

# Social Finance

*An underdeveloped but essential aspect  
of sustainable investing in Canada:  
Building Social Finance Momentum*

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Social Investment Organization (SIO) Conference

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CAUSEWAY a national collaboration

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# Outline

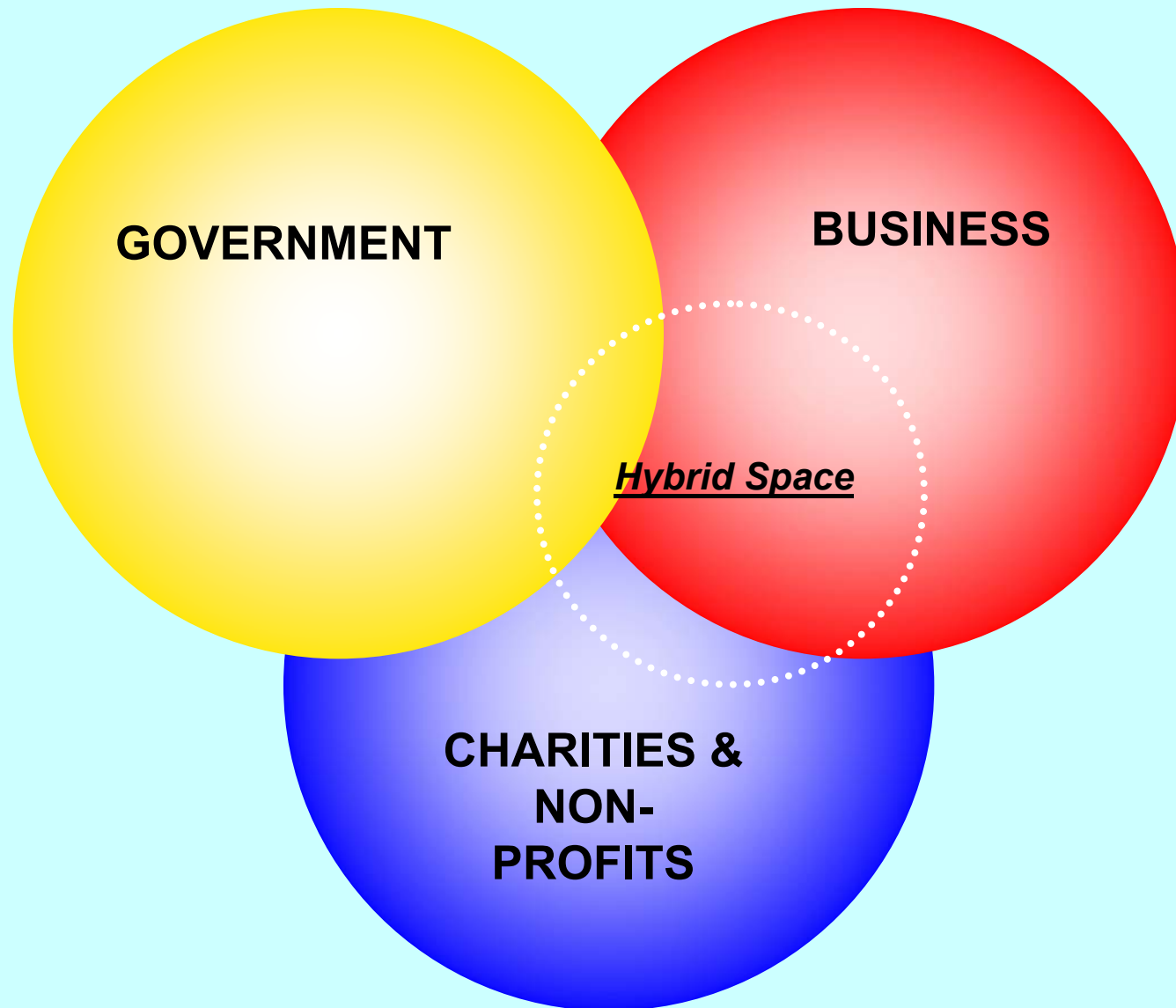
- Social Finance Orientation
  - Financial flow to public benefit
  - Across a continuum of risk and return
  - Gaining momentum
- The Canadian Context
  - Coming from behind
  - A framework ready for updating
  - Potential leverage points
- Exemplary Possibilities
- CAUSEWAY a national collaboration
- Discussion and Next Steps

# Social Finance is

- “Sustainable finance with a social or environmental goal”
- Social purpose capital, whose marketplace definition is:
  - Space on financial continuum between high financial value and no social value returns (traditional financial investment vehicles) and no financial value but high social returns (grants).
- Taking root in the hybrid universe:
  - Where charities, non-profits, co-ops and business connect...

# Business & Non-Profits:

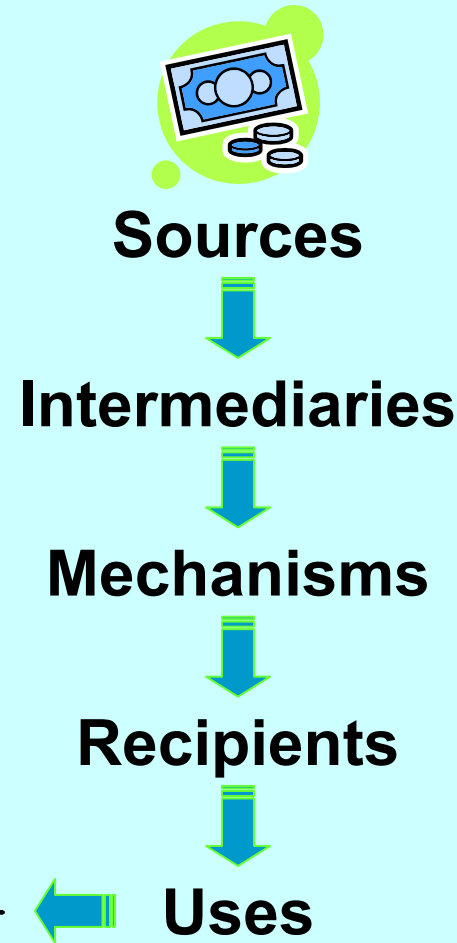
## Convergence & Growth of Hybrid Universe



# Orientation: Financial flow to public benefit

## ■ The flow of financial capital to human need uses:

- Affordable Housing
- Social Enterprise
- Community Development
- Social Economy
- Clean Technology
- Microfinance
- Fair Trade
- Green Building
- Health& Home Care
- Media
- Education
- Base of the Pyramid



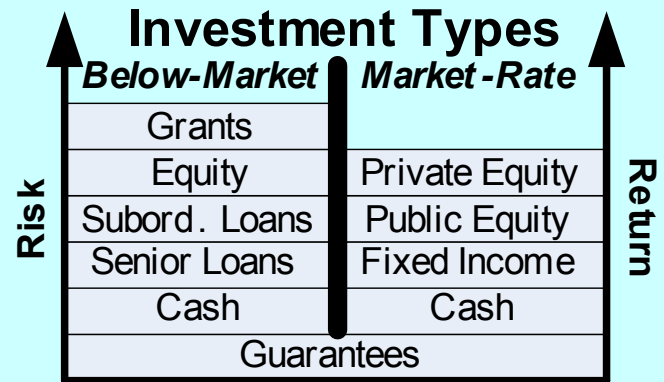
*(source: market sector listing adapted from [www.xigi.net](http://www.xigi.net))*

# Snapshots of Social Finance

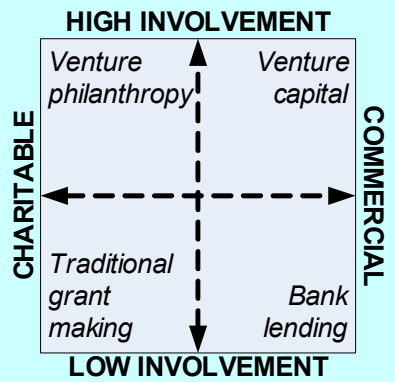
- Citizens Bank's Shared World Term Deposit that helps support microcredit financing
  - "The Shared World Term Deposit is not charity, it's a competitive investment vehicle with a social objective," said Jason Farris, president and CEO of Citizens Bank of Canada. "We see this as an opportunity to provide investors with a sound financial return and a solid social return, ultimately making a difference in the lives of many people."
- Deutsche Bank's Investment Fund for Eye Care Hospitals in Developing Countries: The Eye Fund I
  - \$20 million investment fund to finance expansion of eye care hospitals in developing countries, providing loans and guarantees supporting the development of affordable, sustainable and accessible eye care for the world's poor while providing a near-market return for investors.
  - "The Eye Fund is a real demonstration of a new market-based approach to address a fundamental human need...Our goal is to capitalize on our expertise in the financial markets in order to expand this approach to other large-scale projects that currently are fully dependent upon charitable contributions for funding."  
CEO of Deutsche Bank Americas

# Orientation: A continuum of risk and return

- An increasingly broad range of mechanisms that blend financial and social/environmental returns



Adapted from: F. B. Heron Foundation



Adapted from: Margaret Bolton, 2003

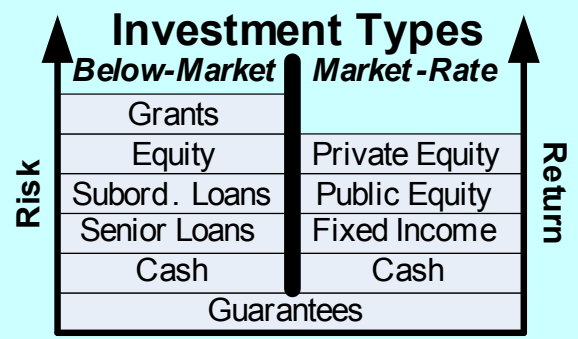
	Grants	Patient Capital	Pure Equity	Equity-like	Loans
Expected loss %	100%	20-50%	10-20%	10-20%	1-8%
Return on investment	0	-50%-c.10%	No limit	Variable up to 30%	Fixed 5-18%
Term of investment	Often short periods	Repayment holidays	Undefined Depends on success	5-7 yrs Depends on success	Fixed term
Involvement in business	Low (except venture philanthropy)	Some (through partners)	High (through board)	High (through board)	Low
Exit of investment	n/a	Repayment	IPO, sale, buyout	Royalty, repayment or APO	Repayment
Liquidation rights	None	None/subordinate	Residual	Subordinate	First priority
Voting rights	No	No	Through ownership	Structured in loan agreement	No

Adapted from: Bridges Community Ventures, UK

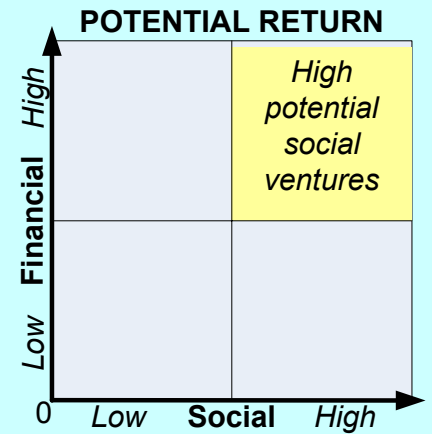


# Orientation: Gaining momentum

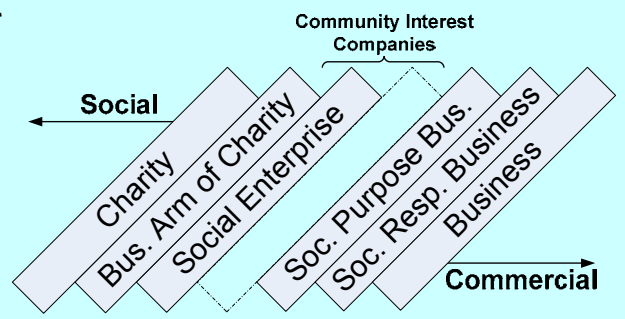
- Emerging financial products
  - PRI and MBI
    - “Program Related Investments”
    - “Mission Based Investments”
    - Approaches for foundations to leverage endowment capital toward mission related activities
    - Spans the continua of risk, return, focus
    - Well developed in the United States
  - Social venture capital
    - Applying venture capital models to social enterprise
    - Innovations in business models and blended value returns
    - Well developed in the UK: Community Interest Company’ legal structure and marketplace
- Issues with good asset classes
  - Affordable Housing
  - Community Energy and Efficiency



Adapted from: F. B. Heron Foundation



Adapted from: Bridges Community Investment, UK

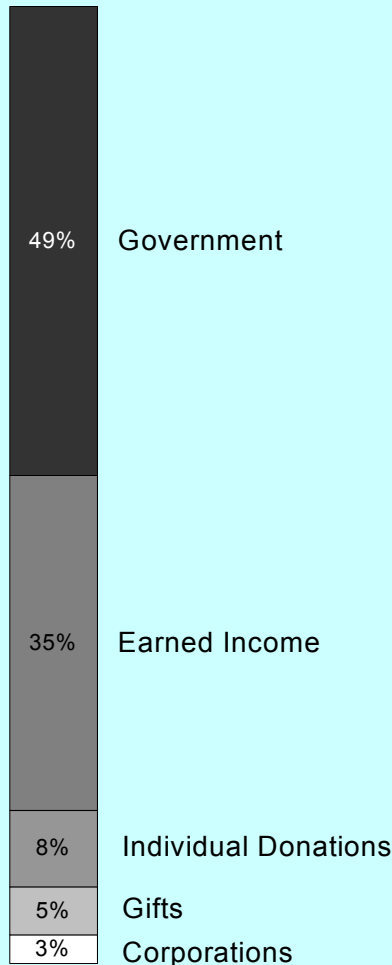


Adapted from: John Kingston, Venturesome



# Canada: Coming from behind

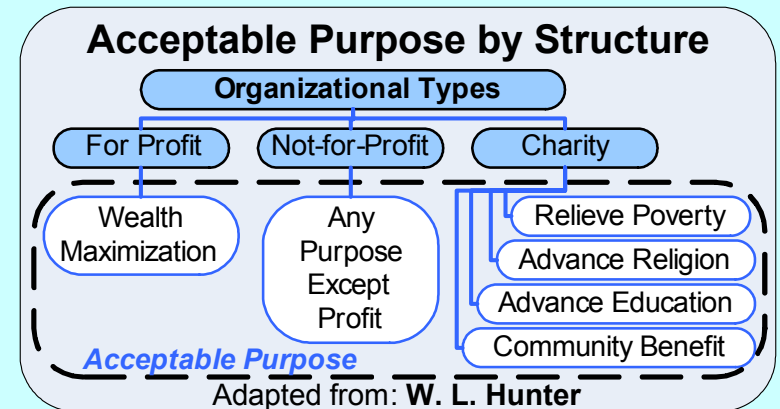
## Canadian non-profit income sources



- Building from strong third sector
  - \$120 B annual expenditures
  - Less than 10% of income is donation capital
- Growing social and environmental pressures met with government and market failures
  - Government: Insufficient and inflexible programs/services/funding
  - Market: Trust issues, see no potential for profit, respond to consumer demand
- Growing market opportunity for financial sector to offer blended value
  - Citizens increasingly aware of societal issues
  - Increasing interest in: sustainability innovation, ethical investment; ethical consumerism (fair trade); local solutions; mission based entrepreneurs and ventures

# Canada: A framework ready for renewal

- Limiting regulatory framework ready to catch-up
  - Income Tax Act and charity law significantly restrict flow of capital
- International examples from US and UK provide relevant reference models:
  - US
    - IRS allowance of charitable investment in non-charities
    - Community Reinvestment Act
    - New Markets Tax Credits
  - UK
    - Community Interest Company designation
      - Already over 800 registered CIC's



43% of respondents said that they became a CIC because it was the most appropriate form between business and charity. 19% cited less regulation and 16% cited social purpose.

Other survey results:

- 43% of CICs said that the most important factor in their decision was to prove their social purpose.
- 37% of CICs felt that the biggest barrier facing their company was access to finance
- 90% of CICs surveyed were stand-alone companies, 7% were trading arms of charities, 1.5% were company subsidiaries and 1.5% were public sector spin-offs.
- 15% of CICs surveyed said becoming a CIC had made it easier to interact with other organisations such as local authorities, foundations, banks and government departments.
- 11% said it had given them, their directors and staff a clearer focus on their combined business and social aims.
- Average turnover of CICs surveyed is £144,000.
- Two-fifths of CICs said that 76-100% of their income was from trading and fewer than one-fifth said trading accounted for less than 50% of their income.

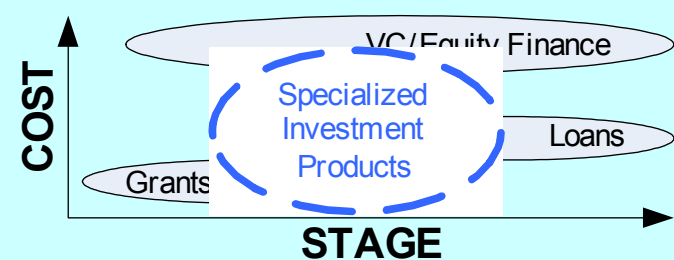
Source: <http://www.socialenterprise.org.uk/Page.aspx?SP=1626>

# Canada: Potential leverage points

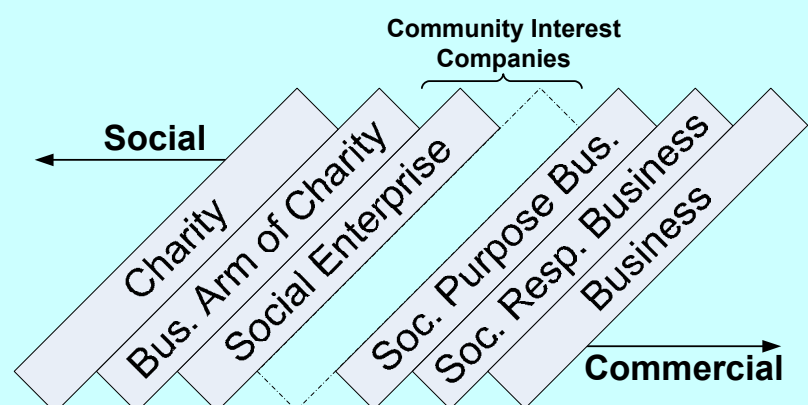
- Policy?
  - Corporate structure
    - i.e. CIC (UK)
  - Tax
    - i.e. New Markets Incentive (US)

- Products?
  - Social venture capital
  - Specialized investment products
  - Issues with substantial assets
    - Affordable Housing
    - Community Energy and Efficiency

## ■ *New capital pathways*



Seed | Start-up | Survival | Growth | Maturity  
 Adapted from: Derek Gent, Vancity



Adapted from: John Kingston, Venturesome

	No earned income	Earned income and grants	Pot. sustainable (75%+ EI)	Breakeven (100% EI)	Profitable – Surplus not distributed	Profit distributing – socially driven	Profit Maximizing
Incubation (10K)							
Start-up (100K)							Bus. Angels
Expansion (500K-1M)							VC
Growth (1M+)							Public Markets

Foundations (bottom left), Retained earnings act as equity (bottom center), and a large '???' in the center of the table.

Adapted from: Bridges Community Ventures, UK | Whitni Thomas



# Exemplary possibilities

- Venture capital
  - The Abell Foundation invested in a startup company that was developing a ‘blocker’ for cocaine, on the condition that the company locate in Baltimore. The company has since created 200 local jobs, gone public, and the foundation sold its stock for 12 times its initial investment.
- Local community development
  - The Columbus Foundation used \$2 million to seed an \$18 million low-cost housing fund to build 1,600 new units of affordable housing.
- Startup or expansion capital in underserved communities
  - The Heron Foundation has also invested \$2.5 million in a limited partnership interest in the Yucaipa Corporate Initiatives Fund, a \$577 million private equity fund that invests in businesses that locate in underserved communities. The fund has a stated goal of earning a 25% internal rate of return for its investors.
- Debt mechanisms
  - Milestone achievement of \$100m in loans to community finance institutions and social enterprises by Calvert Foundation’s Community Investment Note
- Acquisition of assets
  - BC Pension Funds – 21 BC-based union and management pension funds pooled \$27 M to form Concert Properties in 1989 (originally named VLC) with the objective of financing affordable rental housing in BC, and creating jobs in the unionized construction industry. Today the 100% pension plan owned real estate corporation has \$800 million in assets, with a track record of creating 10 million hours of on-site employment for unionized construction workers.

# CAUSEWAY a national collaboration



**A national collaboration  
working on new pathways  
for financial investment  
in public benefit.**



**THE J.W. MCCONNELL FAMILY FOUNDATION**

# CAUSEWAY a national collaboration

## ■ Strategies

- Improve **knowledge and awareness** of Canada's social finance opportunity
- Convene and **engage the community**
  - social finance pioneers, financial market masters, and policy developers
- Support **capacity-building** for capital users and providers
- Catalyze **development of new financial pathways**
  - Policy and product

## ■ Key activities

- **National forum** being planned for October 2007
- **Online web platform** coming summer 2007
- **Product/Policy and regional working groups** emerging throughout 2007

## ■ Founders Circle currently being assembled

- Sustaining funders for growing social finance in Canada

**CAUSEWAY** a national collaboration

**Thank you!**

Presentation available at: <http://tinyurl.com/36ztwa>

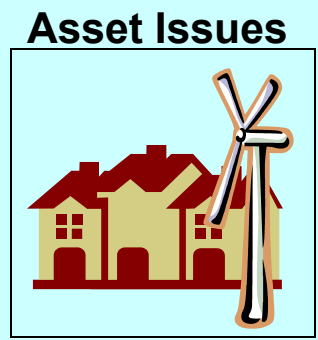
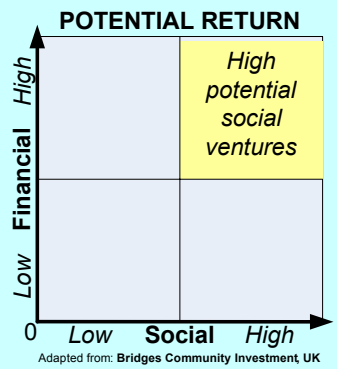
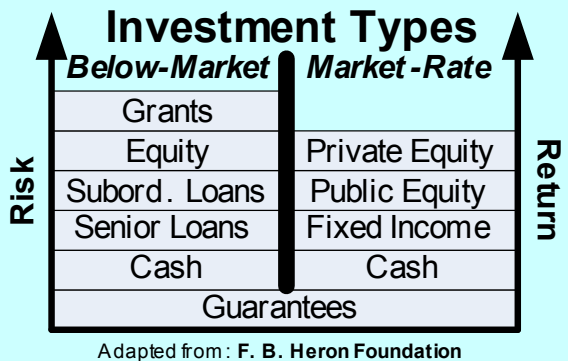


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# Discussion and Next Steps

■ Where's your opportunity in social finance?



Sources



Intermediaries



Mechanisms



Recipients



Uses

■ What are your barriers and gateways?

– Policy? Partners? Products?

■ Who can you collaborate with?

## CONTACT

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