



A short summary and case studies of

Social Enterprise & Social Finance

in Aotearoa New Zealand



Kate Frykberg
Executive Director, the Todd Foundation
kate@toddfoundation.org.nz
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Context

"Foundations should be more than a private investment company that uses some of the excess cash for charitable purposes. How do we move to a place where 100% of our assets are supporting the mission of the organisation?"

This was the question posed by the CE of the New York based F.B. Heren Foundation, and is increasingly being considered by Foundations internationally. An emerging answer is for funders to broaden both **who** we support (ie not necessarily confining support to registered charities) and **how** we support them (ie not necessarily confining support to grants).

This paper is a brief think-piece reviewing and summarising social enterprise and social finance in Aotearoa New Zealand. More practically, three case studies of NZ social enterprises operating along different points of the charity – business spectrum are described, as are their challenges and advice to funders.

This paper is an abridged version of a discussion document provided to the trustees of the Todd Foundation. For more information, please contact Kate Frykberg, Executive Director, kate@toddfoundation.org.nz.

Social Enterprise and the Charity – Business Spectrum



We tend to think of “businesses” and “charities” as two very separate models, but, as the figure¹ above indicates, there is a spectrum of endeavour. Few businesses have no commitment to the community, and, based on returns to the Charities Commission, 38% of income received by registered charities in NZ is earned through the provision of services and trade.

“Social Enterprise” refers to the bits in the middle of the above spectrum, and also comes in many flavours. One of the more generally accepted definitions states that:

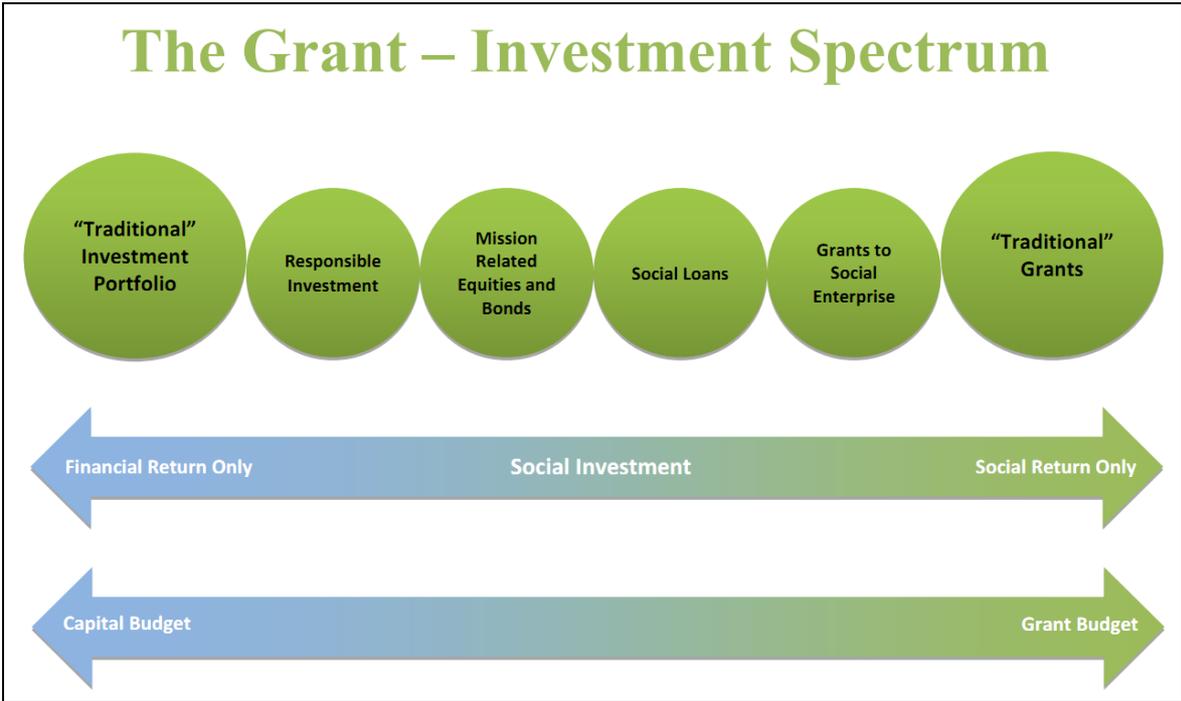
¹ Mobilising Private capital for Public Good: Canadian Task Force on Social Finance

“A social enterprise is led by an economic, social, cultural or environmental mission consistent with a public or community benefit; they trade to fulfill their mission, derive a substantial portion of their income from trade, and reinvest the majority of their profit / surplus in the fulfillment of their mission”²

Social Enterprises may have charitable status, but not necessarily. The NZ Charities Commission will register social enterprises as charities providing their activities are in support of a charitable purpose and there is no private pecuniary gain. Similarly, there is no need for a philanthropic funder to fund only registered charities providing activities funded are in accordance with stated charitable purposes - although an enterprise which does not have charitable status will probably need to pay tax on any funding received.

The case studies provided in the Appendix are examples of social enterprises operating at different points along the above spectrum.

Social Finance and the Grant – Investment Spectrum



In a similar manner to the business / charity dichotomy described above, philanthropic funders traditionally view their financial resources as either grants or investments. However, as the above diagram shows, this can also be viewed as a spectrum of financial tools, each with a different balance of social and economic returns.

² Barraket et al 2010

Overseas funders, like the F.B. Heren Foundation quoted at the start of this paper, are increasingly using the full spectrum of financial tools, and this is beginning to happen in NZ. The following provides a little more detail on the “inner bubbles” in the above diagram in the NZ context:

- **Grants to social enterprises** are becoming more common. As the accompanying case studies show, particularly fruitful areas for supporting social enterprise are supporting start-up and capital costs and helping to ensure that social enterprises have appropriate business support and connections with each other.
- **Social Loans** are loans to organisations with a social purpose and the ability to earn income to repay the loan – for example, the provision of social housing. They are often provided at low or no interest. Social loans are becoming more common in NZ, and several funders are actively engaged in this - often, but not always, funding the loans from their capital budget. Because of the specialist skills required in assessing risk, drawing up loans documents, monitoring repayment, and, if necessary, foreclosing, most funders out-source some or all of this work. Prometheus Finance is an example of an NZ social lender in this emerging area.
- **Mission-related equities and bonds** are investments that are directly related to the mission of a funder – for example, an environmental funder might invest in sustainable energy production. This is another area still in its infancy in NZ, although an increasing activity overseas. Some equities will fit this category, eg public good infrastructure funds and Angel Investment in social businesses. There has also been discussions about social bonds, eg for the provision of social housing.
- **Responsible Investment** encompasses many different terms and concepts. In general, the Principles of Responsible Investing (PRI) involves taking environmental, social, and corporate governance (ESG) issues into account when investing. Investors and Funders can sign up to UNPRI, the United Nations-backed Principles for Responsible Investment Initiative. In practice this can involve negative screening (requesting that investments don't include any significant exposure to things like gambling, tobacco, alcohol and arms) or positive screening (requesting a positive bias towards investments that are considered more environmentally or socially sustainable). It also encourages “active ownership” – eg exercising shareholder voting rights and engaging with the companies invested in on environmental and social issues.

Implications for funders

All of the above areas of social finance may be of interest in New Zealand funders. However perhaps most importantly we need to have an understanding of social enterprise - the "bit between" business and charity aiming to address social and environmental issues using a financial sustainable model. As Cliff Colquhoun of CBEC says in attached Case Study 2, funders should "develop an understanding of community enterprise. We are seen as business by charities and charity by business."

Appendix: Case Studies of Social Enterprise

a) Ooooby: A social enterprise addressing food resilience

Ooooby: Key Facts

Purpose:	Increasing food resilience by encouraging locally grown and commercially viable food production
How this is achieved:	Ooooby links local food producers with local customers by delivering boxes of fresh and usually organic produce to customers' doorsteps.
Structure:	Ooooby is a limited liability company. They plan to create local instances of Ooooby in communities who want to use the concept; these could be set up as charities or businesses, however the technology and IP will remain with the parent company. Additionally they will create a foundation which will distribute any excess profits.
Established:	2010
Location:	Currently operating in Auckland and recently started up in Ireland. They have plans to open in the Sunshine Coast and are investigating other areas.
Staff:	4 part-time staff running operations plus three hands-on directors looking after technology, finance and management of the organisation.
Profitable?	Almost. Like many start-ups, their directors, although hands-on in the business, were not paid during establishment; however they are now generating sufficient profit from operations to pay directors for some of their hours at a modest rate.
Website:	http://www.ooooby.org/

How it works

1. Ooooby sources fresh, local and usually organic produce from local farmers and life-style block owners.
2. Each week customers receive an email letting them know what produce is will be included in their box. All boxes will have similar contents, although customers are able to select a few optional additional products or request some items are omitted.

- Each Tuesday morning produce is collected from suppliers, the team meet at a converted container in the car-park of a freight business and assemble the boxes.
- Boxes of produce are delivered to customer's doorsteps each Tuesday afternoon, using a combination of commercial freight operators, staff and customers who wish to barter transport for produce. Each box also includes a brief note listing the contents and where it is sourced, as well as relevant recipes and news.
- They track the cost of their produce against purchasing the same items at Countdown – Ooooby is usually cheaper however the growers are paid 50% of the retail cost – this is significantly more than they would receive from trade sources.



The story behind Ooooby's Creation

Australian-born founder Pete Russell describes himself as a “serial entrepreneur”. One of his more successful ventures was a wholesale bakery that supplied Sydney cafes. This led to his most financially successful venture - an opportunity to distribute pastries made in Europe, snap frozen and distributed globally. Within two years they were supplying supermarkets, cafes, petrol stations etc in many parts of Australia and had turnover of \$1m / month - which had a significant negative impact on many local patisseries. Pete moved to NZ because he saw it as “a cornucopia of food production” which could further fuel business growth by providing ingredients for the Asian market. Pete and his family moved to Waiheke – and something happened. “I got Waiheke-ised. People like Sue Kedgley laid it all out for me – just how precarious the global food system is. More than 90% of the food we typically consume is not grown locally, 1 billion people globally are malnourished, and often it is in regions that used to be able to feed themselves. What happens is they start growing, say, only bananas or only rice because of high demand on the global market. But a small change in demand or being undercut by subsidised production in other countries can spell disaster. Also, I realized that I was seeing everything

through the lens of money, it starts to affect and over-ride everything and I didn't want to play this game anymore". After unsuccessfully suggesting a change of direction to his co-owners, Pete sold his shares, moved permanently to Waiheke and lived off his savings while creating Ooooby.

"We support healthier food, healthier local economies, reduced carbon and more money to growers. We're heart-driven. But - we're not "socialists" in the typical sense, it's not even about being right. It's about being practical and smart."

Challenges

- The start-up phase would have been difficult without having sufficient resources to invest and live on
- Technology is all important, as this facilitates the aggregation of supply and demand and the efficiency of packing and delivery. However the first incarnation of the software went awry due to miscommunication
- There is a trade-off between customer choice and the efficiency that comes from standardizing what is provided
- Finding sufficient numbers of high quality local growers can be challenging – currently they have enough, however a big increase in demand might be difficult to meet.

Ooooby's advice to funders

- "Help fund the start-up phase – eg support salaries and resources. But don't be too generous – there needs to be skin in the game, and people need to run their enterprise lean and mean – you don't want them to fall over as soon as the grant is used up. We've seen that happen.
- Ensure the people are capable and have relevant experience and the right relationships – then help supercharge what is already there.
- Loans are often better but they need to be flexibly structured and meet the needs to both the social enterprise and the lender. It is useful to have the security of knowing that money is available quickly when needed."

b) CBEC: A community enterprise addressing employment and environmental sustainability

CBEC: Key facts

Full name:	Community Business and Environment Centre Co-Operative Society Limited
Purpose:	Creating jobs and supporting environmental sustainability in a high deprivation, low employment area (the Far North)
How this is achieved:	"Creating environmentally sustainable businesses and community services that provide training and employment for local people with the profits going back into the community."
Structure:	They operate as a cooperative, community business and are registered with the Charities Commission. They have shareholders who have voting rights, but no dividends are paid.
Established:	1989
Location:	Kaitaia
Staff:	70 permanent staff employed over nine different business arms
Profitable?	CBEC usually makes a small profit on its multi-million turnover, although profits are tight. Some businesses arms are profitable and these cross-subsidize those which aren't – either because they are still being established, or, like environmental education, will always be completely charitable. CBEC generally operates in the area of marginal profitability providing services to the community.
Website:	www.cbec.co.nz/Index.cfm



How it works

CBEC's businesses include a state-of-the art waste management and recycling facility, a home insulation service, a bus company, a garden centre, swimming pool

management, labour hire, environmental education and other activities. Some of these are joint ventures with the local Runanga and other agencies.

They aim to create “real jobs in real businesses” in an area with 48% unemployment for those aged 19 – 23. While they focus on “employment first, profit second,” the businesses are run prudently and efficiently – “every day I go to work and think - what do I need to do to ensure these businesses stay viable? Because cutting jobs would mean cutting the kaupapa of the organisation”.



CBEC are also active nationally and helped set up the Community Recycling network and the national E-cycle programme.

The story behind CBEC’s creation

CBEC was set up “in 1989 in response to the dramatic rise in unemployment and social problems arising from New Zealand’s economic reforms of the mid-80s. The original purpose was to create a community owned organisation that could generate new businesses and jobs. The organisation would also bid for contracts that would otherwise be run by companies from outside the district. Profits would be ploughed back into the community to create more employment and other community benefit.” 23 years on, the need has not changed; CBEC predict that the high unemployment levels among the most disadvantaged in their community will continue for the next 10 years. “The need for CBEC-type organisations as we enter a phase of economic turmoil is greater than ever”.

Founder Cliff Colquhoun has worked closely with other local businesses from the outset. Their board is mostly local business people, and there are agreements in place that CBEC will not compete with local businesses.

Challenges

- “The current business environment is tough for everyone – but tougher for social businesses because the last thing we want to do is let someone go now that they finally have a job.
- When you employ long term unemployed you need to mentor, encourage and provide many more chances than you do with most employees. For example we re-employed one young man 6 or 7 times before he became a good reliable employee - because his home



environment is so tough that sometimes he just has enough and goes walkabout. . .

- Helping people see that their lives can be so much more than they settle for. Often they don't realize their lifestyle is inappropriate because it's the norm, and they just assume they are less than everyone else. We're passionate about helping people to see their lives differently – and real jobs help do this. And we could do a lot more to change the lives of the people who work for us.
- Continuity of contracts. There are big waste management companies who would love to take over our contract and will undercut us to do so. The social value of what we do is difficult to include when evaluating Council contracts. Last year, to stay competitive we had to take a \$50,000 cut in our waste management contract; this hasn't been easy."

CBEC's advice to funders

- "Fund capital and set-up costs. It's tough for us to fund, say, a mulcher, but with that we could create one or two jobs.
- Fund coordinators – everyone wants to fund projects - it's the considerable lead time that is never covered. For example our local businesses would take people on three month work experience – but only if someone makes it easy for them to do so by providing the logistics and support.
- Fund local sustainable initiatives. Local organisations understand what will work and can bring the key organisations together. There are huge employment opportunities in every town with the right interventions. We don't need outsiders coming in to "fix us" - and then they're gone next year.
- Develop an understanding of community enterprise. We are seen as business by charities and charity by business."

c) Just Food: An enterprising charity addressing employment and community engagement

Just Food: Key facts

A service of:	The Anglican Action Mission Trust, based in Hamilton
Purpose:	Employment and bringing people together over food
How this is achieved:	A “village café”
Structure:	A business arm of a registered charity
Established:	Cafe established in 2010, Anglican Action has been running as part of the Diocese for significantly longer
Location:	Hamilton
Staff:	54
Profitable?	Not yet. Operations turn a small profit but set up and salary of manager and chef was funded through a two year grant
Website:	Currently being redeveloped

How it works

Just Food is a cafe and catering business is based in one of Anglican Actions' two residential services, which also happens to be a central and convenient place for the local community. It has become a “village café” used by residents from their two services (single Mums and men transitioning from prison), professionals in the sector, older people, university staff, students and the general public. “No-one knows who is who – it's a great leveling place” says Anglican Missioner Karen Morrison-Hume. The café helps facilitate “conversations at the margins” – where people from all walks of life can meet and talk over food.



In addition, they:

- run weekly forums on social issues

- provide exhibition space for “Just Art” - community art which is often provocative (eg a photo exhibition of the 1981 Springbok tour and paintings on food justice)
- are a “Conscious Consumer café” , an accreditation process which awards badges for sustainable practices
- are planning a week-long “people’s school” exploring social justice issues

Just Food has two professional chefs (one for the café and the other for external catering) - both of whom “live the values”. Employees are mostly single parents and ex-offenders from their residential service. They also have a catering service.

The story behind Just Food’s creation

The philosophical underpinnings of Just Food are Anglican Action’s values and vision to pursue “justice through service”; however the trigger was the reduction in funding which followed the Global Financial Crash in 2008 and changes in government priorities.

“We all took pay cuts. And then what? How do we sustain these services we are committed to? We were faced with a business reality so we used a business perspective to look at our assets and consider whether they could be utilised differently. We looked with different eyes, and started thinking about possibilities for our large – actually too large - commercial kitchen and dining space which was part of our residential home for women and children.”

Anglican Action started by developing their business plan. “Our financial manager had a strong business background; he doesn’t rush in and ensured that we evolved rather than tried to be whizz-bang. We also hired a professional chef – she used to work for the diocese so she understands our values”. Their next priority was to look after their residents with a new, smaller and more convenient kitchen and dining area.

The café provides employment opportunities for residents – “although it was a risky thing putting teen Mums and ex-offenders together! But it works – neither shocks each other and they get real work experience, their benefits topped up by \$60 per week and in-kind support like bus cards, free food and NCEA credits. Some of them are now doing catering courses at polytech.”

“Just Food is a wonderful example for us of holding together our mission principles, commitment to social justice and learning how to do business. We’ve seen so much social good come out of it and we wouldn’t want to be without it. For us the social impact is more important than the dollars – it has to be aligned with our values and we can’t allow mission drift – it would be a dismal failure if this happened. But it needs to generate income too.”

Challenges

- “People issues can be a challenge – chefs don't want to be social workers nor should they have to be! But it's not always easy managing people who don't work very quickly or look a bit unkempt. Having a café chef who is Māori is important as many of the kitchen assistants are Maori and they get to experience working for Māori leadership.
- Managing growth. How do I balance the growth of the café with the needs of the rest of our organisation? And simple things can get in the way – for example there is demand to be open in the weekend and to provide evening catering. However our ex-offenders have curfews as part of our contract with Corrections – so how do I find staff to do this?
- We couldn't have done this without a two-year grant to fund the development phase. We had the equipment but we needed staff funding. Our business plan has year 1 for establishment, year 2 for development and year 3 for becoming financially self-sustaining.”

Just Food's advice to funders

- “Funding set up costs, particularly salaries while we get started is very helpful. We couldn't have done this without D V Bryant's financial support – and their wisdom.
- Helping to connect us with others, adding to the knowledge base of social enterprise and making spaces for reflection would be very useful. This is a whole new playing field for us.
- A business mentor would also have been very useful – provided they are aligned with the kaupapa of what we are trying to achieve socially.”