GROWING SOCIAL ENTERPRISE: PROGRESS AND NEXT STEPS

Proposal
1. This paper reports on progress with growing social enterprise in New Zealand since the previous Cabinet paper [SOC Min (13) 27/4], and proposes next steps to support the growing social enterprise sector.

Executive summary
2. Social enterprises are hybrid organisations mixing social goals with a commercial orientation. Social enterprises bring innovative solutions to social and environmental problems, and contribute to employment and local economies. To encourage support for these organisations the Government adopted a position statement on social enterprise in January 2014 (Appendix A).

3. To support early-stage capability building the Government has contributed $1.27 million over two years to the Ākina Foundation’s (Ākina) incubation service and Launchpad accelerator pilot. This has helped Ākina leverage funding from philanthropic and corporate sources. The 11 Launchpad teams received pro bono corporate mentoring worth $294,776, and are currently negotiating a total of $1.218 million in finance, of which $0.117 million has been formally secured (six weeks after the pilot’s completion).

4. Ākina will be developing a network of regional partners to provide basic social enterprise training. Subject to confirmation of the Crown appropriations, I will allocate $0.750 million from Vote Internal Affairs’ Community Funding Schemes to support Ākina’s work in 2015/16, and will review funding options for out-years.

5. Access to finance is increasingly becoming a pressing issue. Philanthropy New Zealand (PNZ) is working with philanthropic and corporate partners on a proposed Social Impact Fund to provide early stage and growth capital for non-profit organisations and social enterprises. Additionally, Ākina has secured private funding for a new social impact investment brokerage service.

6. Many countries have developed national strategies to grow social impact investment (that is, financing for enterprises that deliver both social/environmental outcomes and financial returns), including reports from the G8 Social Investment Taskforce. I have asked the Department of Internal Affairs (Department) to work with experts from government, philanthropy, business and social enterprise networks to develop strategic actions to enhance social enterprise development and social impact investment by March 2016.

7. Ākina, collaborating with Christchurch City Council and other Canterbury institutions, plans to lodge a bid in June 2015 to host the Social Enterprise World Forum in 2017. I propose Cabinet endorse the bid provided that no Budget bid is required.

Information withheld under the Official Information Act 1982 9(2)(i)
Previous report to Cabinet

8. Previously, Cabinet was informed that building social enterprises’ capability is the first priority if they are to scale-up, attract investment, and achieve social impact. Cabinet noted I would be funding a social enterprise accelerator pilot and incubation service. Further, Cabinet agreed the Government adopt a position statement on social enterprise (Appendix A) to encourage private sector and government responses to social enterprise needs.

9. Cabinet invited me to report back on the accelerator and incubation service, and on cross-agency activity to give effect to the position statement, by the end of 2014 [SOC Min (13) 27/4]. In November 2014, the Chair of Cabinet Social Policy Committee extended the report back date to May 2015 so that the outcome of the accelerator pilot could be included, and information on new developments [SOC Memo (14) 16/1].

Support for social enterprise capability in New Zealand

10. Various initiatives are now supporting social enterprise capability-building, including locally-based volunteer mentors for charities and social enterprises through Business Mentors New Zealand’s new Community Mentors arm.

11. The Minister for Youth recently launched the $2 million Youth Enterprise Fund. The fund provides ‘hands on’ learning opportunities to help youth develop entrepreneurial skills and knowledge. Projects supported include the Inspiring Stories Trust’s ‘Live the Dream’ social enterprise accelerator programme ($0.5 million) and the Zeal Education Trust’s social enterprise café ($35,000). The fund was part of the Government’s 2014 Budget announcement of $2.5 million of new funding for youth enterprise initiatives.

12. Local authorities vary in their support for social enterprise but are showing growing interest. For instance, Auckland Council has a social enterprise focus in its community and social development plan, sponsors social enterprise events and training, and takes into account social outcomes when tendering contracts. Other local authorities are supporting training, events and awards, or are providing grants and contracts.

13. Sources of support for social enterprises run by Māori organisations include:
   - Te Pūtahitanga o te Waipounamu’s (the South Island Whānau Ora Commissioning Agency) $3.100 million fund for Māori innovation projects, including social enterprises, which is accompanied by coaching services;
   - Te Puni Kōkiri’s Māori Potential Fund and Business Facilitation Service; and
   - the Ministry of Business, Innovation and Employment’s Māori Innovation Fund which supports capability in Māori collectives, including social enterprises.

Success of the Ākina Foundation’s services

14. In 2013/14, $0.146 million was provided to Ākina (formerly the Hikurangi Foundation) from Vote Internal Affairs’ Community Funding Schemes appropriation for an accelerator pilot, known as Launchpad. This was matched by co-funding from Contact Energy. Funding of $0.375 million in 2013/14 and $0.750 million in 2014/15 has been provided for Ākina’s wider incubation and development services.

15. A nationwide selection process for the Launchpad pilot led to 11 finalist teams (see Appendix B) receiving six months intensive support. Pro bono mentoring, including from Contact Energy, KPMG, Deloitte, the Sustainable Business Council and Vodafone, was worth $294,776. After only six weeks from the pilot’s end, the teams are negotiating a total of $1.218 million in finance, with $0.117 million already formally secured. Interim findings from Massey University surveys of Launchpad teams indicate
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high satisfaction levels, positive increases in their skills and knowledge, and useful suggestions for enhancement of future programmes.

16. Ākina’s other activities in the past year included extending staffing bases beyond Wellington to Auckland and Christchurch, providing ongoing incubation for 19 social enterprises (in addition to Launchpad), and running national workshops and clinics benefiting 123 social enterprises. Ākina has secured Foundation North (formerly ASB Community Trust) funding for social enterprise development in Auckland and Northland, and Rotary sponsorship to establish a Social Enterprise Wellington award.

**Next steps for growing social enterprise capability**

17. Ākina is developing a regional hubs model in which local partners are supported to provide basic social enterprise training. The first step is a four month programme with the Far North District Council. Ākina is also redesigning its incubation service to include support for social enterprises beyond the initial design stage.

**The next challenge: access to finance**

18. Access to seed capital and growth capital are increasingly cited as barriers to growth. When seeking loans, social enterprises need sufficiently stable incomes for repayments, or assets to secure against. Banks and angel investors may offer unattractive rates because high levels of due diligence are required for the size of investment sought. Contracts are another form of income, but typically contribute to service provision not growth, and newer social enterprises can have difficulty competing against large commercial suppliers.

19. Other financial challenges for social enterprises depend on their legal form. Those structured as incorporated societies or charitable trusts may seek to register as charities, with consequent tax benefits and access to charitable grants. Crowdfunding to raise donations is increasingly popular. These social enterprises cannot, however, attract investment because returns cannot be paid.

20. Those set up as limited liability companies cannot seek charitable tax benefits (unless their constitution prohibits personal pecuniary gain). However, they can seek equity investment, although investors are often uncertain about risk and the likelihood of market-rate returns. They may also be eligible for grants aimed at businesses, although these are generally over-subscribed. Equity crowdfunding has potential, but given the limited uptake so far, it is not clear which products and enterprises will most benefit.

**Next steps around financing social enterprise**

21. Ākina is developing an impact investment advisory service, supported technically by Macquarie Capital and financially by the Macquarie Foundation. The Treasury is developing a unit cost database to assist with forecasting the costs and benefits associated with social enterprise programmes.

22. Philanthropy New Zealand (PNZ) is proposing to develop a Social Impact Fund involving co-investment from philanthropic, corporate and other funders. The fund would support non-profit organisations and social enterprises needing to build initial capability or requiring expansion capital, and would generate both social impact and financial returns for investors. The fund’s proposed mix of grants, loans, social impact bonds and equity could appeal to a range of funders and investors, and would support social enterprises and non-profits at different stages of development.
23. PNZ proposes that Government co-invest in the fund, to help leverage additional philanthropic and private capital, and to reflect Government interest in social outcomes.

Additional actions to grow New Zealand social enterprise

Collaborative approaches to strategic actions

24. I propose that the Department work with experts from government, philanthropy, business and social enterprise networks and report to me by March 2016 on strategic actions to enhance social enterprise development and social impact investment. This approach is consistent with recommendations from a G8 Social Investment Taskforce that governments internationally can play an enabling role in social impact investment.

25. Overseas examples of government backing for social impact investment include the United Kingdom’s establishment of Big Society Capital Bank, and a tax relief scheme for investors which is forecast to generate up to £480 million in social investment over five years. In Australia, the Government’s Social Enterprise Development and Investment Funds involve private fund managers matching government grant funding with private investment to create a total investment pool of over AU$40 million.

Social Enterprise World Forum 2017

26. A coalition including Ākina, Christchurch City Council, University of Canterbury, Canterbury Community Trust and Canterbury Convention Bureau is interested in hosting the Social Enterprise World Forum in September 2017. The World Forum could attract between 500-1000 delegates, would have tourism and trade benefits, and would attract overseas knowledge and investment in social enterprise. A financial feasibility study and event plan, funded by Tourism New Zealand, indicates a fundraising target of $0.300 million (over and above ticket sales), to be raised from private, philanthropic and international sources.

27. Ākina proposes to lodge a bid with the international steering group in late June 2015, and to speak to the bid at the next World Forum in Milan in July 2015. I propose that Cabinet agree to endorse the bid, provided that no Budget bid is required.

Consultation

28. This paper has been prepared by the Department of Internal Affairs. The following agencies have been consulted: the Department of Conservation, Department of Corrections, Ministry for Culture and Heritage, the Ministry of Education, the Ministry for the Environment, Ministry of Business, Innovation and Employment, the Ministry of Foreign Affairs and Trade, Ministry of Health, Ministry of Justice, Ministry of Pacific Island Affairs, Ministry of Social Development, Ministry for Women, State Services Commission, Te Puni Kōkiri and the Treasury. The Department of the Prime Minister and Cabinet has been informed.

Financial implications

29. I have reprioritised $0.750 million within the Vote Internal Affairs’ Community Funding Schemes multi-category appropriation to support Ākina in 2015/16, subject to confirmation of the Crown appropriations in Budget 2015. This will enable Ākina to maintain core staffing and activities, from which it can leverage additional private and philanthropic funding and pro bono services. Funding for out-years will be considered during 2015/16 in light of Ākina’s further progress, other funding priorities within the portfolio, and developing needs in this sector.
Legislative implications and regulatory impact analysis

30. No Regulatory Impact Statement is required as there are no legislative implications.

Human rights, gender implications, disability perspective

31. This paper is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. Some social enterprises employ people who are disadvantaged in the labour force.

Publicity

32. I propose to issue a press release indicating that I will be funding Ākina in 2015/16. I intend to publish this Cabinet paper and related Cabinet decisions on the Department of Internal Affairs’ website, subject to consideration of redactions that would be justified if the information had been released under the Official Information Act 1982.

Recommendations

33. The Minister for the Community and Voluntary Sector recommends that the Committee:

1. note increasing interest from philanthropic organisations, corporates and local government agencies in supporting social enterprise capability;
2. note that, building on 2013/14 and 2014/2015 funding, further Vote Internal Affairs’ grant funding will be provided for the Ākina Foundation’s social enterprise incubation and development services in 2015/16;
3. note that during 2015/16 the Minister for the Community and Voluntary Sector will consider options for funding social enterprise capability-building in out-years;
4. note that as more social enterprises move beyond the early design stage, issues around access to capital investment are becoming more significant;
5. note that Philanthropy New Zealand is developing options for a social impact investment fund, involving investment from a number of sources, and has indicated that government co-investment will be sought;
6. direct the Department of Internal Affairs to work with experts from government, philanthropy, business and social enterprise networks on strategic actions to enhance social enterprise development and social impact investment and report to the Minister for the Community and Voluntary Sector by March 2016; and
7. agree to endorse a Christchurch-based bid to host the Social Enterprise World Forum in September 2017, provided no Budget bid is required.

Hon Jo Goodhew
Minister for the Community and Voluntary Sector
GOVERNMENT POSITION STATEMENT ON SOCIAL ENTERPRISE

This Government position statement acknowledges the value of the growing social enterprise sector and supports collaborative action to ensure social enterprises meet their full potential.

Social enterprises use commercial methods to support social or environmental goals. They principally reinvest surpluses in the social/environmental purpose rather than maximising profit for shareholders and owners. Potential benefits of social enterprise include innovative responses to societal issues, new employment opportunities, and sustainable income generation.

The Government is aware of the significant growth of the social enterprise sector internationally and wishes to support development of the sector in New Zealand. The Government acknowledges the innovation and entrepreneurship of this sector and the valuable contribution social enterprises can make to community strength and resilience.

Social enterprises can support a range of government goals including the development of a productive and competitive economy. The Government values the role of social enterprises as potential partners for a range of government agencies in achieving “collective impact”, and as contributors to Better Public Services goals involving third party service delivery.

The Government recognises that emerging social enterprises face a range of challenges, including the need for business advice and funding tailored to their hybrid social/commercial nature. The sector currently lacks a solid support infrastructure and many social enterprises struggle to access external finance.

The Government appreciates the importance of raising awareness of social enterprise, of taking action to help build capability, and of encouraging finance for this emerging sector. Social enterprise networks, investors, philanthropic organisations, local authorities and central government agencies can all contribute to a future where social enterprises can flourish.

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.
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<thead>
<tr>
<th>Social enterprise</th>
<th>Focus</th>
<th>Social/environmental benefits</th>
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<tbody>
<tr>
<td>ARCO</td>
<td>Kaikōhe based design, production and sale of wooden furniture.</td>
<td>Recycling; youth skills and employment.</td>
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<tr>
<td>CareEd4</td>
<td>A 24 hour, seven days a week, childcare service for working solo parents.</td>
<td>Reduced welfare dependence; support for vulnerable children's employment.</td>
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<tr>
<td>Food, Farms and Freshwater</td>
<td>An accreditation brand for red meat from farms that meet ‘swimmable and fishable’ water quality standards.</td>
<td>Environmental sustainability.</td>
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<tr>
<td>Mr Four Eyes</td>
<td>A buy-one, give-one scheme for prescription eyewear.</td>
<td>Support for children with poor eyesight.</td>
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<td>Ora</td>
<td>Technology that tests employee impairment and work-readiness in real time, before accidents happen.</td>
<td>Safe workplaces.</td>
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<td>Patu Aotearoa</td>
<td>A group exercise programme designed specifically for Māori and Pasifika.</td>
<td>Improved health; reduced diabetes.</td>
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<td>Take My Hands</td>
<td>Collection of unwanted prosthetic limbs for shipping to developing countries.</td>
<td>Reduced waste; international development.</td>
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<td>The Wellbeing Game</td>
<td>An employee wellbeing programme focused on mental health.</td>
<td>Improved employee wellbeing.</td>
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<tr>
<td>Thought-Wired</td>
<td>Brain-sensing technology allowing people with profound physical disabilities to operate technology systems by using their thoughts.</td>
<td>Improved quality of life for people with disabilities.</td>
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<tr>
<td>Livable</td>
<td>An online service for renters to share information about the quality of their housing.</td>
<td>Improved housing and energy efficiency.</td>
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