VARTANA REVIEW

A REFLECTION ON THE HISTORY, LESSONS, AND LEGACY OF THE VARTANA INITIATIVE

by Michael Lewkowitz

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Introduction

Vartana was an initiative to create a charitable bank in Canada dedicated to serving the voluntary sector. As Canada's first bank that was also a registered charity, it was an ambitious idea aimed at effecting systemic change. Although many considered the initiative impossible, Vartana attracted substantial support throughout its duration and had two near-life experiences. After almost eight years of "getting to maybe," it finally fell prey to the credit crisis. The time has come to reflect on what happened and how it came about.

Commissioned by The J.W. McConnell Family Foundation, this report is a result of research and interviews with key stakeholders. It includes a timeline of events; a generalized assessment of why Vartana failed; and a summary of lessons that can be applied to initiatives that focus on systemic change.

I would like to thank Tim Brodhead, Aaron Pereira, Bill Young, Ed Waitzer and the many other people who contributed to this initiative for generously allowing me to interview them and for the openness they brought to our discussions.

I would also like to acknowledge Brianna Hunter and Stephen Huddart at McConnell along with Melissa Felder for their assistance in editing this review, as well as Ryan Coleman.

As author of this review, I take full responsibility for the opinions expressed herein.

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The Vartana Story

As a founder of CanadaHelps[1], Aaron Pereira knew from experience how difficult it is to finance and launch a charity in Canada – particularly one involving a business-not-as-usual approach. A passionate social entrepreneur, Aaron recognized a systemic problem existed with access to institutional financing for the voluntary sector and began to devise a solution in late 2001. This marked the beginning of the Vartana initiative, which would have become Canada's first charitable bank, dedicated expressly to meeting the financial needs of charities and non-profit organizations.

> *Vartana – a Sanskrit word meaning the intersection of community and commerce – promises to support Canadian voluntary sector organizations in achieving their diverse missions.*[2]

The timing appeared propitious. The economy was strong, and the governing Liberals had enjoyed consecutive majorities; had produced record surpluses; and had a soon-to-be leader who held the respect of the financial sector. They were also receptive to the emerging social economy movement. With this supportive context – and precedents in the Netherlands, UK, and elsewhere – it seemed probable that a Canadian charitable bank could be created.

Backed by an initial investment from CanadaHelps, Aaron began to engage people around the idea. Early in 2002 he contacted The J.W. McConnell Family Foundation. The Foundation knew Aaron to be a capable social entrepreneur and saw merit in his ambitious goal. Aaron was introduced to a number of influential contacts which quickly turned into offers of support and endorsements. As momentum grew, this in turn led to the creation of a board of directors, a core working group, and a network of advisors – comprising an impressive cross-section of business and non-profit leaders.[3]

McConnell made its first grant in late 2003 and Vartana was incorporated with charitable status to carry out the research necessary to prepare an application to register a charitable bank under the Canadian Income Tax Act. At this point, the essential role and purpose of Vartana as a charitable bank were set. Vartana's potential impact lay both in the manner in which it would address the financing needs of the Canadian community sector and in the influence it could have on the broader financial industry as a Schedule 1 Bank[4] in its own right.

Like small businesses, non-profits are an under-served market in the banking sector. For banks, small business often translates into high servicing costs and hence small profits. The same can be said of loans and services to non-profits. In addition to representing a high risk/low reward business proposition, banks recognize that lending to charities carries reputational risk: being seen to repossess a Little League's hockey equipment or shut down a women's shelter can be downright bad for business. As a result, many non-profits find it difficult to secure even conventional financing on commercial terms.

By focusing on this under-served sector, Vartana would develop sector-level expertise, along with

[1] CanadaHelps (www.canadahelps.ca) is an internet portal that enables donations to be made to any of Canada's 90,000 charities, with immediate tax receipting.
[2] Vartana description (http://vartana.org/aboutUs.htm).

[3] See the appendix for a list of key supporters and a team snapshot as at January 2005.
[4] Schedule 1 Banks are Canadian banks that are federally incorporated under the Bank Act and regulated by the Office of the Superintendent of Financial Institutions. They make up the foundation of Canada's financial sector and are considered the safest and most efficient in the world. (Wikipedia)

a diversified range of tailored products and services. Not only would it reduce the risk that conventional bankers rightly cite as a reason to not get involved, it would have added functionality, capacity and vitality to Canada's social sector – in effect, creating a market where none had existed – a classic Blue Ocean strategy.

In addition to demonstrating the bankability of the sector, Vartana might eventually have had a catalyzing impact on the future of our financial system. One need only glance at current and forthcoming innovations in blended return on investment, social stock exchanges, social impact bonds, program-related investments, and so on to recognize that a more integrated and diverse banking system could contribute to a more productive and resilient Canada.

The drive to create Vartana accelerated with a mention in the 2004 federal budget, followed by the engagement of a major financial services firm to develop the business model, resulting in a plan which called for a $100M initial investment to be anchored by the government. Momentum continued to build through the rest of 2004 and into 2005, with support from C-level executives in the major banks[5] and top-down involvement from Prime Minister Paul Martin and Minister of Social Development Ken Dryden.

Unfortunately, this momentum did not generate financial commitments at a level sufficient to make Vartana a reality. While the necessary intent had been expressed by government, resistance was expressed by social sector leaders who feared that such a commitment on their part might subsume other programs that were being promoted as part of the "social economy" agenda.

Vartana was unconventional and required regulatory approvals from the Office of the Superintendent of Financial Institutions (OSFI) and from the Canada Revenue Agency (CRA). Together these pressures drew out negotiations, straining Vartana's resources and its capacity to continue.

By March 2005, Vartana's operating deficit arising from work on the business plan and securing OSFI approval had reached unsustainable levels. With the delays in approvals and funding, this liability had to be addressed. The Board considered several alternatives, including a partnership with Vancity, Canada's largest credit union.

On the government front, Finance indicated that it would only support a small pilot initiative, a scenario that Vartana did not regard as viable. Eventually, Cabinet approval was obtained, for an offer of $5M in funding, including a $1M grant for business case development. While valuable as an expression of support, the financial commitment was less than hoped and fell short of what would be needed to achieve critical velocity. Vartana instead moved on to pursue partnership with Vancity.

Entering 2006, the Liberals lost power. With Vartana rejecting the funding and without solid support from the federal bureaucracy, the opportunity for sustained government support was effectively closed. But all was not lost. With the research and business planning material developed by its professional advisors, Vartana's discussions with Vancity's Citizens Bank continued during the ensuing year. A Draft Memorandum of Understanding was produced in late 2006 and a contract signed in early 2008. The partnership was announced November 2008 at the Causeway Social Finance Forum.

Citizens Bank was now set to deliver financial advisory services, banking products and services,

[5] Formal letters of support were issued by RBC, CIBC, Scotiabank, and BMO, ranging from endorsement to partnership acknowledgement.

and education and outreach to voluntary sector organizations on Vartana's behalf, beginning in the Toronto area. It looked like Vartana would accomplish its goal, lending upwards of $200M to the sector in its first five years at less than 5% of the investment required by the original plan.

Meanwhile however, the global credit crisis was brewing. On March 16, 2008, JP Morgan Chase acquired Bear Stearns for a paltry $2 a share, signaling the severity of the coming downturn. By October 10, the Dow Jones Industrial average had had its worst week ever, with the highest one-day volatility on record. Ultimately, the credit crisis forced deep adjustments and retrenchments in the financial services industry. Among the casualties for Vancity was its Citizens Bank subsidiary which was restructured as a non deposit-taking institution in 2009, thus terminating its capacity to support the roll-out of the Vartana initiative.

At this point, Vartana had undergone two near-life experiences, but had exhausted its capacity to continue.

Although it failed, it must be said that Vartana was an ambitious initiative to introduce transformative change, and that ultimately the effort involved the kind of vision and risk-taking necessary to engender greater vitality and resilience in Canada's social sector.

Questions remain however, about the Vartana model and its execution. Would it have worked over the long term? Was it the single best solution? What would have led it to sustained success? Under what conditions might it be revived?

These are not easy questions with single answers. Today the needs and opportunities for tailored financial services that Vartana sought to address remain largely unmet. Startup capital for innovative non-profits and hybrid social enterprises is decidedly difficult to obtain. The lack of funds for retooling large organizations – a critical need in an era of changing demographics and increased service demands – places strains on the adaptive capacity of our communities and our society. This is not only of concern to leaders in the social sector, it places Canada at risk of ceding ground to more socially innovative societies.

Since necessity is the mother of innovation, there are other efforts to bring about change along the lines of what Vartana failed to accomplish.[6] All the more important then, that the lessons that can be drawn from this experience be elaborated, understood, and applied.

Lessons Learned

While ultimately unsuccessful, Vartana nonetheless accomplished things that most would have thought improbable, if not impossible.

The premise was that as an independent bank it would be uniquely able to serve the banking needs of the charitable sector. As a Schedule 1 Bank, it also promised to influence the culture and direction of the financial services industry.

The business model depended on achieving a scale sufficient to support the infrastructure required to deliver basic banking services, which meant that the majority of resources raised initially would be invested in developing that infrastructure. When fully developed, the plan called for over $100M in capital to be raised from a mix of public and private sources. Related challenges included regulatory approvals; market acceptance within the charitable sector; and the need to secure support or at least tacit acceptance from private sector competitors.

[6] The Causeway Social Finance initiative is one example. See http://causeway.socialfinance.ca.

These challenges were magnified by the sheer scale of the initiative and exposed it to failure on multiple fronts – particularly in a worsening political and financial climate. What follows are lessons that the Vartana experience provides to those who continue the work of introducing social innovations in Canada.

Systemic interventions amplify strategic vulnerabilities.

At the time of inception, Vartana could cite global precedents and had the advantage of good timing. Ultimately however, while timing and momentum are important, we have to conclude that they do not offset the systemic risk involved in initiatives of this kind.

Systemic intervention introduces higher levels of risk than non-systemic initiatives of similar scale. Not only does expressed intent put potential adversaries on notice, the very prospect of success promises further systemic instability. Such interventions are naturally countered by inertia and occasionally outright hostility on the part of those invested in the systems they seek to alter. The larger and more entrenched the systems and the greater the perceived threat to the status quo, the greater the inertia and outright resistance that can be expected – creating increased resistance as the intervention is pursued. In Vartana's case, inertia was observed in government bureaucracies and in the charitable sector it was trying to serve. Even powerful top-down interventions met with half-hearted response and outright resistance from the systems in question.

One example arose from the approach Vartana took to government engagement. By going "right to the top" Vartana succeeded in attracting high-level political support, yet unwittingly limited the ability of regulatory and bureaucratic processes to keep pace. Receiving a direct request from the Prime Minister as opposed to following conventional due process left the bureaucracy having to play catch up around elaborating a case for support. This delay was compounded when senior bureaucrats encountered resistance from sector stakeholders who had not yet been sufficiently briefed about the Vartana process. This loss of momentum was further compounded by the political turmoil that ensued through 2005 as the Liberals began to lose power.

With Vartana's dependency on government, the delay in gaining approvals and support proved costly. While Vartana had been successful in attracting high-profile moral commitments, it was not able to secure the commensurate financial support needed to build confidence in the venture. This contributed to a growing sense of unease and instability within and around the initiative which, prompted by Vartana's financial position, came to a head before government negotiations had fully run their course.

What was left unfulfilled in Vartana's case was a parallel "ground up strategy" that could have mitigated the systemic sectoral and bureaucratic resistance and built on the initial success in securing top-level assent. As one respondent observed, "The proactive engagement strategies were not sufficient to create the enabling conditions." In an ontological sense, as change agents, we need to view ourselves as part of both the problem and the solution.

Ideation is the missed opportunity in systemic entrepreneurship.

Vartana originated with an entrepreneur who had an idea. That idea was entrenched at incorporation with a charter to conduct research into establishing a charitable bank, and it was reinforced through the explicit engagement of an interna-

tional financial advisory firm to develop its business plan.

The combination of a charismatic social entrepreneur and a compelling concept generated an extraordinary roster of supporters right up to the Prime Minister of Canada.

As Vartana continued to build momentum the start up concept became "locked-in." Those who questioned the probability of the government's follow-through or even the concept itself "swallowed their reservations" because of the growing impetus to move forward. Eventually, this lock-in generated divisions among the members of the core team and supporters when Vartana entered a crisis in 2005.

Considering the projections of the Vancity partnership that was struck in 2008, it is also clear in retrospect that the initial idea may not have been the best approach to fulfilling the mandate. Looking back at the lack of institutional capital for the charitable sector – the problem Vartana originally sought to address – it is also clear that there were several other potentially viable approaches.

McConnell's commitment to supporting an entrepreneur with an idea is something to be celebrated, but in the clarity of hindsight, questions arise: What if that same level of commitment and engagement were applied to a more prolonged process of ideation led by an entrepreneur or entrepreneurs seeking the same impact? Might it ultimately have proven more economical to invest more deeply in building support for Vartana among its potential users?

While we can and should draw lessons from Vartana's failure, we can only imagine how much more impact it might have accomplished had it succeeded.

Communication is a critical organizing capacity.

Vartana had an accomplished entrepreneur with exceptional ability to deliver charismatic and compelling appeals for support. It was able to recruit a prominent, qualified board, leadership team, and advisors – many of whom demonstrated extraordinary commitment and critical hands-on involvement.[7]

As Vartana grew, so too did the challenge of keeping different members of the organization and its supporters up to speed on the conversations, context, and evolution of the initiative. Adding to this, while the Board had been receiving detailed updates at what became quarterly board meetings in 2005, as might be expected, there were also inconsistencies in the participation and preparedness of certain members.

The Foundation also found itself in a particularly conflicted position. On the one hand, it was a strong supporter of the initiative, lending its insight, influence, and network of connections. On the other hand, it was one of the primary funders and needed to maintain an objective distance from the project. This awkward balancing act played out in the Foundation's attempts to withdraw from direct involvement on the Board, which was opposed by Board members because of its importance to the project.

Together these challenges, inconsistencies, and conflicts only intensified the reaction to the operating deficit Vartana faced in 2005. The result deepened divisions among the core team and board members, complicating the situation and making resolution more difficult. Ultimately the organization would never fully recover.

[7] For example, Bill Young both made substantial financial contributions and played an active, hands-on role advancing the Vancity partnership in particular.

Keeping a diverse group of high-calibre participants engaged and on the same page is a challenging task for any single person. Doing so transparently in the context of a dynamic high-stakes initiative engaged with some of the upper echelons of power is even harder. For initiatives such as Vartana, designing and implementing a communication system that delivers appropriate information, provides clear requirements, and secures explicit commitments of key participants is essential to managing the complexity they face.

Implications for Impact

Vartana demonstrates that initiatives seeking systemic change require both adequate investment in up front ideation and strategy formulation and an infrastructure that has the capacity to respond commensurately to systemic resistance and volatility. Conventional practice in innovation is focused on turning *ideas* into reality – a linear approach to reducing ambiguity and risk. If we hope to meet the challenge of intentionally creating impact at a systemic level, we need methodologies that instead turn *impact* into reality – an organic approach to meeting and employing complexity. Perhaps more difficult, those methodologies require an approach based on emergence – featuring disciplined adherence to the process of creation bound by purpose and values – as opposed to dogged execution of predetermined plans and ideas.

Today, what we invest in ideation – the process of developing an idea – pales in comparison to what we invest in execution of ideas. It is in ideation, however, that the opportunity for greatest leverage of future investment exists. In this context, social entrepreneurs have the seemingly impossible task of identifying and developing the optimal idea to achieve the desired impact in a vacuum of support. The more complex the objective, the more impossible the task. If we are to optimize our investments for impact, we need to shift this balance to investing social, financial, and intellectual capital into ideation first, and to follow up with deployment of resources that is commensurate with the scale of the idea developed and consistent with a relentless focus on achieving impact.

Similarly, entrepreneurial infrastructure is not to be confused with conventional governance models that focus on executive limitation. Rather it should be designed to enable proactive and focused attention to governance, strategy, and execution. It must enable founding contributions from many; leveraging instead of hampering what are traditionally seen as conflicted roles like founder and funder. It must enable entrepreneurs to do the impossible in an environment that is flexible, yet that has the capacity and rigour to address the scale of the challenge at hand. It must create a space that nurtures meaningful engagement, rapid iteration and routine reflection, and transparent decision-making that remains grounded in achieving the intended impact with optimal levels of investment.

Collectively these implications point to a new operating framework for orchestrating systemic change – a practical approach to *systemic entrepreneurship* – based on an ideology and methodologies compatible with the task at hand.

Through its involvement with Vartana and other similarly ambitious initiatives, McConnell has already begun acquiring knowledge about such approaches. In publications like "A Developmental Evaluation Primer" and the "DE 201: A Practitioner's Guide to Developmental Evaluation," it sets out how to affect and evaluate efforts at systemic change – reconciling their complexity and ambiguity with the need to work with purpose and rigour.

These publications[8] provide a good foundation for further research and development into the approach of systemic entrepreneurship.

Opportunity for Legacy

Looking forward, Vartana's legacy should begin with a celebration of a cross-cutting initiative that transcended sectoral silos. The many "impossibles" accomplished and the two near-life experiences, in spite of its limitations, signal what is possible when people come together in support of systemic change.

The idea of a charitable bank is not new and may well come around again. Vartana has already begun to contribute to that eventuality by documenting and exposing the pivotal "but for capital" regulatory precedent for a charitable bank in Canada. While much of the research and business plans developed would have to be revised, the time-capsule hosted at *vartana.org* will prove useful to any related future initiative. Beyond this, Vartana's conclusion marks a new approach to systemic entrepreneurship. One need only look at the work being done by the Causeway initiative, and the work collected at *socialfinance.ca* to see that Vartana's goals are being actively pursued by a legion of systemic entrepreneurs who can truly be said to be part of Vartana's enduring legacy.

The desire to engender change is stronger than ever and, as echoed by many interviewed, we need new approaches to create successes of future Vartanas. It is my hope that this story and learning contribute to that future.

Conclusion

Vartana's story is one of an ambitious idea that could have led to profound changes in Canada's voluntary and financial sectors. It is a story that deserves to be told and one that also offers important lessons for improving our collective capacity to undertake initiatives of a similar nature and scale.

As we move into the future we are assured of increasing instability on the one hand, and on the other, of continued or intensified inertia in the face of an evident need for change. It is clearer than ever that the models we have today are neither sufficient nor compatible with what we need in order to adapt to current challenges, let alone create the tomorrow we want. Our opportunity now lies in forging approaches to systemic entrepreneurship that make impact the imperative and that pay appropriate attention to ensuring cross-sectoral openness to and involvement in the process of co-creation.

While the Vartana case evidences considerable openness on the part of all sectors of society – governments, private sector, and civil society, it is to be hoped that the latter will take particular account of its responsibility to learn from and apply Vartana's lessons to the larger social project before us.

[8] See the *Resources* section of The J.W. McConnell Family Foundation website. (www.mcconnellfoundation.ca)

Appendix: Supporters

As at January 2005

Core team

Alec Zimmerman
Mary Anne Elliott
Jeff Pentland
Chris Thompson
John Thompson
Benoit Long
Kirstin Beardsley
Prashant Pathak
Aaron Pereira

Board of Directors

Tim Brodhead (Chair), President and CEO, The J.W. McConnell Family Foundation
Marcel Cote, Founding Partner, SECOR
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Joanne Linzey, President, United Way of Halifax
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Sheila O'Brien, Ex-EVP, NovaChem
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Social Sector

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Marlene Deboisbriand, President, Volunteer Canada
Tim Draimin, Executive Director, Tides Canada Foundation
Gordon Floyd, CEO, Children's Mental Health
Richard Frost, President/CEO, Winnipeg Foundation
Ian Gill, President, EcoTrust Canada
Bonnie Greene, Program Manager, United Church
Edward Jackson, Founder, CEDTAP
Patrick Johnston, President, Gordon Foundation
Marcel Lauziere, President, CCSD
Richard Mulcaster, President, Vancouver Foundation
Dr. Fraser Mustard, Founder, CIAR
Monica Patten, President/CEO, Community Foundations of Canada
Hilary Pearson, President, Philanthropic Foundations of Canada
Susan Pigott, CEO, St. Christopher's House

Business Sector

Ron Farmer, Former Director, McKinsey & Co.
Bruce Galloway, Former Vice Chair, RBC Financial Group
Patrick Lavelle, Former Chair, EDC & BDC
Keith Martell, Chairman, First Nations Bank
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David Pecaut, Chairman, Toronto City Summit Alliance

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