

Introducing the Solutions Finance Accelerator

— Application Guidelines



Introduction

— Background

The McConnell Foundation envisions a Canada in which the economy and social systems advance the wellbeing of all people, and in which the natural environment is stewarded for future generations. We use both our granting and investment strategies to achieve this goal.

However, even the total combined resources of McConnell and all other Canadian foundations would be nowhere near large enough to solve Canada's most intractable social, economic and environmental problems. And while the Canadian and global impact investing markets have grown, there is a recognition that to mobilize the \$6 trillion required annually to achieve the global **United Nations Sustainable Development Goals (SDGs)**, we urgently need to find new ways to help unlock and access the much larger pool of available investment capital capable of filling this vital financing gap. Financial intermediaries play a key role in deploying this capital to the groups and communities helping to reach these goals.

This is why we are launching the **Solutions Finance Accelerator** – a new program aimed at accelerating the growth of a vibrant and innovative social finance marketplace with efficient and effective investment capital flowing to creating positive social and environmental impact at scale.

— **The Solutions Finance Accelerator program is designed to provide support to intermediaries working on innovative financial products that address market gaps in domains aligned with the SDGs in Canada. The Accelerator consists of three types of support designed to assist intermediaries in achieving their goals: (1) customized types of concessionary capital, (2) mentorship, and (3) access to a pool of experienced service providers.**



The program

— Basics

What market gap is this program addressing?

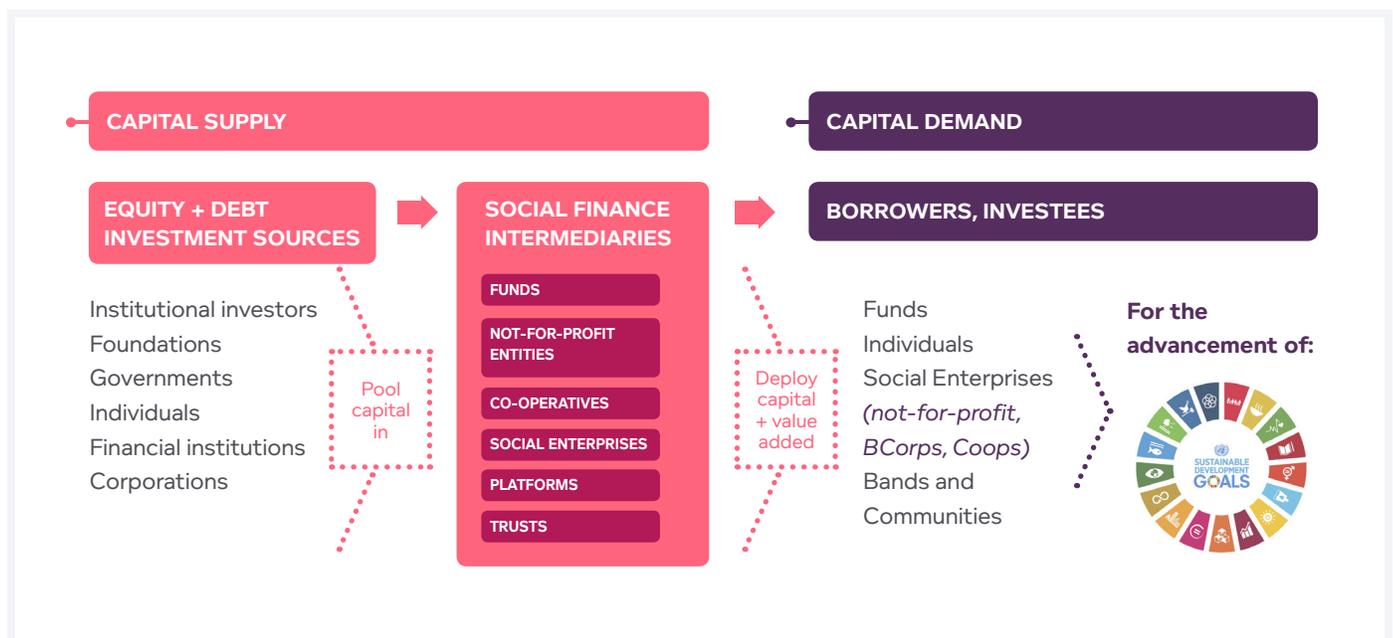
Traditional forms of granting and impact investing don't provide sufficient funds to effectively help solve our social and environmental challenges. Grants are limited to registered charities and many impact investments are either too small or too risky to attract mainstream investors. We need to support financial intermediaries who can de-risk investments, provide added value to investors and investees, and effectively deploy capital to communities, organizations or groups in need.

Financial intermediaries are perfectly positioned to pool significant amounts of diversified capital and effectively deploy it to numerous organizations, groups and communities across Canada. However, intermediaries in the social finance marketplace often face barriers to develop and test their innovative financial mechanisms. They need access to pre-development funds and precursor capital, both of which are sorely lacking at the moment.

This program strives to accelerate the rate and scale of change in the marketplace. It can accomplish that by helping intermediaries be investment ready and then match them up with institutional capital.

How do we define intermediaries?

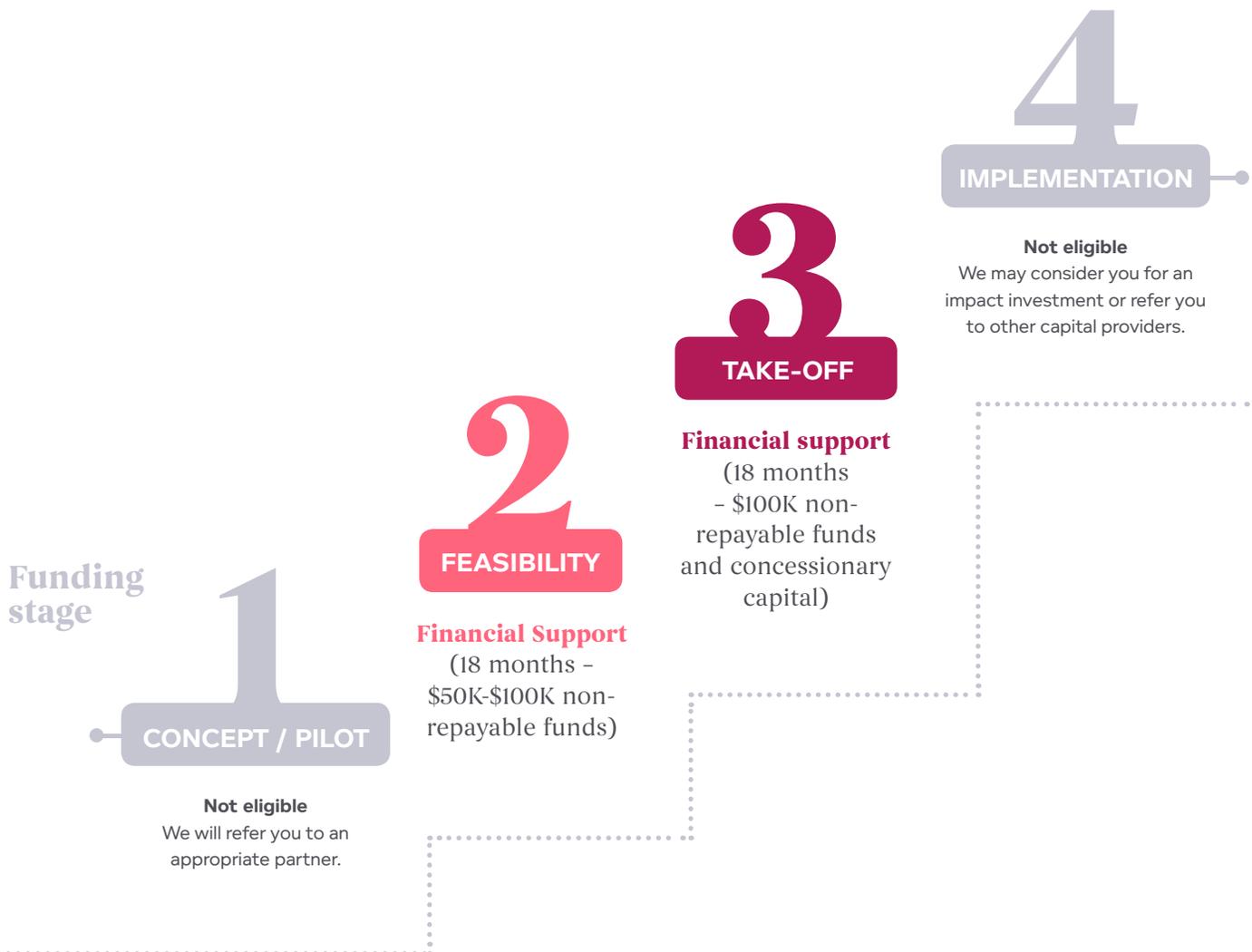
We define a Solutions Finance Intermediary as an entity that aggregates capital from a variety of investment sources and actively deploys it to advance social and environmental change in an innovative way and with the potential for exponential scale. Intermediaries could include (but are not limited to): financial institutions, funds, trusts, platforms, non-profits, co-ops, social enterprises or other financial entities constituted under Canadian law.



Access to funds

— Funding

Successful applicants will have access to a mix of financial tools, including concessionary capital. The program is intended to support intermediaries requiring operational funding at early stages of their journey. That is, **intermediaries that are past the concept phase and that need support** to begin their implementation. Funding will be provided for two stages of development:



— Feasibility stage

Definition

This group includes intermediaries that have created **a proven concept that has been successfully piloted**, but that are not yet ready to implement and scale their models. They have brought together individuals with complementary expertise who, together, have thought through and designed the financial models that are sustainable and innovative. They now require support in conducting market research, further engaging with stakeholders, completing their legal framework, and developing the deal-flow of projects.

Use of Funds

Funds may be used for one or more of the following activities:

- MARKET ASSESSMENT
- STAKEHOLDER ENGAGEMENT
- FINANCIAL MODEL
- LEGAL
- PIPELINE DEVELOPMENT
- OTHER (TBD)

Expected outcomes

Strategy: Strategy for scale, degree of innovation and value generation: both at inflow & outflow stages of capital.

Business Model: Sustainable business model in terms of income generation, backed by realistic financial projections.

Business plan: (a) Completed feasibility assessment, (b) Outcome-capturing plan.

Relationship building: Connection with various investor partners for commencement of discussions.

— Take-off stage

Definition

This group includes intermediaries that have **achieved the milestones of the feasibility stage** and are almost ready to operationalize their project. They may require support to test their models, scale their operational systems, hire additional talent, implement a strong governance model, and, most importantly, attract long-term institutional capital. We will work with intermediaries to adjust terms and timelines that are most valuable to them and that, at the same time, facilitate the development of sustainable and profitable business model.

Use of Funds

Funds may be used for one or more of the following activities:

- STAFF & GOVERNANCE
- OPERATIONAL SYSTEMS
- SEED FUNDING
- LEGAL
- PIPELINE DEVELOPMENT
- COMMUNICATIONS & MARKETING

Expected outcomes

Investment Model: Finalized investment-ready model with a concrete plan for implementation and testing on regional scale.

Investment Commitments: Written commitments from diverse pool of investors and borrowers, demonstrating tangible and sustainable business model.

Mentorship & Support

Developing and scaling innovative financial products that address the fundamental social and environmental challenges of our time can feel slow and isolating. We recognize these challenges and are committed to providing successful applicants with capacity building and networking support.

Peer-to-Peer Learning

Organizations in the feasibility and take-off stages frequently face similar roadblocks. Spending uninterrupted time together can allow them to break through these roadblocks at a much faster pace with the added benefit of collective innovation. We will organize a number of **learning and networking events for intermediaries to connect**, collaborate and learn from each other.

Mentoring

We aim to **pair successful applicants with mentors** who will accompany them throughout the course of the program. Our mentors will be recruited from a range of different institutions and domains, including but not limited to private and public capital market stakeholders and mature intermediaries.

Access to experienced service providers

We will coordinate **access to a pool of experts** across various fields who can provide technical support to successful applicants. The service providers will be a mix of traditional organizations – such as legal and accounting firms – and those delivering more impact focused services. By undertaking this work, we are striving to enhance the number and quality of service providers in the social finance marketplace.

— “If I have seen further
it is by standing on the
shoulders of giants.”
— Isaac Newton

Applying to the Accelerator program

— Program phases

Applications to the Solutions Finance Accelerator will be accepted in **two phases**:

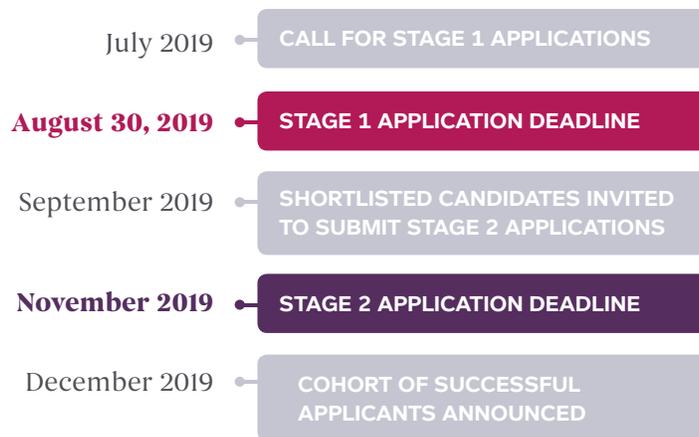
PHASE 1

The questions in this application are designed to introduce us to your proposed project, to help us understand its alignment with social and environmental development priorities, and to help us assess its degree of innovation. Applications may be submitted via our **online application platform**. We expect **this application to require several hours to complete**.

PHASE 2

Successful applicants will be invited to submit a full application with further information and supporting documents.

— Application timeline



Eligibility

As with all McConnell Foundation initiatives, funds provided through this program must comply with Canadian Revenue Agency Regulations as well as the Foundation's environmental and social principals. This chart provides key information on eligibility criteria for Solutions Finance Accelerator.

Eligibility criteria

— 1. Legal status

Organizations must be **legal entities**, constituted under Canadian law

— 2. Geographical reach

Organizations must demonstrate that their impact lies primarily **within Canada**

— 3. Environmental and Social principals

Organizations must demonstrate that their impact is aligned with **at least one United Nations Sustainable Development Goal:**



United Nations Sustainable Development Goals

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace and Justice Strong Institutions
17. Partnerships to achieve the Goal

Selection criteria

Applications submitted through our online portal (<https://mcconnell.fluxx.io>) will be evaluated on a range of criteria, including but not limited to those listed below.

— Stage 1 criteria

Value Proposition	Graduation from concept/ pilot stage
Does the intermediary provide innovative solutions and additional value to the receivers of capital specifically and to the social finance marketplace in general?	Does the intermediary have a sustainable financial model?
Is the intermediary positioned to build capacity & framework amongst receivers of capital?	What is the potential for scale (geography & volume)?
Does the intermediary work within a larger ecosystem to balance supply and demand?	How many years of experience does the leadership team have? What is their history of working together?
Does the intermediary pool funds effectively to invest in larger initiatives?	
Does the financial mechanism deploy capital effectively into multiple smaller projects?	
How will you capture your outcomes?	

Selection criteria

— Stage 2 criteria

Organizational capacity	Financial capacity (historical/ future)	Industry risks	Profitability (historical/ future)
What is the leadership team's track record in innovation?	EBITDA (Earnings before interest, tax, depreciation and amortization)	Political risk	Annualized returns
How diverse and experienced is the board?	Cash flow	Regulatory risk	Historical returns vs. market return based on intermediary's risk profile
What are the team's technical and industry-specific skills?	Balance Sheet	Geographical risk	
What is the team's ability to mobilize knowledge, internally and externally?	Diversity of capital sources		
What is the intermediary's legal structure?	Diversity of deal flow		
	Current portfolio mix		

Appendix

— Innovative examples

Here, you will find several examples of successful innovative models of intermediaries that are currently operating in Canada and around the world.

1. New Markets Funds Society

The New Market Funds Society was created to provide long-term community benefit by connecting market-based capital to partners who create positive social and environmental impact while delivering risk-adjusted financial returns. It is an innovative initiative that brings together a group of pan-Canadian sponsors to address the need to increase

impact investing activity across the country, including that dedicated to affordable housing. The society is the majority owner of a national platform of investment intermediaries, the operations of which extend beyond affordable housing, covering broader community real estate, community lending and cooperative enterprise investing.

It is comprised of 4 investment funds with a total of \$65MM in assets under management pooled from 64 investors, including 26 foundations.



2. ABSCAN

The First Nations housing crisis has reached unprecedented levels and is endangering the health and safety of Indigenous peoples, according to a recent report from a national survey on missing and murdered Indigenous women and girls.

ABSCAN is a non-profit social enterprise founded and managed by Indigenous people and an innovative solution to the housing challenge. ABSCAN is an Indigenous financial institution that has been collecting Indigenous member savings and institution investments since 2005. It provides personal loans and advice to First Nations for housing, infrastructure and related sectors. The loans are tailored to the legal and social realities of First Nations and are merit-based, without requiring nations, which do not have the means, to provide a guarantee, unlike commercial loan requirements.

This has enabled some nations, such as Wendake, to establish a continuum of housing solutions, as well as health infrastructures, safety and quality of life that are comparable to those of the rest of Canada. The housing market is a source of equity and prosperity for families. ABSCAN is working to accelerate and replicate this success with a bond financing mechanism based on modern financing and housing tools that involve Indigenous savings, institutional investment, social finance and financial markets.

Since 2005, ABSCAN has provided more than \$30M in loans, proven that its expansion project is viable and implemented a support program to activate and accelerate changes to the housing situation in nations with the greatest need.



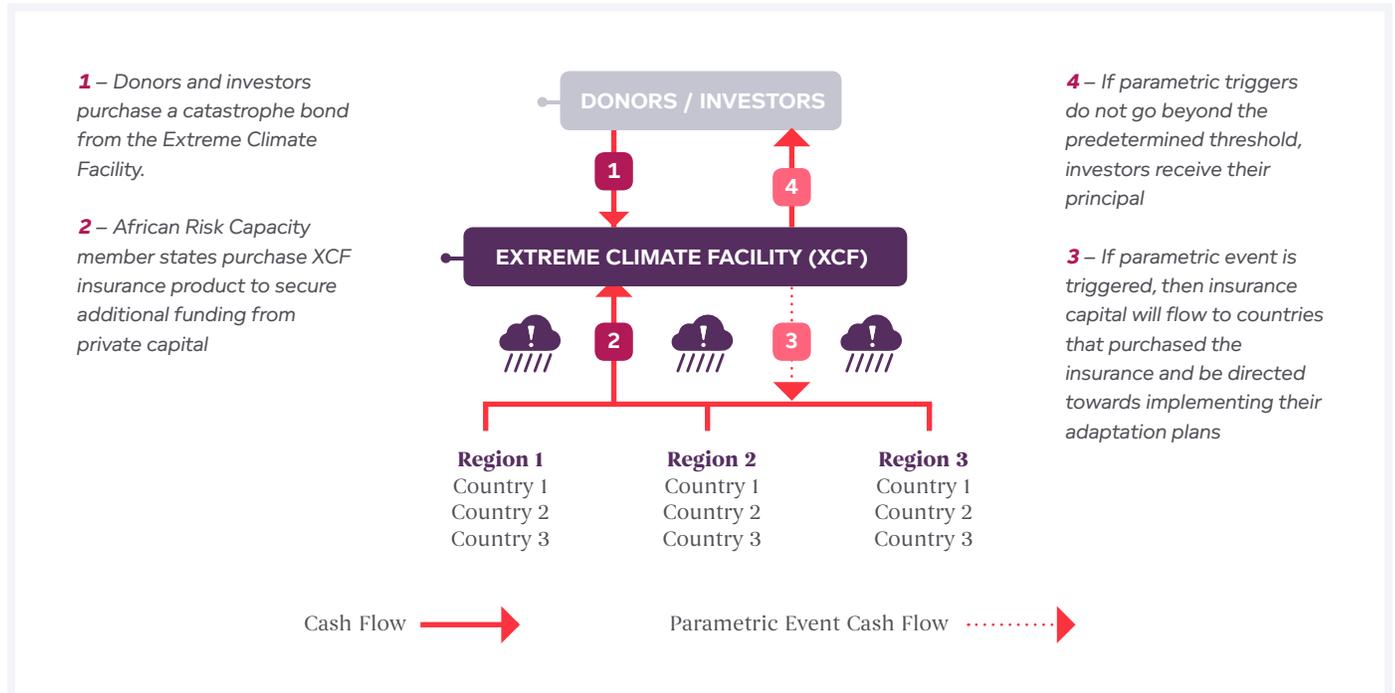
3. Extreme Climate Facility

Extreme Climate Facility (“XCF”) was established to address the lack of investment for adaptation and resilience in the countries most affected by weather volatility as a result of the climate crisis. All of them are situated on the African continent and the size of the market gap amounts to USD 14 trillion a year.

This vehicle was designed to complement four existing insurance pools backed by the African Union. It is structured to capture additional marginal costs directly associated with the fluctuations in frequency and intensity of extreme weather events. XCF is funded by grants and other forms of concessionary capital. Its innovation is found in the way the vehicle has been modeled: returns and payments are purely data driven. Predicting risk and return is more accurately calculated by using data provided by their internally developed Extreme Climate Index, which tracks the frequency and magnitude of extreme weather events in the region.

Member countries most affected by climate crises may purchase insurance from XCF to protect themselves against the economic costs of unpredictable extreme weather events. If climate shocks occur and exceed in either frequency or severity of the predetermined pattern, XCF will distribute insurance proceeds to its affected clients. If climate shocks do not occur, investors will receive back their yield plus principal at predetermined intervals.

**Diagram below is adapted from the Extreme Climate Facility case study developed by the Rockefeller Foundation. Learn more here: <https://bit.ly/2YvFsm6>.*



FOR MORE EXAMPLES

For more examples of international intermediaries, please visit the **Rockefeller Foundation’s Zero Gap initiative.**



The McConnell Foundation

Suite 1800 – 1002 Sherbrooke Street West
Montreal, QC H3A 3L6
Phone: 514 288 2133
Fax: (514) 288 1479

The McConnell Foundation is located on the traditional territory of the Kanien'kehá:ka (Mohawk), a place which has long served as a site of meeting and exchange among various nations.

McConnell