

Submission to the consultation on Victoria's Social Enterprise Strategy 2021+

October 2020

Executive Summary

Victoria has been a national leader in recognising the potential of social enterprise to generate economic and social benefit. The development and implementation of the Social Procurement Framework (SPF), along with other procurement initiatives, has provided strong market signals to encourage the growth of the social enterprise ecosystem.

To realise the ambition of the SPF, further focus is now needed on supporting the supply side of the market to meet the rapidly growing demand. Not every social enterprise will be suited to accessing opportunities under the SPF, but can still provide great economic and social benefits to their communities. Additional targeted supports beyond the SPF are also warranted.

SVA believes that the next iteration of the Victorian Government's Social Enterprise Strategy should:

- Boost the capacity of the social enterprise ecosystem by supporting the co-ordinated development of necessary tools, frameworks and information exchanges
- Provide support for social enterprises seeking to build capability and scale their operations, whether to access the SPF or to grow their impact through other means
- Ensure that social enterprises that have managed to survive through the COVID-19 crisis are supported to thrive in the recovery phase.
- Where possible, seek to co-ordinate rather than overlap or duplicate support provided by other entities, including the Commonwealth Government.

For further information or questions about this submission please contact:

Patrick Flynn

Director, Policy and Advocacy, Social Ventures Australia

pflynn@socialventures.com.au Phone: 0425323778

SVA's role in the social enterprise ecosystem

Social Ventures Australia (SVA) is a not-for-profit organisation that works with partners to alleviate disadvantage – towards an Australia where all people and communities thrive. We influence systems to deliver better social outcomes for people by learning about what works in communities, helping organisations be more effective, sharing our perspectives and advocating for change.

This submission is informed by our experience as an intermediary across multiple elements of the social enterprise ecosystem in Victoria. We have sought to summarise the insights we have developed from our work in relation to the themes identified in the discussion paper. We would welcome the chance to discuss these issues further with government as the Social Enterprise Strategy 2021+ is developed.

Investment

SVA provides loans and equity investment to organisations with positive social impact. Since 2012, we have managed funds on behalf of investors seeking a social as well as financial return. We have invested in a range of social enterprises through these funds. The Diversified Impact Fund is SVA's current earliest stage offering for social enterprises. This fund offers loans and equity investments of between \$0.5M-\$1.5M to social enterprises with the ability to create meaningful social outcomes for people experiencing disadvantage in Australia, and either at least \$500,000 annualised revenue (for equity) or security available (for loans).

Capacity-building

SVA partners with social enterprises and others to build capability at all stages of development:

- Our Consulting team works closely with a range of social enterprises, both via the Victorian Social Enterprise Capability Voucher Scheme and via direct engagement. We provide bespoke advice to clients to develop sustainable business models, strategic focus, improve organisational effectiveness and measure outcomes.
- Our Impact Investment team provides capacity-building support to the enterprises it invests in, as well as supporting other social enterprises to develop partnerships and access investment.
- SVA's Upscaler supports social benefit suppliers to scale their businesses so they can compete for, win and service social procurement contracts from government and corporate purchasers.

Impact and outcomes measurement

SVA Consulting supports organisations to measure and manage to outcomes, and we have worked with many social enterprises to help them better understand and improve their impact. We have captured our insights and expertise in a series of toolkits, articles and guides, such as:

- Managing to outcomes – a guide to developing an outcomes focus supports organisations from defining their outcomes right through to how they measure them
- Our approach to developing theories of change, the Golden Thread methodology, encourages organisations to focus on those outcomes which matter most to the end beneficiaries
- Our guide to social impact measurement supports organisations to design their outcomes measurement approach, measure and evaluate, and act and learn on the results.

SVA's Review initiative supports youth employment program providers, including social enterprises, to build organisational capacity to improve data practices, measure outcomes, understand program performance and demonstrate impact. Review comprises a toolkit to enable more effective design, delivery and measurement of youth employment services; a free online outcomes measurement platform designed with and for youth employment providers; and a growing network of providers committed to understanding and improving practice.

Theme 1: Skills and capability development

As the discussion paper identifies, the people involved in running social enterprises require a wide and complex range of skills – from business development and operations management, through to generating and measuring social impact. Some of these capabilities are generic to many types of organisation, but some are specific to social enterprises – and in some cases to particular categories of social enterprises. Given the wider economic and social benefits of successful social enterprises, there is an important role for government in capability development.

SVA's work across the social enterprise ecosystem has exposed us to a wide range of organisations at varying stages of development. While each enterprise has particular challenges, we have identified that the following are particular gaps – especially (but not only) for those seeking to access opportunities under the Victorian Government's Social Procurement Framework (SPF):

- Developing clear **strategic direction** and goals to support focused operations
- Developing a clearly defined **value proposition** that communicates their commercial capability, their social purpose and their business reliability
- Developing providing a sound working understanding of government and industry **professional procurement processes**, the range and use of online bidding platforms and the pre-qualification mandatory requirements for suppliers to participate in requests for quotations/tenders
- Investment in and/or access to people and systems aimed at helping small businesses operate more efficiently, safely and reliably is key to establishing a minimum baseline of **operational efficiency and credibility**
- Developing **commercial savvy** to identify opportunities and partnerships that could help them to grow, including understanding market trends and emerging technologies
- Understanding how to **measure social benefit** and use data to improve their social impact
- **Leadership and management skills** for leaders balancing the dual imperatives of growth and impact
- Access to **specialist skills** – whether through volunteer programs, student placements, or matching services for professionals – to provide organisations with the capabilities they need but cannot afford to purchase commercially.

True capacity-building is long-term and holistic. While training sessions and networking events have a role in facilitating information sharing, they will not be enough to transform organisations. The most effective capacity-building approaches are long-term, consistent, and require a tailored approach that meets the needs of the individual organisation, going beyond individual skills and experience to having the right systems and structures in place.

Capacity-building also needs to take into account the broader ecosystem rather than focusing on one enterprise at a time. For example, to take advantage of social procurement opportunities, social benefit suppliers need the commercial and financial acumen, and often capital, to win and deliver contracts that can be larger than their previous year's turnover. SVA established the *Upscaler* (see Case Study on next page) to support organisations to take this step. We have found that this requires the timely availability of capacity building intermediaries (strategic, operational, finance, legal, accounting, HR) and coordination of funding providers (commercial and impact driven) within the time-critical pressure of RFT/RFQ windows. It also requires an overarching vision and strategy to ensure the direction of the organisation is clear and a set of systems and processes to hold the organisation accountable to their social mission. If one element of the ecosystem does not coordinate or plan well in advance, then the social procurement buyers and the social suppliers struggle to commercially connect and the social procurement opportunity quickly falls into the "too hard basket" for many government and industry procurement professionals.

SVA Case Study: *Upscaler*

SVA's *Upscaler* works to build the social procurement ecosystem by building the scale and capacity of social benefit suppliers; facilitating industry partnerships; convening the sector; and advocating for policy reform.

Active collaboration across industry, government, the social sector, investors and philanthropy is required to successfully scale social procurement. As an intermediary, we see the interconnecting parts of this complex ecosystem, and are able to identify the challenges in creating social impact and delivering social outcomes.

Our focus is to foster and promote the significant enablers to successful implementation of social procurement policy and behaviour:

- Build breadth and depth of social benefit suppliers 'at-scale' with the capacity to meet the growing social procurement demand across a broad range of industry sectors by providing 'scale-readiness' support, including industry partnerships like joint ventures and alliances
- Facilitate adoption, capability and sharing of social procurement best-practice across Government and industry sectors
- Support the implementation of social procurement policies and practices by governments, by advocating with social enterprise ecosystem partners and by developing the evidence base on 'what works'
- Inform, promote and influence the social procurement ecosystem to increase the necessary support and resources to accelerate positive system change

We have identified several areas where specialist 'step-change growth' support is required:

- *Commercial* – market scoping, business planning, risk analysis, structuring, partnerships
- *Financial* – financial modelling, investment readiness, fundraising, negotiation and documentation
- *Procurement* – opportunity mapping, tendering assistance, policy and procedures
- *Impact management* – theory of change, evaluation and monitoring strategy.

Upscaler now has six live step-change growth projects with five social enterprises and one Indigenous business, securing two Investment Ready Growth Grants and one Victorian Government Social Enterprise Capability Voucher to co-fund intermediary costs for the projects.

Current support

As the discussion paper notes, there are several Victorian-based for-purpose intermediaries that are providing capacity building support and investment readiness preparation for social enterprises. Some of this support is underpinned by targeted government funding programs.¹

The Victorian Government's Boost Your Business: Social Enterprise Capability Voucher Stream has been a positive program for building the capacity of established social enterprises. Over the four rounds of the program, SVA has worked closely with 15 social enterprises from across Victoria to help them address a wide variety of unique and complex challenges. The program was useful for the enterprises across multiple dimensions:

- It offers a large enough grant to have a significant impact on the organisation;

¹ These include the Commonwealth Governments' Sector Readiness Fund and ILC Capacity Building Grants, as well as the Victorian Government's Boost Your Business: Social Enterprise Capability Voucher Stream.

- The required contribution meant the enterprise had some skin in the game; this kept them focussed;
- It was sufficiently flexible to allow individual enterprises to focus on the areas of most need;
- It allowed them to undertake important work that they could not have otherwise afforded;
- As an intermediary, it provided SVA with first-hand insights into what matters most to enterprises and what their main barriers are to achieving their vision – thus building SVA’s capacity along with the social enterprises, and further improving our ability to support the broader ecosystem.

Further rounds of this program would be a valuable contribution to building the capability of social enterprises in Victoria. If this occurs, government could consider some refinements, such as:

- Expanding the model to meet the needs of social enterprises at different scales.
- Whether the vouchers could in some cases be accompanied or followed by grant funds to enable the social enterprise to ‘do the work’ identified via the capacity-building process.
- Whether government should focus the vouchers on services from a smaller range of complementary specialist providers, to build expert capacity within the ecosystem.

Current challenges facing social enterprises

Many social benefit suppliers in Victoria, like most SMEs, are at high risk of insolvency in the wake of the COVID-19 crisis. Many social enterprises operate in service industries, and they employ and/or serve vulnerable populations. They have lost revenue, laid off staff and closed shopfronts. Many are reaching the end of their emergency cash balance and have taken on debt to manage working capital. The enterprises that survive COVID-19 will have limited options for growth due to already maximising their debt limits. There are also indications that some philanthropic foundations, an important source of income for some social enterprises, are postponing or scaling down grant rounds. It will take significant time for even the most flexible and innovative organisations to recover, and government should ensure support provided is sufficiently long-term to make a real difference.

Many social enterprises have demonstrated real resilience over the past six months, changing their business model to better adapt to the changing environment in a way that shows the agility of their business. For example, Free to Feed shifted from being a catering social enterprise which ran cooking classes to becoming a meal delivery company. At the same time, STREAT’s founders identified a set of new challenges that were aggravated as a result of the pandemic related to food security and responded by establishing a collaboration called ‘Moving Feast’ which set out to address this growing issue. These examples highlight that some social enterprises have the skills, expertise and courage to be agile and adapt to a changing environment. However, not everyone is well-placed to do this. Some may require additional support to identify ways to pivot their business model to create alternative sources of revenue or take advantage of new opportunities.

Most recently, SVA’s *Upscaler* responded to the COVID-19 crisis by providing business continuity and restructuring support to seven social benefit suppliers helping all to successfully navigate the business disruptions caused by the pandemic and position themselves for a return to business as the situation normalizes. Examples in Victoria include:

- A commercial laundry faced 75% revenue loss with a cash cliff in July 2020. SVA provided support with cashflow projection, grant/loan enrolment, commercial rent negotiation, revenue priorities, and cost compression. The business improved cash flow by \$20K per month, and secured external funding. They extended its runway to November 2020, and its diversified income sources. This preserved 22 jobs.
- An organisation working in the retail, farming and education sectors saw doubled revenue in three of its social enterprises, but lost almost all revenue in the remaining social enterprises. SVA provided support with cashflow projection, business continuity planning, and cost compression. The organisation was able to shift permanent staff to busy areas and take some of its operations online with home delivery. They avoided redundancies, and improved efficiency of operations. This preserved 60 jobs.

- An organisation providing B2B catering and site services faced 50% revenue loss, with a cash cliff in October 2020. SVA provided support with cashflow projection, enrolment in government support programs, operation hibernation and revenue diversification. The organisation was able to extend kiosk commercial terms and secure a new contract worth \$75,000 for 12 months. This extended their cashflow runway to January 2021, established a key partnership, and preserved 15 jobs.

While philanthropic support for the *Upscaler* enabled SVA to support these and other organisations through the immediate crisis period, many are now reaching the end of their extended cash runways. Ongoing sustainable support will be required to ensure they can survive long-term.

As a result of the COVID-19 crisis, we are also seeing many charity sector organisations lose revenue from their usual funding sources, such as fundraising, philanthropy, and existing social enterprises.² As a result, many charities are now investigating whether they have any IP, products or services that could be leveraged to establish new social enterprises as a way to generate an alternative revenue stream. We are seeing this trend particularly in regional Victoria, which could potentially mean more small entrants into the social enterprise space. These entrants will need access to mentoring support, quality information about legal and governance structures, and financing to support their growth.

Specific challenges for regional and rural social enterprises

Regional social benefit suppliers that strive for scale are typically at the mercy of a limited and transient local demand. Specific opportunities can and are being created through inclusion of social procurement commitment requirements in place-based project works (e.g. VicTrack works on regional rail network, ARTC Inland Rail Project on Tottenham to Albury line works, Victorian Government hospital & school infrastructure upgrade programs) but can leave local social benefit suppliers without further significant opportunities once the project is complete. Encouraging progress in building sustainable social benefit suppliers is being achieved through targeted regional initiatives such as [GROW G21 Geelong](#) and [GROW Gippsland](#).

This challenge highlights the importance of proactive planning required to build a sustainable opportunity pipeline and a transferrable commercial offer during the project-based work period. Further support/coaching/mentoring and access to key resources (people, systems, facilities, equipment) for social benefit suppliers that are successfully engaged in regional project supply chains to build broader reach and supply of products and services will help to establish sustainable scale and operation.

One of the benefits of current circumstances is that some capacity-building activity usually held in Melbourne has moved online. For example, the [SENVIC](#) team now meet online rather than in person. The increase in the number of virtual sessions has meant social enterprises in regional Victoria now have more opportunities to participate in thought-leadership gatherings, networking sessions and training. As the state slowly returns to more in-person gatherings, it will be important for regional Victoria to ensure they are still able to access these sessions without the burden of having to travel through ensuring they continue to be delivered virtually.

Theme 1 recommendations

The Victorian Government should:

- Work in partnership with social enterprises and other organisations to design capacity-building approaches that reflect the need for ongoing, holistic support in the areas identified above.
- Continue to fund the Boost Your Business voucher scheme for social enterprises, and consider how the model could be expanded and refined to best meet sector needs.
- Plan for the long-term support that social enterprises will need in the wake of the COVID-19 crisis, recognising that most will not be able to bounce back quickly.
- Continue to offer virtual support and networking sessions to minimise the travel burden on rural and regional social enterprises, with a focus on quantified and accessible contract opportunities.

² SVA and CSI (2020) [Will charities be COVID-19 casualties or partners in recovery? A financial health check.](#)

Theme 2: Access to affordable and appropriate capital

As the discussion paper notes, the financial costs of the social enterprise model are often higher than those of other comparable businesses, with higher input costs and thinner margins. This raises considerable dilemmas for social enterprise operators seeking to produce social value and achieve business sustainability while bearing high productivity costs to fulfil their mission.

In addition, it is very challenging for early stage social enterprises to access affordably-priced capital (given relatively high loss rates & limited ability to pay interest) and deliver suitable risk-adjusted returns to investors without significant government or philanthropic grant support.

A breadth of social finance options is required in this space, particularly grant finance, patient capital, blended loans/grants and repayable grants. A government-backed fund to provide support to these social enterprises would help them to develop, generating direct economic and social benefits. An ecosystem of more mature enterprises also provides an ongoing pipeline of opportunities for social impact investing by private capital in the future.

Since the 2011 Social Enterprise Development and Investment Funds (SEDIF) program of the Australian Government Department of Employment (which operated through most of the 2010s), there has been limited concessional capital available to social enterprises on a formal basis. The majority of transactions since this period have been bespoke deals involving philanthropy, crowd funding, investors like SVA and in some instances mainstream financiers. These deals are complex, and difficult to assemble for all but the most sophisticated operations.

There is a gap in the market for organisations seeking early-stage investment. SVA receives approaches from many small enterprises that are seeking investment below the scale possible for our investment funds. These organisations are often not yet generating revenue, and are looking for small, unsecured loans at zero interest or concessional interest rates. Early stage for-profit organisations are somewhat better served by angel investing markets, but there is little equivalent for social enterprises.

Alongside finance, these organisations typically require significant capacity building support before and during the investment. These constraints also generally prevent them from accessing commercial investment at this stage.

The Interim Report of the Commonwealth Government's Social Impact Investing Taskforce suggests that the Taskforce will recommend additional government support for social enterprises seeking access to early stage funding.³ We understand that this recommendation draws upon the UK's experience of establishing the [Access Foundation](#) which provides a combination of blended finance (loan/grant) and capacity building support.

We would encourage the Victorian Government to work with the Commonwealth Government to support this initiative. A coherent approach would not only be more efficient, it would make seeking funds less complicated for social enterprises.

Theme 2 recommendations

The Victorian Government should:

- Advocate to the Commonwealth Government for the establishment of a national social finance. The fund would provide discounted finance to early-stage social enterprises, which would help develop an ongoing pipeline of opportunities for SII, and for social outcomes.
- Contribute funds to the national fund if established. If not, the Victorian Government should consider establishing such a fund in conjunction with other States and Territories.

³ Department of the Prime Minister and Cabinet (2019) [Social Impact Investing Taskforce: Interim Report](#)

Theme 3: Growing the market for products and services

Social enterprises face a range of challenges in growing their market opportunities. For some, the Victorian Social Procurement Framework has the potential to generate significant demand for their products and services. However, they face a range of barriers to being able to meet this demand, and if these are not addressed then the SPF is unlikely to reach its targets. There are other social enterprises which are not well-positioned to access opportunities through the SPF, because of the scale or nature of their businesses. Although both types of social enterprises would benefit from ongoing support to understand and engage with potential customers, we focus our comments here on the social procurement ecosystem based on our work with the *Upscaler* (see Case Study on page 3).

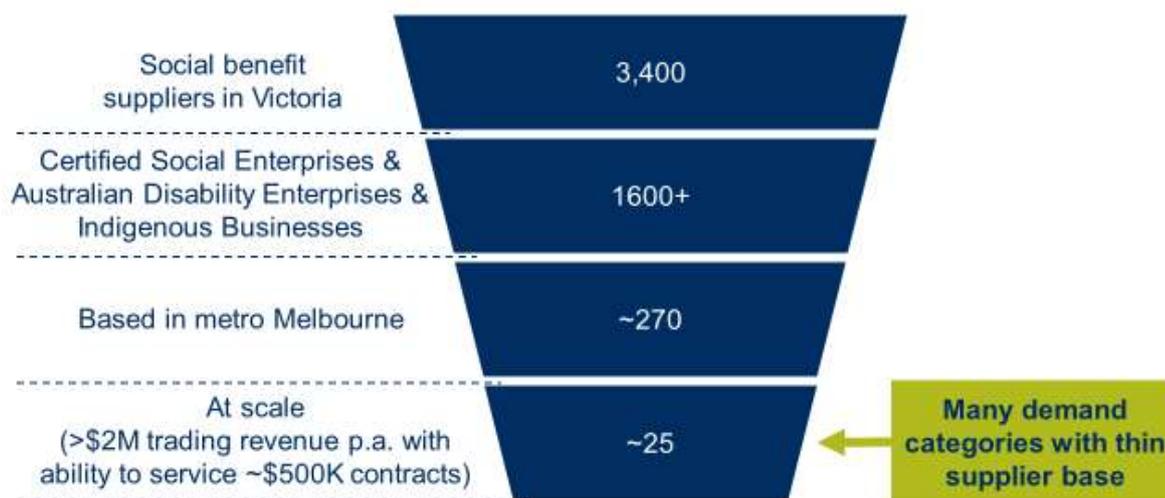
SVA congratulates the government on the establishment of the SPF, as well as the inclusion of hard and ambitious targets in the budgets of major infrastructure projects. These are beginning to drive significant social procurement demand which is essential to the growth of the social enterprise market, even if supply is yet to catch up.

So far, most projects are struggling to achieve their social procurement targets. The managing contractors of the infrastructure projects have been slow to adapt their procurement and management processes to make contracts more accessible to the smaller, less sophisticated social enterprise suppliers. Only a few exceptional Tier 1 contractors have realised they can leverage their resources to provide social enterprises a hand-up.

From our work with government and the social enterprise sector, SVA have identified two significant challenges to the successful implementation of the SPF in Victoria:

- A lack of social benefit suppliers at a scale and limited capacity building support
 - Victoria's social benefit supplier sector is relatively immature, fragmented and concentrated in a few spend categories. Few social enterprises have the capacity to take on even the smaller social procurement contracts north of \$100,000 (and greater than \$1 million for infrastructure projects). In Melbourne, for example, we estimate there are only around 25 social suppliers that have the scale and operational sophistication to service large government contracts, even though there are 3,400 social benefit suppliers – see Figure 1. These 25 are grouped into only a few expenditure categories, such as commercial cleaning, landscaping, waste management and printing, meaning that many social procurement tenders are left without bids from social enterprises.
 - These few 'at scale' social enterprises are not growing fast enough to fill the unmet demand. Many of them lack the financial and strategic capacity to grow at the pace required. It would take a decade for them to collectively rise to the challenge.
 - Many existing social benefit suppliers lack business professionalism and operational/financial resilience. Industry customers and commercial funders are hesitant to engage with social benefit suppliers fearing risk to reputation and investment, limiting organic growth potential.
 - While there is growing interest for social benefit supplier sector capacity building, it is mostly focussed on deal brokerage and start-up incubators/accelerators. There is only sparse contract management support, and inadequate resources for the transformative capacity building required to facilitate impactful growth of mid-later stage enterprises that can deliver larger social impact.
 - To date, Victoria has been a leader in social procurement and social benefit supplier development, but other states are increasingly engaged. As existing social benefit suppliers seek to expand, they will be considering where to base themselves. Victoria should consider how best to nurture the next developmental phase of the social procurement ecosystem to remain a jurisdiction of choice for social entrepreneurs.

Figure 1: Analysis of potential suppliers for large social procurement contracts in Victoria⁴



- A lack of capacity and sharing of best practice across government & industry procurement staff.
 - The small scale, fragmentation and limited capacity of the market outlined above makes engaging with social benefit suppliers a challenge for procurement managers. It can be difficult for buyers to identify and assess potential social benefit supplier candidates in a timely and efficient manner. It can be even more difficult for the small and relatively immature social benefit suppliers to assess and respond to the complex procurement processes required to engage with Government and industry project managing contractors. This is particularly challenging for large departments and projects with time-critical procurement plans that spread across multiple spend categories.
 - Social procurement presents an operational and cultural shift for most procurement managers. We are concerned that in an effort to adapt, personnel in many departments and major projects are ‘reinventing the wheel’ rather than learning from and building on existing best practice.

If these issues are not resolved, there is significant risk that the SPF will not achieve its potential. Organic growth of the limited existing supply is not enough to prime the pump, let alone meet the surging social procurement demand.

This lack of social enterprise supply represents a considerable risk to the momentum of social procurement policy, and the social impact sought by the SPF. Without enough social benefit suppliers ‘at scale’, we may start to see industry push back on social procurement targets, claiming best intentions but falling well short – or worse, accepting financial penalties as a lower cost alternative.

Successfully leveraging social procurement policy/behaviour is a multi-faceted challenge. Government will need to drive collaboration across the ecosystem to effectively influence and coordinate the factors needed to scale up and increase the number of social benefit suppliers. This could include:

- The government’s or specific industry’s/company’s social procurement mandate in each category spend should incentivise the supplier/Tier 1 contractors to accommodate sub-contractor onboarding requirements and make contracts accessible to include, and potentially secure as preferred, social benefit suppliers. Government contracts should include penalties for non-compliance rather than rely on good intentions.
- The SPF should set aside small procurements (low value contracts) under \$100,000 to have a predominant social procurement evaluation criteria. These low value contracts are more accessible and

⁴ SVA analysis of publicly available data from the websites of Supply Nation, Buyability, Social Traders, Map for Impact, and ACNC.

help the nascent social benefit supplier ecosystem grow toward a scale where it can deliver contracts over \$100,000. The current step up is too large.

- Establish funding support (in conjunction with philanthropy and/or industry) for a targeted best-practice network of for-purpose intermediaries as registered service providers with defined and complementary (not competing) skills to facilitate capacity building of social benefit suppliers in priority industry sectors. Current programs, such as the Build Your Business social enterprise vouchers, are insufficient for the scale of support required.
- Proactively identify opportunities to leverage Government assets as an enabler for social benefit supplier growth. Such asset sharing partnership agreements may be in the form of access to affordable property and/or equipment leases with define social outcome deliverables or provision/access to people and systems that professionalize and de-risk business operations.
- Consider developing a consolidated platform for social procurement opportunities. There are multiple online market places that post contestable RFT/RFQ work packages that may represent commercial opportunities for social benefit suppliers, including Buying for Victoria, Industry Capability Network Gateway, Vendor Panel, and multiple individual LGA and corporate portals. It is extremely challenging for emerging social benefit suppliers to regularly scan, sift and sort leads and prospects across multiple platforms, particularly given the volume, detail and complexity of typical documentation. Fewer consolidated platforms with clearer and stronger social procurement criteria enabled by short-form (commercially simpler) RFT/RFQ's and supplier contracts would support the sector to better match supplier capacity to social procurement buyer demand.

Theme 3 recommendations

The Victorian Government should:

- support the social benefit sector to meet the demand generated by the SPF, including by providing platforms, tools and capability support to support enterprises to meet demand
- support the demand side of the market to better engage with the SPF, including building capacity of government and corporate buyers to effectively engage with social benefit suppliers, and providing the right balance of incentives and penalties for engagement
- make SPF opportunities more accessible to smaller social enterprises, including via creating set-asides for low-value contracts and incentivising sub-contracting arrangements

Theme 4: A more cohesive and connected ecosystem

Victoria is still developing an ecosystem of social enterprise intermediation. Although progress is being made, supports remain numerous, small and disconnected. There is a need to specifically link up the existing pieces of the ecosystem, making them more coherent and leveraging their individual impact.

As well as the entities identified in the discussion paper (professional networks, support organisations, relevant government departments, partners and supporters, philanthropy and investors, beneficiaries and customers, and research providers), we conceptualise the ecosystem as also comprising a set of practices, incentives, relationships, government policies, power dynamics and underlying mindsets that drive organisational culture. While there are promising examples of each of these emerging in Victoria, none is yet widespread and not all are supported as well as they could be.

Social procurement ecosystem

In our work with the *Upscaler* (see Case Study on page 3), we conceptualise four stages that a social enterprise typically passes through on its journey to social procurement (noting that this is not the goal of every social enterprise). The current ecosystem has some support for each stage, but it is fragmented. The four stages are:

1. **Ideation.** Programs such as Melbourne University's Velocity, Swinburne's Social Startup Studio and the Good Incubator help aspiring social entrepreneurs to develop their concepts. Running financially sustainable programs in this space is particularly challenging and several programs have closed or reduced footprint in this space in the last 5 years (e.g. Social Traders' Crunch, School for Social Entrepreneurs and Centre for Sustainability Leadership).
2. **Incubation.** Incubators, like the Social Impact Hub (NSW based) and Difference Incubator, work with a range of organisations from aspiring entrepreneurs looking to get their ventures off the ground, through to existing organisations looking to refine their model. The focus of these incubators is on broad capacity building. In general, they are not able to provide social enterprises with the right support to scale sufficiently to access social procurement opportunities.
3. **Scale-up support.** Once social enterprises have traction, they need a specialist set of skills to help them win and successfully deliver significant social procurement contracts. These contracts are relatively large - often representing 50+% of the enterprise's annual turnover. It is often beyond the capacity and capability of lean management teams to manage the required growth by the RFT/RFQ deadlines. This is the gap that SVA *Upscaler* seeks to fill. The support provided is bespoke and dependent on the needs of the particular social enterprise. It typically includes assistance with the tendering process; detailed financial modelling and costing/pricing; assistance with grants and financing; legal advice; recruitment; and establishing measurement and evaluation frameworks. At an ecosystem level, this intensive support is the missing link between incubator programs and winning and delivering social procurement contracts in marketplaces. We are one of only two organisations specifically focused on this stage,⁵ and this work is underfunded relative to other stages of growth.
4. **Access to markets.** The primary social procurement marketplace for social enterprises is [Social Traders](#), which connects pre-existing, contract-ready social enterprises with corporate buyers.⁶ Such marketplaces provide a valuable matching service, but they cannot change the capacity or profile of suppliers, or the demand by buyers.

One challenge is the fragmentation of accountability for the SPF across the Victorian Government. The split of responsibility, with DTF holding the overall Framework, each department being responsible for implementation

⁵ The other is [White Box Enterprises](#) in Queensland.

⁶ Similar marketplaces exist for other social benefit suppliers: [Supply Nation](#) and [Kinaway](#) for Indigenous businesses, and [Buyability](#) for Australian Disability Enterprises.

in their own procurement, and DJPR providing support for social enterprise capacity building, means that government efforts are not as effective as they could be. Our experience is that some departments are unclear how they will implement the targets and there is little capacity-building to support them. A single point of contact for capacity-building would be welcome for those both inside and outside government.

Financial intermediaries.

There are only a few specialist financial intermediaries in the social enterprise space, including SVA, Social Enterprise Finance Australia (SEFA) and Save the Children Australia. The challenges faced by these organisations include high operating costs (relatively complex due diligence – often including significant investment-readiness building to make deals investible, travel costs – especially to conduct due diligence in regional/remote areas, cost of maintaining various financial services licenses and compliance/back office) combined with limited revenue (small deal sizes relative to mainstream corporate banking, low interest rate environment, and limited government support to offset costs).

In recognition of these challenges, government could consider providing direct financial support to intermediaries to enable them to remain viable. This could be built-in to support provided to social enterprises via a management fee for administering loans from a government-backed investment fund; provided via voucher schemes; or via other approaches. Ideally the approach would be co-ordinated with any action taken by the Commonwealth in this area following the report of the Social Impact Investing Taskforce. A patchwork of support across Australia would pose significant challenges for fund managers, and could reduce their efficiency and effectiveness.

Networks

The establishment of platforms such as [SENVIC](#) has created opportunities for social enterprises to come together, share their challenges and learn from each other. This sort of peer-based support network can contribute to capacity development. There is scope to leverage this potential platform to raise the profile of more of the lesser-known social enterprises, help them build their presence in the sector and provide them with opportunities to learn from leaders in the space.

There are ongoing efforts by networking and marketplace brokering intermediaries to facilitate connection between social benefit suppliers and social procurement buyers. Anecdotally, a criticism of networking events from buyers is that they 'see the same few social benefit suppliers at each event' which is likely a function of the undersupply of suppliers at scale described above, and that the best social benefit suppliers are those with resources to conduct proactive business development activities.

Theme 4 recommendations

The Victorian Government should:

- Fund intermediaries focused on scale-up support to assist social enterprises to meet the demand created by the SPF
- Seek to better integrate responsibility for social enterprise and social procurement within government, including a single point of contact for capacity development
- Consider providing support for social finance intermediaries, in co-ordination with the Commonwealth Government's approach
- Consider options to better engage social procurement buyers with a wider range of social benefit suppliers

Theme 5: Effective social impact and performance measurement

Impact measurement serves multiple purposes that are critical for the success of social enterprises:

- Understanding and improving the social benefit generated by the enterprise, including the potential to realise the benefit as a future income stream
- Providing management with information to make better business decisions, including understanding customer needs and expectations
- Supports the enterprise to raise capital, acquit to investors and attract customers (consumer and corporate) who care about social outcomes

Data and impact measurement and reporting should be designed to serve these purposes, not to collect data for its own sake. It can consume significant time and resources to develop appropriate frameworks, tools and indicators, so needs to be focused on the most critical areas.

Impact measurement also needs to take into account the full range of costs and benefits generated by the enterprise. For some social enterprises, this will be focused on the benefits generated for and by their employees, but many also pursue outcomes through other methods, which also need appropriate indicators and outcome measures.

There is some good work being done to measure the impact of the social enterprise sector in Victoria, as outlined in the discussion paper. There is not yet a clear and concise picture of the impact the sector is having and how that aligns with the Victorian government's vision for where it would like the sector to go. This lack of clear vision makes it harder to determine progress towards success.

All genuine social enterprises are driven by a goal to drive social change. Being able to determine whether this social change is taking place is critical to them being able to determine whether they are running a successful social enterprise. In the same way, they need to be able to determine that they are doing no harm to those they are looking to support. This plays out most clearly for social enterprise who provide employment opportunities to vulnerable cohorts. They need to know if they are delivering outcomes that matter most to these cohorts, so they can adapt and improve.

Many customers are attracted to procuring from social enterprises because of their promise that they deliver good outcomes; demonstrating these outcomes can provide a competitive advantage, but requires evidence. Similarly, understanding and communicating impact is critical to attracting capital investment, and acquitting that investment.

Good practice in social impact measurement considers three elements:

- **Clear vision for impact:** the organisation needs to be able to clearly define what they are looking to achieve through their business model and have it embedded in all of their activities.
- **Voice of the end-beneficiary:** social enterprises should ensure the outcomes they are looking to achieve reflect what matters most to the people they are looking to support. Ensuring the end beneficiary is consulted as part of the process of identifying these outcomes will help achieve this. For example, in developing their outcomes framework, the social enterprise Green Collect undertook focus groups with their supported employees to understand why they worked at the organisation. This helped Green Collect refine their focus.
- **Evidence of impact:** Being able to tell your story of change in a way that is meaningful and reflects the interests of the specific audience will allow you to maintain the interests of your customers and supporter and hold yourself accountable for driving change. The social enterprise STREAT provides impact statements on the back of their menus - an example of how outcomes are reported in a way that is meaningful to the audience.

The Victorian Government could support social enterprises with impact and performance measurement by supporting the development of standardised frameworks and tools that could be adapted for use by individual enterprises. This would reduce the time and resources required for measurement, as well as providing the organisation, government, customers, and investors with more consistent information to support their decision-making. This could include:

- Providing access to the detailed outcomes framework that the Victorian Government is using to measure the success of the social enterprise sector. This would help to give the sector a sense of what 'good' looks like. A reference point for this is the [NDIS Outcomes Framework](#), which includes a set of outcomes which disability providers can align their efforts against.
- Providing guidance on standardised frameworks such as those provided by
- Supporting the development of sector-specific frameworks and tools, such as the UK's [Social Value Portal's National TOMs](#) and the [UTS Social Impact Measurement Toolbox](#). SVA is currently working with several partners to develop a Shared Outcomes Framework for Disability Housing.
- Compiling a central indicator database, along the lines of the library developed by [SIMNA](#), to capture indicators that social enterprises are using to measure outcomes. Other enterprises could then draw on this in developing their own approaches.
- Establishing quantified measures that allow government and industry buyers to price the value-for-money of social outcomes in direct social procurement contracts as well as indirect (combined for-profit and social enterprise suppliers) contracts
- Integrating SPF mandates, targets and social supplier outcomes into a single digital platform to provide clear line-of-sight from policy through budget to procurement to contract management.
- Capacity building support for social enterprises to effectively use these tools to drive improvement. SVA's work on the *Review* program (see Case Study below) has clearly demonstrated that measurement alone is not enough. Social enterprises also need the capability to use their data to improve their practice.

An emerging idea is the potential for social enterprises to be financially remunerated by governments for the social returns they generate, whether in the forms of outcomes-based contracts, a outcomes fund, or some other model. This would encourage social enterprises to maintain a focus on social benefit as well as commercial viability, as well as provide an additional income stream in recognition of the additional costs inherent in most social enterprise business models. For this to be effective, especially at scale, it will be critical to have agreed impact measurement tools.

The Commonwealth's Social Impact Investing Taskforce has indicated that it is also considering recommendations around standardised performance and impact reporting for social enterprises, as well as the potential for an outcomes fund.⁷ The Victorian Government should where possible seek to harmonise its approach to avoid the fragmentation, complexity, and duplication of effort that would result from multiple overlapping frameworks.

Theme 5 recommendations:

The Victorian Government should:

- Provide the social enterprise sector with access to its detailed outcomes framework for social enterprise development
- Support the development of frameworks, indicators, tools and capabilities that social enterprises can use to better measure and understand their performance and impact, and that others in the ecosystem can use to better understand impact and value for money created by social enterprises

⁷ Department of the Prime Minister and Cabinet (2019) [Social Impact Investing Taskforce: Interim Report](#)

SVA Case Study: *Review*: Designing better outcomes

SVA's *Review* platform provides resources and tools for social enterprises that support young people into employment. As many of these enterprises are small, they do not always have the resources and in-house expertise to effectively measure outcomes.

The research underpinning *Review* found that the sector lacks access to free, easy to use social impact tools and systems; that there is limited shared understanding across the youth employment sector of good practice and the program features that work best to improve employment outcomes for young people; and that good practice social impact measurement is informed by the best available data, including the perspectives of young people, and data is used to inform program changes over time.

In establishing *Review*, SVA spoke to eight Victorian social enterprises to understand their delivery models and impact measurement practices. Key insights include:

- All social enterprises see value in measuring social impact to inform day to day work and support for young people and to understand program effectiveness, quality, and outcomes.
- The outcomes measured tend to focus on participant wellbeing and soft skill development rather than program effectiveness and employment outcomes. Providers that capture employment and education placement saw the need to capture additional measures that demonstrate improvement in employability.
- The tools used varied considerably – ranging from basic surveys and spreadsheets developed in-house to validated survey instruments and external evaluations. The limitations of using validated survey instruments is that they focus on soft skills rather than employment outcomes and tend to only measure one domain (e.g. self-efficacy or resilience). The limitations of tools developed in-house can include increased time and resourcing to develop tools and collect and analyse data (often a very manual process), inconsistency in measures used, measures that are not evidence-based or that do not provide valuable or credible data related to employment.
- The two social enterprises with more robust evaluation are either part of a larger not-for-profit or are more mature & have considerably larger annual incomes than others – this suggests the need for increased investment to reduce or subsidise the costs of measuring social impact.

Since its launch in June 2020, the *Review* platform has been adopted by nine providers including six social enterprises. *Review* is an emerging example of elevating good practice in design, delivery and social impact measurement by social enterprise. It provides a suite of resources and tools needed to increase and improve social impact measurement and reporting by social enterprises. Through a shared learning network, *Review* is seeking to strengthen the sector by amplifying good practice service delivery models using youth voice and data to inform practice.

Review enables providers to move away from funder driven outcomes measurement towards measurement of key employment & employability measures that benefit them first and foremost. This is largely due to the fact that the tools were co-designed by users and informed by research and engagement of external experts. The *Review* approach highlights the importance of understanding program performance for continuous improvement and quality.