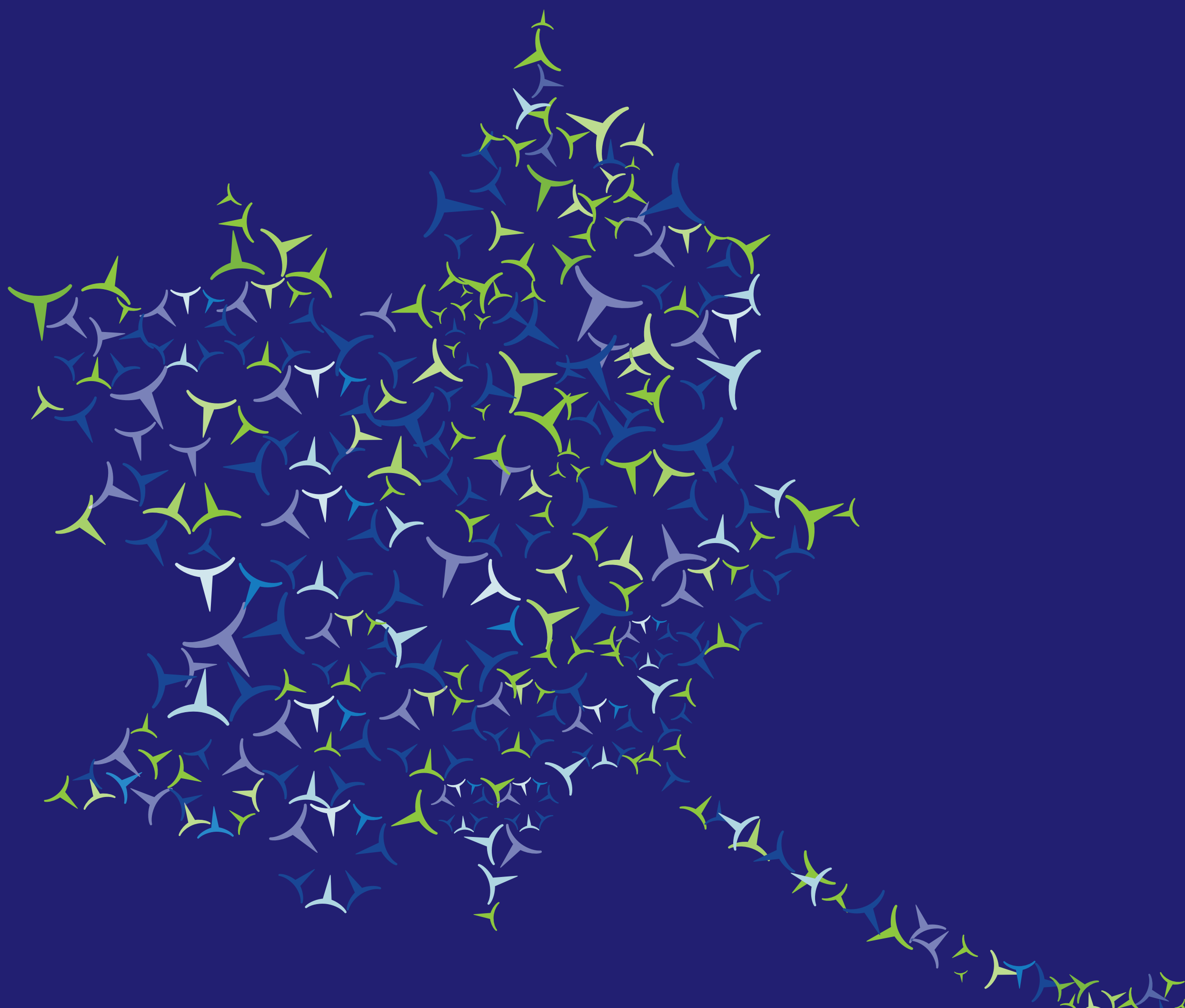
Mobilizing Private Capital for Public Good

Canadian Task Force on Social Finance



December 2010

The Task Force on Social Finance was conceived by Social Innovation Generation (SiG)* to identify opportunities to mobilize private capital for public good, within either non-profit or for-profit enterprises. In the spring of 2010, the Premier of Ontario, Dalton McGuinty, encouraged the Task Force in a letter to SiG to: "help social enterprise and social purpose business adopt social innovation business models; and develop recommendations to enhance public and private sector support of social finance to unleash its full potential in Ontario."

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The Task Force recognizes the pioneering efforts of Sir Ronald Cohen's Task Force on Social Investment in the UK, and their process served as a model for this report. Other significant contributors to the Task Force initiative can be found on the last page of this report.

Further information on the Task Force can be found at
www.socialfinancetaskforce.ca

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The J.W. McConnell Family Foundation / La fondation de la famille J.W. McConnell · MaRS · Macquarie Group Foundation · The MasterCard Foundation · Ontario Trillium Foundation / Fondation Trillium de l'Ontario · RBC · Vancity · Plus an Anonymous Donor

* Social Innovation Generation (SiG) is a national partnership comprised of The J.W. McConnell Family Foundation, MaRS Discovery District, PLAN Institute and the University of Waterloo. Its aim is to create a culture of continuous social innovation to address Canada's social and ecological challenges. Canada's ability to conceive, build and scale social innovations will require more capital than available through philanthropy and government. Canada's emerging social finance marketplace will allow public and philanthropic capital to leverage significantly more private capital to achieve long-term benefits for Canadians.

SiG social innovation generation de l'innovation sociale

Dear Reader,

There has never been a better time to reconsider the role of capital markets in creating sustainable value for our society.

Canadians have long relied on governments and community organizations to meet evolving social needs, while leaving markets, private capital and the business sector to seek and deliver financial returns. However, this binary system is breaking down as profound societal challenges require us to find new ways to fully mobilize our ingenuity and resources in the search for effective, long-term solutions.

Mobilizing private capital to generate, not just economic value, but also social and environmental value, represents our best strategy for moving forward.

Canada has already started down this road.

A growing number of enterprising charities, non-profits, co-operatives and social entrepreneurs are building businesses and turning to private investors for the financing they need to launch and scale up innovative new programs, become sustainable, meet a broader range of community needs, and stimulate economic growth. As a result, new investment opportunities, leveraging different instruments, are emerging to offer investors a range of positive financial returns and substantial social and environmental impacts.

Our challenge now is to strengthen this emerging marketplace by mobilizing capital and putting in place the intermediary institutions, frameworks and regulations that will more efficiently connect the best people and the most innovative ideas to the private capital they need to tackle complex societal problems, create jobs and strengthen communities.

This report sets out seven key actions that Canada needs to undertake, in parallel, to mobilize new sources of capital, create an enabling tax and regulatory environment, and build a pipeline of investment-ready social enterprises. Financial institutions, investors, philanthropists and governments all have a role to play in this process.

Our recommendations are supported by evidence and experiences from across Canada, and from other jurisdictions like the United Kingdom and United States, that are leading the challenging work of mobilizing private capital to support public benefit opportunities.

Our hope is that this report will raise awareness of social finance and stimulate a national discussion about a new partnership model between profit and public good, and the opportunity it represents for Canada's future.

Ilse Treurnicht, *CEO, MaRS Discovery District,*
Chair, Task Force on Social Finance

What is Social Finance?

For centuries, the waters off Vancouver Island's west coast were a source of food and transportation for the Tia-o-qui-aht First Nation (TFN). In 2010, these waters also became a source of clean energy through **Canoe-Creek Hydro,** *a project owned and operated by TFN, and built to exacting environmental standards to reflect their stewardship of the land. Vancouver City Savings Credit Union (Vancity) provided the loan of $5M for the plant, which is projected to generate annual revenue of $1.6M and power 1,700 homes in the area. With profits from the sale of power to BC Hydro, the TFN plans to construct a salmon hatchery to rebuild stocks and to rehabilitate local streams.*

A low-income newcomer family is moving into a newly-built apartment in **Regent Park**, *Toronto, one of Canada's oldest and largest community-housing projects. The Regent Park Revitalization Project, an ambitious plan to provide over 6,000 mixed-income housing units, recreational facilities and commercial spaces to thousands of residents living in this 'new' community, was partly financed by $450M worth of market-rate bonds sold to provincial governments, pension funds and institutional investors.*

A young pregnant woman who had been left homeless, found the counselling and community support she needed through the **Atira Women's Resource Society** *(AWRS), a Vancouver-based charity. The Society is able to offer programs to women and children, in part, because it owns* **Atira's Property Management Inc.** *(APMI), a for-profit company that channels 75% of its net profits to the Society to support its operations. APMI employs 200 people, many of whom are clients of AWRS, enabling people, like this young pregnant woman, to rebuild their lives.*

Executive Summary

Recommendation #1

To maximize their impact in fulfilling their mission, Canada's public and private foundations should invest at least 10% of their capital in mission-related investments (MRI) by 2020 and report annually to the public on their activity.

Recommendation #2

To mobilize new capital for impact investing in Canada, the federal government should partner with private, institutional and philanthropic investors to establish the Canada Impact Investment Fund. This fund would support existing regional funds to reach scale and catalyze the formation of new funds. Provincial governments should also create Impact Investment Funds where these do not currently exist.

Recommendation #3

To channel private capital into effective social and environmental interventions, investors, intermediaries, social enterprises and policy makers should work together to develop new bond and bond-like instruments. This could require regulatory change to allow the issuing of certain new instruments and government incentives to kick-start the flow of private capital.

Recommendation #4

To explore the opportunity of mobilizing the assets of pension funds in support of impact investing, Canada's federal and provincial governments are encouraged to mandate pension funds to disclose responsible investing practices, clarify fiduciary duty in this respect and provide incentives to mitigate perceived investment risk.

Recommendation #5

To ensure charities and non-profits are positioned to undertake revenue generating activities in support of their missions, regulators and policy makers need to modernize their frameworks. Policy makers should also explore the need for new hybrid corporate forms for social enterprises.

Recommendation #6

To encourage private investors to provide lower-cost and patient capital that social enterprises need to maximize their social and environmental impact, a Tax Working Group should be established. This federal-provincial, private-public Working Group should develop and adapt proven tax-incentive models, including the three identified by this Task Force. This initiative should be accomplished for inclusion in 2012 federal and provincial budgets.

Recommendation #7

To strengthen the business capabilities of charities, non-profits and other forms of social enterprises, the eligibility criteria of government sponsored business development programs targeting small and medium enterprises should be expanded to explicitly include the range of social enterprises.

Introduction

Canada has one of the highest government debt to GDP ratios of all countries globally, exceeding both Ireland and the United States.
—The Economist, Global Debt Clock, (November 2010).

Canada, like many nations, is grappling with fiscal constraints and escalating societal and environmental challenges. It is clear that we need to rethink our approach to understanding and addressing these challenges. Lasting solutions will require a renewed commitment to innovation — in academe, business, government, and in the financial and community sectors.

This report responds to the needs of both the emerging for-profit social purpose business sector and the enterprising activities of charities, non-profits, and co-operatives.

> "Our Government will take steps to support communities in their efforts to tackle local challenges. It will look to innovative charities and forward-thinking private-sector companies to partner on new approaches to many social challenges."
> *—2010 Federal Speech from the Throne*

New modes of finance for Canada's social enterprise sector

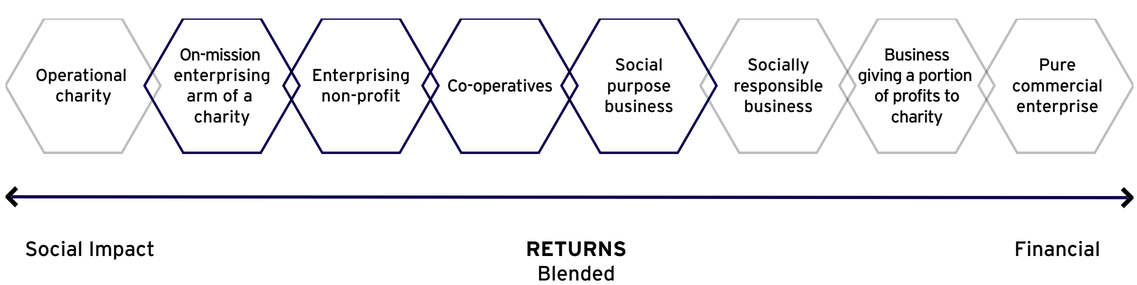
Social finance offers an unprecedented opportunity for Canada's charities and non-profits to open up new sources of financing, at a time when many are trapped in a cycle of short-term subsistence funding that diverts attention from their mission and impact, inhibits innovation, prevents them from expanding solutions that work, and threatens their sustainability. These organizations are, therefore, seeking complementary financing options that will provide them the flexibility and stability they need to focus on what matters most – effective and innovative approaches to serving the changing needs of Canadians.

Social enterprise is defined as any organization or business that uses market-oriented production and sale of goods and/or services to pursue a public benefit mission.[1] This covers many organizational forms – ranging from enterprising charities, non-profits and co-operatives to social purpose businesses, which are for-profit businesses designed to fulfill a social mission.

Figure 1 below illustrates the current spectrum of organizations, situating social enterprises between the traditional grant-funded non-profit/charity and the single-bottom line, for-profit business.

The importance of social finance and social enterprise was recently recognized by G20 leaders, with Canada's leadership at the June 2010 Toronto Summit, where the Small and Medium-Sized Enterprise Finance Challenge was launched. Managed by the social entrepreneur group Ashoka Changemakers, the Challenge sought private sector ideas on how

Figure 1, Spectrum of Organizations: From Charities to Traditional Businesses



Source: Adapted from Charities Aid Foundation (CAF) Venturesome, "Financing Big Society: Why social investment matters" (2010).

governments and public institutions can be more effective in helping small- and medium-sized enterprises (SME) obtain private financing.[2] Among the 14 SME winners was Canadian Scott Gilmore, a founder and Executive Director of the Peace Dividend Trust.

The rise of impact investing – a $30B opportunity

The growth of social enterprise, in combination with other social and economic trends, has fuelled the rise of a new type of investing aimed at mobilizing private capital to tackle societal challenges.

Known as impact investing, this is the active investment of capital in businesses and funds that generate positive social and/or environmental impacts, as well as financial returns (from principal to above market rate) to the investor.[3] Impact investors want to move beyond socially responsible investment (which focuses primarily on avoiding investments in "harmful" companies or encouraging improved corporate practices), to investment with social/environmental impact as a primary qualifying criterion.[4]

Global impact investing is a rapidly growing market. With appropriate regulatory, tax and capacity-building measures in place, it is estimated that impact investment could potentially reach 1% of all managed US assets.[5] A comparable shift could occur in Canada, where 1% of our $3T in assets under management would yield $30B for investment in social enterprises and more sustainable community organizations.[6]

Building the necessary marketplace

To realize this opportunity, however, Canada needs a national strategy and concerted action by a range of public, private and non-profit sector stakeholders to build an effective impact investment marketplace. This is the subject of this report, which is organized to address three main challenges:[7,8]

1. Capital mobilization – Canada does not yet have a range of impact investment instruments or funds with demonstrated performance, into which meaningful amounts of capital can flow at market or above-market rates of return. The absence of effective financial intermediaries that can aggregate small investment opportunities on a cost-effective basis, with diligent assessments of risk and return, is a significant barrier for private investors. As a result, their capital is still largely placed in traditional markets.

2. Enabling tax and regulatory environment – Canada's market is still largely bifurcated between philanthropy (for impact) and investment (for returns). Regulatory confusion discourages foundations from using their assets for impact investing and prevents or discourages financing of social enterprises in optimal ways. The absence of direct co-investment and/or targeted tax incentives by governments to share risk misses the opportunity to mobilize institutional investors into blended-value investing.

3. Investment pipeline – Although Canada has some notably successful social enterprises and many more in development, our pipeline of quality investment opportunities is not yet fully developed and readily accessible. As a result, investors often perceive social enterprises to

The Rockefeller Foundation's Harnessing Impact Investing Initiative aims to grow the impact investing industry globally. Its strategy includes stimulating collaboration in deals among impact investors, creating intermediation to connect supply and demand, and supporting research and advocacy efforts. Two prominent initiatives include the development of a **Global Impact Investing Network** (GIIN), made up of over 30 founding organizations, and the establishment of **Impact Reporting and Investment Standards** (IRIS), to address the need expressed by impact investors for more transparent and consistent social-impact measurement.

A number of exciting social finance initiatives are in development across Canada, poised to grow the local impact investing market. Leading examples include: a new private-public community investment fund at Vancity; an investment intermediary for non-profit and charities called the Community Forward Fund; and other platforms, like ClearlySo and the Social Venture Exchange, to help match impact investors and social enterprises. Quebec has a number of leading initiatives; a variety of profiles on its social economy can be found throughout the report.

Figure 2, Canadian Investor Initiatives by Asset Class

CANADA			Financial First	Impact First
Asset Classes	Cash			• Vancity Deposit Products
	Debt		• Ottawa Community Loan Fund • Insurance Corporation of BC	• Central One • Credit Union of BC • Jubilee Fund • Social Capital Partners • Edmonton Social Enterprise Fund • Canadian Alternative Investment Cooperative
	Mezzanine/Quasi Equity		• Société de capital de risque autochtone du Québec (SOCARIAQ) • Sarona Frontiers Markets Fund	
	Alternative Instruments	Venture Capital	• Vancity Capital Corporation • Emerald Ventures • Chrysalix Clean Energy Tech Fund	• Chantier de l'économie social
		Private/Growth Equity	• CAPE Fund • Investeco	
		Real Estate	• Alterna Community Alliance Housing Fund	• Jubilee Fund
		Absolute Return (Hedge Funds)		
INTERNATIONAL			**Financial First**	**Impact First**
Asset Classes	Cash		• ShoreBank Pacific	• Charity Bank
	Debt		• The Dexia Micro-Credit Fund • IFFIm	• Root Capital • Calvert Community Investment Notes
	Mezzanine/Quasi Equity		• Triodos Climate Change Bonds	• Bridges Ventures Social Entrepreneurs Fund • KL Felicitas Foundation
	Alternative Instruments	Venture Capital	• Bridges Ventures CDV Funds	• Aavishkaar
		Private/Growth Equity	• Equilibrium Capital Group	• Acumen
		Real Estate	• JP Morgan Urban Renaissance Property Fund	
		Absolute Return (Hedge Funds)	• BelAir Sustainable Alternatives SRI Fund	

Adapted from: Phillips, Hager & North, "An Overview of Impact Investing," (2010), 12.

be high risk, low yield investments. While this report focuses primarily on mobilizing capital, there is much to be done to ensure we have a well-developed and growing pipeline of innovative, investment-ready social enterprises across the country and that these are connected to sources of capital and business support that will enable them to grow and succeed.

Canada – poised for change

The sooner we can achieve a mature impact investing marketplace, the sooner we will be able to draw on the full potential capacity of every sector – and the synergies between them – to drive solutions to our sustainability challenges. While our impact investing marketplace may be young, a number of critical market elements are already in place:

- **A new breed of investor** who wants to earn money and have a positive impact on society;
- **Pioneering impact investment funds** targeting a range of environmental and social goals;
- **A growing number of foundations** looking for mission-related investment opportunities;
- **Governments** willing to look at ways to stimulate private investment for public good; and
- **A vibrant community** of social entrepreneurs, civic leaders and innovative social enterprises.

> "It is this notion of making it financially attractive to solve social issues... [that] is intriguing a growing number of institutional investors globally."
> *(from RBC's subsidiary Phillips, Hager & North's report, "An Overview of Impact Investing," (November 2010).*

Call to action

With coordinated effort and sufficient investment in an enabling environment and infrastructure, it is possible to take impact investing in Canada from its current phase of uncoordinated innovation to a fully formed marketplace that can deliver impact at scale – potentially during the next five to ten years.

The report that follows offers an integrated national strategy for building Canada's social finance marketplace. It comprises seven recommendations that, while distinct, are highly inter-dependent and therefore requires parallel and concurrent action from Canada's governments, financial sector, philanthropic leaders and community sector.

Some will argue that, in the current environment of economic uncertainty and fiscal constraint, we cannot afford to invest in bold new ideas. We believe the contrary. Everything we have read and heard as a Task Force reinforces our conviction that:

1. These growing enterprising initiatives require more sustainable sources and forms of financing to meet the societal challenges that lie ahead and effectively deploy and scale the innovative solutions being developed;

2. Governments and donors are challenged to significantly expand their contribution to this effort at the scale required under current funding frameworks; and

3. There are significant opportunities for private capital to fill this gap – but only if we create the enabling environment and infrastructure that makes it possible for them to do so.

Now is the time for bold and concerted action.

Our future depends on it.

"...[T]he best solutions to the diverse challenges confronting Canada's communities are often found locally. Every day, the power of innovation is seen at work in communities across this country, as citizens, businesses and charitable groups join forces to tackle local problems."
–2010 Federal Speech from the Throne

1

To maximize their impact in fulfilling their mission, Canada's public and private foundations should invest at least 10% of their capital in mission-related investments (MRI) by 2020 and report annually to the public on their activity.

What is an example of MRI?

The investment committee of a Canadian family foundation decided to provide a loan from its endowment capital to help a local non-profit purchase a LEED certified office building in the area in which they provide services. The loan is for $3M over 10 years at an interest rate of 6.5%.

The opportunity

Mission-related investing offers Canadian foundations an opportunity to mobilize far greater resources to drive their missions. Foundations currently manage close to $34B in capital assets.[9] To date, most have invested little of their total capital pool to advance their missions. Instead, foundations have invested the majority of their capital in traditional financial market products, relying on the interest or other income generated from those products (in some cases, as little as the minimum 3.5% of their assets required by law) to fund their mission-related activities.

In the US, one of the earliest adopters and best-documented examples of mission-related investing is the **F. B. Heron Foundation** based in New York City. As of the end of 2009, Heron deployed $110M of its $240M asset base in mission-related investments. It currently has dozens of investments in affordable housing projects, community loan funds, community development venture capital funds and community banks. This is in addition to the $10M Heron distributes annually in charitable grants. With $110M invested in mission-related programs, Heron has increased its financial commitment to doing good more than tenfold. Importantly, the foundation has achieved this allocation target without sacrificing its financial return.

Channeling just 10% of their total capital into mission-related investing could mobilize $3.4B to advance the collective missions of the foundations.[10]

Background

Foundations in Canada and elsewhere are increasingly seeking opportunities outside traditional capital markets to make investments that will generate a reasonable return and achieve greater impact towards meeting their missions.[11] In the US, for example, the More for Mission Campaign, involving 77 foundations representing over $30B in total assets, is actively promoting MRI and challenging foundations to take up mission-related investing practices. The goal of the campaign is to increase MRI commitments by $10B over the next five years.

A small number of leading Canadian foundations, and many of their counterparts in the US, have adopted mission-related investing because of its potential to:[12]

- Better align foundation investments and values;
- Deploy assets, as well as investment income, to achieve greater mission impact;
- Preserve foundation assets by making loans vs. grants;
- Support new approaches to achieve impact (e.g. business-based solutions to social problems);
- Augment the impact of grants through

complementary investments;
• Increase appeal to entrepreneurial donors;
• Create a window for local investments;
• Diversify investments and reduce capital losses in stock-market downturns; and
• Promote greater sustainability of their grantees by reducing their reliance on grants.

Despite this growing interest, MRI remains a niche activity in Canada's foundation community due to a number of barriers:[13]

• **Cultural issues** – Many foundations separate their mission program (typically grant-making) and investment activities (preserving and growing foundation assets), with separate oversight bodies for each activity. Investment committees are often drawn from the traditional investment sector and are unaware of MRI opportunities or lack knowledge and confidence about the potential financial performance, risks, and social impact benefits of MRI investment options. These predispositions can be reinforced by external investment advisors who are more familiar with established financial products that have previously yielded results for their clients and who are financially rewarded for these types of investments through commission programs.

• **Emergent marketplace** – The lack of financial intermediaries means impact investment opportunities are not easily identified. Without experienced investment managers to assess and aggregate the many, predominantly small, social purpose investment opportunities into funds or products, most foundations (and other large institutional investors) find it expensive or beyond their investment staffs' capacity to invest in this space. Traditional financial advisors are also unlikely to market individual social purpose investments to their clients, including foundations.

• **Lack of clarity on regulatory and fiduciary matters** – Many boards and investment committees are not clear how MRI fits with Canada Revenue Agency (CRA) regulations and with their fiduciary mandate. These questions tend to reinforce any predisposition toward traditional investing practices.

As a result of these barriers, most foundations in Canada continue to use grants exclusively, financed from their investment income, to advance their philanthropic missions, while leaving their capital invested in traditional markets. This approach dramatically under-leverages foundation capital for mission fulfillment and leaves social enterprises in Canada without the capital they need to innovate and grow.

In Canada, it is estimated that over $100M of foundation assets are invested in MRI. A recent study[14] of nine leading Canadian foundations highlighted $32M (4%) of MRI investment on total combined assets of $788M. These foundations have assets ranging from $20M to $600+M. They have invested in projects ranging from affordable housing to microfinance funds to social purpose businesses, committing as much as $12M and anywhere from <5% to 60% of their total capital assets.[15] Deals range in size from under $25,000 to $10M, typically at interest rates from 4.5 to 9.0%. Of the 50 mission-related investments made by this group of nine foundations, 49 have been meeting or exceeding financial performance expectations.

For many foundations, particularly smaller ones, achieving the 10% target might be challenging, at least initially. Investment opportunities linked to their mission may be limited and the effort required to identify and assess such opportunities can be costly. Over time, however, as the impact investing marketplace matures, these challenges should diminish. We believe that the implementation of other recommendations in this report will help generate the investment options necessary for foundations and others to invest their capital for social and economic benefit.

Bealight Foundation, a private foundation based in Toronto with $8m in assets, is placing more than 30% of those assets in mission-related investments, both through loans and equity. As an example, $2m has been invested across twenty 5-year loans for the acquisition and operation of two car service chains, under the condition that the franchise owner/operators will in turn hire individuals who face employment barriers. The annual interest rate on these loans is initially 9%, but can be reduced incrementally to 5% as employment targets are met and exceeded.

Moving forward

To achieve the 10% target within the next ten years, Canada needs an active program of:

1. Education and enabling supports;
2. Peer-to-peer learning;
3. Investment pipeline development;
4. Regulatory and fiduciary clarification; and
5. Reporting on MRI activity.

Education and enabling supports – Community Foundations of Canada (CFC) and Philanthropic Foundations of Canada (PFC) are actively working on raising awareness and enhancing understanding of MRI among their members. Further education and practical supports will help individual foundations to explore MRI, provide boards and investment committees with operational and regulatory information, and support the development of implementation plans. CFC and PFC plan to invite the collaboration of other relevant industry associations, including the Canadian Environmental Grantmakers' Network and the Social Investment Organization. Given the important role that traditional financial advisors play in shaping the investment strategies of foundations, an active effort must be made to include this group in the movement to strengthen MRI investing in Canada.

Peer-to-peer learning – The most powerful advocates for change, however, are foundations already engaged in MRI, who can speak directly to peers about the financial and social impacts of their investment strategies. Encouraged by interest in the sector, The J. W. McConnell Family Foundation and the Vancouver Foundation have committed to work with other foundations engaged in MRI to share their experiences more broadly and to foster sector-wide efforts to achieve the 10% target by 2020. This includes working with investment committees and establishing a forum for identifying and sharing MRI best practices.

Investment pipeline development – Foundations will need better information on opportunities that exist if they are to meet the 10% target. This involves both strengthening the pipeline of impact investing opportunities and increasing the number of funds into which foundations can place capital to be deployed for social and environmental benefit. For more information on proposed initiatives, please see Recommendations #2 and #7 on pages 11 and 27.

Regulatory and fiduciary clarification – To support this effort, the Canada Revenue Agency should clarify its formal guidance to foundations to eliminate any misperception or uncertainty around whether foundations are discouraged from making mission and program related investments. Their guidance should clearly state that MRI is a legitimate means of achieving charitable goals. CFC and PFC have jointly sponsored a legal paper clarifying the Income Tax Act regulations and provincial Trustee Act provisions relevant to MRI. They will be working on a strategy for disseminating this information widely to the foundation community.

Reporting on MRI activity – Annual reporting on MRI activity can help to catalyze foundation board and investment committee discussions on the merits and risks of MRI. Reporting also makes information on investment activity and options more easily accessible, enabling foundations to learn from each others' experiences and apply these lessons in their own investment decisions. A clear reporting framework is needed to track whether foundations are making progress toward the 10% target over time. CFC and PFC should provide their members with an annual MRI reporting framework and provide aggregated sector-wide updates.

2

To mobilize new capital for impact investing in Canada, the federal government should partner with private, institutional and philanthropic investors to establish the Canada Impact Investment Fund. This fund would support existing regional funds to reach scale and catalyze the formation of new funds. Provincial governments should also create Impact Investment Funds where these do not currently exist.

The opportunity

Canada currently lacks impact investment funds large enough to attract major institutional investors into the marketplace. One or more national impact investment funds (acting as fund-of-funds) would create the necessary scale to attract these investors, address the shortage of capital at the regional fund level, and help support the development of new impact investment funds to fill market gaps. Experience in other jurisdictions has shown that, when national governments and the private and philanthropic sectors partner in this way, additional capital has followed.

Complementary provincial/territorial efforts to create regional funds can, in turn, help develop a broader range of quality investment funds, to deploy new capital across a wider range of social investments that meet diverse investor risk/return needs. These regional funds can also help ensure the efficient flow of new investment capital into communities across Canada. The Quebec government has pioneered this through the Fiducie du Chantier de l'économie sociale, and other provincial governments are considering the establishment of social investment funds to leverage private capital.

Background

Due to the nascent nature of this marketplace, private investors, institutional investors, or foundations with an interest in impact investing, find it difficult to source viable impact investing opportunities, and to cost-effectively assess and deploy capital in these opportunities. Similarly, a dispersed pipeline and relatively small deal-sizes make it challenging for institutional investors seeking to deploy large pools of capital to effectively participate in this emerging market. Investment managers with mandates focused on specific sub-categories of impact investing are needed to source and package high-potential investment opportunities and aggregate these to build sufficient scale and spread investment risk. Although a number of organizations[16] (typically sector or geographically specialized) have emerged to play this role, few are large enough to attract and deploy institutional capital at the present time.

There are currently at least 30 social finance investment funds in Canada, but most are under $1M in assets and focus on a relatively narrow range of impacts.[17] Impact investing assets primarily target employment and economic development.[18] Most are directed at for-profit social purpose businesses and co-operatives. There is moderate investment in asset-backed loans for charities and non-profits, particularly in social housing, but there is limited investment in enterprise development and in working capital for charities and non-profits.[19] In addition, a number of cleantech venture capital funds are actively investing in renewable energy, infrastructure and related technologies.

"What do we mean by Social Investment Funds?"

Social Investment Funds channel capital to organizations and individuals that have historically struggled to access mainstream finance, but the models and approaches for the audiences can be varied.[20]

Some examples in Canada include: Renewal Partners, a Vancouver-based, private investment fund focused on social purpose businesses and real estate. Renewal and Renewal2 have over 40 portfolio investments, including Happy Planet (organic foods and juices) and Seventh Generation (green household products).

The Cape Fund, a $50M private investment fund with a strong degree of Aboriginal involvement and connection to Aboriginal communities throughout Canada. The fund's first investment, made in 2010, was to One Earth Farms, a developing farm located on First Nations land.

Based on survey data, there appears to be significant outstanding demand for more start-up and growth capital for social enterprises across Canada, with estimates ranging from $450M to $1.4B. A survey of 150 organizations in Ontario revealed an estimated $90M of demand – $40M from for-profit social purpose businesses and $48M from non-profit social enterprises, both with a median demand of $100,000 to $250,000.[21, 22] In Quebec, a 2010 survey of social enterprise over the last four years by the Chantier de l'économie sociale identified a demand in patient capital in the province of $250M. There is significant additional demand in the real estate and green infrastructure sectors across the country, which typically require much larger amounts of investment.

The impact investment marketplace needs additional capital to meet demand. Sources of capital may be available if existing or new investment funds can offer appropriate expertise, sufficient scale and diversification of risk.

What needs to be done

Establish the Canada Impact Investment Fund

International experience suggests that a relatively modest infusion of public capital at the national level can leverage substantial new private impact investment capital, either into a national fund-of-funds or directly into regional fund vehicles.

The UK government's £20M investment in Bridges Ventures (a UK-based social investment fund) in 2002 attracted over £120M of private impact investment over six years[23] and likely contributed to the development of over £325M in other social venture capital funds.[24, 25]

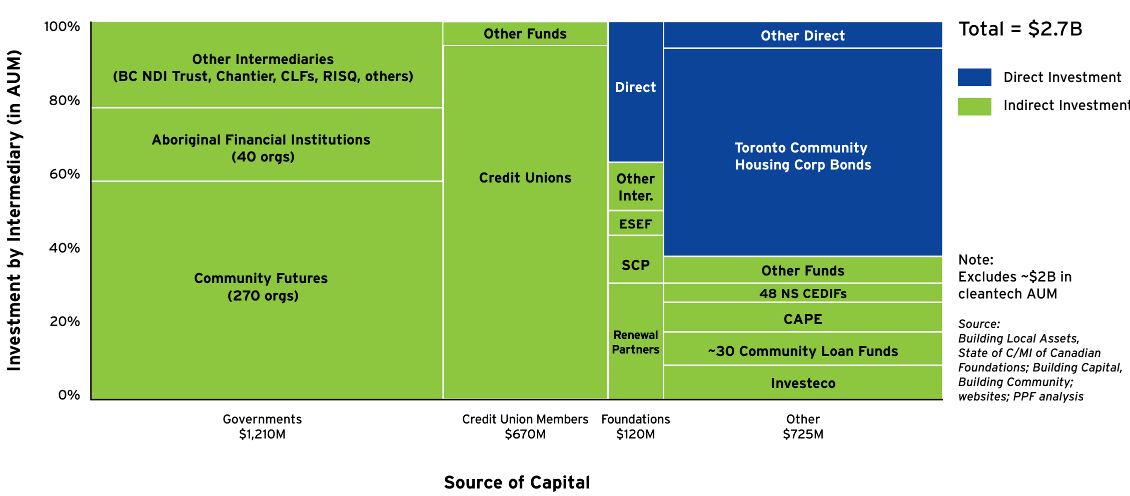
In the US, investment of $1.1B in the Community Development Financial Institutions (CDFI) Fund since 1994 has leveraged $15B in private community investment through individual CDFIs.

We expect that action by the federal government to establish a Canada Impact Investment Fund would have a similar catalytic effect, making it attractive for large investors to participate in the impact investing marketplace.

To mobilize additional capital, we recommend a public investment of $20M per year (for five years) in first loss capital, to be matched by private, institutional and foundation investors in a fund-of-funds structure. These funds would be drawn down gradually and deployed by a professional fund manager skilled at finding new funds/products to invest in, and managing the portfolio of funds. This

Figure 3, Estimated Assets Under Management in Canada: Funds/Vehicles for Deployment

Over 85% of assets flow through intermediaries



fund would create the diversified risk and scale conditions necessary for institutional investors and other funders to participate in this market.

Financial modeling by the Social Investment Organization (SIO) has shown, however, that without this kick-start of public capital in a two-tiered fund structure, the prospect of sub-market investor returns will deter the desired participation by institutional capital.[26] Over time, as the marketplace develops and more investment opportunities arise, demonstrated returns and investor confidence should reduce the need for government first loss capital in this fund.

To be successful, the proposed national fund would need to offer investors a diversified portfolio of investment fund options, as well as potentially invest directly in select opportunities. While this would be somewhat challenging at the outset, as there is currently more demand for debt than equity financing, the introduction of significant new investment capital should trigger a surge in enterprise activity and more equity and quasi-equity opportunities in the medium-term. Canada has a variety of highly effective but under-capitalized community loan funds that could be strengthened by this new national fund, while more regional funds with a stronger equity investment focus emerge.[27]

Establish a federal fund to deploy capital now

While the establishment of a large national fund-of-funds is a sound long-term strategy for building a robust marketplace, it will take time to establish, given the nascent market and the involvement of multiple parties from diverse sectors. As a result, there will likely be a significant time delay in funds actually reaching promising ventures (capital needs to flow from the fund-of-funds to regional funds to the enterprises themselves).

Pending the full activation and functionality of the Canada Impact Investment Fund, there is a need to address the immediate and growing demand for social capital by promising enterprises. Consequently, we propose the near-term launch of a direct co-investment fund that can support existing regional funds as well as the launch of new funds (until the larger national fund is fully established). A precedent already exists in Canada for this model, as the federal government flows funds directly into technology venture capital funds and companies (debt and equity) through the Business Development Bank of Canada (BDC) and Export Development Canada (EDC).

Build and strengthen complementary regional funds

The success of these national funds will both depend on, and help stimulate, the growth of regional funds with diverse mandates across the country. Currently, the largest regional funds are government-seeded entities (e.g. Community Futures, Aboriginal Financial Institutions) that are not structured to attract and employ incremental private capital. While credit unions deploy large amounts of capital (invested by their members), most funds are small community-loan funds with less than $1M in assets.[28]

Provincial/territorial governments can help to prime the flow of private impact investment capital from proposed national funds into their regions by participating in and establishing their own new regional impact investment funds. For example, the Government of British Columbia has invested $2M as first-loss reserves to leverage the development of a thematic social enterprise investment fund, in partnership with Vancity and the Vancouver Foundation. In Quebec, the Réseau d'investissement social du Québec was created in 1997 with matching contributions from the Quebec government and the private sector. It has since invested $11.6M in 292 social enterprises, leveraging over $147M in total investment.

The Government of Ontario has announced its intention to establish a $20M Social Venture Capital Fund to support the growth of promising emerging social ventures.[29] This fund would focus on leveraging matching private capital to support highly scalable social enterprises in the areas of education, health, affordable housing, the environment, and human capital development. The launch of this fund would send a strong positive signal to potential impact investors and, over time, demonstrate that social enterprises are attractive investment opportunities and make important social contributions.

Moving forward

- **Leveraging the work of and collaborating with the Social Investment Organization and other interested partners, the federal government should actively explore the feasibility and parameters for establishing a national fund-of-funds**, with a view to launching the Canada Impact Investment Fund as soon as possible. Public funding should also be allocated in the short-term to cover start-up costs of this fund (e.g. legal costs, fund development, recruiting the fund manager, and incorporation).

- **Foundations, pension funds and financial institutions should be encouraged to be founding partners** in the establishment of a Canada Impact Investment Fund.

- **The federal government should allocate the first $20M of the Canada Impact Investment Fund** (conditional on matches) to regional investment funds, to kick-start the deployment of social investment capital in Canada.

- **The Ontario government should proceed with establishing the Ontario Social Venture Capital Fund** to address current unmet demand for social venture capital for innovative social enterprises.

- **Other provincial/territorial governments should seek ways to mobilize capital** to create new, and expand existing, regional funds.

3

To channel private capital into effective social and environmental interventions, investors, intermediaries, social enterprises and policy makers should work together to develop new bond and bond-like instruments. This could require regulatory change to allow the issuing of certain new instruments and government incentives to kick-start the flow of private capital.

The opportunity

Few governments can afford to meet current societal needs and simultaneously make large-scale investments in innovation and prevention for the future. They can, however, help create innovative financing vehicles that enable private capital to make these kinds of investments – banking on the best people, programs and ideas to address complex social and environmental challenges and build local sustainability.

What needs to be done

Governments are often challenged to meet both short-term needs and invest for longer-term impacts. This problem becomes even more challenging in periods of fiscal constraint.

One way to address this conundrum is to create financial instruments that encourage private investors to support the development and scale-up of successful programs. New types of financing instruments are emerging to do just this – Community Bonds, Green Bonds, and Social Impact Bonds are designed to enable governments to leverage private capital to address specific societal challenges, and to enable individual citizens and institutional investors to invest in the future sustainability of Canada's communities.

Community Bonds generally refer to securities issued by non-profit organizations to raise debt-financing. These are binding commitments to pay the investor a set rate of interest over the life of the bond and to return their capital at the end of the term.[30] Community Bonds may be secured or unsecured and are most often used in Canada to raise capital for real estate (buildings) acquisition, infrastructure, or in social enterprises with reliable future revenue streams. In the US, they are frequently used by non-profits: the best-known being the Calvert Community Investment Note, which has leveraged $200M in assets over a 15-year period.

Charities and non-profit organizations have deep relationships with their communities

The Calvert Foundation's Community Investment Note in the US is open to individual and institutional investors, with deposits as low as $20. The note has mobilized more than $200M for investment in 250 community organizations in the US and around the world – building or rehabilitating over 17,000 homes, creating 430,000 jobs, and financing over 25,000 co-operatives, social enterprises, and community facilities.

Modeled on the Calvert example, the **Ottawa Community Loan Fund** is developing an Impact Investment Note, aimed at raising $10M for investment in affordable housing and social enterprise for the Ottawa region. Although initially the note will be offered to accredited investors, the goal is to create an affordable retail product for all impact investors.

and constituencies. As such, many of them view Community Bonds as a potential means to scale up their activities and mobilize private capital for innovative programs and enterprises, especially local ones. To be effective vehicles for this purpose, however, Community Bonds need appropriate and simplified regulation to give confidence to investors and investees alike.

Canadian non-profits currently have difficulty issuing Community Bonds because there is no clear process governing their sale to the public. While provinces have legislation and processes to regulate bond issues by corporations and co-operatives, there are no such oversight mechanisms for non-profits. As a result, non-profits must go through onerous provincial Securities Commission processes designed for corporate bond issues and only sell to accredited investors.[31] While they may apply for an exemption, this exemption is still incomplete.

Green Bonds are similar to Community Bonds but specifically designed to raise capital for the creation of renewable energy infrastructure, often at a large scale.[32] Their short-term goal is to incentivize energy producers to deploy low-carbon technologies, by providing low-cost debt capital. In the long-term, their aim is to develop a renewable technology industry, making countries more competitive.

While not yet offered in Canada, Green Bonds are a common financing tool in other jurisdictions. Examples include the $2.2B US Clean Renewable Energy Bond, the $1B World Bank Green Fund, and the European Investment Bank Climate Awareness Bond, which raised $1.5B USD for renewable energy development in the first three months after launch. Designed to mobilize citizens as investors in sustainable energy production, Green Bonds offer an alternative to tax credits and other direct subsidies, with a higher capital-to-cost ratio. In Canada, government backing would initially lower risk and provide a guaranteed return for investors, but bonds would be independently managed by the private sector and government guarantees phased out as these bonds establish a positive track-record of returns.

Social Impact Bonds (SIB), currently being piloted in the UK, are an innovative new approach to mobilizing private capital and community expertise to tackle specific societal problems that generate high cost burdens for taxpayers.

Under the SIB model, private investors are motivated to seek and invest in organizations delivering preventative solutions that alleviate costly remedial spending by government. This is done through multi-year contracts with governments that agree to pay investors a portion of the public savings realized if these interventions are successful. Because SIBs can potentially help trigger solutions to high-cost problems (e.g. youth re-offending, clinical treatment for diabetes, or high energy consumption), there is strong interest in piloting this approach in Canada.

It is important to note, however, that SIBs will likely be a niche financing tool limited to certain highly specific target impacts. A key reason for this is the complexity involved in developing rigorous performance metrics

UK Social Impact Bond Pilot

Social Finance, a UK non-profit and social finance intermediary, has developed a strategy to reduce re-offending rates of male prisoners at a UK jail and potentially save millions of pounds for the Ministry of Justice. Social Finance has raised £4.9M from private investors for a six-year pilot and has brokered an agreement with the Ministry that would see a return provided to investors only if the strategy is successful. The Ministry will repay investors from government cost savings. Social Finance has used the privately-raised funds to provide multi-year funding to two non-profits with track records of achieving reductions in re-offending and will work closely with them to build out and scale their innovative models in an effort to meet the social outcome targets. Social Finance's ambition is to transform the ability of the community sector to respond to society's changing needs by enabling greater access to a variety of investment instruments.

with respect to intervention outcomes and related government savings that can be agreed upon by participating governments, investors and community organizations.

If these challenges can be overcome, however, long-term financial backing for SIBs will enable organizations with effective solutions to highly-targeted problems to scale their impact, leading to a virtuous cycle of taxpayer savings, greater private investment in prevention, and progress toward our social, health and environmental goals. Innovative programs that have social and economic benefits and have proven effective during the pilot phase would be more likely to find ongoing funding. SIBs provide a powerful incentive for all sectors to invest more in innovation and put in place shared processes and infrastructure to support more systematic experimentation and learning.

Moving forward

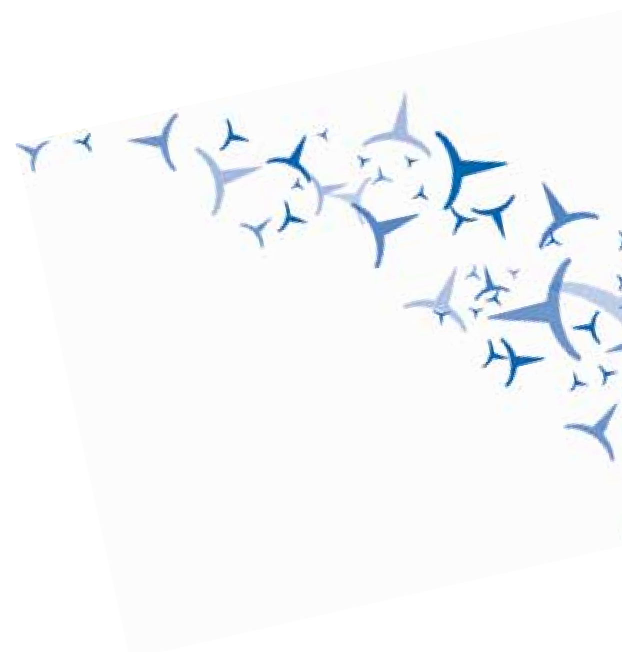
Community Bonds, Green Bonds and Social Impact Bonds all have the potential to mobilize significant new private capital into innovative and preventative approaches to increasing Canada's social, economic and environmental sustainability, as long as the necessary regulatory frameworks and strategic supports are in place. To achieve this:

- **Provincial/territorial governments should establish clear legislation and oversight mechanisms to govern the public sale of Community Bonds by non-profit organizations.** This may take different forms, depending on the jurisdiction, but regulations should take into account the relative capacity of non-profits compared to larger bond issuers, the importance of a level playing field with respect to RRSP eligibility, and the desire to engage individual community members as investors.

- **All levels of government involved in the creation of renewable energy generation infrastructure should aim to pilot a Green Bond** to accelerate Canada's transition to a more sustainable energy platform.

- **A partnership of interested social enterprises should set up a technical group made up of sector and financial experts (and informed by advisors from government) to pilot the Social Impact Bond** in various jurisdictions. These pilots would share related research, tools and approaches with each other. Federal and provincial government departments, which have an interest in the development of prevention strategies propelled by SIBs, should fund this early stage development.

Feasibility studies are already underway in Canada to explore the use of SIBs, including one with the Heart and Stroke Foundation of Ontario that looks at lowering health-care costs through an innovative health management intervention to reduce hypertension. This initial feasibility work will provide tools and a path to development that will document the support necessary to develop SIBs in Canada.



4

To explore the opportunity of mobilizing the assets of pension funds in support of impact investing, Canada's federal and provincial governments are encouraged to mandate pension funds to disclose responsible investing practices, clarify fiduciary duty in this respect and provide incentives to mitigate perceived investment risk.

The opportunity

Trusteed pension funds[33] represent one of the largest single pools of capital in Canada at $847B,[34] but very few of these assets are invested to achieve both a financial return and public benefits for Canadian communities. The encouragement – through education, incentives and regulatory clarity – of pension funds to redirect even 0.25% of their capital into impact investing could potentially mobilize over $2B for public benefit initiatives and stimulate the creation and growth of impact investment products to serve the pension fund mandates. Over time, the participation of pension funds can make a critical contribution to creating a more robust social finance marketplace and reduce the need for public incentives to encourage impact investing.

Background

Canadian pension funds currently face three structural barriers to impact investing:

1. Limited infrastructure exists because of a lack of qualified investment advisors and investment fund managers with impact investing expertise, few investment fund managers with established track records, limited variety of products and funds in which to participate, and no standard investment products tailored to meet pension fund needs.[35]

2. High transaction costs due to the current lack of scale and standardization in impact investing opportunities.

3. Legal risk due to the perception that impact investing conflicts with pension funds' fiduciary duty.

Pension funds have a legally-prescribed fiduciary duty to their plan beneficiaries that requires them to seek risk-adjusted market rates of return on their investments. While this does not prohibit them from also seeking ancillary public benefits from their investments, there appears to be a widespread perception among pension fund trustees and advisors that it does.[36]

What needs to be done

Canada's federal and provincial governments should modernize legislative definitions of fiduciary duty to clearly permit the pursuit of ancillary public benefits in addition to risk-adjusted market rates of return. This would provide the clarity pension funds need to actively consider impact investing as a legitimate and integral component of their portfolios. This has already been done in other jurisdictions. In the US, for example, the Department of Labour's ETI Interpretive

PSAC Staff Pension Fund investment in Affordable Housing

In 2007 the **Public Service Alliance of Canada** (PSAC), Canada's largest federal public service workers' union, made a $2M investment in affordable housing in Ottawa. The first arrangement of its kind, the investment was made through an innovative partnership with **Alterna Savings Credit Union,** a credit union committed to community investing, and the **Ottawa Community Loan Fund** (OCLF), a non-profit community development financial institution. Although the pension fund had long committed to the goal of investing a small portion of its assets in affordable housing in Ottawa, it took various organizations to facilitate this investment. In order to fulfill its fiduciary duty, the pension fund required an investment grade fixed-income investment. Alterna provided a five-year GIC to the pension fund. In turn, the Ottawa Community Loan Fund assisted Alterna in sourcing an appropriate affordable housing investment in Ottawa.

Bulletins of 1994 and 2008 clarified targeted investment and fiduciary duty in the Employee Retirement Income Security Act of 1974 (ERISA).[37] This clarification is widely considered to have fundamentally reduced the reluctance of pension funds to enter into targeted economic development (urban revitalization) investments and indirectly resulted in the creation of $6B in double-bottom line funds nationally in the period from 1998 to 2006.[38]

Clarity alone, however, will not transform the current investment culture. Pension funds will need additional forms of encouragement and incentives. One way is for federal and provincial regulators to require pension funds to disclose annually whether they incorporate environmental, social, and governance (ESG) considerations into their investment decisions and, if so, how this is reflected in their investment decision-making.[39] Mandatory disclosure would not constrain pension fund investment decisions in any way. It would, however, invite funds to actively consider whether or not to invest for impact. Disclosure would also enable them to see what other funds are doing and how their assets perform over time, providing a stronger evidence-base for their own decisions. The recent economic downturn has highlighted the robustness of certain impact investment asset classes relative to the market overall,[40] suggesting that more disclosure could help overcome the misperception that all impact investing is financially high-risk investing.

Governments can further encourage pension funds by sharing (and therefore helping to mitigate) their investment risk. Pension funds lack the basis for informed risk assessment of impact investing opportunities, as there currently are no trusted, qualified investment advisors for this emerging category and a very limited number of investment funds or products with demonstrated financial returns. This makes pension funds reluctant to risk their capital. Governments in other jurisdictions have tackled this challenge by:

1. **Providing pools of patient capital to qualified investment managers** that enable them to offer guarantees and credit enhancements.

Chantier de l'économie sociale

In 2006, Chantier de l'économie sociale in Quebec received a $23M non-repayable grant from the Canadian federal government to develop Chantier's investment fund (Fiducie du Chantier de l'économie sociale) for non-profit and co-operative enterprises in Quebec. By providing a significant pool of 'first loss capital' that reduces risk for subsequent private investors, this capital helped Chantier to leverage an additional $30M in investment at market rates from three institutional investors, including the labour-sponsored fund, Fonds de solidarité, and the pension funds Fondaction and Investissement Quebec.[41] In the last three years, Chantier has leveraged $146M of additional investment in its portfolio (56 non-profits and co-operatives), which contributed to the creation of 1,495 jobs. Investor risk is further minimized by Chantier's policy of maintaining a "fond de prévoyance," investing 35% of its capital in long-term, blue chip stocks and bonds.

2. Providing direct guarantees on investments and credit enhancements as an incentive to invest.

New York City Employees Retirement System (NYCERS) began making Economically Targeted Investments (ETI) in 1982 to achieve both above benchmark financial returns and significant public benefits for New York City. Currently NYCERS targets 2% of its $31B portfolio in ETIs. The Public-Private Apartment Rehabilitation (PPAR) program is NYCERS' largest active ETI program, investing $447M and producing 22,511 affordable housing units. In order to make this investment, NYCERS buys mortgages that are fully guaranteed by the State of New York.[42]

These are just two of a much broader array of incentives that governments at all levels, including local governments, can experiment with to encourage a greater flow of capital into public benefit initiatives. However, these incentives are generally viewed as the most effective with respect to pension funds and other large institutional investors.

Ideally, incentives would be phased out as qualified investment managers and their financial products demonstrate performance in community assets, investment advisors become familiar with and confident in recommending these assets, and investment managers are able to attract investors without government backing. In the short- to medium-term, however, incentives are necessary for the development and growth of new investment managers and products, without which financial risk will continue to remain a significant barrier for pension funds and other potential impact investors.

Excessive transaction costs due to the lack of scale and standardization in the current impact investing marketplace also remain a significant issue for pension funds and other investors. For ideas on how to address this financial barrier, please see Recommendation #2 on p. 11.

Globally, an increasing number of institutional investors are aligning with traditional social investors in the understanding that a good record on social performance can serve the long-term interest of investors. They are also seeing that such investment can yield market rates of return in addition to social impacts.[43]

As a result, numerous institutional investors have embraced the United Nations Principles for Responsible Investing (UNPRI),[44] among them many Canadian pension funds, including the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation, and Caisse de dépôt et placement du Québec, to name a few.[45] Pension fund signatories indicate that they are long-term investors who believe that taking environmental, social, and governance factors into consideration in investment decision-making is in the long-term interest of their pension plans.

Moving forward

Federal and provincial pension regulators need to take action, by either amending framework legislation or issuing interpretive guidelines, that explicitly permits pension funds to seek ancillary public benefits from their investments and, thereby, to address environmental and social factors through proactive investment strategies.

It is up to the federal and provincial governments, however, to create the actual financial incentives that will permit and encourage pension funds to begin exploring impact investing within the parameters of their fiduciary responsibilities and prudent portfolio investment strategies.

To this end, each level of government should enter into discussions with potential investment managers, investment advisors and pension funds, to explore what is needed and how best to structure incentives to both leverage pension fund investment and build regional or national investment management and advisory capabilities.

5 To ensure charities and non-profits are positioned to undertake revenue generating activities in support of their missions, regulators and policy makers need to modernize their frameworks. Policy makers should also explore the need for new hybrid corporate forms for social enterprises.

The opportunity

Impact investing has the potential to deliver $30B[46] to public benefit initiatives across Canada, but only if we have a regulatory environment that actively encourages the development of investment-ready social enterprises. By drawing on innovative approaches within Canada and from other jurisdictions, we can modernize our regulatory frameworks to encourage more non-profits and charities to be enterprising, stimulate the formation of more social purpose businesses, and thereby increase the flow of private capital into public benefit initiatives.

What needs to be done

Canada's charities and non-profits are actively pursuing social enterprise as a means to generate revenues to expand their community impact – developing and testing innovative new programs, scaling up those that work, and creating jobs and opportunity for disadvantaged individuals and communities.

These efforts are being frustrated, however, by a confusing patchwork of federal and provincial regulations that discourage these organizations from mobilizing business methods, capital, and entrepreneurship to advance their missions:

- **The Canada Revenue Agency (CRA) only permits charities to engage in "related businesses"** – businesses that are run substantially by volunteers or that are "linked" and "subordinate to" a charity's purpose. However, there is no clear definition in legislation or regulation of what constitutes a legitimate linkage. Furthermore, charities that inadvertently contravene CRA policies risk deregistration and loss of 100% of their assets. Charities can establish separate for-profit corporations to generate revenues, but this is costly and onerous.

- **Non-profit organizations** are subject to guidance from Canada Revenue Agency. Indeed, "it does not matter what the profit is used for, a 149(1)(1) can not have any profit earning purpose."[47] This discourages organizations from using enterprises to generate program funds or improve their overall sustainability. In addition, non-profit organizations providing public benefit require legislative safeguards to ensure community asset retention similar to the non-distribution constraints on charities.

- **Co-operatives** may engage in enterprise, but community-service co-operatives that wish to benefit from tax free non-profit status are constrained by the same rules as other non-profit organizations – i.e. restrictions on surplus-generating activity.

- **For-profit corporations** are ideally suited to establish and run enterprises, but their primary objective by law is to maximize shareholder value. They may legally add

In November 2010 the House of Commons Human Resources Committee's report on poverty offered two recommendations, one of which was: ...that the federal government review and implement quickly the required legislative and regulatory reforms to allow core non-profit organizations, especially those that rely on charitable donations and earned income, to better meet their growing revenue needs.

other social purpose objectives, but there are no legislative safeguards to ensure community ownership and retention of assets, if desired. Without standardized accountability frameworks for measuring and reporting on social impact, it is also difficult for investors to assess and compare competing investment prospects.

The introduction of a profits "destination test" (similar to the UK example) would permit charities and non-profits (including community service co-operatives) to run related and unrelated businesses tax free, as long as all proceeds are directed to advancing their missions.[48] This would replace the current confusing array of Canada Revenue Agency rules with a single, simple rule that would enhance transparency and be significantly more enforceable than the current regime. It would also permit all charities and non-profits to take advantage of opportunities to diversify and grow their revenues and impact while avoiding costly "workarounds" when it comes to structuring the organization and financing of social enterprises. At the provincial level, the Government of Ontario has adopted this approach, passing legislation *(Bill 65, Not-for-Profit Corporations Act, 2010)* that establishes a provincial profits "destination test" for charities in Ontario.

The current range of available corporate forms also poses challenges when it comes to accessing capital for social enterprises. While many charities, non-profits and co-operatives have found ways to work within the limitations of existing corporate forms, these workarounds are often complex, onerous in terms of staff time and legal costs, and result in capital obtained at higher cost than is necessary. In some provinces, like Quebec, governments have established intermediaries and incentives to help social enterprises access capital, but across the country contradictory provincial and federal legislation and policy, means that many charities and non-profits continue to experience significant obstacles. For instance, the BC Society Act explicitly allows some commercial activity, but to do so runs afoul of the federal Income Tax Act and the Canada Revenue Agency.

As a result, there is a strong interest in examining changes to existing corporate forms, and in the potential creation of a new hybrid legal form[49] to enable social enterprises to operate more efficiently and access the capital they need to grow. Any decision to pursue a new corporate form will need to take into account the potential impact on Canada's charities, non-profit organizations and co-operatives.

Many jurisdictions have turned to new hybrid, community interest corporate forms to facilitate the growth of social enterprise and the flow of private capital into social enterprise activities and organizations. Currently, we have no such legal or corporate category in Canada. However, we can learn from new forms that have been established in Europe (social co-operatives[50]), the UK (Community Interest Companies or "CICs"[51]), and the US (Low-Profit Limited Liability Companies or "L3Cs"[52] and the Beneficial Corporation[53]), to facilitate the application of business methods, entrepreneurship, and attract investment.

Exploring ways to modernize our existing corporate forms – and perhaps to establish a new hybrid form – offers the potential to develop new, purpose-built organizational, regulatory oversight and reporting frameworks that will both encourage and streamline social enterprise activity and facilitate the flow of more private capital into public benefit activities.

Moving forward

Policy-makers increasingly acknowledge that they have a role to play in building an enabling tax and regulatory environment that enhances opportunities for private capital and public benefit organizations to work together. In order to build this environment, action is needed to remove regulatory barriers and modernize corporate forms. To this end:

1. The Department of Finance should move to amend the Income Tax Act to establish a profits "destination test" treatment of related business, to serve as the primary regulatory mechanism for social enterprises

established and run by charities and non-profit organizations.

2. **Provincial governments should consider amending other relevant legislation and regulations** where necessary to obtain an approach consistent with an application of the destination test.

3. **Canada's federal and provincial governments should review existing legislation and regulations governing charities, non-profits and co-operatives, to remove other outstanding barriers to social enterprise activities (e.g. clarifying the asset lock).**

4. **The federal government should take the lead in establishing a consultative process to examine the need for a new class of hybrid corporation, subject to a community interest test, for social enterprises** and, if appropriate, explore options for a made-in-Canada model. This process should leverage the recently launched consultations by the BC government around a proposed Community Interest Company model.

5. **As part of this process, consideration should be given to the relative merits of 1) amending the Canada Business Corporations Act (and its provincial counterparts), allowing for the creation of a 'community enterprise company' within the for-profit corporate framework; or 2) creating an entirely new corporate regime for social enterprises at the federal and provincial levels.** This could build on work already undertaken by the BC Centre for Social Enterprise[54] and SiG@MaRS on options for a new "Community Enterprise Corporation"[55] that would combine elements from different approaches, including legally-binding public benefit objectives, community ownership of assets, and capped dividends to investors.

6

To encourage private investors to provide lower-cost and patient capital that social enterprises need to maximize their social and environmental impact, a Tax Working Group should be established. This federal-provincial, private-public Working Group should develop and adapt proven tax-incentive models, including the three identified by this Task Force. This initiative should be accomplished for inclusion in 2012 federal and provincial budgets.

The opportunity

Like their business counterparts, social enterprises have difficulty attracting debt and equity capital to grow and scale up programs that work. Social enterprises face the additional challenge of demonstrating a double-bottom line return – i.e. both social and financial. While these returns can be on par with more traditional investments, investors often need an incentive to take on what they perceive as additional financial risk.

Through the creation of highly focused tax incentives (similar to tax incentives for early stage venture investing in traditional for-profit businesses), governments can encourage private investors to close this funding gap. Targeted investment tax credits have been used successfully in many jurisdictions to close the early stage financing gap for both traditional and social enterprises.

There are many international social finance tax incentives to consider. The Task Force has identified three tax incentives (credits or refundable credits) for investors in social enterprises:

1. **Tax credit for social enterprise investors;**
2. **Tax supported social enterprise debt instrument; and**
3. **Refundable tax credit for social hires.**

Evidence indicates that the modest costs of such measures for social enterprises are more than offset by the double returns that ensue, i.e. meeting a broad range of community needs and creating new jobs and economic growth.[56] Helping social enterprises to more affordably employ disadvantaged individuals can further increase this payoff by reducing government costs associated with income- and employment-support programs. The opportunity is to mobilize a social finance marketplace that will provide the capital required for social enterprises to implement leading innovations at scale, thereby circumventing the existing fragmented enterprise space.

What needs to be done

While risk capital is generally scarce, the need for it among social enterprises is increasingly acute for several reasons: few investors focus on this sector; declining charitable revenues to Canada's core non-profit sector;[57] and the prospect of long term fiscal constraints at all levels of government. Modest public investment designed to leverage proportionally greater private investment in social enterprise is, therefore, a reasonable means for governments to achieve the social, environmental and economic impacts Canadians are seeking, while respecting a parallel desire for fiscal prudence.

Successful tax incentive models have been used in a range of jurisdictions. On this basis, the federal and provincial governments are encouraged to explore made-in-Canada solutions aimed at increasing the flow of private capital to social enterprises operated by for-profits, charities, non-profits, and co-operatives.

Domestic and international precedents include:

- **Tax credit for social enterprise investors** – In addition to social returns, social enterprises offer potential for economic returns comparable to other innovative early stage SMEs, but currently lack access to the tax incentive measures that many early stage for-profit businesses can take advantage of. We can address this gap by following the example currently under consideration by the BC government to include social enterprise[58] (non-profit and co-operatives) as an eligible "prescribed business activity" in its Venture Capital Corporation legislation. This measure currently offers individual and corporate investors a 30% tax credit incentive of up to $60,000 annually for investments in certain business sectors (technology, film, etc.).[59]

The Ontario Social Economy Roundtable has proposed a similar 30% tax credit incentive for investments in enterprising non-profits and co-operatives that would also be RRSP eligible.[60]

- **Tax-supported social enterprise debt instrument** – Social enterprises currently face significant barriers to obtaining debt financing and other forms of bridge and loan capital from mainstream financial institutions. As a result, they face burdensome costs that further reduce their attractiveness to investors. This situation could be remedied by establishing a social enterprise debt instrument that would bear interest at a below-market rate, but offer debt holders tax-free interest income. This mechanism would be analogous to the tax-free municipal bonds that are widely used in the United States. In Canada, the use of such instruments would require harmonization of federal and provincial policies.

The Nova Scotia Equity Tax Credit (ETC) is designed for local small businesses, co-operatives, and **Community Economic Development Investment Funds** (CEDIFs), to address the fact that most RRSP investments were being made in out-of-province businesses. Ten years into the program, 48 CEDIFs are operating in Nova Scotia, with over 4,800 community investors providing $32M in 90 offerings. Nearly all investors are residents of the communities in which the businesses are operating and expanding local employment opportunities.[61]

- **Refundable tax credit for social hires** – Too many Canadians are forced to depend on social assistance because of the lack of appropriate job opportunities. Expanding such opportunities increases social inclusion and productivity, and reduces social welfare expenditures. Many social enterprises specifically target the employment of individuals and groups facing barriers to labour market entry and attachment. Because these individuals typically require more employment supports and training than conventional market hires, they pose additional costs to enterprises that hire them. Building on existing training programs in Canada, and borrowing from the UK's Access to Work program, a way to bridge this cost gap would be to provide eligible enterprises with a refundable tax credit of 25% of the wages/salaries paid to social hires engaged in defined activities. The credit would be payable to the enterprise on a refundable basis to ensure benefit to non-profits that do not pay tax.[62]

Moving forward

The success of any tax incentive lies in the quality of its design. The development of made-in-Canada measures, drawing on proven or promising examples from other jurisdictions and contexts, is both feasible and desirable. However, further detailed design work is required on objectives and outcomes sought, target investor classes

Conseil québécois des entreprises adaptées is a network of non-profit enterprises whose mission is to create permanent employment for those experiencing barriers. To date, these enterprises have created over 4,000 jobs, saved the government $15.6M, and made immeasurable improvements in clients' quality of life.

(institutional, retail) and other issues.

From a tax perspective, social enterprises are a new and, therefore, challenging category – and further detailed work is needed to define them for the purposes of the incentives proposed above. While it is desirable for all social enterprises – non-profit and for-profit – to benefit from these incentives, defining a for-profit social purpose business presents a particular challenge in the absence of a well-defined, distinct corporate form or a clearly-defined set of social enterprise activities. By the same token, an expansion of these tax incentives to for-profits would require precise clarity on the outcomes sought and on the eligible activities to be supported to prevent a distortion of market dynamics and the creation of unfair competition.

The Task Force therefore recommends proceeding along two tracks. Track 1 would see new tax measures extended to revenue-generating charities, non-profits and co-operatives only. Track 2 would entail consultation and technical work to resolve the definitional issues required to extend these new measures to for-profit social purpose businesses.

To this end, we recommend the following actions:

1. **A Tax Working Group should be established** to further develop these tax incentive proposals to ensure they are appropriately adapted, closely targeted to the desired beneficiaries, and maximize return on public investment. The Working Group should comprise representatives from the investment community; the charitable, non-profit, and co-operative sectors; social purpose business; Finance Canada; Industry Canada; and interested provincial governments.[63] Given that the social-hire policy initiative might involve various jurisdictions, a separate specialized working group could be required.

2. **The Working Group should be announced in the 2011 federal budget and report by fall of 2011 to permit inclusion of its recommendations in the 2012 federal and provincial budgets.**

7

To strengthen the business capabilities of charities, non-profits and other forms of social enterprises, the eligibility criteria of government sponsored business development programs targeting small and medium enterprises should be expanded to explicitly include the range of social enterprises.

The opportunity

All businesses require effective business plans, strong management teams, and appropriate financing to launch and grow. While early stage social enterprises have some unique features, they also share many common challenges with traditional businesses and therefore would benefit from access to business supports governments currently offer through a range of programs. In some cases, this would simply mean expanding eligibility criteria – in others, adding more specialized expertise (or resources) to serve social enterprises effectively. In all other respects, social enterprises would be subject to the same eligibility tests for services and financing as other businesses.

> "Small and medium enterprises are the single largest contributor to employment and job creation, in Canada and around the world."
> —*Prime Minister Stephen Harper, G20 SME Finance Challenge, November 12, 2010.*[64]

Investments in building the business capacity of social enterprises can significantly increase their social and environmental impact, enable them to create more jobs, and give them the means to achieve financial sustainability and growth without added pressure on government and philanthropic resources. This would expand the social and economic impact of government SME programs and significantly increase the pipeline of investment-ready opportunities for impact investors.

What needs to be done

Many impact investors have difficulty finding appropriate investment-ready opportunities, in part because of the challenges inherent in launching and growing a social enterprise. These include unique governance and legal considerations, regulatory impediments, and the complexities of delivering and measuring social *and* financial impact. In addition, social enterprises also face challenges common to most start-ups — limited business experience, technical infrastructure, talent transitions and financing.

Canada's federal and provincial/territorial governments recognize the importance of small and medium enterprises to Canada's economy and offer a broad suite of programs to support their growth and development. These programs vary in focus and offerings, but collectively cover a spectrum of services that include:

1. Counselling and information services;
2. Business skills training;
3. Business plan guidance;
4. Revenue model development;
5. Mentoring;
6. Market analysis and development and other consulting services;
7. Technology development;
8. Talent management;
9. Financing support; and
10. Governance.

Technical and Advisory Supports in Canada:

Community loan funds and catalyst organizations provide services such as: online information and tools to help start and develop social enterprises; entrepreneurship and business development training; business planning and research grants; and one-on-one advisory business services. Examples of organizations in Canada offering these services include: Enterprising Non-profits, Capacity Waterloo Region, MaRS Discovery District, Collaborative for Innovative Social Enterprise Development, BC Centre for Social Enterprise, and the Centre for Social Innovation.

Despite the clear need of many start ups for such services, an initial survey of key federal business skill training programs for SMEs indicates that many social enterprises are not currently eligible to access their services:

- **Canada Business Service Centres** offer grant financing information to non-profits, but their broader suite of business services is primarily available to for-profit businesses.

- **Community Futures Development Corporations** (CFDCs) are governed regionally, with some regions mandated to serve social enterprises and actively working to strengthen their capacity to do so.[65] However, the receptivity and capacity of local Boards managing CFDC funds varies significantly and impacts their lending.

- **The Canada Small Business Financing Program** excludes enterprising non-profits/charities, although social purpose businesses may qualify.

- **The Business Development Bank of Canada** does not specifically exclude social enterprises, but organizations must have a profit orientation and provide goods and services on a profitable basis. Co-operatives and some non-profits are eligible, but not if their revenues primarily come from government grants.

- **Industrial Research Assistance Program** (IRAP) services are not available to enterprising non-profits, but social purpose businesses that meet their general criteria would be considered.

While the Task Force did not review provincial/territorial SME support programs, it is reasonable to expect that, although these programs likely vary significantly across jurisdictions, similar issues exist among them.

Social enterprises consequently rely heavily on a small number of regional organizations focused on delivering business and financing supports tailored to their needs.

These services are in high demand but short supply, and cannot meet the growing need for early stage business supports and services similar to those provided to traditional SMEs. Because social enterprises have unique additional needs, some of these programs may need to incorporate additional specialized expertise – e.g. how to assess the execution and financing risks associated with different types of social enterprises and how to measure impact. Consultation is needed to assess which existing business support programs can be modified adequately to meet the needs of social enterprises and to determine where complementary niche services delivered through more specialized regional providers may also be helpful. In all cases, generic and niche services need to be effectively coordinated at the regional and local level.

Moving forward

To provide social enterprises with more access to information, business guidance, technical consulting services, and financial supports, the following actions are needed:

- **Building on Imagine Canada's 2011 pre-budget recommendation to the Finance Committee, federal and provincial governments should expand eligibility for SME business and financing support programs to include the spectrum of social enterprises** (charities, non-profits, co-operatives, and social purpose businesses). In all other respects, social enterprises should be subject to the same eligibility requirements and criteria as other businesses.

- **Local Canada Business Service Centres and other local business information and service providers should identify specialized social enterprise business services delivered in their region** and integrate them into their information and referral services.

- **CFDCs should work to build the knowledge and capacity of local Community Futures Boards** to understand and meet the needs of social enterprises.

- **Regional social enterprise business and finance support providers should establish mechanisms to improve service coordination and coverage and to share best practices.** Some regions have already launched initiatives to foster greater coordination and collaboration. In the Ottawa region, the Collaborative for Innovative Social Enterprise Development aims to identify and integrate services for social enterprises in Eastern Ontario. In British Columbia, Enterprising Non-profits has partnered with Community Futures, the Prince George Aboriginal Business Development Centre, Small Business BC, a number of other organizations, and the BC government to create Human Resources tools and other resources for social enterprises. In Ontario, MaRS has fully integrated social enterprises into its business advisory service and works with many partners across Ontario to support social entrepreneurs.

- **Regional organizations should designate leadership to coordinate a collaborative assessment of the capacity of different business and finance support services for social enterprises, and propose ways to move toward a more comprehensive and effective system of support in their region.**

- **The federal government should provide targeted funding to designated regional hub organizations to facilitate coordination and knowledge exchange** among organizations providing business advisory and financing supports for social enterprises, to build a more effective national network.

Conclusion

All large scale change begins with a clear goal and concerted action. In 1946, a dozen people pooled their combined savings of $22 to form a new kind of bank, because they saw the need for a community-led financial institution. Today, the Vancity Savings Credit Union is a leading civic and financial institution, with $14.5B in assets and a history of enabling transformational change.

The goal of the Social Finance Task Force is to catalyze the development and growth of a robust impact investing marketplace in Canada. Such a marketplace will make it possible for social entrepreneurs to mobilize private capital for public good, and fundamentally change the way we think about – and solve – societal challenges.

"While there is not enough money in foundation and government coffers to meet the defining tests of our time, there is enough money. It's just locked up in private investments."
From a speech made by Judith Rodin, President of the Rockefeller Foundation at the Generation Investment Management Global Client Conference (May 2010).

Canada is part of a vital and rapidly growing global impact investing movement. We continue to share experiences and best practices with global partners. When it comes to shaping our own impact investing marketplace, however, our context is unique and requires made-in-Canada approaches.

This report forms the foundation of a strategy for achieving large scale change, requiring concerted action by many players. Successful implementation of this strategy will rely on the experience and know-how of our own pioneers like Chantier de l'économie sociale in Quebec, as well as the collaboration of leading financial institutions and foundations, together with federal and provincial/territorial governments and, of course, impact investors.

Ongoing engagement of a broad range of stakeholders will be critical as we move forward. We have, therefore, asked respected innovation brokers and convenors, such as MaRS Discovery District, the Public Policy Forum (PPF), and Social Innovation Generation (SiG), to lead the next phase in this relay by hosting cross-sectoral working sessions to resolve questions and issues that might otherwise impede our progress toward a more fully developed impact investing marketplace.

We are optimistic that significant progress can be made over the coming year and look forward to reporting publicly in 2012 on what has been achieved.

We conclude our report by sincerely thanking the many individuals, as well as public, private and non-profit organizations that collaborated in its preparation. Their ideas, insights, and critiques have been invaluable. We look forward to continuing to work with them and to welcoming new partners inspired by the opportunity to invest in the enterprising organizations, people, and ideas that will help solve the profound challenges of our time.

Glossary & Related Terms

blended value, double/triple bottom line considerations
A term first coined by Jed Emerson, this approach recognizes that value is non-divisible and naturally incorporates social, financial, environmental or charitable elements. Blended value investing encompasses all classes of investments pursuing such multiple goals, including socially responsible investments and private investment for social goals. Related terms: blended-value proposition, triple-bottom-line considerations.

charities "related business"
The CRA defines two kinds of "related businesses": 1) businesses that are run substantially by volunteers; or 2) businesses that are linked to a charity's purpose and subordinate to that purpose. For more information see, "BC Centre for Social Enterprise, "Backgrounder re: social enterprise legal structures in Canada" (2010), http://www.centreforsocialenterprise.com/f/BCCSE_backgrounder_re_social_enterprise_legal_structures___Canadian_context.doc .

co-operative
A co-operative is a special-purpose organization owned by members that use its services. It is operated with or without share capital. The members share equally in the governance of the organization, and any surplus funds (profits) are generally distributed among members or can be donated for community welfare or used to improve services. There are six main types of co-operatives operating in Canada: financial; consumer; service; producer; worker; and multi-stakeholder.

Related are **social co-operatives** (well known in Continental Europe) that meet a wide range of social needs, especially for the more vulnerable members of our society. These co-operatives are typically not-for-profit, and they may take the form of consumer, worker or multi-stakeholder co-operatives.

destination of profits test
Is a test of the motivation or underlying purpose of surplus generating activities of charities or non-profit organizations (including social co-operatives). To satisfy the test, the organization must show that a reasonable person might consider that any business activity profit (or surpluses or revenue) is directed toward advancing the charitable or non-profit mission.

hybrid corporate form, community enterprise company
A proposed new legal entity that uses business methods and market-based strategies (securing of investments, acquisition of capital, sale of goods and services, accumulation of surpluses) to pursue social, cultural and/or environmental goals – i.e. to address community challenges. While certain business methods and principles are employed, the objective is the achievement of public, not private, benefits. Related terms: Community Interest Company (CIC); Low-Profit Limited Liability Company (L3C); and Beneficial Corporation.

microfinance
The provision of financial services (often in the form of small loans) to low-income clients or lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.

mission-related investments (MRI)
Seek opportunities to align a foundation's financial investments with the mission of the

organization, while maintaining long-term targeted financial returns. At its core, mission investing serves the dual objectives of furthering programmatic goals and earning financial returns.

Related are program-related investments (PRI), investments, rather than grants, made to a qualified donee. They are funded with money from a foundation's endowment funds, and for the primary purpose, not of income generation, but of furthering the foundation's charitable purposes. This type of investment can apply toward meeting the foundation's disbursement quota.

responsible investing
Responsible investing takes environmental, social and corporate governance (ESG) factors into consideration in investment decision-making.

social entrepreneur
A social entrepreneur is someone who recognizes a social problem and uses entrepreneurial principles to organize, create, and manage a venture to effect social change. Whereas a business entrepreneur typically measures performance in profit and return, a social entrepreneur assesses success in terms of the impact s/he has on society, and in profit and return.

social enterprise
A social enterprise is generally understood to mean any organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission. This covers a broad spectrum of entities – from enterprising charities, non-profits, and co-operatives to social purpose businesses.

social innovation
An initiative, product or process or program that profoundly changes the basic routines, resource and authority flows or beliefs of any social system (e.g. individuals, organizations, neighbourhoods, communities, whole societies). The capacity of any society to create a steady flow of social innovations, particularly those which re-engage vulnerable populations, is an important contributor to overall social and ecological resilience.

social finance, impact investing
Actively placing capital in businesses and funds that generate social and/or environmental good and (at least) a nominal principal to the investor. Impact investors seek to harness market mechanisms to create social or environmental impact.

social purpose business
Commercial for-profit entities created by entrepreneurs to address social issues, with the core of their operations directed toward maintaining their social purpose, while operating in the market economy.

socially responsible investing (SRI)
Corporate performance in the selection and management of investments that generate positive social, environmental, and corporate governance impacts, in addition to a good financial return. Socially responsible investors favor corporations that promote environmental stewardship, consumer protections, human rights and diversity. SRI, driven by values-based decisions, may take the form of negative or positive screening, shareholder advocacy, or make community development the object of an investment or lending strategy.

Related is the United Nations Principles for Responsible Investing Initiative (UNPRI), a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

Endnotes

Introduction

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3. J. Freireich and K. Fulton, Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry (Monitor Institute: 2009), 15.
4. Ibid, 16.
5. Ibid, 57.
6. Estimated at $2,563.9B. Source: Social Investment Organization, *Canadian Socially Responsible Investment Review 2006* (2007), p. 6, http:// www.socialinvestment.ca (accessed 09/20/2010).
7. Freireich and Fulton, *Investing for Social and Environmental Impact*, 2.
8. Causeway, "Social Finance: Enabling social enterprise for public benefit," 3.

Recommendation #1

9. Data as at November 2009. Source: Canada Revenue Agency, *Charities Directorate* as cited in Philanthropic Foundations of Canada, "Foundations in Canada," http://pfc.ca/en/resources/foundations-in-canada/ (accessed Nov. 20, 2010).
10. While the ultimate goal is for foundations to increase their mission-related investing to 10% of their assets, in the short-term, until more impact investing options are available, this 10% would likely also have to include Socially Responsible Investing (SRI) – e.g. using environmental, social and governance factors to inform investment decision-making, including investing in screened funds, versus proactive impact investing.
11. Philanthropic Foundations of Canada, *Foundations – Social, Community and Mission Investing. The Legal Considerations* (2010), 1. (unpublished)
12. Coro Strandberg, *The State of Community/Mission Investment of Canadian Foundations.* A Report of Community Foundations of Canada and Philanthropic Foundations Canada (2010), 20. http://corostrandberg.com/publications/community-investment/the-state-of-community-mission-investment-of-canadian-foundations (accessed Nov. 20. 2010).
13. Coro Strandberg, *The Social Purpose Capital Marketplace: An Opportunity for the Canadian Charitable Sector* (2007), 13, http://corostrandberg.com/category/publications/social-capital-marketplace (accessed Nov. 20, 2010).
14. Strandberg, *The State of Community/Mission Investment of Canadian Foundations*, 2.
15. Ibid, 19.

Recommendation #2

16. Examples include: Fiducie du Chantier de l'économie sociale, Renewal Partners, Vancity, and community loan funds across Canada.
17. Public Policy Forum, "Canadian Impact Investment Landscape," Research brief prepared for the Social Finance Task Force (2010), 3. (unpublished)
18. Ibid, 3.
19. Ibid, 3.
20. Charities Aid Foundation (CAF) Venturesome, "Financing the Big Society: Why social investment matters," A CAF Venturesome working paper (2010), 5, http://www.cafonline.org/default.aspx?page=19513 (accessed Nov. 20, 2010).
21. Public Policy Forum, "Canadian Impact Investment Landscape" (2010), 4. (unpublished)
22. This sample represents an estimated 25-50% of demand in Ontario, while Ontario represents an estimated 25-40% of total demand in Canada. While Ontario represents 40% of the overall economy in Canada, it is likely there is stronger demand in BC and Quebec.
23. £20M in 2002 to match government investment; £75M in 2007 to renew/establish a second (sustainability) fund; and £26M in 2008 for the Property Fund. Source: Public Policy Forum (2010), 4.
24. Ibid, 5.
25. These included WHEB Ventures, Unltd Ventures, Big Issue Invest, Triodos Social Enterprise Fund and CAF Venturesome.
26. Tom Haubenreisser, "Feasibility Study: Impact Investment Fund" (Toronto: Social Investment Organization, 2010). (unpublished)
27. Consultation with existing regional funds indicates that many are close to being fully subscribed and, therefore, turning down viable loans. Several of these would

be willing to take on additional capital at a cost of 1-3%. Source: Public Policy Forum (2010), 2. (unpublished)
28. Public Policy Forum, "Canadian Impact Investment Landscape," 2.
29. Government of Ontario, Breaking the Cycle: Ontario's Poverty Reduction Strategy (2009), http://www.children.gov.on.ca/htdocs/English/documents/growingstronger/Poverty_Report_EN.pdf (accessed Nov. 20, 2010).

Recommendation #3

30. Beth Coates, "Provincial initiative to create policy framework and amend legislation to support community bonds," Ontario Nonprofit Network (2010), 1.
31. For more information about Ontario Securities Commission's definition of an accredited investor, please refer to:
http://www.osc.gov.on.ca/en/21943.htm (accessed Nov. 20, 2010).
32. Ben Fine, Oliver Madison, Emily Paddon, Andrew Sniderman and Tom Rand, *Green Bonds: A Public Policy Proposal* (2008), 8-9, http://www.actioncanada.ca/en/index.php?s=green+bonds (accessed Nov. 20, 2010).

Recommendation #4

33. Pension funds that pool and manage assets under the control of a single Board of Trustees for the benefit of the pension plan beneficiaries.
34. Tessa Hebb, *The Role of Institutional Investors in Social Finance* (Ottawa: Carleton Centre for Community Innovation, 2010), 4.
35. Phillips, Hager & North, "An Overview of Impact Investing," (2010), 18.
36. Karim Harji and Tessa Hebb, *Investing for Impact: Issues and Opportunities for Social Finance in Canada* (Ottawa: Carleton Centre for Community Innovation, 2010), 6,
http://www.carleton.ca/3ci/3ci_files/Documents/Harji%20Hebb%20Impact%20Investing%20for%20Social%20Finance%20v3.pdf (accessed Nov. 20, 2010).
37. "In addition to ERISA's five basic provisions governing pension fund investments, the US Department of Labour has established an "all things being equal" test for ETIs. All things being equal, a pension plan may make an investment that bears a collateral or social benefit. The "all things being equal" test has two components:

1. The ETI's expected rate of return must be commensurate with rates of return of alternative investments with similar risk characteristics. (DOL Interpretive Bulletin 94-1); and
2. The ETI must be an appropriate investment in terms of diversification and the plan's investment policy (DOL Interpretive Bulletin 94-1).

Source: K. Snow Spalding and M. Kramer, "What Trustees Can Do Under ERISA (the Employee Retirement Income Security Act: A study of permissible trustee activism," 21, http://laborcenter.berkeley.edu/research/erisa.pdf (accessed Nov. 20, 2010).Available at: http://laborcenter.berkeley.edu/research/erisa.pdf
38. Lisa Hagerman, "More than a profit? Measuring the social and green outcomes of urban investments," 3, http://urban.ouce.ox.ac.uk/wpg07-17.pdf (accessed Nov. 20, 2010).
39. This mirrors legislation in the UK, France, Germany, Denmark and Australia.
40. Strong counter-cyclical impact investing performance is reflected in the current microfinance offerings of Blue Orchard, an investment of the large Dutch pension fund ABP and US fund giant TIAA-CREF. Additionally, the targeted private equity portfolio of CalPERS 'California Initiative' has maintained value through this current period.
41. In Quebec the existence of successful labour-sponsored pension funds has been a strategic asset for social finance. The Quebec Solidarity Fund (FSTQ), created in 1983 by the Quebec Federation of Labour, manages over $7B in assets. Over the past four years, the FSTQ has become actively involved in specific investment initiatives for community housing. Fondaction, a labour pension fund created in 1995 by Centrale des syndicats nationaux (CSN), manages $700M in assets. Investment in social enterprises (co-operatives and non-profits) is an integral part of its mission. Fondaction also plays an important role in supplying capital to specialized local or regional funds, and particularly funds oriented toward investment for women entrepreneurs.
42. Lisa Hagerman, Gordon L. Clark and Tessa Hebb, "Revitalizing New York City and State: The Role of Public Pension Funds," Oxford University Centre for Environment, Working Paper, *(2006)*, 5-13.
43. Harji and Hebb, "Investing for Impact," 5.
44. For information on the Principles of Responsible Investing, please visit http://www.unpri.org/principles/ (accessed Nov. 20, 2010).
45. Canadian pension fund signatories to the Principles for Responsible Investing include: British Columbia Municipal Pension Plan, Caisse de dépôt et placement du Québec, Canada Pension Plan Investment Board, Comité syndical national de retraite Bâtirente, OPSEU Pension Trust, Public Service Alliance of Canada Pension Fund, Régime de retraite de l'Université de Montréal, Régime de retraite de l'Université du Québec, and Société d'assurance-vie inc.

Recommendation #5

46. 1% of our $3T in total assets under management would amount to approximately $30B available for public benefit enterprise.

47. SFU Centre for Sustainable Community Development, "Backgrounder re: social enterprise legal structures in Canada," (2010), 5.

48. Peter Luxton, *The Law of Charities* (New York: Oxford University Press Inc., 2001), 732, quoted in Terrance Carter and Theresa Man in *Canadian Registered Charities: Business Activities and Social Enterprise – Thinking Outside the Box*, National Centre on Philanthropy and the Law Annual Conference Paper (2008), 17.

49. Ideally, if desired, this would mean a single national hybrid corporate form; however, it is possible that provincial governments will also want to introduce their own variants.

50. In contrast to traditional co-operatives that are primarily oriented toward members' interests, social co-operatives were developed in Italy in 1991 to serve broader community interests and often combine different types of stakeholders in their membership (paid workers, volunteers and other supporting members, etc.). Social co-operatives have proven extremely popular, with more than 7,300 established in Italy alone by 2005, and have become widespread in Europe.

51. CICs are governed by an independent regulator and must pass a "community interest test." They are community owned and led and while they offer a capped profit to investors, their assets are permanently "locked" within the CIC for community use. CICs are taxed like other companies but some are eligible for the same tax credits as those for small businesses. Since the introduction of CICs, over 4,000 have been registered in the UK. For a list of CICs, visit http://www.cicregulator.gov.uk/coSearch/companyList.shtml (accessed Nov. 20, 2010).

52. In the US, several states have established L3Cs that are similar in many respects (including taxation) to limited liability companies, but have charitable and educational purposes as their primary goal, with profit as a secondary objective.

53. Nine US states have adopted or drafted benefit corporation legislation providing a corporate form that ensures for-profit companies provide public benefit, entrench their social mission, conduct an independent third party standard assessment, and produce an annual benefit report. The corporate form also ensures that Directors can make decisions that are not solely profit-maximizing, taking into account shareholders, stakeholders, employees, and the environment.

54. Richard Bridge and Stacey Corriveau, "Legislative Innovations and Social Enterprise: Structural Lessons for Canada" (Abbotsford: BC Centre for Social Enterprise, 2009).

55. The following are illustrative elements of a potential CEC model that might be considered:

1. Legally binding public benefit objectives that cannot be changed without regulatory approval;
2. Expansion of fiduciary duty of directors to include stakeholder and community interests;
3. Annual public reporting on activities, financial and other outcomes inherent to the organization's objectives;
4. Legally binding asset lock precluding the sale of assets at less than market value, but permitting their transfer to another asset-locked body (e.g. CEC, charity, municipality) with comparable public benefit objectives;
5. Legally defined cap on dividends and interest paid to investors/lenders;
6. A taxation rate and investor tax credits that recognize the CEC's public benefit mission and the restrictions above;
7. Eligibility to apply for "qualified donee" status for the purpose of receiving grants and/or program-related investments from foundations, charities and governments;
8. Access to the government programs targeting SMEs; and
9. Opportunity to donate 100% of profits to a registered charity.

Recommendation #6

56. As of June 2008, the Quebec Regional Capital Tax Credit has raised $880M, with over 121,000 shareholders, and has partially capitalized two funds:

1. Desjardins Capital régional et coopératif (DCRC) – Total commitments reached $477M in 213 companies, co-operatives and funds contributing to the retention of over 30,000 jobs (December 2008); and
2. The Chantier de l'économie sociale Patient Capital Trust – $11.2M has been invested over the first two years in 38 social economy enterprises that operate in different sectors and regions around Québec.

US New Market Tax Credit partially capitalized ShoreBank Enterprises Cascadia (SBEC), which has invested over $60M in 400 business, social and civic ventures that represent new strategies for economic security and environmental health, creating or preserving more than 3,058 jobs, and leveraging an additional $255M in investment by others.

57. Imagine Canada, "Supporting Innovation and Resiliency in the Charitable and Non-profit Sector," Pre-budget brief submitted by Imagine Canada to the House of Commons Standing Committee on Finance (August 2010).

58. Non-profit societies and co-operatives would be added to the list of eligible investees, which currently includes only for-profit corporations. Prescribed business activities would include: provision of affordable housing;

creation of training and employment opportunities for persons with barriers to employment, including disabilities; and delivery of essential social, cultural and environmental services to the community.
Source: BC Social Venture Partners, Enterprising Non-Profits, PLAN, Renewal Partners, Vancity, Vancouver Foundation, YWCA Vancouver, *Social Innovation Investment Tax Credit*, December 16, 2009. (unpublished)

59. Research on the current BC Investment Tax Credit indicates that this program has succeeded in catalyzing a 60% increase in new venture investment and that companies receiving tax-credited investment demonstrated higher revenue and employment growth and lower debt/equity ratios than early stage ventures generally. Critically for governments, the tax revenue generated to date by benefiting companies is 130% of the public dollars invested. See: James A. Brander, Edward J. Egan and Anthony E. Boardman, "The Equity Capital Program in British Columbia – An assessment of capital availability, program efficiency, and policy alternatives" (Vancouver: Sauder School of Business, University of British Columbia, 2005), http://www.llbc.leg.bc.ca/public/pubdocs/bcdocs/379237/ecpapril2005.pdf (accessed Nov. 20, 2010).

60. Ontario Social Economy Roundtable, "A Financing Framework for Social Enterprises in Ontario" (2010). (unpublished)

61. Stewart E. Perry and Garry Loewen, "Equity Tax Credits as a Tool of CED," *Making Waves*, Vol. 20, no. 3 (2009), 21-25.

62. This credit would be similar in design to existing film tax credits.

63. A recent cross-sector collaboration parallel was the consultation on the successful rollout of the Registered Disability Savings Plan (RDSP).

64. Ashoka, "The G20 SME Finance Challenge: Unlocking Private Finance for Small and Medium Enterprises," Press Release (June 26, 2010), http://www.ashoka.org/g20-competition (accessed Nov. 20, 2010).

65. The Pan West Community Futures Network has developed a special training module to help local Community Futures boards understand the needs of social enterprises so they can support them better. See: CFBD Training Committee, "Our Boards ... Our Future: Are we there yet?" *Module 11: Social Economy* (Pan West Community CF Network, 2005), cited in Wanda Wuttunee, Russ Rothney, and Lois Gray, "Financing Social Enterprises: A Scan of Financing Providers in the Manitoba, Saskatchewan, and Northwestern Ontario Region," A research report prepared for the Northern Ontario, Manitoba, and Saskatchewan Regional Node of Social Economy Suite (2008), http://www.usaskstudies.coop/socialeconomy/files/LLL_Final_Reports/Report_CL2_02a.pdf (accessed Nov. 20, 2010).

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4. Chung, Convery, Golden, Hewitt, "*MaRS, Social Entrepreneurship Series: Legislative Innovations*", (2010) **www.marsdd.com**

5. Coro Strandberg,"*The State of Community/Mission Investment of Canadian Foundations: A Report of Community Foundations of Canada and Philanthropic Foundations Canada,*" (2010) **www.corostrandberg.com**

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A comprehensive list of related resources is available at www.socialfinancetaskforce.ca

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A Cross-section of the Canadian Social Finance Infrastructure

Aboriginal Capital Corporations Access Community Capital Fund Alterna Credit Union Ashoka Canada Assiniboine Credit Union Changemakers BC Centre for Social Enterprise Bealight Foundation Caisse d'économie solidarie Caledon Institute of Social Policy Calgary Chambers of Voluntary Organizations Canadian Alternative Investment Cooperative Canadian Community Investment Network Cooperative Canadian Cooperative Association Canadian Economic Development Network (CEDNet) Canadian Social Economy Roundtable Canadian Business Ethics Research Network Canadian Environmental Grantmakers Association Cape Fund Carleton Centre for Social Innovation Centre for Social Innovation Chantier de l'économie sociale City of Montreal City of Toronto ClearlySo Community Forward Fund Community Foundations Canada Community Opportunity & Innovation Network Peterborough Concordia University Conseil québécois des entreprises adaptées Desjardins Capital EcoTrust Canada Économie solidarie de l'ontario Edmonton Social Enterprise Fund Enterprising Nonprofits BC Environmental Grant Makers Fondaction de la CSN fonds de solidarité Hamilton Community Foundation Hamily Credit Union Jantzi Sustainalytics Hollyhock Human Resources Skills Development Canada Imagine Canada Investeco Investissement Québec The J. W. McConnell Family Foundation Le Réseau de développement économique et d'employabilité (RDÉE) MaRS Meritas Montreal Community Loan Association New Dawn Enterprises Ontario Council of Alternative Businesses Ontario Nonprofit Network Ontario Social Economy Roundtable Ontario Trillium Foundation Ottawa Community Loan Fund Paro Centre for Women's Enterprise Philips Hager and North Plan Institute Public Policy Forum Québec Local Development Funds Renewal2 Réseau d'investissement social du Québec (RISQ) Rotman School of Management Royal Bank of Canada Rural Community Economic Development Sauder School of Business, Centre for Sustainability and Social Innovation Shareholder Association for Research and Education Social Capital Partners Social Economy and Sustainabililty Research Network Social Economy Centre, Ontario Institute for Studies in Education Social Economy Resource Hub Social Enterprise Council of Canada Social Innovation Generation Social Investment Organization Social Sciences and Humanities Research Council of Canada Social Services Housing Corporation Social Venture Exchange Social Venture Partners SocialFinance.ca SRI in the Rockies St. John Community Loan Fund Strandberg Consulting The Maytree Foundation The Wellesley Institute Toronto Atmospheric Fund Toronto Enterprise Fund University of Toronto Vancity Credit Union Vancover Foundation YWCA Toronto YWCA Vancouver