

Social Enterprise Development and Investment Funds (SEDIF)

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Organisation: Department of Employment

Country: Australia

Level of government: Central government

Sector: Economic affairs, General public services, Social protection

Type: Financial Resources, Partnerships

Launched in: 2011

Overall development time:

24 months

Link to the innovation's website

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Description

SEDIF involved the Australian Government making a AUD 20 million cornerstone investment to seed three new investment funds to improve access to finance and support for Australia's social enterprises to help them grow their business, and by doing so, increase the impact of their work in their communities. By establishing the SEDIF, the Government is also seeking to catalyse the development of the broader social impact investment market in Australia. The SEDIF funds are the first social investment funds of their kind in Australia.

Why the innovation was developed

Social enterprises are significant partners for the Department in the delivery of our training, employment and social inclusion programmes. Access to appropriate finance and support had been identified as an issue for some social enterprises and was limiting their capacity to grow their operations and increase the social impact of their work in their communities. In this context, the Australian Government decided to develop the SEDIF to improve access to later-stage growth capital for social enterprises, and through the SEDIF, catalyse the development of the broader social investment market in Australia.

Objectives

Improve social equity, Support economic growth

- The principal objective of SEDIF was to establish two or more investment funds which generate social impact in addition to financial return and improve access to capital for social enterprises in Australia.
- May reduce the amount of government spending required to achieve the same scale of operations or level of social impact.
- Help social enterprises to scale their operations and increase the impact of their work in their communities.

The shorter term goals:

- Provide a catalyst for development of the social impact investment market.
- Test capacity for, and existing barriers to, social impact investment and access to capital for social enterprises.
- Build the capacity of the social enterprise sector. Target investment in priority areas for impact.

The longer term goals:

- Support development of infrastructure to build market place for social investment.
 - Support innovative financial product design and development.
 - Attract longer term investment in to priority areas for impact.
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Main beneficiaries

Businesses, Civil Society, Ethnic or racial minorities, General population, Government bodies, High-risk populations, Low-income groups, Young people

Social enterprises and their communities.

Existing similar practices

Bridges Ventures Funds

In other countries' public administrations

UK Cabinet Office

Bridges Ventures Funds (UK) – a social investment fund with GBP 20 million in government investment, matched by private investment to create a total fund GBP 40 million. Established in 2002 in a context similar to Australia's current nascent social investment market, with both governments seeking to catalyse and build the market.

<http://www.bridgesventures.com/>

Social Innovation Fund (US)

In other countries' public administrations

Corporation for National and Community Service

Social Innovation Fund (US) – the contribution of government capital also leverages equivalent private capital from social impact investors. Launched in 2010 with USD 50 million in seed capital to invest in programs that increase the scale of community-based programs with evidence of impact in areas of youth development, economic opportunity or healthy futures.

<http://www.nationalservice.gov/programs/social-innovation-fund>

Results

Efficiency

The immediate impact of the ten approved SEDIF investments includes:

- The creation of 42 jobs. The launch by four social enterprises of new programs aimed at creating social change and generating revenue.
- The provision by two social enterprises of improved health services to disadvantaged individuals.
- The necessary finance for three social enterprises to scale up their operations.
- The long-term impact will be measured progressively as the investments mature.

<http://docs.employment.gov.au/documents/social-enterprise-development-and-investment-funds-progress-report-june-2013>

Service quality

Accessibility:

- These investments are assisting social enterprises to scale and improve their services.
 - For example community health organisation has established a private general health practice which will generate profits to fund improvements and expansions to its three community health centres.
 - Another investment has provided the necessary to finance for a housing organisation to refurbish its accommodation.
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Evaluation

A progress report of the SEDIF was published in June 2013.

The report provided an update on progress over the first 18 months of the establishment of the SEDIF initiative. This period largely reflects the establishment of the fund in the market, and includes the first 10 investments totalling AUD 4.7 million. The report also draws attention to some of the lessons from the market including the nature of impact investment supply and demand, the importance of intermediation, direct market impacts and secondary effects.

The specific projects that are receiving the grants are evaluated via data indicators negotiated between DEEWR and the fund managers.

Development

Design

DEEWR conducted a comprehensive scan of the international evidence around social investment and a review of the existing social investment practice in Australia. This research formed part of the evidence base for the design of the SEDIF.

Drawing on this evidence, a public consultation paper was released that set out the two main policy goals of the SEDIF initiative – to establish sustainable sources of social enterprise finance, and to catalyse the social investment market. The paper discussed the possible options for the SEDIF, including the potential design features and governance elements.

DEEWR received 23 submissions during the consultation and held a public forum. Input came from a range of sources, including social finance intermediaries and practitioners, philanthropic organisations, social sector organisations, researchers, academics and state and territory governments.

Design time: 6 months

Testing

As there were no local precedents to draw upon, the project team conducted a comprehensive review of the international literature on social investment and social investment funds. The research process included an analysis of the key features of social investment funds operating in the UK, US and Europe, as well as an in-depth literature review of approaches to social enterprise investment and support, and reviewing examples of other leading social investment practice. The project team also focused on developing a thorough understanding of the design features necessary to ensure the fund would be an attractive and viable proposition for a range of private and social investors.

In particular, the research verified and reinforced:

- The value of the catalytic effect of government involvement in impact investing and the importance of developing networks to engage stakeholders before launching the initiative.
- The key elements of excellence and success that investors are looking for when considering whether to invest in impact investment funds of this type.

To support the research process and the translation of the research findings into a viable design, the project team engaged a consultant with experience in international and Australian social finance contexts, including in capital raising and establishing investment funds.

Testing time: 6 months

Implementation

Tools used:

Following the research and consultation phase, DEEWR developed the SEDIF objectives and guidelines. The guidelines were written in way that recognised the potential fund managers' expertise in establishing and managing investment funds, as well as encouraged innovative design and consortia arrangements for collaborative delivery of the SEDIF.

This phase was undertaken by the SEDIF Team at DEEWR with advice from an Advisory Committee. The Committee was established during the design phase of the project and included members with expertise in finance and funds management, social enterprise and social investment, as well as legal and governance fields applicable to the SEDIF. The Advisory Committee's role was to provide expert advice to DEEWR on certain aspects of the design process as well as on applications during the assessment phase. DEEWR particularly benefitted from their experience in the Australian and international markets, particularly in relation to gauging investor appetite and the development needs of social enterprises.

Resources used:

- The AUD 20 million Australian Government grant to seed the SEDIF funds.
- New staff were recruited and trained to implement the SEDIF.
- Costs of convening and facilitating an advisory committee made up of experts in the field. The committee oversaw the process and provided advice throughout the design of the program and selection of fund managers.
- Costs of engaging consultants and legal advisors to inform the fund manager selection process and negotiation of funding agreements.
- Allocation of staff and typical office resources such as office space and ICT. This was approximately five core team members, with additional support from government legal team. However staff had varying degrees of involvement over the course of developing and implementing the SEDIF.

Implementation time: 12 months

Challenges and solutions

- Given the nascent state of the impact investment market in Australia, there was a challenge in anticipating potential demand as well as how the funds might be structured. This was addressed by ensuring that the grant guidelines were sufficiently flexible to allow applicants to propose a fund management approach that would best suit the Australian market while still meeting the SEDIF objectives. This flexibility was supported with a two stage assessment process which allowed for further negotiation with shortlisted applicants to improve proposals.
 - In the absence of a pilot to test the initiative, it was important to balance the public policy objectives with the likely needs of investors and investee organisations. The use of an Advisory Committee with a range of investor and investee experience was important in testing the veracity of the proposals received.
 - As a market building activity in a nascent impact investment context, it was also important to ensure that the government contractual arrangements did not hinder the ability of the fund managers to secure non-government investment. As a result, fit-for-purpose concept draft funding agreements were provided prior to the finalisation of funding decisions to ensure that fund managers and their investors were comfortable with the government contractual arrangements.
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Partnerships

fund managers and social enterprises

Private sector

The SEDIF funds present a new way of government, private and community sectors working together to achieve both a social and financial return. The Australian Government has contracted the fund managers to attract private investment and work with social enterprises to help them become investment-ready. The fund managers are also working with numerous community sector organisations to develop the social enterprise sector and build a pipeline of viable investment opportunities.

Additionally, these sectors were consulted throughout the development of the SEDIF guidelines and informed decision making through the Advisory Committee.

stakeholders

Civil Society

The public was invited to provide feedback on a SEDIF public consultation paper that outlined the main policy goals at the beginning of the project. A public forum was held to consult with stakeholders.

An advisory board consisting of experts and academics was established during the design phase of SEDIF in order to provide the DEEWR with expertise on investment markets and development need of social enterprises.

Relevant federal agencies

Other Public Sector

Relevant federal agencies were consulted during the early stages and in the development of the guidelines.

Lessons Learned

Lessons Learned

- SEDIF demonstrates the potential for Government to collaborate with the private and community sector to pool resources, both financial and non-financial, for social purposes.
 - It has highlighted the value of Government acting as a co-investor in a subordinated capacity to improve the risk/return profile of social investments at the early stage of market development.
 - The SEDIF Advisory Committee proved a valuable resource in the development of the SEDIF, ensuring that its design was appropriate to the appetite of the Australian investor community and the needs of the social enterprise sector.
 - In terms of continuous learning, following the initial grants process a supplementary selection processes was undertaken to grant the remaining funding.
 - While adhering to all elements of the SEDIF selection criteria, this supplementary process was streamlined to include an initial expression of interest round.
 - This approach was taken in response to feedback from the initial selection process to reduce the demands on applicant's resources in the first stage of the process.
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Conditions for success

- There is a clear ability to measure and attribute social outcomes.
 - There is a level of financial risk that is either poorly understood by the market or can be readily adjusted by the government.
 - There is appetite for Government to 'go first' and to accept some risk with the trade-off being the attraction of private capital to achieving strong and measurable social outcomes.
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