



Australian Government | The Treasury

Social Impact Investing Discussion Paper

Submission on behalf of the
Centre for Civil Society

Background

Civil Society Australia is Australia's peak body for civil society. Membership comprises individuals, associations, small businesses, and services who together constitute the relationships and activities of civil society, independent of both government and the commercial world.

Our aim is to strengthen civil society and empower people within it. The 'not-for-profit' sector of organisations is one strand in civil society, alongside informal and voluntary forms of association and activity. The 'not-for-profit' sector is not more important than informal and voluntary forms of association, though it currently attracts far greater attention from governments, policy makers and academics than other forms of relationship and association.

In Australia, civil society is largely ignored in public life. In the last thirty years in particular, a managerial revolution has swept through government, business and non-government organisations which has deeply marginalised civil society. Managerialism has had the effect of shifting agency and responsibility for personal and social well-being away from the relationships and institutions of civil society onto a class of public, private and NGO sector managers. This process has almost killed off the instinct for, and practice of, voluntary association and the shared generation of moral and social capital.

Civil Society Australia has been formed to counter this marginalisation of civil society in Australian public life.

Vern Hughes
Director
Civil Society Australia
0425 722 890
Email: vern@civilsociety.org.au
Website: <http://www.civilsociety.org.au>

Summary

Social Impact Investing has an important role to play in tackling social problems or disadvantages in Australia, but Australian Governments should exercise great care in ensuring that:

- 1. Taxpayers' money is not transferred to investors in the form of a financial return** for a social impact investment. If mechanisms can be found whereby a financial return can be generated from agencies or institutions which create or benefit from social disadvantage, this is acceptable. But taxpayers' money should not be used for payment of a financial return simply because current or previous governments have used taxpayers' money badly or ineffectively.

2. Government mechanisms designed to facilitate social impact investing should not distort the market for social impact investment in the process, by favouring certain kinds of investment over others. The distortion of the market generated by this kind of intervention is invariably counter-productive and generates 'crony capitalism' features of economic activity. In the social enterprise and social investment field, the danger of market-distorting relationships between governments, investors and recipients of investment is particularly high

List of Consultation Questions in the Discussion Paper

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1. What do you see as the main barriers to the growth of the social impact investing market in Australia? How do these barriers differ from the perspective of investors, service providers and intermediaries?

The principal barrier is the intrusion of too many government-funded intermediaries in the market. These overwhelm the actual social entrepreneurs and enterprises, and create a dependence mentality on the part of would-be entrepreneurs.

2. What do you see as the future for social impact investing in Australia: for example, can you foresee the development of new structures for social impact investing?

Australia has a long history of successful social impact investing, beginning in the nineteenth century through mutual and friendly societies, which were mutually-owned instruments for the mobilization of capital to meet social challenges. Few of the current social impact investment instruments are mutually-owned, and are therefore not genuinely community-based and are usually management-driven. This is a huge problem – the principal social impact investment instruments, and intermediaries available now are largely created by individuals moving from the corporate sector who have little knowledge or experience of the social sector, and who tend to think the social sector needs their corporate knowledge. By and large, it doesn't. It needs a rediscovery of its own history and culture.

3. Are there any Australian Government legislative or regulatory barriers constraining the growth of the social impact investing market?

The barriers are primarily cultural – the dominance of corporate investment models in both government and private sector institutions, in which a financial return is considered necessary for the mobilization of capital to solve social problems. This culture still pervades the intermediaries, who tend to be individuals who have been immersed in this private sector culture, rather than in the culture of mutual and social enterprise.

4. What do you see as the role of the Australian Government in developing the social impact investing market?

Clearing out the dominance of corporate investment models in its own culture and allowing other models space to exist. This is overwhelmingly the most important contribution Government can make. Until this cultural change is accomplished, it would be counter-productive to undertake any direct facilitation or intervention in this field.

5. Do you see different roles for different levels of government in the Australian social impact investing market? For example, the Australian Government as co-funder with State and Territory Governments continuing to take the lead in developing social impact investments?

The comment above is equally applicable to state governments. The Victorian Government's allocation of \$8m to an intermediary in Victoria (Social Traders) has had a highly negative impact in distorting the market in Victoria. This has had the effect of siphoning most social enterprise development through an agency that is 99% dependent on government money and therefore not reliant on its own trading activity. This is a mismatch in culture that renders its work ineffective.

6. Are there areas where funding through a social investment framework may generate more effective and efficient policy outcomes than direct grant funding?

No. There are no practical differences, apart from the siphoning of taxpayers' money to private investors. If current or previous government approaches have been failures (as in homelessness, indigenous disadvantage, or continuing high recidivism rates), the primary

response of government should be to discontinue these failures, sack the people responsible, and explore ways of instituting personal liability to government officers who have managed and overseen failed programs. If a program is done differently, with better outcomes, the savings in government expenditure incurred should not be paid to external investors but should be used to reduce government debt incurred by generations of failed programs.

7. What Australian Government policy or service delivery areas hold the most potential for social impact investing? Are there any specific opportunities you are aware of?

Health, education, employment services, family services, disability, ageing, child care, adult education and indigenous affairs should be mutualised by transferring funding from supply-side providers to demand-side associations of users of services (consumers, families, communities). For this transition to demand-side empowerment rather than supply-side disempowerment, new financing mechanisms can be developed by and for associations of users of services.

8. Are there opportunities for the Australian Government to collaborate with State and Territory Governments to develop or support joint social impact investments?

No comment.

9. What are the biggest challenges for the implementing the Australian Government's public data policy in the social impact investing market? What can do the Australian Government do to address these challenges?

Full disclosure of information about Australian Government spending in every area, with no exceptions for areas deemed 'commercially confidential' is essential. There can be no 'commercial confidentiality' for any activity involving taxpayers' money.

10 - 27. Are there opportunities for the Australian Government to form data sharing partnerships with State and Territory Governments, intermediaries and/or service providers?

No comment.

28. Have you faced a legal impediment as a director of a social enterprise from making a decision in accordance with the mission of the enterprise, rather than maximising financial returns that only a change in the legal structure could resolve? If so, what amendment to Commonwealth legislation, regulation or ASIC guidance would you consider is needed to address this problem?

No.

29. Would making a model constitution for a social enterprise assist in reducing the costs for individuals intending to establish a new entity? What other standard products or other industry-led solutions would assist in reducing the costs for individuals intending to establish a social enterprise.

No.
