Social Finance Q+A with Tim Brodhead

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How do you see the field of social finance evolving within Canada over the next five to 10 years?

I would say, that given how quickly things have changed in the last five years that within the next five years we will have a much more mature social finance eco-system, i.e., there will be a variety of offerings, there will be the technical expertise to assess different opportunities, package them, make it easy for investors like ourselves to make choices among different options. Organizations in the community, those that are particularly interested in this approach will have developed the expertise as well to talk the language and put together good investment opportunities. There will be a social venture exchange. There will be a much greater acceptance of the part of traditional fund managers that this is another field within the hundreds of possibilities. This is a particular niche. So they'll be much more skilled in terms of how you run these kinds of funds and how you seek investors and all the rest of it. So in other words, it will be just a lot more diversified, and there will be a better mix of supply and demand than what we see at present, but some of that depends on having a supportive regulatory environment and making it easier for people to do this.

As this is a new concept in Canada, there's an idea of a change in products as well as paradigms. What kind of barriers have emerged to moving ahead with social finance in this country?

I think it's just, like with anything new: "Why? What's wrong with the existing way of working?" which is almost the classic kind of response to almost anything. It requires a combination by everybody. People have to have a different set of skills, people have to think differently, people have to get through this very ingrained mindset that you're either making a profit, you're maximizing your profit — that's your sole purpose — or you're doing something charitable and expecting no return at all whatsoever. That's the mindset that exists and it's very hard to change that.

So it's the "Why?" that's the barrier, not so much the "How"?

Well the "how" is a barrier too because at the moment it's a very immature field. If you turn back the clock 30 years, people who were involved in investing, they'd hardly recognize the world as it is now. There was no such thing as hedge funds or all of these incredibly sophisticated financial instruments that exist now-a-days and then it was basically, “Do you want to buy stocks? Do you want to buy bonds? Do you want to have money in GICs?” I mean that was about as simple as it could get.

So you can see how things have changed, and of course it’s a gradual process. People come along and they’re smart and they see something that nobody else has thought about and create a way of addressing it. So, right now there’s a challenge, which is, “If you get into certain kinds of investments that aren’t liquid, how do you ever get your money out?” Well, I mean that’s a challenge that people in the business are going to figure out in no time. Another challenge now is, “What’s the measure of social benefit?” That’s not going to take people very long, there are lots of people with brains figuring out now, “Well, ok, we can work out how to measure it in a way that everybody accepts” and there are generally accepted accounting standards that didn’t spring into being overnight. They’ve been tweaked and tweaked and tweaked until they’ve come to be the thing that everybody understands and say, “Yeah, that’s kind of how we measure what really constitutes a firm’s profit”. And auditors can come in and do those calculations and we all accept the result, more or less, but we’re not there obviously on social benefit but I think in five, 10 years that we will be.

When community organizations hear about social finance, what do you think the reactions will be and where do you think they will need to ramp up?

First of all, for a lot of community organizations, the subject of social finance is irrelevant. They don’t have anything that they could turn into a viable enterprise. If you’re basically providing a service to people, and those people can’t afford to pay you for it, then you need a subsidy and in most cases where organizations are providing a service the government actually pays for that because it’s all from an area of government responsibility: education programs after school or fitness programs or dealing with particular issues or homelessness. These are all things where essentially the government is contracting out its responsibilities to not-for-profits. So, the question there is, “On what basis are these contracted out services being carried out? Are they being adequately reimbursed for the cost?” By and large, no. So it forces them to go and raise money as well, but that to me is a matter of being clear and transparent about the value that the state is getting by carrying out — by contracting out these services — rather than doing it themselves. So those are not going to be social enterprises, but there are lots of other things that could be social enterprises. You could argue that those could be social enterprises but they only have a sole customer, which is the government.

And, you know in some cases the government is in a sense doing this and saying you have to compete with the private sector. If you’re running a home for the elderly, well there're private sector companies doing that, you should do that, we're going to assess on the basis, usually of cost, which I don't think is necessarily the right basis, and we'll contract out the service to the cheapest provider. Well that, in effect, you become a social enterprise. Whether cost should be the only factor which determines who gets the contract is a different issue. That probably in most cases is not the only issue which should be taken into account. Where I think the change is going to come is that a lot of young people coming into these organizations — or thinking about starting an organization — don't see why they have to operate as a charity necessarily if it means that as a charity that they can't pay people adequately, they can't provide security of employment, they can't raise capital in the open market if they want to expand or increase their services, etc., etc., etc. So they say, "Well, if I can do what I want to do, which is to create social value and I can do it as a for-profit, why not?"

You mentioned earlier that social finance is quite advanced in other countries, such as the United Kingdom. What other countries are at the forefront of these ideas?

Australia, the United States. So you have these hybrids, structures that are both for profit and at the same time creating social value. I think a good question to ask, but probably longer term is, "Do we need a sector that looks like what we have now in the community sector?" There will always be charities, but charities are essentially organizations where you're meeting an immediate need, and you really don't expect any sort of financial return, that's the whole point of what a charity is. Which is different from a charity which is out providing services day in day out for years where people depend on it and where traditional methods of fund-raising are simply too uncertain or just inadequate to meet the need.