

## **Crowd Sourced Equity Funding submission**

StartSomeGood is a rewards-based crowdfunding platform dedicated to social change initiatives. The intention of our submission is to highlight the potential positive impact that CSEF for Proprietary Companies will have on the growth of the Australian Social Enterprise sector.

Social enterprises are businesses that exist with the explicit purpose of solving a social problem or delivering social impact consistent with public and community benefit. Social enterprise is one of the fastest growing sectors in Australia. There are an estimated 20,000 social enterprises in Australia, and social enterprise activity constitutes approximately 3% of the Australian GDP<sup>1</sup>.

At this time, limited investments are made into social enterprises outside of philanthropic and government grants, which are accessible only by organisations with Deductible Gift Recipient or not-for-profit status. While impact investing – the focusing of investment funds into mission-driven but For-Profit companies such as ours – is becoming more popular, options for For-Profit social enterprises looking to grow remain very limited. Crowd Source Equity Funding has the possibility of significantly increasing investment in these companies as they're able to invite the general public to invest in them, as social enterprises offer a market-based solution to social issues in our community. However CSEF will only make this impact if it is made accessible for small businesses, which most social enterprises are. As you know small business is the engine of innovation and job creation in our economy and the same is true for innovative approaches to social impact through enterprise.

Words with Heart is a great example of what crowdfunding makes possible. Until recently the only options for a budding social entrepreneur starting a for-profit social enterprise were venture capital or bank loans, neither of them likely to be impressed by their mission to donate 50% of profits to support Girl's education, or family members and credit cards, which requires existing resources or enormous risk. Words with Heart turned to their community using a platform like StartSomeGood, offered their great stationery and notebooks for pre-sale and covered the costs of producing their first run. What's even better, by doing it in public in this way they came to the attention of a buyer at a national office goods chain, who then made a major purchase.

This was only possible thanks to crowdfunding, but to truly grow to reach their business potential Words with Heart may look to raise funds by taking private equity investment. We believe the best people to back them then are those who backed them the first time, their passionate supporters. But many of them would be unable to do so under current laws, and Word with Heart wouldn't even be allowed to tell them that they were raising funds in this way. We hope the new laws change this decisively.

Benefits will only accrue to small enterprises if compliance costs for fundraisers and platforms are kept reasonable-enough for them to participate. Any investor income levels required should therefore be self-reported, but it is worth considering if any income-based restrictions are required at all. There are none for any other type of product. If restrictions are required we would recommend they be placed on the size of the raise and the total number of investors, but that these not be less than \$5 million or 1,000.

We ask that when considering mechanisms that protect small-scale investors you also consider the immense impact a more accessible sector can create. Merely tweaking the current restrictions would likely fail to unlock the capital flows to truly unlock the potential of small business and social enterprises in Australia.

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<sup>1</sup> <http://www.probonoaustralia.com.au/news/2015/03/social-enterprise-greatest-untold-nfp-story>