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Australian Centre for Corporate Social Responsibility

POLICY IMPEDIMENTS TO SOCIAL INVESTMENT BY AUSTRALIAN BUSINESS

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Workshop: Cross Sector Working for Complex Problems

Jointly convened by the Australia and New Zealand School of Government and the
Curtin Not for Profit Initiative

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WHAT THIS PRESENTATION COVERS

- Definitions and examples in the Australian context
- Roles of business in social investment
 - Financial intermediaries
 - Superannuation funds
 - Corporate CSR programs
- Roles for government
- Policy impediments, consequences and solutions
 - Taxation, DGR status, clarification of sole purpose test
 - Small deal pool, weak capacity base
 - Tax reform, develop a new legal form, significant capacity building and partnerships



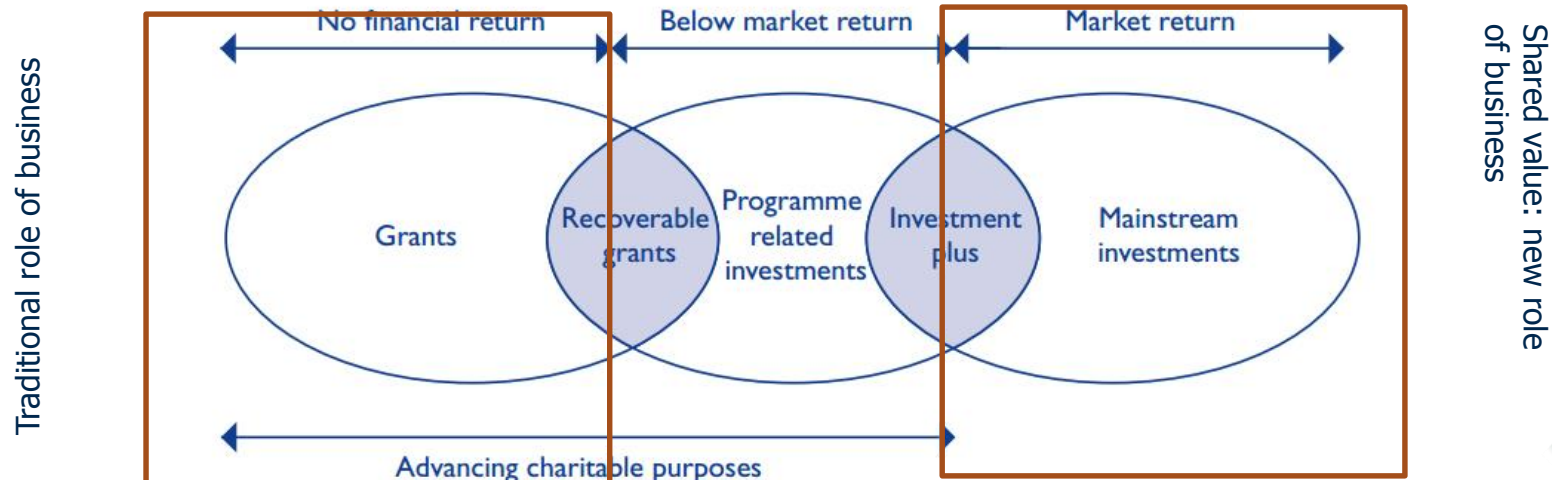
DEFINITIONS AND GOALS OF SOCIAL INVESTMENT

Definitions

- “Private contributions for public benefit” (Understanding Social Investment, ACEVO, 2010)
- “The use of repayable finance to achieve a social as well as a financial return” (Big Society Capital).

Goals

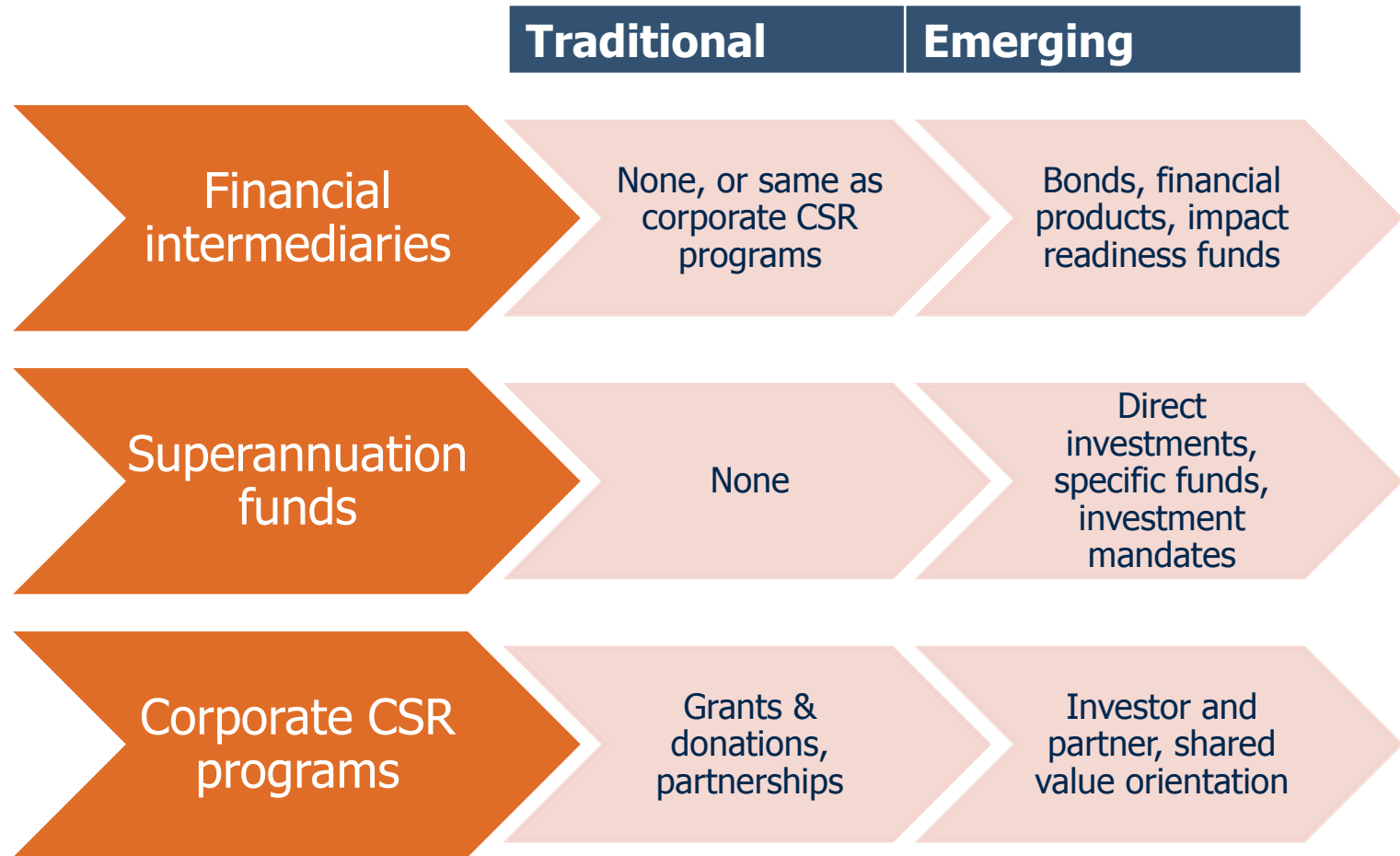
- “Catalyse viable private markets for social good” (Thornley et al, 2011)
- “Bring impact investing to scale ... legitimise the field for asset managers, service providers and other investors” (Wood et al, 2013)



Model adapted from AVECO, 2010



ROLES OF BUSINESS IN SOCIAL INVESTMENT



**"Policy in impact investing catalyzes viable private markets for social goods"
(Thornley et al 2011)**



WHAT'S BEEN HAPPENING IN AUSTRALIA?

- **Government:**
 - NSW Social Impact Investment Policy (2015)
 - Qld Government will undertake a social benefit bond pilot
 - SA Government moving towards social impact bond trial
 - Other State Governments in various stages of initiatives
 - Federal Minister Scott Morrison “very keen to explore Social Impact Bonds” – address to ACOSS National Conference 2015
- **Business:**
 - NAB Impact Readiness Funds
 - Good Super
 - Social enterprises, e.g. Good Start Early Learning Centre, Barefoot Power and Hepburn Community Wind, STREAT
 - NRMA Motoring social investment policy

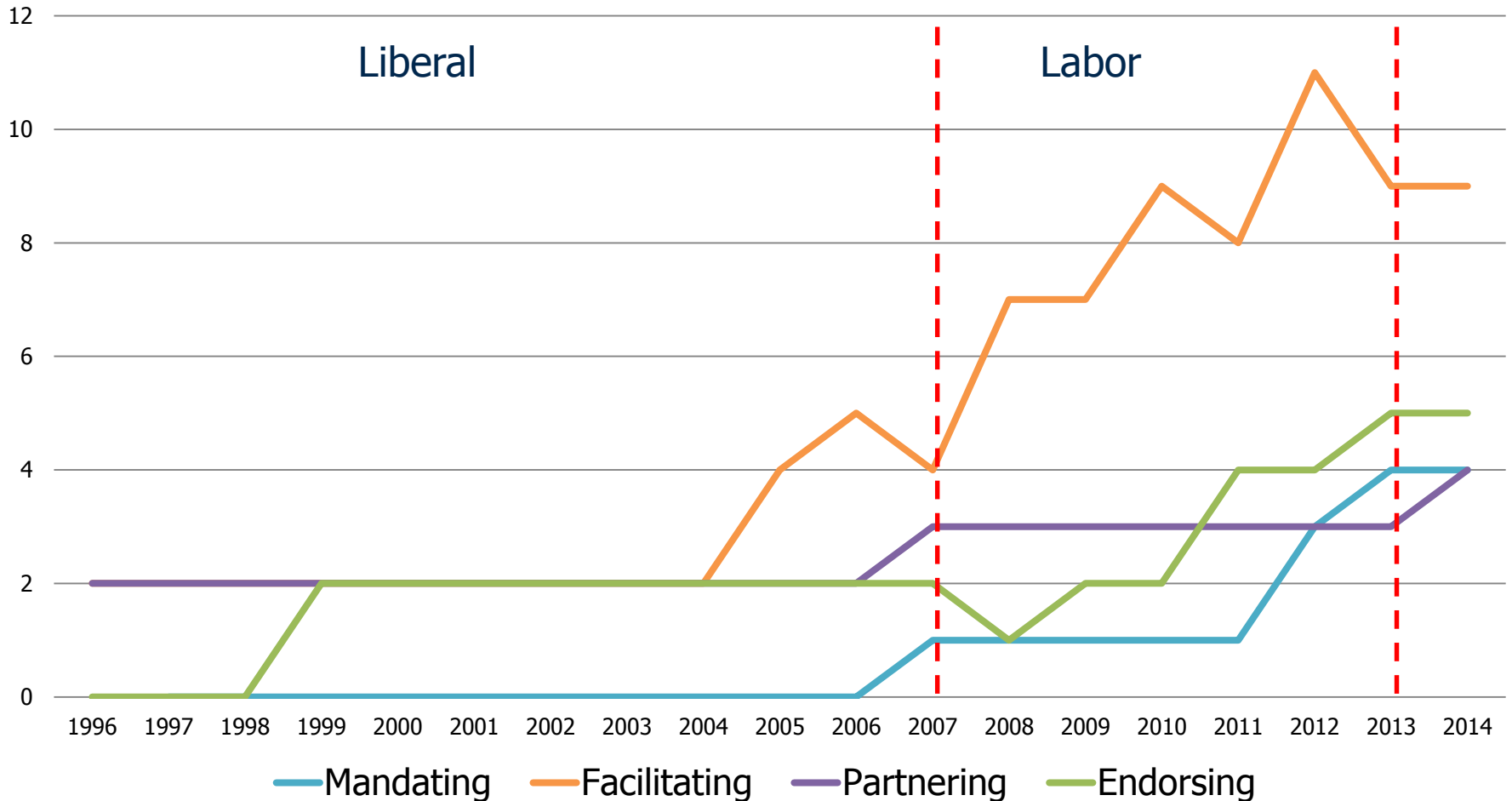


OBSTACLES TO SOCIAL INVESTMENT

- Equity
 - Social sector prohibited by DGR and PAF requirements from using grants for investment, must buy “stuff”
 - Unless an organisation has DGR status investors can't get a tax deduction
 - Investors cannot get a 'return' from equity in the social sector (Not for profit companies)
- Debt
 - Social entrepreneurs risk profile too high for regular finance arrangements/too costly for banks to go the extra mile
 - Corporate CSR programs mind-set not attuned for this (Shared Value)
- Result:
 - Weak deal pipeline, poor capacity



AUSTRALIAN GOVERNMENT ACTIONS STRENGTHENING CSR



Source: L Black (2014) Just don't call it 'Corporate Social Responsibility': The Australian Government's approach to CSR from 1996 to 2014. Workshop on Corporate Social Responsibility (CSR): International Instruments, Principles and Guidelines for APEC Economies, APEC. Santiago, 8 May.



OPPORTUNITIES THROUGH TRADITIONAL GOVERNMENT ROLES

Mandating

- Review DGR/PAF criteria
- Establish favourable tax treatment
- Reporting
- Clarify regulation, including sole purpose test

Facilitating

- Fund/establish intermediaries like Big Society Capital
- Capacity building grants (like NAB's Impact Investment Readiness Fund)

Partnering

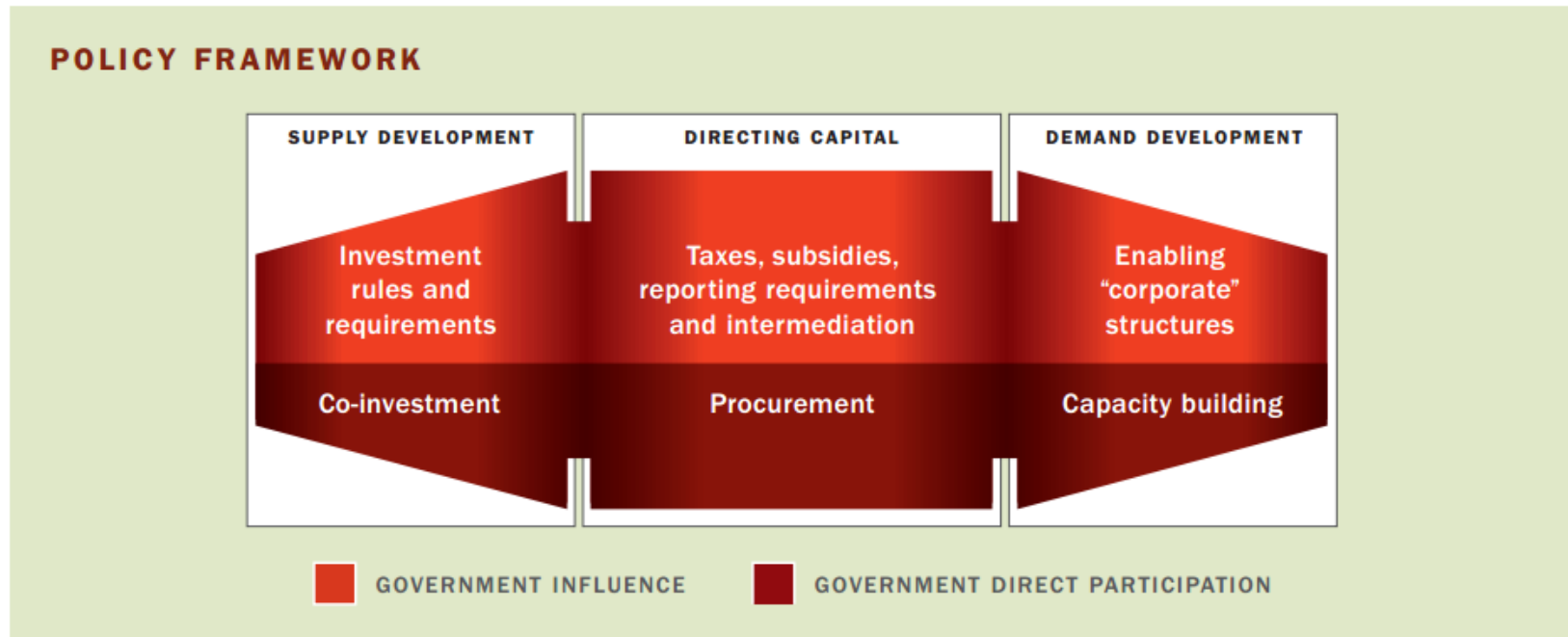
- Working with other organisations and governments
- Better engagement with institutional investors

Endorsing

- B-Corporation (USA)
- Educational programs, awards



DEEPER DIVE INTO 'MANDATING' AND 'FACILITATING'



Inject new government capital, develop a new legal form, create tax incentives, reforms to increase flow of equity-like capital into social sector, focus on target sectors like housing, employment, health & education



SHARED VALUE – A DRIVER FOR BUSINESS INVOLVEMENT

Reshaping the traditional corporate response to societal issues

Shared value is a business strategy that delivers an improved profit formula or new market opportunity by addressing societal challenges.

Shared value is geared to markets where **large-scale societal challenges shape the competitive landscape**.

*"Shared value is not about sharing' the value already created by firms – a redistribution approach – it is about **expanding the total pool** of economic and social value."*

- Michael Porter and Mark Kramer, Harvard Business Review, February 2011

Redefining productivity

Redefining the value chain to increase resource productivity and/or access for targeted suppliers

Product/market innovation

Reconceiving products and markets to address societal challenges at scale

Create enabling local environments

Partnering with organisations to create enabling local environments



SOME USEFUL POLICY SOLUTIONS

- Financial intermediaries
 - Tax incentives & review DGR/PAF requirements
 - Create new legal form
- Superannuation funds
 - Clarify sole purpose test
- Corporate CSR programs
 - Support Shared Value education and initiatives
 - And as for financial intermediaries



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