainstream business. Where this system is robust and contributions of all participants are maximised, improved social, environmental and economic outcomes can be achieved.

This report's vision describes how expanded business development support and capacity-building help grow a pipeline of investable social enterprises. These ventures need to access new and freed-up sources of capital suitable for each stage of growth.

Specialist intermediaries are a critical feature of the infrastructure, performing key functions such as: business development, technical assistance, sector coordination, market aggregation, promotion of investment opportunities, investment and contract readiness, due diligence on new investments, impact measurement, and management of loans/investments.

Research and enabling policies provide the information and support needed to stimulate government, private and philanthropic activity.



What could be achieved

Measuring and predicting growth of New Zealand social enterprise is hampered by a lack of baseline data. However, overseas examples (such as those in Appendix A) suggest that where an ecosystem of support is put in place, social enterprises become strong social and economic contributors. For instance, the number of Scottish social enterprises has grown 66 per cent over the last 10 years. Based on Scottish growth, and with the right supports, New Zealand could have 4000 social enterprises by 2025, making an annual contribution of $2 billion to the economy.

The potential of social enterprise is illustrated in mature examples outlined in the attached case studies, such as Kilmarnock Enterprises in Christchurch (established 1958) has 85 employees and a $3 million turnover, and Kaikoura's Whale Watch (established 1987) has 60 employees and an annual turnover of approximately $9 million.

In the United Kingdom, 70,000 social enterprises are contributing £24 billion to the economy. Almost half the social enterprises are under five years old.

Social enterprise success factors

In a thriving ecosystem, we will see more social enterprises achieve critical success factors such as:

- awareness of customer demand and strong relationships with target communities
- strong supply chains integrated with the private and public sectors
- validated and viable business models
- results frameworks that track indicators of outcomes
- organisational systems and assets to support scaling and long-term sustainability
- strategic management and governance appropriate to the development stage of the enterprise
- an investment culture that supports growth (without being overstretched as many charities are)
- entrepreneurial leadership, diverse commercial capabilities in the team, and coachable talent.

Supporting government priorities

Social investment

A philosophical shift in emphasis from social spending to a 'Social Investment' approach is changing the way of selecting, funding, and evaluating social services for vulnerable New Zealanders. The term 'social investment' is about identifying people for whom additional early investment will improve long-term outcomes, better understanding what works for them, and adjusting services accordingly. It differs from "social impact investment" which focuses on financial and social returns to investors.

An attraction of social enterprise is the move away from government having to 'fix' social problems, instead enabling individuals and groups to solve problems without necessarily needing government funding. The potential contribution of social enterprise and social impact investment to the Government's Social Investment approach is shown below:

Social Investment focus	Contribution of social enterprise and social impact investment
Supporting vulnerable New Zealanders	• Social enterprises focus on addressing community needs, including support for vulnerable people to realise their potential
Pursuit of rigorous, evidence-based investment practices	• Work on performance measurement for the hybrid social/ commercial social enterprise model can dovetail with Government work on evidence-based social investment • Funders of social enterprise also need credible data on social impacts, and entrepreneurs need robust metrics and data to validate their business models
Innovative approaches to social services	• The entrepreneurial, agile spirit of social enterprise can bring new approaches to a wide range of social issues
Reducing long-term costs to government	• Social enterprises generate income from trading, potentially being less reliant on government funding. The ability of some social enterprises to pay returns on investment means that new sources of private capital can be attracted to support social services

Building a productive and competitive economy

The Government's Business Growth Agenda aims for an agile, resourceful, innovative and world-beating economy. With appropriate market stimulation, social enterprise and social impact investment can add significant value, going beyond traditional ways of investing and doing business.

Business Growth Agenda focus	Contribution of social enterprise and social impact investment
Business innovation	• Building entrepreneurship • Capturing the imagination of a new enterprising generation • Tapping the innovative capacity of under-represented groups • Generating products and services that are new and cutting edge • Harnessing digital technologies in new ways
Investment in business	• Attracting private capital from local and global investors seeking to diversify their portfolios and contribute to a better world
Skilled and safe workplaces	• Creating jobs across many parts of the economy • Enabling the participation of people disadvantaged in the labour market • Opening up new fields of education and research • Bringing business acumen to community organisations and social value to businesses
Export markets	• Linking New Zealand social enterprises to overseas markets through leading international business people and governments who are promoting this new approach
Infrastructure	• Supporting the physical infrastructure of communities through social housing • Ownership and management of local infrastructure and assets
Natural resources	• Creating new enterprises based on natural resources, conservation and regeneration

Regional economic development

The Business Growth Agenda includes a focus on regional economic development, involving the development of action plans in Northland, Bay of Plenty, Manawatū-Whanganui and the East Coast, and a roll-out of regional business hubs. The Ākina Foundation (Ākina) is developing a complementary network of regional partners to deliver social enterprise skills and business development, and has potential to link to the Government's regional work. Social enterprise can grow local economies by responding to community needs and providing training and jobs, including in localities that are behind on economic indicators. In Scotland, the average of one social enterprise operating for every 1000 people rises to four per 1000 in remote rural settings, illustrating how economically deprived areas can embrace social enterprise.

Māori economic development

Social enterprise can contribute to Māori economic development through ventures underpinned by tikanga and strong social goals. The social and commercial mix inherent to social enterprise is consistent with the approach of many Māori entities that seek to reinvest the profits of their endeavours into improving the quality of life for whānau. Māori innovators and social entrepreneurs share an entrepreneurial approach to tackling social problems and market failures. Growing social

enterprise activity for Māori will result in multiple outcomes for whānau, hapu and iwi, including new jobs, education and training opportunities, greater community resilience, increased entrepreneurial capability, and social innovation. This will contribute to the prosperity of Māori and to a dynamic and internationally competitive economy.

Better Public Services

Social enterprises can help Government achieve its goals for Better Public Services by:

- offering a pipeline of innovative solutions to entrenched social challenges, with an emphasis on locally owned and tailored solutions
- tackling priority concerns such as long-term welfare dependence and the need to increase skills and employment
- delivering efficiently on government contracts, bringing knowledge of both business models and social needs
- attracting income for social purposes from trading activities and private investment, thus relieving pressure on the government purse
- providing new models of public–private partnerships and creating greater (social) value through procurement and supply chains.

Challenges for growing the New Zealand market

Barriers to flourishing, sustainable social enterprise and a dynamic social finance market are summarised below:

BARRIERS TO SOCIAL ENTERPRISE AND SOCIAL FINANCE	
Sector data and profile	**Social enterprise development**
▪ A fragmented social enterprise sector, not well understood ▪ Lack of data on social enterprises and their performance ▪ Limited information on impact measurement models	▪ Significant business development needs ▪ Weak regional economic development links ▪ Limited education and capability development for youth ▪ Māori, Pacific and ethnic social enterprise potential under-developed
Barriers for funders/investors	**Finance for social enterprises**
▪ Barriers for charities wishing to fund profit-distributing social enterprises ▪ Compliance costs for loan-makers ▪ Lack of specialised financial intermediaries ▪ Uncertainty about social enterprises models ▪ No investment mechanisms for investors	▪ Difficulty accessing development grants ▪ Constraints in competing for contracts ▪ Difficulty accessing loans ▪ Equity offers inaccessible or unsuitable ▪ Debt securities compliance costs

Sector data and profile

Fragmented sector

The social enterprise sector comprises multiple voices and activities. Energy and enthusiasm is apparent, with initiatives to grow sector capability and financing occurring through a range of organisations. Regional networks exist in Auckland, Wellington and Christchurch, and parts of the sector are organised around common interests, for instance Community Recyclers New Zealand. However, there is limited national coordination and no organisation with a mandate to speak for the sector as a whole. Attempts to develop a national network have met funding hurdles.

Awareness of the sector

Social enterprise is still not widely understood by the public and government agencies, although recognition in the media and through awards and marketing is gradually growing. Mainstream banks and investors are often uncertain about the nature of social enterprise and social impact investment.

Lack of data

Social enterprise is a rapidly evolving field, and no current, clear picture of the size and nature of the sector is available to assist with targeting policies and programmes, and growing understanding. Lack of benchmark data means it is difficult to measure the impact of policies and programmes on growth

of the sector. Little research has been undertaken into investor interests and barriers. Funding for university research is highly competitive and hard to obtain for social enterprise/finance topics.

Measuring effectiveness

Data on social enterprise performance is limited. Government, private and philanthropic investors need to understand the impact of their investments. Various measurement tools exist, but are not well known to many funders and social enterprises. Measurement can be time-consuming and costly for social enterprises, especially if different funders/investors have different requirements.

> "It is clear that much business support for social enterprise (for example, accountancy, marketing and human resources) is similar to other businesses. However, this support must reflect the unique nature of social enterprise as there are important differences in legal structures, profit distribution, board composition and the role of service users." (Scottish social enterprise strategy, 2007)

Social enterprises' business capability

Business development needs

Experience in offshore markets suggests the biggest constraint on social enterprises achieving success and maturity is insufficient business capability. It follows that the major constraint on mobilising social impact investment is a limited pipeline of investable propositions. Social impact investment reports by the G8 countries in 2014 emphasised that developing a robust pool of social enterprises is critical to stimulating the flow of finance. This echoes a 2013 review of Australian funds that were established to support social enterprise, which found:

> "… a significant proportion of enquiries came from start-ups without an appropriate track record that would enable an investment to be made." (Department of Education, Employment and Workforce Relations, 2013)

Business development support is essential if New Zealand social enterprises are to scale-up their operations and attract investment. Early stage support is typically needed around:

- determining commercially viable ideas – the business concept needs to be well thought through and tested if time and resources are not to be wasted on unfeasible ideas
- engaging with stakeholders, customers and beneficiaries, and validating the appropriate model of service delivery
- developing a robust business case and marketing plan – to set a clear direction and increase the likelihood of attracting financial support
- determining a legal structure – the choice of an incorporated society or company form affects, for example, whether it will be possible to pay returns to investors
- managing finances – effective financial management is critical for efficient and ongoing operation and sustainability
- management capabilities, culture, and governance models – community organisations morphing into social enterprise often lack knowledge about operating in a commercial environment
- results' frameworks to monitor and manage social impact through different stages of business development and growth – these need to be designed, validated and implemented.

The type of support required needs to be tailored for each social enterprise, for instance taking into account whether a social enterprise is developing from scratch or is evolving from an established organisation. Given the fledgling stage of the New Zealand social enterprise sector, most support and mentoring is focused on the above areas. As more social enterprises grow, increasing support will also be needed around securing strategic partners, investment and contract readiness (developing investment propositions, strategy, structuring, and connecting to investors), measuring social outcomes, and business growth and replication.

> "Gaps in capacity building support (…) include the need for more supporting intermediary organisations; building business knowledge and capability; knowledge of what initiatives are suited to social enterprise, developing leaders and networks (…), taking ideas to the next stage; and mentoring." (Culpan, 2015)

Providers of social enterprise development support

Specialised services, tailored to the social-commercial nature of social enterprise, are an essential component of the social enterprise/social finance environment.

Ākina supported more than 600 social enterprises across New Zealand in 2015 through business modelling workshops, the Launchpad accelerator programme, technical assistance and growth services. It is now developing regional delivery partnerships, and providing readiness and advisory services on social finance. In 2015/16, Ākina receives around 40 per cent of its income from DIA and uses this to leverage significant co-investment from corporate, philanthropic and regional partners. DIA's support comes from savings in its community funding schemes, and there is no specific ongoing appropriation for social enterprise development.

Inspiring Stories, which supports young entrepreneurs, has seen demand for its programmes increase each year. It is currently piloting regional development support (in partnership with local authorities) and developing a seed fund for promising young social entrepreneurs. Inspiring Stories receives about 30 per cent of its income from the Ministry of Youth Development. This funding is tagged to specific programmes, with little certainty about ongoing support.

A challenge for business development support organisations with charitable status is that this status can be in jeopardy if they provide advice to social enterprises that are able to distribute profits for private benefit.

Mainstream business supports and regional development

A range of services exists to support mainstream businesses, including through New Zealand Trade and Enterprise (NZTE)'s 14 regional business partners. Social enterprises established as incorporated societies and charitable trusts are not able to access this support. In theory, social enterprises with strong business concepts can seek support from the regional business partners in the same way as more conventional businesses. However, business supports are over-subscribed in meeting mainstream demands, and the main focus is on high growth and export potential (with the majority of social enterprises not at that point). Most business mentors do not have a strong understanding of managing social objectives within a business model. At this stage, regional business growth strategies do not reference social enterprise development.

Growing Māori/whānau capability

Economic growth requires approaches specifically tailored to Māori, so that Māori are able to participate as equal partners in New Zealand's economic development. In discussions around Māori economic development, the traditional focus has been on interacting with individuals or, in the case of Treaty settlements, with iwi. This focus is too narrow as whānau are the driving force behind the Māori economy and are the foundations of many incorporations, trusts, enterprises and collectives. To increase Māori economic growth, there is a need to focus on skills, education, effective intermediaries, and access to capital.

There is a shortage of Māori business mentors and mainstream mentors who understand Te Ao Māori (a Māori world view). Training at the post-secondary school level is often perceived by Māori as pitched at an inaccessible level. Te Pūtahitanga o te Waipounamu (South Island Whānau Ora commissioning agency) and Te Whare Hukahuka at the Icehouse incubator, are examples of agencies supporting Māori enterprise. However, there is a lack of tailored programmes that bring together social enterprise and Māori enterprise expertise.

Pacific and ethnic communities

Pacific people commonly enter into business with the purpose of redistributing profits across a family or community network. The social enterprise model is, therefore, a compatible approach. The Ministry of Pacific Peoples indicates that Pacific entrepreneurs are seeking skills in business planning, financial management and governance. The Office of Ethnic Communities indicates that their ethnic stakeholders also need training and information around social enterprise.

Youth enterprise

The Young Enterprise Trust programmes run in more than 50 per cent of New Zealand secondary schools and students are increasingly focusing on developing enterprise ideas with a social/environmental purpose. In tertiary institutions, a range of opportunities exist for students to develop their enterprise skills and knowledge within Business and Commerce Schools, but there is limited and fragmented support specifically for social enterprise. Social enterprise lacks visibility, is not perceived as a viable career path, there are few credit-bearing papers or courses, and limited spaces for aspiring social entrepreneurs to work on their start-ups.

Co-working spaces

Co-working spaces enable start-ups and viable enterprises to work alongside each other, sharing office support and fostering collaboration. Business-focused co-working spaces are becoming more inclusive of social enterprise. However, such spaces do not exist outside main centres and cost can be a barrier to joining.

Financial barriers for social enterprises

Early stage needs

Social enterprises often struggle to access funds during the early stage when they are prototyping and developing new innovations. They are required to rely on donations, sweat equity, or on funding

from a parent charity if they are an off-shoot trading arm. Access to start-up funding, and research and development funding, are early barriers to growth.

> "Different types of funding mechanisms are needed to move social enterprises along the pathway to financial autonomy. Social enterprises primarily need access to pre-commercial grants, social loans and commercial loans. Overall results indicate that one of the biggest challenges (...) is the lack of access to (...) seed funding." (Community Economic Development Trust, 2014)

Tax exemptions

Social enterprises that prohibit profit distribution (such as charitable trusts, incorporated societies and companies that create 'asset locks' in their constitutions) may be eligible for charitable status and consequent tax exemptions if their aims meet a recognised charitable purpose. On the downside, the inability to provide returns to equity investors limits the social enterprise's ability to attract capital. If a non-profit social enterprise ceases to meet the charitable status criteria, the loss of tax exemptions can put their financial viability at risk.

Grants

Non-profit social enterprises that seek charitable grants may encounter uncertainty from grant-givers about their commercial activities. Access to mainstream business grants is highly competitive. Early stage research and development funding is available to high-growth, exportable start-up businesses, but social enterprises, with their focus often on domestic social impact, usually falls outside of the requirements for these funds. Start-up social enterprises are mostly excluded from mainstream angel and seed investment due to the primacy of their social missions and limited capacity to offer out-sized returns. In any case, grants have limitations as they are given in smaller amounts than equity investment and with less flexibility.

Contracts

Social enterprises of any form may seek service contracts, particularly from central and local government. These typically contribute to service provision costs rather than growth. Social enterprises can also have difficulty competing against large commercial suppliers, especially when the wider community benefits (such as assisted employment for disadvantaged groups) are not factored in to the tender evaluation. For example, after many years providing excellent waste management services for the Far North District Council, the Community Business and Environment Centre was outbid by a commercial operator with a larger balance sheet.

> The Community Business and Environment Centre in Kaitaia has been successfully addressing local unemployment and social problems since 1989. It currently has $3.7 million annual turnover and 54 employees. Prior to losing a waste management contract to a larger commercial operator it had 80 permanent staff, a gross annual turnover of $7.5 million and $4.3 million in assets. (See attached case studies.)

Loans

Loans are a classic source of growth finance for those organisations with the ability to repay. Some social enterprises avoid loans because of concerns about the need for a stable income for repayments or assets to secure loans against. Those seeking loans may find that banks are uncertain about the degree of risk, so

unattractive rates are offered. Because many early stage organisations, and those testing new models, often cannot service traditional debt products, a mix of grants and loans (blended capital) is useful.

Debt securities

Social enterprises that are charities and issue debt securities[1] for amounts under $15 million are currently exempt from various regulatory requirements. The Financial Markets Authority (FMA) has decided not to renew the charity exemption when it expires in 2016, considering it important to protect people who lend to charities in the same way as those who lend to other institutions. Only 12 charities, mostly religious organisations, currently issue debt securities. If growth of social enterprises leads to more organisations wanting to obtain capital via this mechanism, the significant compliance costs may be a deterrent. However, exclusions exist for offers of less than $2 million and fewer than 20 investors, equity crowdfunding, peer-to-peer lending through licensed platforms, and issues to wholesale investors. The FMA indicates that philanthropic trusts may be deemed to be wholesale investors, although the associated regulatory compliance is not yet clear.

Loomio is a worker-owned cooperative providing online software to help people to make decisions together. Conventional equity investment for technology start-ups did not readily align with Loomio's social mission. Loomio instead designed a "redeemable preference share" investment model, where shares are redeemed in future providing a fair return. Loomio's lead investor is an experienced social impact investment fund in Korea. (See attached cases studies.)

Equity

As increasing numbers of social enterprises move beyond the initial phase, the demand for appropriate investment and growth finance also increases. Equity is a central part of funding ventures but is hard to obtain if social enterprises are not convincingly robust and capable, or investors do not well understand the nature of social enterprise. Also, equity investment can require relinquishing a share of ownership and control of an enterprise, so social enterprises may risk mission drift if investors are primarily focused on financial returns.

Barriers for funders/investors

Grants

The governing documents of some philanthropic trusts prohibit granting to organisations that are conducted for private profit. Charities law also restricts philanthropic trusts that are registered charities from providing grants to for-profit organisations. However, grants can be to for-profit organisations for specific charitable purposes, for instance for a wheelchair ramp that gives disabled members of the public access to its buildings.

[1] A form of debt funding whereby entities take deposits or offer bonds or notes, and promise a fixed return, usually paid along with the principal at the expiry of the term of the deposit, bond or note.

Loans

Philanthropic trusts have the opportunity to expand beyond traditional grant-giving and provide loans as a mechanism to extend their ability to support causes that align with their mission, and achieve increased social impact. Loans recycle, so repaid loans can be re-lent to other borrowers. However, loan-making requires different expertise from grant-making. Many philanthropic trusts are unsure about what is involved and what risks may exist.

Compliance requirements associated with the Financial Service Providers Act (FSPA) and Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act have been cited as potentially deterring social lenders. Under the FSPA, philanthropic lenders that charge interest on loans need to register as financial service providers. Under the AML/CFT Act, lenders have to provide written assessments of AML/CFT risks, develop policies and procedures, appoint compliance officers and provide staff training. However, some philanthropic trusts have successfully applied to be exempt from these legislative provisions.

Issues for social lenders are illustrated in recent news that Quaker Investments Ethical Trust, after 27 years of social lending, will begin winding-up its operations. Unaffordable new regulatory requirements around disclosure, reporting and auditing are cited as the reason. Further, the Nelson Enterprise Loan Trust reports that it cannot advertise for investors to raise funds for loan-making, due to restrictions of being a small operator under Financial Market Authority rules. It also faces the impact of loss of charitable status because some of its loans are to small businesses.

> "Social lending is a powerful tool. It recycles. It can help borrowers develop business skills and promotes dignity. When utilised by endowed foundations it can unlock assets." (Benedict, Ian Axford Fellow, 2010)

Financial advisors and financial intermediaries

Mainstream financial advisers are uncertain of their ability to advise investors on social impact investment due to a lack of independent research and ambiguity about the suitability of such products given their potentially lower financial returns.

New Zealand lacks specialist financial intermediaries with knowledge of social enterprises. Such bodies can undertake due diligence and administration of loans on behalf of philanthropic trusts and other contributors who are not experienced in lending or investing. New Zealand's social lending landscape had a set-back in 2014 when Prometheus Finance Ltd, the largest intermediary specialising in socially responsible lending in New Zealand, went into voluntary receivership. A changed regulatory framework created a much more challenging operating environment for smaller financial institutions.

To remain viable, Prometheus needed to generate more revenue to fund its loan book and the increasing operating and compliance costs. However, it failed to raise sufficient capital to support plans to scale-up the business. This largely reflected investors' unfamiliarity with the concept of social impact investment, pointing to the need for investor education and wider promotion of these products. Additional loan-making could have meant Prometheus was in danger of breaching the minimum capital adequacy requirements of the Reserve Bank with regard to Non-Bank Deposit Takers. The loss of this key institution has left a gap in the intermediary functions needed to support growth in social impact investment.

Investment that provides returns

Social enterprises that are established as companies can offer financial returns to equity investors, enabling them to access finance that enables rapid growth. However, as noted earlier, few social enterprises in New Zealand have actually achieved the business development capability and scale to be seen as quality investable propositions.

There are currently no managed funds in New Zealand that offer investors combined financial and social returns. Many potential investors have limited understanding of the social enterprise model, and many have limited in-house capability or resources to:

- perform due diligence and understand the risks of potential social investments
- provide investment readiness support
- undertake ongoing monitoring of both the financial and social returns of investments
- develop debt and equity products to offer to investees.

The relatively new and untested nature of social impact investments, as well as their lack of uniformity, may increase the perceived risk of the investments and the transaction costs. Investor and social enterprise needs can be mismatched, with social enterprises seeking patient, lower cost, flexible capital, and investors favouring liquid investment that generates risk-adjusted returns alongside social impact.

The next steps for growth

> "The Government, through its agencies, commits to identify any policy barriers to social enterprise growth and to work collaboratively to create an enabling, supportive environment where more social enterprises can grow and attract investment."
>
> (New Zealand Government *Position Statement on Social Enterprise*, 2014)

Areas for action

To grow this market, action is needed from central government, local government, philanthropists, the corporate sector, and development organisations that support social enterprises. Key actions and lead agencies are identified below for the following outcome areas:

- **Measurement and research**: Quality data is available on social enterprise and social finance
- **Policy and regulation**: Legislation and policy supports social enterprise growth and the flow of capital
- **Business development**: More social enterprises are successful and sustainable
- **Social finance**: Capital is mobilised to support social enterprise development and growth
- **Social procurement:** Social enterprises win more government and private contracts
- **Social enterprise coordination and promotion**: Social enterprise grows as a sector and is widely understood.

The core infrastructure

As detailed in the following action areas, the infrastructure required to support the market's development at this early stage involves three core institutions:

- a cross-agency Social Enterprise Unit within government (see the Policy and Regulation section)
- a development intermediary to grow social enterprise business skills (see Business Development section)
- a Social Impact Investment Fund management entity to kick-start social impact investment (see Social Finance section).

As the market matures, a diverse range of institutions to grow social enterprises and social finance will need to emerge. Initiatives to foster market growth should be designed to ensure other market-led initiatives are stimulated to emerge rather than being crowded-out. For instance, an evolved market will involve varying approaches to social enterprise development regionally and for specific populations (for example, Māori or youth), and a multiplicity of funding mechanisms.

Measurement and research

Outcome: Quality data is available on social enterprise and social finance		
Activity area	**Key actions**	**Lead agencies**
Data on social enterprises	Survey the size and nature of the social enterprise sector	Social Enterprise Unit, Statistics New Zealand
Social impact investment research	Research the potential to unlock new capital	Social Enterprise Unit, Philanthropy New Zealand
Social impact measurement	Develop performance measurement tools and metrics, and promote good practice	Social Enterprise Unit
Qualitative research	Identify key gaps in social enterprise research and undertake research projects	Universities
	Prioritise social enterprise and social finance research within the Marsden Fund's social sciences category	Social Enterprise Unit, Royal Society of New Zealand

Data on social enterprises

United Kingdom and Scottish surveys have produced detailed data on social enterprises, tracking their growth and contribution to the economy. This raises the visibility of social enterprises, helping policy makers, funders and consumers understand the nature of this sector. Similar data is needed here to provide baseline for measuring future growth of the sector. Statistics New Zealand has valuable existing data sources but determining which for-profit enterprises have significant social objectives goes beyond current data collection. To make speedy progress, a tailor made survey of social enterprises could be undertaken by the proposed Social Enterprise Unit (see Policy and Regulation section) drawing on overseas models. The survey would be developed and distributed in collaboration with social enterprise sector networks.

Social impact investment research

Research into investor appetite for social impact investment would provide information on current and potential availability, and investor barriers and motivations. Investigation into the development of overseas markets would also help with work to develop a Social Impact Investment Fund (see Social Finance section).

Social impact measurement

Information is needed on good practice in measuring social enterprise outcomes and performance. The Social Enterprise Unit could lead this, connecting to Treasury-led work on social services outcome measurement and unit-costs, with input from the development intermediary and other organisations, such as the Centre for Social Impact.

Qualitative research

The Social Enterprise Unit could approach the Royal Society of New Zealand about a focus on social enterprise research being considered for the Marsden Fund in 2017. This would assist universities to contribute actively to building the social enterprise knowledge base.

Policy and regulation

Outcome: Legislation and policy supports social enterprise growth and the flow of capital		
Activity area	**Key actions**	**Lead agencies**
Cross-agency unit	Strengthen policy leadership within government through a cross-agency Social Enterprise Unit	Ministry of Business, Innovation and Employment (MBIE), DIA, Treasury, Ministry of Social Development (MSD)
Key government strategies	Include social enterprise and social finance in the Business Growth Agenda, social investment approach, and other strategies	Social Enterprise Unit
Social finance policy barriers	Undertake a policy review of regulatory barriers and disincentives around social finance	Social Enterprise Unit
Social enterprise register	Create a social enterprises register and enable philanthropic trusts to retain charitable status if investing in organisations on the register	DIA, Inland Revenue

Cross-agency unit and ties to key government strategies

To strengthen the commitment to social enterprise articulated in the *Government Position Statement on Social Enterprise*, a cross-agency government unit is proposed. The purpose of the unit would be to maximise the potential of social enterprise and social finance to contribute to social, environmental and economic outcomes. The unit would:

- identify research gaps, gather baseline data, and monitor sector trends
- review regulatory barriers to social enterprise and social finance, and develop enabling policies
- overview programmes and funding aimed at growing social enterprise business capability
- incorporate social enterprise and social finance into key government work programmes.

Some options for location of the proposed Social Enterprise Unit are discussed below.

Option	Pros	Cons
MBIE	Responsible for work on regional development, workforce development, Māori economic development, cross-government procurement, international investment, financial markets legislation	Non-profit social enterprises would fit with the MBIE focus less easily than those established as companies. Focus on exportability and high growth could limit support for fledgling social enterprises.
DIA	Responsible for community grants, community development advisory services, Charities Services, local government policy and the whole-of-government Community and Voluntary Sector portfolio	Limited connection to mainstream business development and workforce policies and programmes
Treasury	Whole-of-government viewpoint and influence; leadership of key government strategies such as social investment	A strong focus on government purchasing of social services could mean the social enterprise/social finance perspective is marginalised
MSD	Responsible for employment services, funding community-based social services, and youth development policies	Social enterprises not focused on key priorities such as vulnerable children would be not easily fit within MSD's remit

On balance, the preference is for location in MBIE given the opportunity to build social enterprise support that parallels and links to existing economic development programmes. However, wherever the Social Enterprise Unit is located, cross-agency views would need to be incorporated given the hybrid and diverse nature of social enterprise. The Social Enterprise Unit could be kick-started by staff secondments from the key agencies while a formal machinery of government process is pursued through Budget 2017. Strong links will need to be forged to key external people in social enterprise and social finance, and to sector-led initiatives.

Social finance policy barriers

Responding to regulatory issues in the Challenges section, the proposed Social Enterprise Unit would work with the Financial Markets Authority and other agencies to investigate:

- the relationship between increasing regulatory compliance and the closures of two social lending organisations – for instance, reviewing the minimum capital adequacy ratios for Non-Bank Deposit Takers lending to social enterprises
- disincentives for philanthropic trusts to become social lenders due to compliance costs
- the potential impact on a fledgling social enterprise market of the expiry of the charities' exemption associated with debt securities
- exclusion of social enterprises from government grants aimed at business development if they are charities
- loss of charitable status for organisations that give grants or advice to social enterprises that have the potential to pay returns to investors.

Consideration could be given to whether philanthropic trusts need any explicit recognition that they are not in breach of their fiduciary duties if they engage in social impact investment rather than solely maximising financial returns on investment. The United Kingdom is addressing this point through a Charities (Protection and Social Investment) Bill. Work could also be undertaken on a social procurement policy for government (see Social Procurement section).

Social enterprise register

Some countries have established specific legal structures for social enterprises, in order to help consumers and funders identify and support these organisations. However, social enterprises have continued to use a variety of legal structures according to their needs, for instance, depending on whether community members or shareholders will have the main influence on governance. A preferred alternative to creation of a new legal structure would be to establish a social enterprise register, to increase the legitimacy of social enterprises in the eyes of investors and the public. Voluntary registration would provide information on:

- what social or environmental goals the social enterprise is pursuing
- their legal structure
- whether the entity is a registered charity
- the degree to which any profit is distributed or reinvested
- the extent that owndership/control is in the interests of the social mission
- financial and social performance.

This registered status would not confer tax exemptions for social enterprises but would serve to promote investment in social enterprise by philanthropic trusts. Legislative and/or regulatory changes could be made to clarify that philanthropic trusts would not be at risk of losing their charitable status if they invest in organisations on the social enterprise register. Policy decisions would be required about the extent to which social enterprises eligible to register could distribute profit to shareholders/investors rather than reinvesting all profit in the social mission.

Business development

Outcome: More social enterprises are successful and sustainable		
Activity area	**Key actions**	**Lead agencies**
Business development, acceleration and mentoring	Fund a "development intermediary" organisation to further grow development services for social enterprises.	Government, corporate sector and philanthropy in partnership
	Once the market has reached a basic level of maturity, open up funding for business development to greater contestability.	Government, corporate sector and philanthropy in partnership
Regional development	Develop regionally-based partners to assist with development of social enterprises	Development intermediary, local authorities, regional partners

	Co-locate specialised social enterprise advice in regional business hubs Develop information for social enterprises about mainstream regional business supports	MBIE, development intermediary, regional partners MBIE, development intermediary
Investment readiness programmes	Provide investment readiness programmes and support	Development intermediary, with other agencies with specific expertise
Māori economic development	Pursue a strategy and specific programmes tailored for Māori/whānau social enterprise	Te Puni Kōkiri (TPK), MBIE and other government and non-government partners
Pacific and ethnic communities	Develop information for Pacific and ethnic communities about social enterprise development programmes	Ministry of Pacific Peoples, Office of Ethnic Communities
Youth-focused programmes	Fund social enterprise development programmes tailored for young people Raise the profile of social entrepreneurship on campuses and in regional areas	Ministry of Youth Development (MYD)/MSD Youth-focused intermediary body
Scholarships for social enterprise leaders	Develop a scholarship fund to support social enterprise leaders to undertake further learning	Universities, philanthropic trusts

Business development, acceleration and mentoring

A key priority for Government should be to ensure a strong intermediary infrastructure offering business development, acceleration programmes, mentoring, technical assistance, online resources, and linkages between successful social entrepreneurs and enterprises. At this early stage in the sector's development, in a country of relatively small size, maximum gains can be achieved from having a main lead intermediary able to support a range of social enterprise requirements and provide specialised advice to government.

Social enterprises development needs that are not currently provided for by mainstream business capability-builders include social impact modelling; business modelling for blended customer groups and revenues streams; appropriate responses to complex social issues; and the structuring of hybrid legal forms and investments strategies. Development services also need to be relevant and accessible in terms of geography, culture, baseline capability, and the community context.

Core funding of around $1.5 million per annum for two to three years would enable the intermediary to leverage additional private and philanthropic funding. After that point, the infrastructure will be sufficiently mature to benefit from a contestable funding mechanism. Without continued government support for a lead development intermediary, the support structures for social enterprise that have been built up in the past two years are likely to be lost and the investment wasted. A number of key actions within this report are reliant on a capable intermediary having sufficient resource to play a leading role.

A United Kingdom report found social enterprises supported by intermediaries had a 132 per cent increase in the number of beneficiaries and a 149 per cent increase in annual revenues. (NESTA, 2011)

"Firms that receive Capability Building assistance show significantly higher employment growth compared with matched unassisted firms (…) We see a significant additional impact on multifactor productivity four years after first assistance." (Ministry of Economic Development, 2011)

Regional development

The development intermediary for social enterprise will need to build regional partners in order to widen the availability of workshops and advice, tailored to diverse local needs and conditions.

Mainstream business incubators also need to be sufficiently informed to identify social enterprise opportunities and either directly support them or refer them to specialised services. Ties should be made between the regional programmes that are starting to develop for social enterprise and mainstream economic development initiatives. However, specific expertise in social enterprise needs to be a separate function, rather than being subsumed. Tailored information about mainstream business development grants should be developed for social enterprises.

Investment readiness programmes

A survey of 108 social enterprises found 50 per cent of participants were not yet engaged in social impact investment but wanted to learn more. About 25 per cent were specifically planning to take on an investment with most of these needing mentoring to achieve investment readiness (Ākina Foundation 2016). The development intermediary could provide workshops and advice on this, working with experts in such areas as crowdfunding.

Māori economic development

A strategy should be developed by TPK, MBIE, and the Māori Economic Development Board to maximise the potential of whānau to participate in social enterprise, and to link Māori social enterprises to the mainstream innovation system. Specific programmes aimed at growing the capability of Māori social enterprise could open up new employment and enterprise opportunities.

Pacific and ethnic communities

The Office of Ethnic Communities has previously run workshops on social enterprise and indicates that a number of ethnic community organisations are beginning to operate in this space. Relevant work by the Ministry of Pacific Peoples includes research on Pacific entrepreneurship, capability programmes for community groups wishing to become social housing providers, and support for the Pacific Business Trust and Young Enterprise Trust. To further support social enterprise development

in these communities, targeted communications could be developed about available social enterprise development programmes. Specific tailored programmes may also be needed.

Youth-focused programmes

Continued support for youth-focused programmes is needed to equip the many young people interested in social enterprise with the skills needed to form successful ventures. In the United Kingdom, a programme seeking to find, fund and support social entrepreneurs in higher education has had positive benefits across more than 60 higher education institutions (UnLtd, 2014).

In New Zealand, the Youth Enterprise Fund, launched in 2014, has provided contestable grant funding for enterprise training in schools, tertiary institutions and community settings. This should continue, with a particular focus on university campuses and under-served provincial areas.

Scholarships for social enterprise leaders

A scholarship fund to support social enterprise leaders to undertake further learning could be investigated by universities, potentially to be supported by philanthropic funding.

Social finance

Outcome: Capital is mobilised to support social enterprise development and growth		
Activity area	**Key actions**	**Lead agencies**
Grants for early stage social enterprises	Develop a contestable Social Enterprise Development fund providing grants for early stage seeding, research and development, and investment/contract readiness	Social Enterprise Unit
Mobilise social impact investment	Establish a Social Impact Investment Fund through a Social Impact Investment Fund management entity (SIFME) with philanthropic, private, corporate and government investors	Philanthropy New Zealand and KPMG, co-ordinating with Treasury
Investor awareness and links to social enterprises	Link investors with social enterprises that are investment ready, including through technology platforms	SIIFME, development intermediary
	Promote best practice to raise awareness, increase investor confidence, and attract new investors	SIIFME and development intermediary

Grants for early stage social enterprises

At this early stage in developing social enterprises, a key barrier is the lack of grants for prototyping, research and development, and investment/contract-readiness. The Social Enterprise Development Fund would parallel grant funding available for small-medium enterprises that is not easily accessed by social enterprises (see Challenges section). The proposed Social Enterprise Unit would investigate Budget 2017 funding, and options for the fund's administration. The size could be modelled on MBIE's Te Pūnaha Hiringa: Māori Innovation Fund which is $2 million per year, and could aim to

stimulate co-investment from private and philanthropic sources. The three components of the Social Enterprise Development Fund would be:

Stage 1: Early-stage Seed Funding Grants ($5–50k) for early stage development, prototyping and testing of social enterprise ideas. Framed as innovation awards, the key criteria would be that applicants:

- have less than $100,000 in annual operating revenue
- have a promising idea with a compelling business case and some evidence of traction
- have clear potential to create positive social/environmental outcomes
- will be building on a successful prototyping of a minimum viable product or service
- do not necessarily have to have a legal entity in place
- can leverage of at least 2:1 matched funding.

Stage 2: Research & Development Grants ($5–100k) for social enterprises with a proven trading and impact track record. The key criteria would be that the social enterprise:

- is a legal entity trading in the market, with $100,000–$500,000 annual operating revenue
- has identified a specific research and development opportunity focused on product/service development, leadership development, governance training, or organisational systems and processes.
- can leverage of at least 2:1 matched funding.

Stage 3: Investment and Contract Readiness Grants ($10-100k) to provide the support and technical assistance required for social enterprises to raise investment and compete for public service contracts. This includes supporting ventures to demonstrate social impact in business planning; develop skills and systems to improve their performance; collect and analyse data to drive efficiencies in service delivery and impact; and prepare robust communications and propositions to investors. The key criteria would be that the social enterprise:

- is looking to take on investment or secure a major contract
- has the potential to take on investment or win a contract and provide a return
- is a legal entity trading in the market, with credible governance, and a strong financial track-record
- has a constitution that ensures the majority of profits are reinvested into delivering social/environmental outcomes, and/or demonstrates majority control in the interests of the social mission.

The United Kingdom's Investment and Contract Readiness Fund provides grants for purchasing of contract readiness support and specialised investment advice. It has been a "staggering success", generating £18 in contracts and investments for every £1 from the Fund. (Cabinet Office, 2015)

Mobilising social impact investment

Establishment of a Social Impact Investment Fund would draw on and foster investor interest in social impact investment. It would provide the funds needed by social enterprises that have reached the point of being investable propositions (refer Lifecycle of a Social Enterprise, Page 9). The Fund concept is currently being developed by Philanthropy New Zealand, supported by KPMG and will

involve consultation with government, philanthropic, corporate, social enterprise and other stakeholders. The aim is to secure funding for a business case in mid-2016, release a prospectus in late 2017, and secure the first investment by the end of 2017.

The Fund would be independently run through a Social Impact Investment Fund management entity (SIIFME). The role of the SIIFME would be to:

- develop financial products including secured and unsecured loans, debt, quasi-equity and equity
- raise capital from a range of sources including philanthropic trusts utilising their balance sheets, wholesale and retail investors, private, iwi and government
- manage and measure investments using financial and social metrics
- act as a central point that investees can approach and through which investors can collaborate
- undertake due diligence of potential investee social enterprises.

Government collaboration in design and development of the Fund and the SIIFME will ensure the Fund complements and enhances Government priorities such a Better Public Services and the Social Investment approach. Government can play a key role as an early investor to create impetus for the Fund, alongside philanthropic and private investors. Early investors build market confidence, which attracts other investors. The likely investment contributions to be sought from government would be towards the business case development (from July 2016), establishment of the SIIME (from January 2017) and the Fund itself (from late 2017).

In the United Kingdom, the Government secured co-investment from high street banks when it established Big Society Capital bank, drawing on funds from dormant bank accounts. The Australian Government was a critical early investor in the $40 million Social Enterprise and Investment Funds, providing $20 million, which was matched by corporates and philanthropy. In the New Zealand context, the Fund could be around $20 million, comprising $10 million from government and $10 million from other sources.

Over time, the intention would be for additional funds to evolve to match the diversity of social enterprise needs and investor interests. The SIIFME would fill the need for a specialised financial intermediary and could potentially manage a range of funds.

Investor awareness and links to social enterprises

Increasing investor understanding of social impact investment will be vital in order to mobilise capital. The development intermediary and SIIME will be well placed to work with angel investor networks, corporates and philanthropic trusts to raise awareness, garner interest, promote best practise and link investors to social enterprises.

Traditionally, most mainstream investors have relied on professional advisers and fund managers to direct their money. New technology has resulted in a marked increase in active investors. Technology platforms offer a quick, low-cost, and effective means to build the market, do deals, and increase confidence. The SVX platform in Canada – supported by MaRS and part-funded by the Ontario Government – provides an online platform to connect investors with opportunities aligned to their interests and investment goals. In New Zealand, a number of social enterprises are using equity crowdfunding platforms (such as PledgeMe) and these platforms are now expanding to

facilitate the raising of debt capital. The Social Enterprise Unit, working with the development intermediary and SIIME, could monitor trends in this area and integrate these with policy initiatives.

Social procurement

Outcome: Social enterprises win more government and private contracts		
Activity area	**Key actions**	**Lead agencies**
Access to government procurement	Develop a social procurement policy for central government Create a social enterprise category with MBIE's list of approved suppliers Promote international best practice on social procurement to local government	Social Enterprise Unit MBIE Social Enterprise Unit, Local Government New Zealand
Social enterprise contracting readiness	Run contract-readiness programmes for social enterprises	Development intermediary
Online platforms	Support joint venture and consortium bidding platforms Establish Business to Business, and Business to Customer, trading platforms	Development intermediary Development intermediary

Access to government procurement

Social procurement is the use of tendering and purchasing processes to generate positive social outcomes in addition to the efficient delivery of goods and services. Procurement areas previously unrelated to social outcomes can be utilised for wider public good. Social procurement has the potential to create a more level playing field for social enterprises, non-profit organisations and small and medium enterprises that bid for contracts.

Countries such as the United Kingdom and Australia are using social procurement processes, and the United Kingdom has the Public Services (Social Value) Act 2012 to promote this approach.

Social procurement is consistent with Government Rules of Sourcing that promote "value for money" procurement. Rather than focusing on the cheapest price, government agencies must consider the total cost of ownership and other direct benefits over the whole life of the goods or services. A principle of government procurement is to "get the best deal for everyone". This requires government agencies to consider, amongst other things, "the social,

Social procurement example: Kaipara District Council's contract for refuse collection was won by Kauriland Skills Centre/Kaipara Refuse Ltd which employs some people with disabilities and invests profits into accommodation for adults with disabilities.

environmental and economic effects of the deal".

A central government policy on social procurement would mean government agencies consider the potential social/environmental "value add" of tenders. Public and private organisations could be encouraged to identify appropriate categories for social procurement and set objectives and monitoring frameworks. Local government could also be encouraged to adopt social procurement, drawing on examples overseas and policies being developed by Auckland Council.

Social enterprise contracting readiness

Many social enterprises would benefit from training and advice on how to access government contracts, including payment for results contracts. Work through the Social Investment agenda needs to consider the positive role that social enterprises can play in delivering cost-efficient and innovative services. The development intermediary could run contract-readiness programmes for social enterprises. (Grants for purchasing contract-readiness support are discussed under the Social Finance actions.)

Online platforms

Social procurement can also occur in corporate supply chains, between businesses and direct to consumers. E-commerce platforms are an efficient means to connect businesses and consumers that seek to generate community benefit through their purchasing decisions. The potential for joint venture bidding platforms and Business to Business/Business to Customer trading platforms could be explored further. 'Good Spender' in Australia is a useful example. A recently launched New Zealand website, ChangeXchange offers a platform for social enterprises to showcase their goods and services. Some form of quality assurance/certification would be a desirable future feature.

Social enterprise coordination and promotion

Outcome: Social enterprise grows as a sector and is widely understood		
Activity area	**Key actions**	**Lead agencies**
International profile	Attend Social Enterprise World Forum 2016 in Hong Kong Active promotion of, and participation in, the Social Enterprise World Forum 2017 by government agencies Consider potential to launch new policies at the Social Enterprise World Forum 2017	Government and social enterprise representatives Social Enterprise Unit Cross-agency Social Enterprise Unit
Local and national coordination	Workshop the concept of a national member-based body and, if supported, launch a strategy at the Social Enterprise World Forum 2017 in Christchurch	Regional social enterprise networks, Social Enterprise World Forum consortium partners

	Expand social enterprise networking through workshops and forums, and foster peer-to-peer learning opportunities	Development intermediary, national member-based body
Social enterprise promotion	Designate a specific Social Enterprise Day or Week for promotion of stories in the media and through other channels	Social Enterprise Unit, development intermediary, national member-based body
	Develop national social enterprise awards	Development intermediary, national member-based body
	Develop brand/quality mark for social enterprises to encourage consumer awareness	Development intermediary, national member-based body

International profile

The Social Enterprise World Forum 2017 in Christchurch will be a significant opportunity to showcase New Zealand to the world, including overseas investors and political figures. Ministerial attendance at the 2016 Forum in Hong Kong, would add weight to New Zealand's invitation to world leaders. Support from government agencies such as Tourism New Zealand would maximise benefits. The event could be a launch platform for new initiatives.

Local and national coordination

A more cohesive national voice would strengthen advocacy, increase sharing of learnings, and raise awareness of social enterprise. The lead-up to the Social Enterprise World Forum 2017 will provide opportunities for the social enterprise sector to consider whether a national member-based organisation is desired. A better networked sector could also create links to repositories of wisdom in experienced non-profit organisations, Chambers of Commerce, universities and other bodies.

Social enterprise promotion

In the United Kingdom, 13 September has cross-party support as 'Social Saturday', a day to celebrate and buy from social enterprises. A national day for recognising and promoting social enterprise (similar to Volunteers' Day on 5 December) would provide an opportunity to showcase social enterprise case studies in media and events. A brand/quality mark for social enterprises could also be investigated to raise the profile of social enterprise, along with a "buy social" campaign to encourage citizens to purchase from social enterprises. Māori cultural distinctiveness should be a key part of the New Zealand brand 'story'. National awards could also be developed.

Priorities for government action in 2016

> "Government leadership is needed to remove barriers, build capacity, catalyse investment activity and harness the power of the market to address critical public policy challenges." (G8 Social Impact Investment Taskforce, 2014).

The actions proposed in this report include roles for organisations within and outside of government. Government, at a minimum, should consider barriers in its legislative and regulatory regimes. Further, this report supports a facilitative Government role in similar vein to government initiated or supported programmes focused on encouraging effective and efficient non-profit and business sectors. In markets where social enterprise is achieving results at scale, Government leadership and investment has been central in creating an enabling environment and catalysing support from other sectors. At the same time, Government intervention should enable but not crowd out sector-led action.

Key priorities

In 2016, it is proposed that Government give priority to:

- identify funding for a development intermediary to maintain current progress in growing social enterprise business capability
- second staff to an interim Social Enterprise Unit and determine the location, resourcing and work programme for a formalised unit
- work with social enterprise leaders to develop a survey of social enterprises, to provide baseline data on the size and nature of this sector
- undertake work on a Social Enterprise Development Fund providing grants for early stage social enterprises, in liaison with philanthropic trusts
- participate in the sector-led work to develop a Social Impact Investment Fund to kick-start a diverse social finance market and support social enterprises that are investment-ready.

APPENDIX A
Two examples of overseas markets

United Kingdom

Some key 2015 facts about United Kingdom social enterprise			
70,000 social enterprises	Contributing £24 billion to the economy	Employing nearly a million people	41% created jobs in the past 12 months compared to 22% of SMEs
49% of all social enterprises are five years old or less	52% grew their annual turnover in the past 12 months compared to 40% of SMEs	73% earn more than 75% of their income from trade	59% employ at least one person who is disadvantaged in the labour market

Source: Social Enterprise UK (2015) *State of Social Enterprise Survey 2015*

The United Kingdom has taken a leading international role in encouraging government responsiveness to social enterprise and social investment. Led by the Cabinet Office and HM Treasury, Government initiatives have included:

- leading a Social Investment Taskforce for the G8 countries
- creating the Community interest Company legal status for social enterprises
- providing specific funds, including an Investment and Contract Readiness Fund
- passing the Public Services (Social Value) Act 2012 to encourage social benefits through procurement
- launching a Social Stock Exchange with 11 founding member companies
- providing 30 per cent tax relief on social impact investments
- reforming fiduciary duties of charities and investment intermediaries
- establishing a social investment research council.

A large wholesale bank, Big Society Capital, has been established from funds in dormant bank accounts and contributions from high street banks. The bank lends to social enterprises via specialised intermediaries. The United Kingdom Government is now also identifying assets inactive for 15 years or more for direction towards charities. The United Kingdom's social impact investment sector is currently worth more than £1.5 billion spread across around 3500 investments. The rate at which investment offers are received by social enterprises and charities has more than doubled since 2011, with an annual growth rate of 20 per cent (Big Society Capital, 2016).

A 2016 strategy paper outlines the Government's plans to expand its global leadership role around social impact investment, including mapping overseas social finance markets, fostering policy dialogues, and promoting United Kingdom funds and social ventures. New Zealand is one of ten countries to be targeted (HM Government, 2016).

"Social enterprises, charities and voluntary bodies have the knowledge, human touch and personal commitment to succeed where governments often fail. But they need finance too. They can get it from socially minded investors. So we need social investment markets, social investment bonds and social investment banks. And here government needs to help." (David Cameron, UK Prime Minister, 2013)

Scotland

Some key 2015 facts about Scottish social enterprise			
5,199 social enterprises	£1.68bn estimated economic contribution of social enterprises	112,409 people employed by sector	67,768 volunteers are supporting delivery of social enterprise activity
42% of social enterprises were formed in the last 10 years	66% of social enterprises expected their income to increase in 2016	200+ new social enterprises forming every year	64% of jobs created by social enterprises are in deprived areas

Source: Social Value Lab and partners (2015) *Social Enterprise in Scotland: Census 2015*

With a similar population size to New Zealand, Scotland has made significant strides in growing its social enterprise market with initiatives over the past ten years. The Scottish Parliament has a Cross-Party Group on Social Enterprise where politicians, external organisations, and members of the public regularly discuss social enterprise.

In 2007, the Scottish Executive and partners published *Better Business: A strategy and action plan for social enterprise in Scotland*. At its launch, the Government announced £1.5 million for an action plan to raise the sector's profile, opening up markets, increasing available finance, and provide better business support. An infrastructure of capability-building and investment organisations has now developed.

The social enterprise community has been actively collaborating to grow the sector, including publishing *Building a New Economy: Scotland's vision for social enterprise 2025* and producing a *Social Enterprise Voluntary Code of Practice*.

"What we don't want to see is social enterprise perceived as something that is peripheral to our wider economic agenda within the country. We want the development of the social enterprise movement to be central to the achievement of our wider economic aims." Scotland's Deputy First Minister, John Swinney, 2015

APPENDIX B
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