

# Social Finance Primer: Locating new sources of capital for an Equitable Community

## The Institute of Southern Georgian Bay

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### Why explore Social Finance?

Big shifts in our communities often result from events not of our making. Access to capital becomes critical to the sustainability of our small and rural communities. And so, we need to **reach beyond traditional sources of funds** to support economies that have been restricted by the pandemic, address climate change, and the lack of affordable housing in order keep our communities viable. Seeing our communities - and the business, social and philanthropic and local government sectors – as interconnected leads to the idea of community sustainability and the United Nations goals captured in [Sustainable Development Goal 11](#).

**Collaboration is a must moving forward**, among municipalities in our region and among the four sectors that are the pillars of community. As a region of small rural communities, we recognize that our capacity for connectivity and networked relationships is an asset and our ability to scale solutions relies on collaboration.

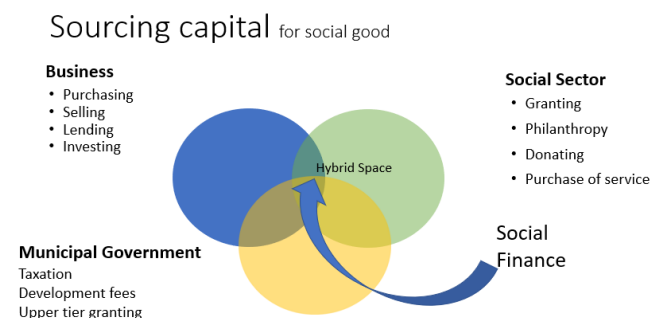
To innovate effectively and meet current challenges to our communities' sustainability, **we need planning mechanisms that allow for both collaboration and a strategy for social investment**. Relying on traditional government planning mechanisms that view business development, housing, climate, and social wellbeing as separate planning spheres is no longer enough. It is also not enough to rely on traditional forms of investment.

We must understand our municipalities as key actors in strategies of community wealth and wellbeing and develop citizen-engaged cross-sectoral mechanisms that support both private and public investment in ways that our small tax bases cannot. As we have learned to buy local to support local, we must now not only give locally but also invest locally in affordable housing, social ventures and community wellbeing strategies.

**Every dollar we spend, lend, or invest locally helps to build the sustainable communities we want to live in.**

### So what is Social Finance & why did it emerge?

The conversation about Social Finance emerged in Canada because of reductions in federal and provincial government funding through the mid-90's and the decade that followed. **There was recognition that the biggest barrier to the Canadian social sector doing its job of tending community wellbeing, was access to capital**. As the social sector moved away from its financial relationship with big government, it began to explore the relationships with municipal governments, business, generating synergy and re-combinations of financial mechanisms that yield both financial support for and increased contribution to social good. By 2010 there was enough experimentation that the McConnell Foundation funded the Task Force on Social Finance. The report [Mobilizing Private Capital for Public Good: Canadian Task Force on Social Finance](#) called on institutional investors, corporations, philanthropists, foundations and governments to work together to build a robust impact investing marketplace.



This Primer explores the current range of social finance instruments that communities like ours could be using.

## Purchasing for social good

### Social Procurement

Every purchase has an economic, environmental, and social impact, even if we don't measure it. Social Procurement captures those impacts to make a strategic contribution to both the local economy and the overall wellbeing of the community. **Large scale purchasing by business, institutions and government have the largest impact: the bigger the purchase power, the bigger the potential for social impact.** This often requires changes in procurement policies and checklists, so that value returned to the community is included in the weighting of purchasing opportunities. Social Procurement often includes purchasing local or from social purpose organizations or enterprises. Check this out:

<https://www.buysocialcanada.com/news/social-procurement-and-covid-19>

### Buy Local/Buy Social

Community-led initiatives such as **local food hubs or buy local campaigns can be seen as direct consumer approaches to social procurement.**

### Community Benefit Agreements (CBA)

Large infrastructure projects, such as those initiated by a municipality or business offer a different opportunity to engage in purchasing with an eye to community benefit. **Requirements to source green, support skilled trade development, local employment and social procurement can all be part of these agreements.** A [community benefits framework](#) is a tool to help with transparency, setting out how the link between purchasing and public good is made. Check this out:

[How to get community benefits agreements right: Engage and empower](#)

### Community Employment Benefit (CEB)

A social finance policy tool, the CEB enables Infrastructure Canada to provide a framework for project targets and reporting on social results. [CEB](#) supported projects provide employment and/or procurement opportunities for at least three of the groups targeted by the initiative: apprentices; Indigenous peoples; women; persons with disabilities; veterans; youth; recent immigrants; and small-sized, medium-sized, and social enterprises.

## Selling for social good

### Social Enterprise (SE)

An SE is a business model that seeks to achieve social good in some variation of a double or triple bottom line, recognizing profit and social and environmental good in the business proposition. An SE is not defined in the Canadian Income Tax Act, requires no certification and there are currently a range of definitions. An SE can be either for-profit or nonprofit, and some are sister organizations to registered charities. Best definition: "At least **50% of the business revenue comes from selling goods and services in the market place and there is an embedded mission to achieve social, cultural or environmental objectives through the sales**" comes from [Buy Social Canada](#). Increasingly we are seeing more and more financial and coaching/training supports for SE startups.

Check this out: [Social Enterprise Ontario](#). [Canadian Community Economic Development Network](#)

### Corporate Social Responsibility (CSR)

CSR can be [defined](#) as a self-regulating business model that helps a company be socially accountable, to itself, its stakeholders, and to the public. By practicing corporate social responsibility, also called [corporate citizenship](#), **companies are conscious of the economic, social, and environmental impact they have, and their capacity to contribute to public**

**good.** This is an area of Social Finance practice that is growing and becoming more inventive, because customers want companies to take a stand on a wide variety of issues such as greening, poverty, food security, and more recently corporate endorsement of causes like Black Lives Matter.

Check this out: [Fast Company: Why CEO's are still missing the point on social impact](#) ; [Public Inc.](#)

### **B Corps**

B Corporations formally balance purpose and profit. **They meet requirements of a certification process and are required to report on public benefit impacts and consider the impact of their decisions on their workers, customers, suppliers, community, and the environment.** We have few in Canada and only BC currently has the necessary legislation. However, many large transitional corporations operating in Canada are B Corps such as [Patagonia](#). This is a California-based outdoor apparel company committed to reducing the negative impact of their activities on the environment and donating time, services and at least 1% of their sales to grassroots environmental groups all over the world. The design company [TAS Design Build](#) is another.

Check this out: [B Corp.net](#) [Why Companies Are Becoming B Corporations Harvard Business Review](#)

## **Lending for social good**

### **Community Loan Funds**

These grew from the international development field of micro-lending, providing small loans to individuals to start or scale small enterprises that help lift people out of poverty. **Community loan funds now exist in many Canadian communities with a range of objectives including: supporting entrepreneurs and economic independence, enabling home ownership and building the capacity of social sector organizations.** These usually include capacity building support and a social purpose mission and sometimes investment readiness programs, supported by socially-minded investors.

Check this out: [St. John Community Loan Fund](#) ; [Community Forward Fund](#) ; [Toronto Enterprise Fund \(TEF\)](#)

### **Partner Loan Funds**

To increase the scale and access to capital in community-loan funds, these organizations sometimes partner with commercial lending organizations to offer micro-finance services. This is a hybrid space between CSR and mission-driven community lending. For example, the [Alterna Savings](#) partnership with the [Ottawa Community Loan Fund](#) (OCLF), a not-for-profit social finance organization, **provides funding to aspiring entrepreneurs, social enterprises, and internationally trained talent who would not otherwise qualify for credit from traditional financial institutions.** The City of Toronto's Youth Micro Loan Pilot was funded by the City in partnership with Toronto Community Foundation, Toronto Community Housing and Alterna Savings. It provided young entrepreneurs living in the city's west-end priority neighbourhoods with coaching, business development training, business mentoring and the opportunity for a small business loan. The [Ontario Catapult Micro Loan Fund](#), administered by the Centre for Social Innovation, provides loans to social enterprises in partnerships with Alterna, TD Bank and the Province of Ontario.

### **Foundation Loan Funds**

Several philanthropic foundations have begun lending to support mission, following the 2008 market crash when many found themselves unable to draw resources from the markets and so had to cease granting. The desire to diversify investment aligned with mission was also spurred by the critique that foundations hold the majority of their capital out of play, particularly in times of crisis. [London Community Foundation](#) began offering community loans in 2012 with a commitment of 1% of their assets. They now offer a **range of financial offerings including loans, lines of credit, letters of guarantee and mortgages that align with mission.**

### **Peer to Peer lending**

These are small but interesting models of lending circles, making a direct connecting between investor and entrepreneur.

Check this out: [Kiva Lending Loop](#)

## Investing for social good

### Community Bonds (CBs)

CBs are **interest bearing bonds intended for small scale investors** and can only be issued by a nonprofit organization. They can inject capital that enables nonprofits to leverage other investment opportunities and they offer a combination of financial and social returns that satisfy both investor appetite and the requirements of a specific cause. The Centre for Social Innovation launched a CB with the municipality as a loan guarantor to purchase their Spadina Street location in Toronto. Funds raised enabled the organization to qualify for a commercial mortgage, and then leverage the equity to enable a second building purchase. The result is \$42M in assets now held in the nonprofit corporation.

Check this out: [Tapestry Capital Community Bonds Explained MoneySense](#)

### Social Bonds (SBs)

Different from **Community Bonds, SBs are traded on the market**. Proceeds are exclusively applied to finance a project that delivers social outcomes. These may include green or environmental projects and social or affordable housing. There are now voluntary industry guidelines to support these new types of bonds.

Check this out: [HPC Housing Investments Corporation Social Bonds ICMA Social Bond Principles](#)  
[City of Toronto issues third social bond](#)

### Social Impact Bonds (SIBs)

Social Impact Bonds are social policy tools that **bring together different groups, governments, corporations, private investors, foundations, service providers and social enterprises, to deliver prevention-focused solutions**. Private investment finances the solution upfront, which are delivered by social service providers with proven track records. If social outcomes are achieved, financial returns are paid to investors out of the savings realized by government. SIBs allow governments to explore innovative policy solutions while minimizing financial risk.

Check this out: <https://www.ontario.ca/page/social-impact-bonds>

### Community Investment Funds

There are a couple of models of CIFs appearing on the Canadian landscape. Not all of these are actually investment funds. Some use the language of investment to describe a **granting program that funds community infrastructure**. A true community investment fund sources capital locally, and lends rather than grants, for both social and financial return. A good example is the Vancouver Island Community Investment Cooperative (VICIC). The VICIC sells shares to community members aiming to attract investment funds more usually destined for an RRSP at GIC return rates. The fund management and investment is backed by a commercial credit union.

Check this out: [Community Investment Fund](#)

[How](https://ccednet-rcdec.ca/en/toolbox/community-investment-funds-how-guide)[https://ccednet-rcdec.ca/en/toolbox/community-investment-funds-how-guide](#)[To Guide](#); [New Brunswick Regional Development Corporation CIF](#); [Halton Region CIF](#)

### Impact Investing

Impact investment channels **capital to drive measurable social as well as financial returns**. Attracting capital to tackle issues at scale requires an eco-system that connects the social sector to capital markets and new financial tools. Social Venture Exchange or SVX at MaRS Discovery District aims to create such an ecosystem. At the community level, so does the [Vancity Credit Union](#). Its *strategic investment framework* is on their website. They say: *"We use your deposits to lend to and invest in local businesses, organizations, and initiatives that create positive economic, social, and environmental impacts in your community. That way, we can grow your wealth while making a difference in areas such as creating jobs, reducing greenhouse gases and fighting homelessness."* The [McConnell Foundation](#) has recently added impact investing

to its financial portfolio, along with investing and granting, creating two new streams Mission-Related Investments (MRI) Program-Related Investments (PRI).

Check this out: [State of the Nation: Impact investing in Canada](#)

### **Angel Investors**

High-net-worth individuals invest in new entrepreneurial ventures **combining investment opportunity with the opportunity to give back to the community**. Unlike venture capitalists they are often actively involved in mentoring the startups they invest in.

Check this out: [Angel Investors Ontario](#)

### **Registered Disability Savings Program (RDSP) and Registered Educational Saving Program (RESP)**

These are both social finance policy tools that offer preferred access to investment opportunities to bolster individual savings supplemented by granting, rather than relying on traditional subsidy programs to achieve social outcomes.

## **So where might we go with all of this?**

If social finance provides the tools, **what are the processes that enable communities to develop a strategic framework for community investment?** Here are two starting points to begin to answer the question:

[Buy Social Canada](#) hosts the Canadian conversation on the [Social Value Market Place](#) and hosts community discussions in regular “huddles”. In addition, David LePage, well-known entrepreneur and founder of the Young Foundation has a new book - [Marketplace Revolution: from Concentrated Wealth to Community Capital](#).

[Tamarack Institute](#), located in Kitchener Waterloo, is a global resource on processes that achieve collective impact. Their website is a wealth of resources on how to proceed. Here are two suggestions to start:

[Turf, Trust, Co-Creation & Collective Impact](#) and [Collective Impact 3.0: An Evolving Framework for Community Change](#)