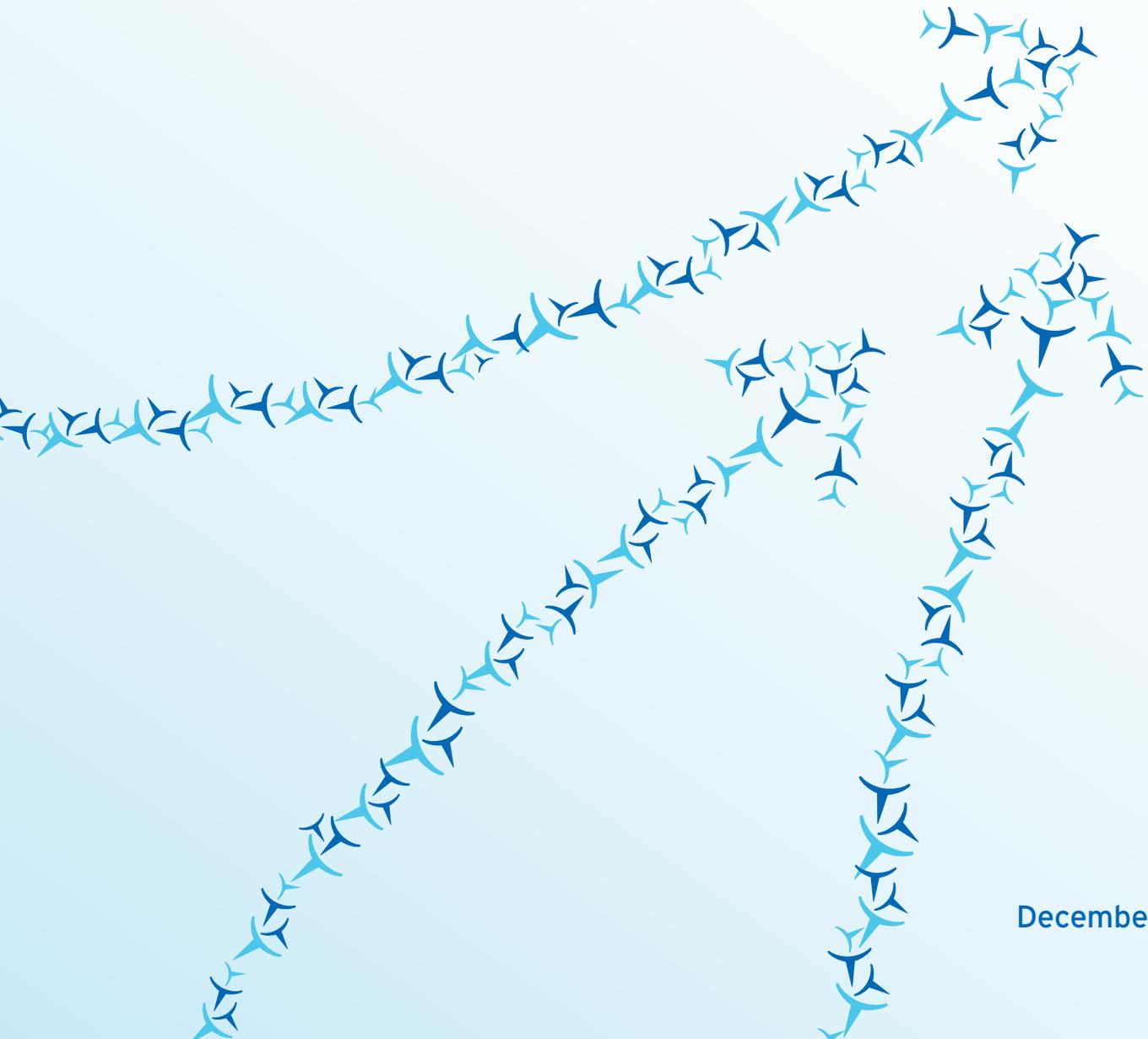


Mobilizing Private Capital for Public Good

Measuring Progress During Year One

Canadian Task Force on Social Finance



December 2011

The Canadian 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. The landmark report "Mobilizing Private Capital for Public Good" was released by the Task Force in December 2010 to a receptive audience from across Canada.

The members of the Task Force are:

- **Ilse Treurnicht**, Task Force Chair and CEO of MaRS Discovery District
- **Tim Brodhead**, Former President and CEO of The J.W. McConnell Family Foundation
- **Sam Duboc**, Chairman of Pathways to Education Canada and Founder of Edgestone Capital Partners
- **Stanley Hartt**, Chairman of Macquarie Capital Markets Canada
- **Tim Jackson**, CEO Accelerator Centre
- **Rt. Hon. Paul Martin**, Former Prime Minister and Minister of Finance and Founder of Cape Fund
- **Nancy Neamtan**, President and Executive Director of The Chantier de l'économie sociale
- **Reeta Roy**, President and CEO of The MasterCard Foundation
- **Tamara Vrooman**, CEO of Vancity Credit Union
- **Bill Young**, President of Social Capital Partners

For further information on the Task Force, or to download the original report, please visit:

www.socialfinancetaskforce.ca

Or contact Adam Jagelewski at:

ajagelewski@marsdd.com

The Task Force on Social Finance secretariat and research were kindly supported by the following organizations:



With the launch of the MaRS Centre for Impact Investing (CI) in 2011, the SiG National team, under the leadership of Executive Director Tim Draimin, is passing the primary support role for the Task Force over to the new Centre.

MaRS | CENTRE FOR
IMPACT INVESTING

Dear Reader,

One short year ago, the Canadian Task Force on Social Finance released a call to action titled “Mobilizing Private Capital for Public Good.” It was time to more formally embrace the growing impact investment movement as a viable and necessary economic activity for Canada.

The Task Force report examined developments across the country and around the world, identifying seven key recommendations for mobilizing new sources of capital, creating a supportive tax and regulatory environment, and building a pipeline of investment-ready social enterprises.

Today, the economic and social imperatives to continue moving this agenda forward are more compelling than ever.

These challenging times demand new thinking from all of us. Canada will need to capitalize on the talent and creativity of all its citizens to prosper and to ensure the well-being of future generations. Social enterprises are a rapidly growing and critically important part of our innovation economy, developing new approaches to tackling complex 21st-century problems. They increasingly rely on private investor support to expand their programs and scale their impact.

This report highlights some of the developments relevant to the recommendations of the Task Force on Social Finance over the past year. The progress is encouraging, especially given ongoing economic instability. We will continue to track and report on progress in the years ahead.

Canada's government, business sector, foundations and community groups are all contributing by expanding our collective knowledge, catalyzing policy work and supporting the development of social finance tools and products. Although still nascent, enabling infrastructure supporting a functioning marketplace is taking shape. As expected, there are gaps that need to be addressed, and the corporate and financial sectors must engage more fully.

The new Centre for Impact Investing at MaRS will help accelerate these efforts by providing a nexus for stakeholders to work together on new financial products and services, develop new talent and share best practices. It will also continue our engagement with international organizations doing pioneering work elsewhere.

The goal of the Task Force was to raise awareness and stimulate a national discussion about a new partnership model between private finance and public good, and the opportunity it represents for Canada's future. We share responsibility for this future and, by working together, we can make a meaningful contribution.

Thank you for your support over the past year and for your ongoing commitment to realizing the true potential of investing with impact.



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

Introduction

The Canadian Task Force on Social Finance report “Mobilizing Private Capital for Public Good,” which was issued in December 2010, offers an integrated national strategy for building Canada’s social finance marketplace.

The report identifies seven recommendations that, while distinct, are highly interconnected and require parallel and concurrent action from Canada’s government, finance, philanthropic and community sectors. This call to action suggests that with coordinated efforts, new partnerships and sufficient investments in an enabling environment and infrastructure, impact investing in Canada could deliver results at scale – potentially during a 10-year timeframe.

The case for building Canada’s impact investing marketplace is more compelling than ever. Economic, social, environmental and demographic challenges continue to exert severe pressure on governments, institutions and communities, both here at home and around the world. Given fiscal and societal pressures, we need to unleash the innovation capacity of all Canadians – including those in the social sector – and work together to develop effective, impactful solutions. Social finance is an essential part of building and sustaining this critical innovation engine in Canada.

Many players in the social finance community remain strongly committed to moving this agenda forward. This progress report profiles numerous examples of leadership and action relevant to recommendations in the year since publication, drawn from across the country and involving a broad spectrum of stakeholders. Many other initiatives are underway and will bear fruit in the years ahead.

Social finance has found its way into the government lexicon and is positioned in the Canadian federal budget announcement as

a strategic leverage point for supporting government/community partnerships, developing innovative ways to address local challenges and creating economic and social prosperity. Provincial initiatives are forging new collaborations and will create further opportunities to learn from new models.

A suite of new impact investment funds, products and services are being launched into the marketplace, offering a spectrum of opportunities for engaged investors. The foundation sector is playing an important leadership role in this regard.

A growing number of social entrepreneurs – particularly the younger generation – are using business tools and innovative new approaches that leverage traditional market mechanisms to build enterprises delivering products and services that address some of society’s most pressing needs.

Populating the gap between government programs and existing business solutions, a growing number of non-profit organizations are innovating to generate new revenues. The number of organizations developing enterprising activities that complement their existing funding base continues to rise steadily, a trend expected to grow more evident in the years to come.⁺ And further, a pioneering group of non-profit leaders are harnessing community capital through unique investment tools and community bond products, driving program growth and organizational capacity.

For some of the Task Force recommendations, early results can be quantified. For others, compelling stories and examples of market leadership best exemplify movement to date. In all cases, there is evidence of the emergence of impact investing as a growing asset class in Canada.

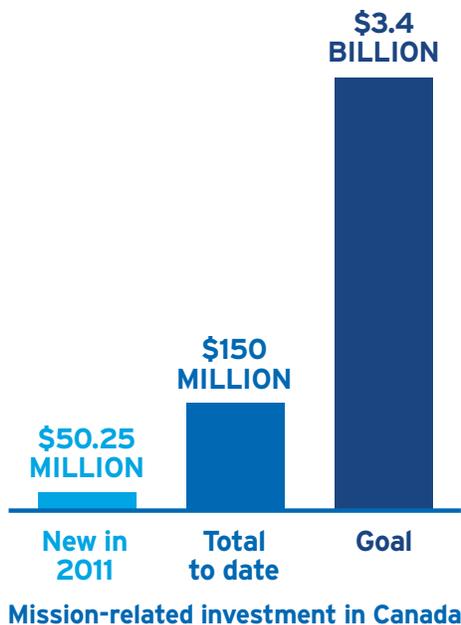
“Social enterprise, which uses private markets to pursue public goals, aiming to blend social and economic value, presents an important opportunity for service delivery partnerships.”

(2011 Ontario Budget)

⁺ Social enterprises are a rapidly growing part of the Canadian public benefit sector whose revenues exceed \$200 billion. In a preliminary sector scan undertaken by The Boston Consulting Group, they estimate that social enterprise activity will grow by over 10% annually until at least 2014.

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 (MRIs) by 2020 and report annually to the public on their activity.

By the numbers



Update

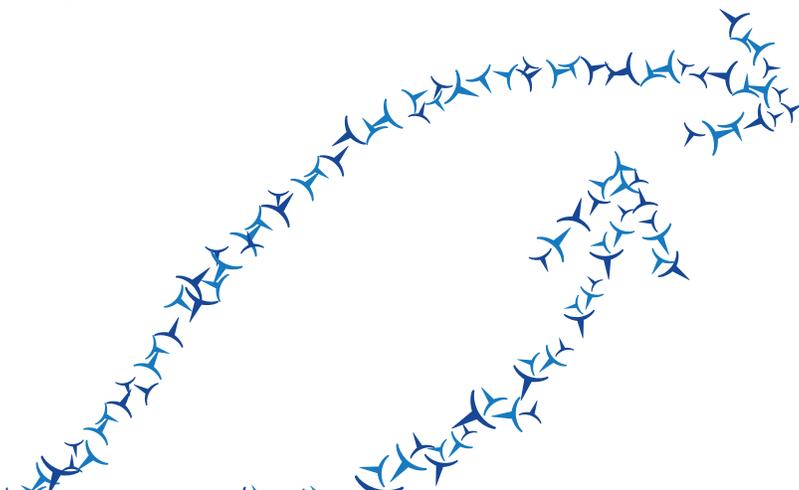
Significant progress has been made on this recommendation. Early adopter public and private foundations have engaged their boards and investment committees around MRI opportunities and are setting targets, starting the process of allocating funds and reporting back to donors and the communities they serve.

Community Foundations of Canada, Philanthropic Foundations Canada and Canadian Environmental Grantmakers' Network, in concert with partners such as the Social Investment Organization, continue to provide peer-to-peer learning opportunities and practical support to help their members take concrete steps toward building MRI activity and actualizing goals.

The investment pipeline is growing, offering foundations more opportunities to reach the 10% baseline goal by 2020. The challenges that remain are sourcing and evaluating new investment opportunities in a cost-effective manner and high transaction costs relative to small deal sizes. Due to the early stage of the market, deal-making and management experience is limited, but more opportunities to build on early learning are now emerging.

Call to action

- Survey public and private foundations to understand and measure:
 - MRI activity;
 - the level of interest and awareness; and
 - what additional supports are needed to advance MRI practices.
- Foundation leaders are encouraged to report practices supporting MRI activity, such as processes for conducting due diligence, board education and policy development to further sector interest and build capacity.
- Foundation leaders and organizations are urged to share early experience and knowledge, and to initiate investment collaborations with other like-minded participants in the sector.
- There is a need for guidelines on MRI reporting and clarification of regulatory and fiduciary implications regarding mission-related investing by foundations in Canada.



The Need for Guidance on MRI

Developments in the United Kingdom provide a strong case (and case study) for the catalytic role that guidelines can play in widespread adoption of MRI targets. In November 2011, the UK's Charity Commission released an investment guide¹ for charities, trusts and foundations that provided clear information about using investments, alongside traditional grants, as a means of furthering their social missions. The report was published in tandem with the creation of an MRI-enabling pilot Investor Advisory Service, which can identify where these organizations will best benefit from support. It is anticipated that the pilot project will produce a practical guide to social investment in 2012.

Profiles

Edmonton Community Foundation (ECF) is the first foundation in the country to formally commit 10% of its assets – \$27.5 million – to mission-related investment.

ECF will allocate \$7.5 million to the Social Enterprise Fund (SEF), which it launched several years ago in partnership with the City of Edmonton, to provide social enterprises in the area with access to debt financing and business talent. To date, the SEF has made \$4.3 million in loans, capital is recycling for the second time and all loans are performing.

ECF will invest the remaining \$20 million directly in the Edmonton area, likely in local real estate or other asset-backed investments. It expects to earn returns similar to its other real estate and fixed income investments.

Hamilton Community Foundation launched the \$5 million Hamilton Community Investing Fund. They are partnering with the Community Forward Fund to make loans in the Hamilton community. Their first loan was a one-year \$300,000 loan for bridge financing to Hamilton Artists Inc. for a dedicated arts building. Other loans are in the pipeline.

Community Foundations of Canada Board Resolution

Community Foundations of Canada (CFC) commends the Canadian Task Force on Social Finance for its leadership and the call to action made in its report "Mobilizing Private Capital for Public Good."

Recognizing the growth of mission-related investing in the foundation sector and the opportunity it offers foundations to mobilize more of their assets in support of their missions, CFC encourages its members to consider implementing Recommendation No. 1 made by the Canadian Task Force on Social Finance: that Canadian public and private foundations should invest 10% of their capital in mission-related investments by 2020 and report annually to the public on their activities.

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.

By the numbers

\$284M

2011 newly raised
impact investment

\$27M

2011 newly committed
impact investment

Update

While support for the creation of the Canada Impact Investment Fund (a fund of funds) is developing, a variety of emerging firms, funds and individuals are filling market gaps and providing capital to a range of for-profit and non-profit social enterprises.

This intermediary space has long been identified as a critical gap in Canada, and the level of activity is encouraging. It may also provide a more fertile environment for partnership between private capital and government funds, should federal and provincial impact investment funds become a reality in the future. In the meantime, current growth is bringing new players into the market, building expertise and diversifying risk on a smaller scale.

Call to action

- Interested parties in the public and private sectors should design and establish a national fund of funds as soon as possible. To build momentum, the first \$20 million of the fund should be allocated to regional investment funds, conditional on securing matching funding. This exploration should involve institutional and foundation investors and use the feasibility study already completed by the Social Investment Organization.²
- Foundations, pension funds and financial institutions are encouraged to become founding partners in the Canada Impact Investment Fund and other regional impact funds.

- The Ontario government should proceed with establishing the Ontario Social Venture Fund. Other provincial and territorial governments should also seek ways to mobilize capital to create new – and to expand existing – regional funds.

Profiles

The **Community Forward Fund (CFF)**³ is a startup loan and financing fund for charities and non-profit organizations. With development support from Vancity and the Ontario Trillium Foundation, and pending final registration with the Ontario Securities Commission, the CFF has attracted expressions of interest for over \$6 million from its initial community partners. The CFF is also in discussions with others interested in building a fund to \$20 million. Financial education workshops and reviews were held with over 150 community organizations across the country. With its partners, loans and financing support have been provided for a broad range of organizations.

Vancity Resilient Capital Program

Vancity and the Vancouver Foundation have announced the launch of the Resilient Capital Program, which includes a new product for depositors who want to make a guaranteed fixed return on their money while backing social enterprises that are making positive impacts in the community. The program, which is a collaboration between philanthropy, the financial sector and government, is seeded by a \$1.75 million investment from the Vancouver Foundation and doubled by Vancity, which will provide first-loss revenues to grow the deposits. This initial commitment has already leveraged an additional \$6.85 million by other foundations and individuals. The goal is to grow the program to \$15 million to provide patient capital to qualifying social enterprises.



TBC Capital⁴ is a privately owned boutique investment management firm with a special interest in the emerging asset class of impact investments. It is focused on raising capital for external fund managers and internally developed and managed impact investment strategies.

TBC Capital's external manager platform for impact investments currently includes strategies covering energy efficiency, green Indian real estate, sustainable food and agriculture, and cleantech. The TBC Capital Impact Investing Fund will be launched in early 2012 with a focus on three main areas: microfinance, the missing middle and clean infrastructure. Allocations will be made primarily to developing countries, but investments in Canada are also part of the mandate. The targeted size of the fund is \$75 million.

Canada Impact Investment Fund

In June 2011, the Social Investment Organization completed its feasibility study on the Canada Impact Investment Fund, a fund of funds potentially offered to accredited investors such as foundations, pension plans and high-net-worth individuals. The fund would direct capital to Canadian private equity and debt funds committed to social sector investing across a broad range of areas, including affordable housing, renewable energy, community funds and social enterprises, as well as other related segments.

The study outlines a detailed implementation road map for the launch of a national impact investment fund of funds as the potential backbone for this emerging sector. Efforts are now underway to secure startup resources and identify potential founding institutional members to support the development of the Canada Impact Investment Fund.

Grand Challenges Canada: Social Finance and International Development

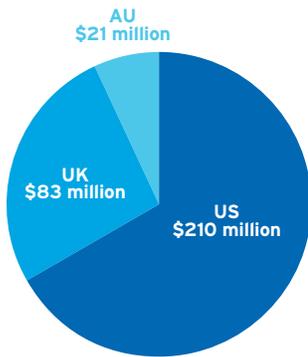
Grand Challenges Canada (GCC) is an independent Canadian non-profit organization dedicated to improving the health and well-being of people in developing countries by enabling bold ideas with big impact. It works in a consortium with Canada's International Development Research Centre and the Canadian Institutes of Health Research. GCC is applying social finance to international development in the area of global health through global and country-specific impact investment funds and exploring the potential of social impact bonds.

The SVX: Consolidating the Impact Market

The SVX⁵ is a market platform connecting social ventures, funds and investors. Pending approval from the Ontario Securities Commission, the project incubated at the MaRS Centre for Impact Investing will provide listings of ventures, funds and service providers with the goal of attracting new capital – debt and equity investment – for ventures that have clear social and/or environmental impact. The initiative is a collaborative of numerous partners, including TMX Group Inc., the Government of Ontario, Torys LLP, Imagine Canada and SiG@MaRS.

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.

By the numbers



Global social impact bond commitments (by country in CDN\$)

Update

There is growing interest from multiple investor segments (retail and accredited) in supporting community or issue-based projects with positive local social impact potential.

A growing number of non-profit organizations in Canada are exploring new strategies for raising capital through the development of Community Bonds. The strength of Canada's non-profit sector may provide an opportunity for global leadership in this realm of social finance.

In 2011, trailblazers such as ZooShare,⁶ YWCA Canada, SolarShare⁷ and the Centre for Social Innovation⁸ continued to develop bonds to provide capital for infrastructure development. Although some of these projects are still in the early stages of implementation, these non-profit organizations expect various social and economic benefits to arise from bond offerings, including:

- increased organizational ability to scale mission-related activities;
- invested capital and returns factoring through local economies; and
- strengthened organizational capacity and stability through a stream of predictable and diversified revenues and newly acquired assets.

Social Impact Bonds (SIBs) or pay-for-performance based funding contracts have captured the attention of the impact investment community globally. Although the Peterborough

reoffending pilot in the United Kingdom remains the only SIB partnership fully implemented to date, governments, non-profits and investors in the United States and Australia are actively researching and promoting the model. In addition to the UK leading SIB development, the US⁹ and Australia¹⁰ have both committed significant funds for SIB pilots.

Canadian federal and provincial governments are following suit in recognizing the potential benefits that could arise in important but niche applications. One significant opportunity embedded within the SIB model is to advance work in the area of social impact measurement and related evaluation disciplines.

Call to action

- In consultation with practitioners and legislators, clear guidelines are needed on legislation and oversight mechanisms to govern the public sale of Community Bonds by non-profit organizations.
- Develop centres of excellence focused on working with non-profit and for-profit social enterprises to assist with measuring, tracking and communicating social impact. It is important to connect to global efforts to develop a common set of metrics or tools to measure impact, such as Social Return on Investment (SROI)¹¹ and Impact Reporting & Investment Standards (IRIS).¹²
- A number of concurrent foundational activities are needed to implement Social Impact Bonds in Canada:
 - To reflect multiple perspectives in the design of new performance-based models, a cross-sector working group should lead the development of a guidebook and other tools.
 - In-depth feasibility studies should be undertaken in promising intervention areas to determine model viability, which would include: current spending and savings thresholds; the existence of benchmark impact data; level of interest from private



and other investors; and model risks for participating stakeholders.

- An intermediary, tasked with stewarding Social Impact Bond feasibility studies to contracts with investors, government and non-profits, should be created and aligned to global leaders in the field, such as Social Finance¹³ and The Young Foundation in the UK, Nonprofit Finance Fund¹⁴ and Third Sector Capital Partners in the US, and Ecotrust, Social Venture Australia, and the Centre for Social Impact in Australia.

Profiles

SolarShare is a non-profit community-based solar co-operative (incubated by the TREC Renewable Energy Co-operative) that secured private construction financing in order to build 18 solar power plants across Ontario throughout 2010 and 2011. Once projects were built and operating under 20-year feed-in tariff contracts with the provincial utility (under the Ontario Green Energy Act), the co-op raised investment from co-op members in the form of \$1,000 Community Solar Bonds, paying a 5% return over a five-year term.

SolarShare sells its bonds at local events and through local community organizations, promoting renewable energy that increases community involvement and engagement. Community investment and ownership increases acceptance of renewable energy projects, which in turn enables the deployment of even more community renewable energy projects.

Pending regulatory approvals by the Financial Services Commission of Ontario, the co-op will be able to issue multiple bonds per member, addressing the pent-up desires of members to participate in these finance schemes and significantly increasing the co-op's ability to scale up operations and pipeline.

Social Return on Investment (SROI) Analysis to be used by Alberta Government

In fall 2011, the province of Alberta issued a request for proposals to identify the feasibility

and applicability of SROI as an analysis tool for use by Employment and Immigration in evaluating Alberta Works programs and services.

SROI is an analytic tool for measuring and accounting for a much broader concept of value, incorporating social, environmental and economic costs and benefits into decision-making and analysis. SROI may be a useful tool to help the ministry articulate the value of its programs and services to individuals, communities and the province. It may also provide useful analysis to determine the need for program adjustments or inform broader policy directions such as a provincial poverty reduction strategy.

Centre for Social Innovation (CSI) Community Bond

Centre for Social Innovation opened its doors in 2004 as one of the first non-profit hybrid models for shared workspace in the world and, by 2010, had outgrown its downtown Toronto location. As an organization with limited reserves, CSI needed a creative financing solution to raise funds for expansion.

In 2010 and 2011, CSI released Community Bonds to raise the capital needed to buy, build out and retrofit a second location, a \$4.5M building, CSI Annex. The CSI Community Bond is an RRSP-eligible investment that allowed individuals and organizations to contribute amounts of \$10,000 or more toward the realization of the CSI Annex, earning a 4% rate of return for a five-year term. The bond is a subordinated mortgage-backed debt investment product. The City of Toronto guaranteed the first mortgage in recognizing the contribution CSI makes to economic development and culture in the city, resulting in a better interest rate from Alterna Credit Union.

CSI performed a 'green' retrofit on the 36,000-square-foot building, now home to 200 organizations and individuals with a social mission who have access to shared services, cutting-edge equipment and professional facilities, all of which would be unaffordable to tenants on their own.

CSI maintains a website devoted to educating non-profits and the general public about Community Bonds. (See endnote 8)

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.

By the numbers

\$215.7B

Assets under management of new UN-backed Principles for Responsible Investment Canadian signatories (*Ontario Teachers' Pension Plan, Healthcare of Ontario Pension Plan, Alberta Investment Management Corp.*)

Update

In the past year, three major Canadian pension funds have made the commitment to sign on to the United Nations-backed Principles for Responsible Investment initiative. Their participation signals a notable move within the pension fund community to incorporate environmental, social and governance (ESG) considerations into investment decisions.

In the Ontario 2012 budget, the province showed leadership in this field by proposing that pension funds disclose whether or not their statements of investment policies and procedures address ESG factors. If passed, Ontario would be the first jurisdiction in Canada to require that plan administrators expressly disclose this information.

Pension funds in Canada and elsewhere continue to face significant challenges due to global economic instability. Although the move toward more formal consideration of and reporting on ESG considerations is a positive signal, more structured engagement of the pension-fund community in impact investing will be required to advance their participation.

Call to action

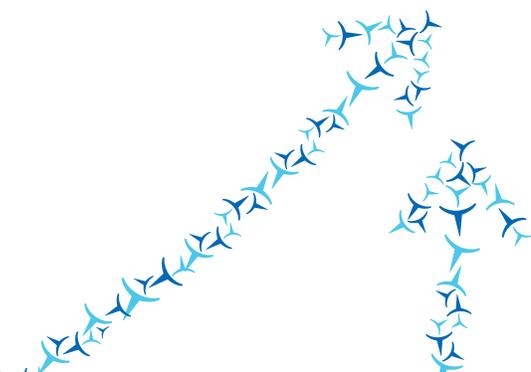
- Dialogue needs to occur between governments at all levels with pension funds, as well as potential investment managers and investment advisors, to explore the opportunities and challenges, and how best to structure incentives to build capacity for pension funds to invest with impact. The establishment of a Canada Impact Investment Fund, as well as regional funds, provides timely context for this discussion.
- There is a need for further clarification on implications for fiduciary duty and sharing of best practices regarding investment processes and ESG reporting, as well as examples of case studies where impact investing has been successfully incorporated into the portfolios of leading pension funds around the world.
- Opportunities should be created to bring pension fund managers together to explore these opportunities – with each other and with other stakeholders.

Profiles

Signatories to the Principles for Responsible Investment (PRI) is an investor initiative in partnership with United Nations Environment Programme Finance Initiative and the United Nations Global Compact.¹⁵

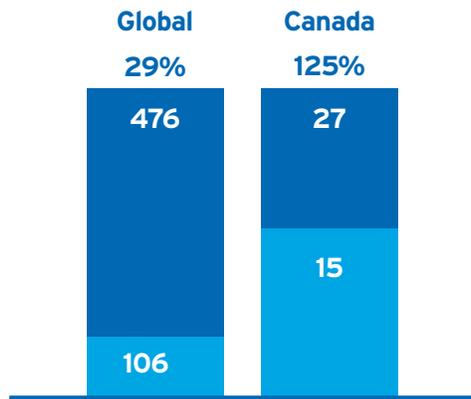
In Canada there are a total of 42 PRI signatories comprised of 17 asset owners, 21 investment managers and four professional service partners. New signatories in 2011 include three pension funds.

Internationally there are 954 signatories from 48 countries representing over \$30 trillion of assets under management.



To ensure charities and non-profit organizations 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.

By the numbers



2011 Number and Growth of B Corps

Increase in revenues of B Corps in Canada in 2011:

\$230M

Increase in revenues of B Corps in the United States in 2011:

\$64.5B

Update

Some Canadian provinces (e.g. Ontario and British Columbia) feature enabling language within their respective non-profit organization legislations, explicitly allowing non-profits to carry on enterprising activities as long as they comply with the Canadian Revenue Agency (CRA). Legislation in Ontario acknowledges that the federal Income Tax Act supersedes provincial legislation in the area of income tax exemption.

Unfortunately, consistent CRA rulings since late 2009 suggest that non-profits that generate intentional profits could lose their tax exemption under section 149.1.I of the Income Tax Act. Similarly, charities carrying on unrelated businesses (with "related business," it can be argued, defined narrowly relative to actual practice) must hive off their activities into taxable corporations.

Most Canadian community-based social enterprises assume that as long as the profits remain within the enterprise, then they are tax exempt. This is a practical application of

the so-called "destination of profits test" (or "destination test" for short), but it does not yet formally apply in Canada.

Destination Test Practiced Abroad

New Zealand's charity regulators, for example, do apply the destination of profits test, not caring where the revenues come from but, rather, where they go. That is, as long as the profits remain within the non-profit, directed to community good, the profits are not taxed and are accepted as a legitimate activity of the organization.

In Australia, the courts recently recognized the destinations test for non-profits.

On the for-profit side of the spectrum, there is growing activity in the corporate sector to add social purpose objectives as a core business mandate alongside the maximizing of shareholder value. What started as voluntary participation in B Corps is now becoming a legislated option in a number of regions in the United States.¹⁶ The new legal form is called a Beneficial Corporation.

What is the difference between a B Corp and a Beneficial Corporation?

Beneficial Corporations represent a distinct legal corporate form for businesses, as enacted by relevant legislation, whereas B Corps are companies, regardless of legal form, that enjoy brand affiliation with B Lab, a US-based accreditation non-profit. Once a business has successfully completed B Lab's assessment and accreditation process, they can be certified as a B Corp.¹⁷

In November, British Columbia Premier Christy Clark took the lead in signaling that in 2012 BC would introduce legislation for a new hybrid structure to support social enterprise activity

*According to The Boston Consulting Group's Social Impact Sector Study in 2011

in the province. This will happen by amending the BC Business Corporations Act to introduce a Community Contribution Company. This may catalyze further activity regarding hybrid corporate forms elsewhere in Canada.

Discussions continue among Canadian stakeholders regarding the applicability of a destination test and hybrid corporate forms in Canada.

Call to action

- **Made in Canada corporate structure:**

At the federal level, it is recommended that industry and finance engage stakeholders across Canada to consider amendments to the Canada Business Corporations Act during its current review, and to include Beneficial Corporation legislation across Canada.

- **Non-profit and charitable earned income reform:**

The Department of Finance is strongly encouraged to review the possibility of simplifying the earned income regulations by considering a “destination test” for how the CRA handles eligible earned income, thereby matching the new legislations of Ontario and British Columbia, and emulating comparative jurisdictions internationally.

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

Profiles

Beneficial Corporations in Canada: As a designated B Corp hub in Canada and under the guidance of a cross-sector steering committee of lawyers, entrepreneurs and policy analysts, the MaRS Centre for Impact Investing has scoped the opportunity and implications of a made-in-Canada hybrid legal structure mirroring the US Beneficial Corporation.

Requiring minimal government resources, the introduction of the Beneficial Corporation would debut Canadian adoption of a hybrid structure for social enterprises incorporated as for-profit. The result would signal support from government for

corporations seeking to embed blended bottom lines into business, inspiring others to migrate to the model and, in the process, directing entrepreneurial resources and energy to solving social problems.

Beneficial Corporations would complement non-profit-oriented structures, operating like Community Interest Companies in the UK. The introduction of Beneficial Corporations in Canada would demonstrate government support on both the non-profit and for-profit sides of the social enterprise equation.

Sarona Asset Management is a private equity impact investment leader in small and mid-market companies in frontier markets, in sectors such as housing, agribusiness, education, financial services, health care, renewable energy, and information and communications technology. As co-founder and/or manager of a number of impact investment funds, Sarona has over \$180 million in assets under management in emerging markets around the world.

In October 2011, Sarona announced it joined the growing international community of Certified B Corps. To qualify, Sarona had to demonstrate its corporate purpose to create a material positive impact on society and the environment, confirm its corporate responsibilities including consideration of the interests of employees, community and the environment, and publicly report annually on its social and environmental performance using a comprehensive, credible, independent and transparent third-party standard.

Also in 2011, Sarona received US government agency OPIC (Overseas Private Investment Corporation) investment (of up to \$87.5M) and made the ImpactAssets Global 50 index of the top 50 private investment managers that deliver social and environmental value in addition to financial returns.

“Charities and non-profits rely on three core sources of revenue: government funding, philanthropy, and earned income. Of these, only earned income offers any prospect for growth over the long-term.”

(Strengthening the Third Pillar of the Canadian Union, Mowat Centre for Policy Innovation, 2011)

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.

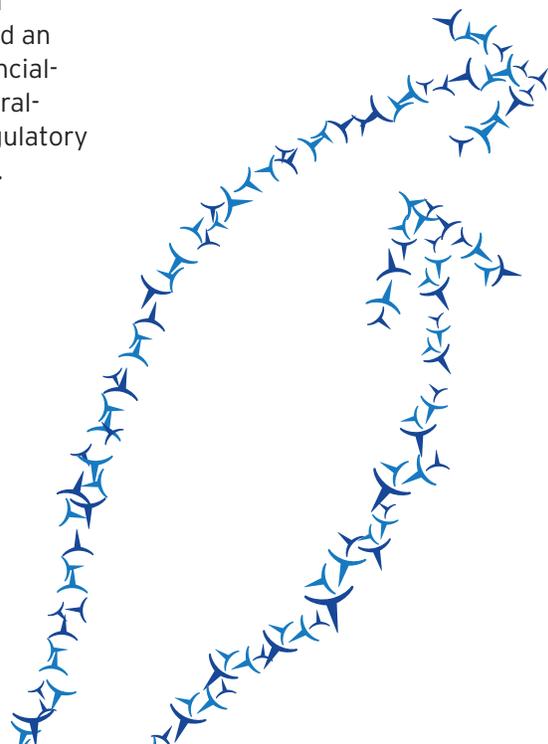
Update

Provincial governments and policy think tanks are taking early steps to determine how to properly leverage private investment through modest public investment and tax incentives. Although definitive solutions have not yet been created, a number of noteworthy initiatives should be acknowledged for laying the foundations for meaningful discussions on the issue.

- New Brunswick has begun exploring the adoption of Nova Scotia's Community Economic Development Investment Fund (CEDIF) model to encourage province-based impact investment. CEDIFs provide an RRSP-eligible investment opportunity tax credit for investors.
- The British Columbia Advisory Council on Social Entrepreneurship is advocating for a Social Innovation Investment Tax Credit to encourage investors to make impact investments in the province. The council believes that the way to do this is simply by extending existing tax credit regimens (e.g., Venture Capital credits) to include social enterprise as new eligible categories.
- The Mowat Centre for Policy Innovation and Social Innovation Generation hosted an off-the-record meeting of federal-provincial-territorial officials to examine how federal-provincial co-operation could tackle regulatory barriers facing enterprising non-profits.

Call to action

- In parallel with Recommendation No. 5 on exploring hybrid legal structures, policy-makers should determine whether or not a new corporate entity, such as the Beneficial Corporation or the Community Contribution Corporation, provides adequate definitional boundaries to encourage investment while considering competition and market dynamic implications.
- Provincial innovators could expand opportunities for shared learning across public services. Informal exchanges and networks can help build knowledge and policy initiatives that elected leaders can implement.
- Create a Tax Working Group that is tasked with crafting a "made-in-Canada" tax incentive proposal that will target the desired beneficiaries with appropriate solutions, and maximize return on public investment. This group should consult with social enterprises, charities, businesses, service providers and community leaders as appropriate.



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.

Update

Early in 2011, an Enterprising Non-Profits study titled "Social Enterprise Access to Government SME Services: Challenges and Opportunities (2011)"¹⁸ reported significant findings on the access to federal, provincial and territorial funded services for organizations classified as small and medium enterprises (SMEs):

- 5% of the sample programs state in their purpose or eligibility requirements a clear access for social enterprise.
- In 93% of the sample, ambiguity and confusion issues emerged.
- 2% of SME programs and services reviewed were identified as specifically excluding non-profits.

These findings illuminated the significant opportunity for social enterprises to be considered for existing government programs for SMEs and for the need to clarify the process by which they may access these existing programs. Some programs, such as Community Futures Development Corporations and the Regional Innovation Centres in Ontario are taking the appropriate steps to be leaders in this area.

There are also encouraging signs that non-governmental organizations, including private-sector professional-service firms, are stepping up, recognizing the latent demand for advisory and research services in the social enterprise field. For example, the Boston Consulting Group and KPMG, as well as law firms Norton Rose, Miller Thomson and others, are active in the impact field, partnering with numerous non-profits to measure, increase and communicate their impact.

Despite the opening windows, social entrepreneurs and organizations still have limited access to business supports that are tailored to their needs. Programs vary in focus, and service still falls far short of demand. In most cases, access to existing business services for social enterprises is unclear or ambiguous, and regional coverage remains inconsistent.

Call to action

- Federal and provincial governments should increase access and widen eligibility of social enterprises for SME business and financing support programs. Active promotion will be key to successful uptake.
- On a localized level, the Canada Business Network and Community Futures programs need to build the capacity to support social enterprise.
- Existing programs serving for-profit SMEs should share best practices in partnering with existing resources in the community and offering effective services to social enterprises.
- Regional providers of social enterprise advisory and finance support should establish mechanisms to improve service coordination and coverage through the establishment of regional hub organizations promoting leadership, collaboration and the sharing of best practices. The federal government should consider supporting a network of coordinated hubs across the country.

Profiles

Trico Charitable Foundation was launched in February 2011 with a mission to advance social entrepreneurship. With a focus on two initiatives, Enterprising Non-Profits Alberta (ENP-AB) and Social EnterPrize, the foundation is filling the education and capital access gap for social enterprise in Alberta.

Through ENP-AB, organizations now have access to mentorship, and funders/investors have a growing pipeline of well-thought-out social enterprise opportunities. Social EnterPrize, one of the first awards of its kind, seeks to build a strong network of currently operating social enterprises – to both recognize their achievements as mentors in the field and inspire newly and not-yet created social enterprises.

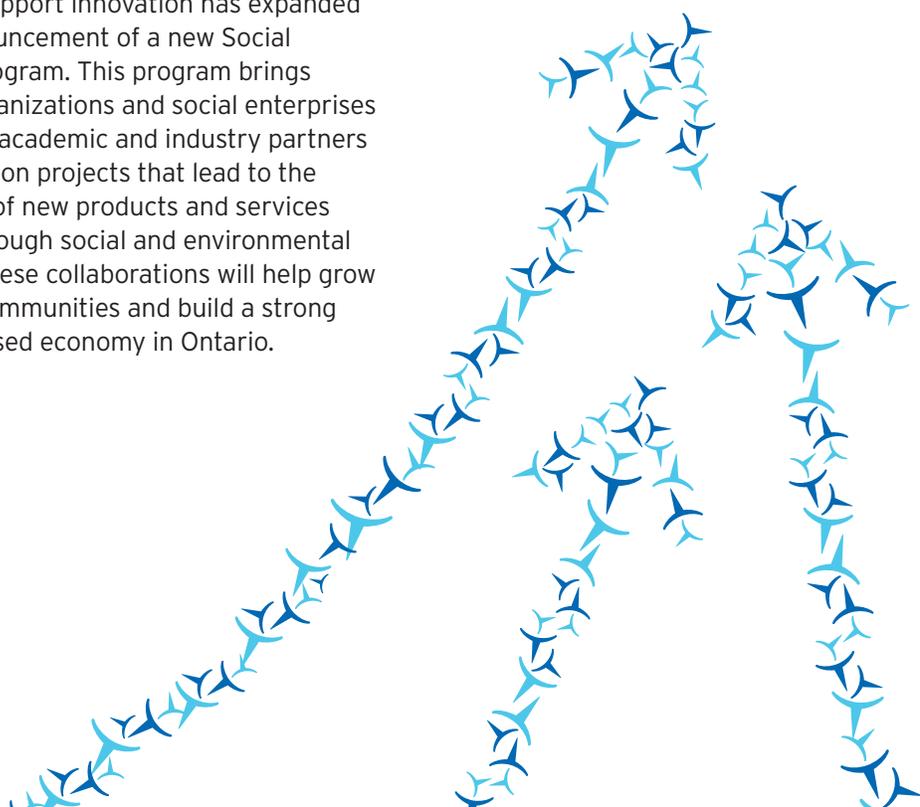
Eye4Impact

Eye4Impact is a Montreal-based community initiative that consists of a series of events that explore and promote the emerging asset class of impact investments and social entrepreneurship. The series presents pioneering individuals and organizations, and serves as a call to action to further grassroots innovation.

Together with interested individuals and organizations, Eye4Impact hosts a speaker series (as well as other types of events and pilot projects) to engage a diverse range of actors from government, civil society, business and student groups in the celebration of the power of ideas and the search for optimal solutions.

Social Innovation Program in Ontario

SiG@MaRS continues to provide entrepreneurship education, market intelligence and business advisory services to social enterprises and businesses in Ontario. With funding from the Ontario Ministry of Economic Development and Innovation (formerly the Ministry of Research and Innovation) and with the support of SiG@MaRS, the Ontario Centres of Excellence mandate to support innovation has expanded with the announcement of a new Social Innovation Program. This program brings non-profit organizations and social enterprises together with academic and industry partners to collaborate on projects that lead to the development of new products and services that address tough social and environmental challenges. These collaborations will help grow prosperous communities and build a strong innovation-based economy in Ontario.



Impact Investing Leadership Profiles

The social finance economy is building out in ways that complement the recommendations of the Canadian Task Force on Social Finance and support the market infrastructure. Here are examples of leadership in the field.

MaRS Centre for Impact Investing

Building upon the foundational work of the Canadian Task Force on Social Finance, the MaRS Centre for Impact Investing (CII)¹⁹ is a social finance hub designed to increase the awareness and effectiveness of impact investing, and to catalyze new capital, talent and initiatives focused on this collective effort in Canada.

The CII will deliver programs and services focused on market and product development, research and public policy, empowering stakeholders and talent, impact measurement and education. Leading initiatives for the CII will include SocialFinance.ca, the SVX and a B Corporation hub. The CII will act as a neutral collaboration space for all sectors, offering architecture for co-creation among government, community and private sectors. The CII has received founding support from The Rockefeller Foundation, The J.W. McConnell Family Foundation and The TMX Group Inc, and is currently engaging other partners.

Human Resources and Skills Development Canada (HRSDC)

HRSDC has taken a leadership role across the federal government to advance social finance. It has engaged extensively with key opinion leaders and stakeholders to identify areas where awareness, knowledge and new approaches can be developed, and has supported opportunities to discuss the measures needed to grow the social finance marketplace.

Officials are working to identify where action has already been taken, what gaps this has left and where the department could support specific activities that would lead to further progress.

Some early achievements include commissioning a series of research papers on impact investing

and barriers to social finance in Canada, an analysis of legal and regulatory frameworks in the not-for-profit sector in Canada, and papers on related topics such as social metrics.

HRSDC has also taken the lead on initiating the first interdepartmental working group on social finance, with participation from at least eight different government departments. This working group will focus on developing strategies where the government can help to expand the social finance marketplace in Canada.

Atlantic governments progress

The Atlantic provinces of New Brunswick and Nova Scotia are actively exploring solutions to improve access to capital for social enterprises, to build support for non-profits to engage in social enterprise and to remove barriers to social enterprise (for-profit or non-profit) from provincial legislation and policies. In New Brunswick, for example, the province has established a committee on Social Enterprise and Community Investment Funds and is actively looking to bring the models of both the Community Economic Development Investment Fund and Enterprising Non-Profits to the East Coast.

British Columbia Advisory Council on Social Entrepreneurship

Under the mandate of a newly appointed Parliamentary Secretary for Social Entrepreneurship, an Advisory Council on Social Entrepreneurship was established to ensure direct consultation, advice and feedback on proposals to support social innovation in B.C. The council is co-chaired by leaders from government, community and business, and will make recommendations to government on how to maximize social innovation in the province, with an emphasis on social finance and social enterprise.

This leadership is already yielding results, including the recent announcement by Premier Christy Clark that the province would bring

"Nova Scotia will work to: one, improve access to capital for social enterprise; two, build support for non-profits to engage in social enterprise; three, remove barriers to social enterprise from legislation and policies."

(Nova Scotia Premier, Darrell Dexter, November 2011)

forward amendments to the BC Business Corporations Act to introduce a Community Contribution Company. Other recommendations include the establishment of a social innovation tax credit, a social innovation fund, a BC social impact bond pilot, and an institute of social innovation measurement.²⁰

Ontario Social Innovation Summit

The first-ever Social Innovation Summit in Ontario, held at MaRS in May under the banner “Building Partnerships for Social Change,” was convened by three provincial ministers (Glen Murray, Minister of Research and Innovation; Dr. Eric Hoskins, Minister of Citizenship and Immigration; and Laurel Broten, Minister of Children and Youth Services) who brought together representatives from the public, business and non-profit sectors to learn about social innovation, build partnerships and move forward with new solutions to bring about social change.

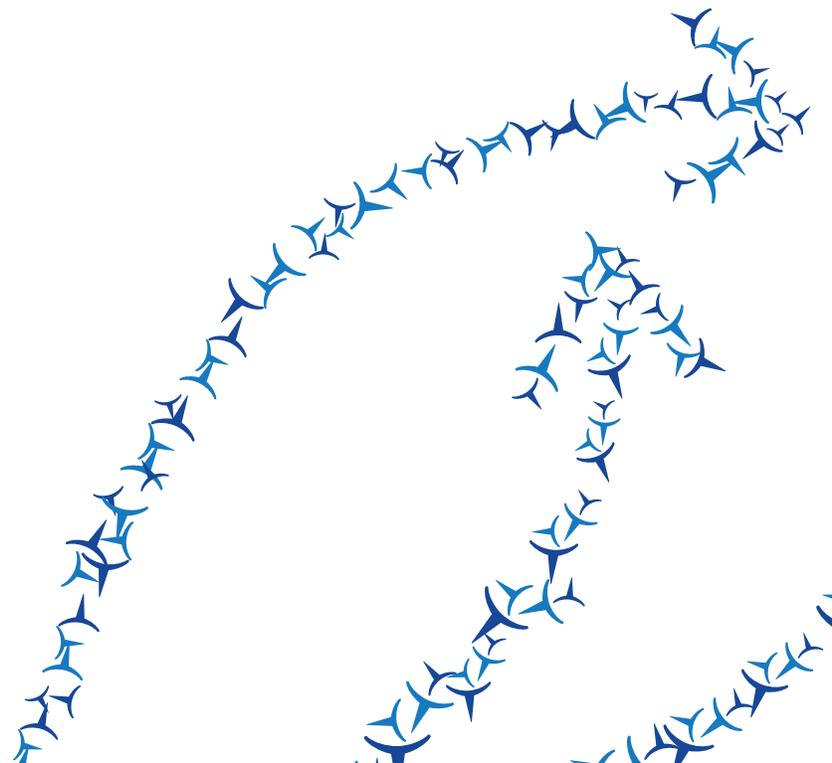
The event, supported by an online wiki, generated the content for a social innovation policy paper, which was delivered to the Ontario government in June. The policy paper identified better ways to unleash the sector’s potential and documented new opportunities for cross-sectoral collaboration to push social innovation in Ontario forward.

Ontario Partnership Project

An eight-month consultation process in 2010 initiated The Partnership Project,²¹ an exploration of ways of modernizing the relationship between the Ontario government and the non-profit sector. Hundreds of representatives from arts, environmental, social services and youth serving organizations, as well as funders and representatives from private sector and family foundations, participated online and at nine regional round tables.

A resulting Partnership Project report (2011) detailed the feedback received during the conversation between the government and the non-profit sector, and specifically outlined recommendations to invest in social innovation and social finance. Other recommendations from the Partnership Project included proposals to promote respect and recognition; foster coordination and collaboration; build sector capacity; support new ways to reinvigorate Ontario’s tradition of volunteerism; and modernize, standardize and streamline the way information is shared.

These recommendations were accepted as the vision for the Ontario government’s continued partnership with the non-profit sector. The next steps to support the developing relationship include the establishment of the Office of the Partnership Project, a Partnership Advisory Group and a new annual report.²²



Endnotes

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The Task Force would like to thank the many individuals that continue to promote social finance initiatives, and provide guidance and advice on social finance developments in Canada.

For further information on the Task Force, or to download the original report, please visit:

www.socialfinancetaskforce.ca

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