# Scaling the Social Finance Pipeline: Challenges and Opportunities

**By Coro Strandberg**
**Strandberg Consulting**

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## *About the Author*

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*Today, Coro's consulting work focuses on using the marketplace to advance social and environmental value. She advises companies on integrating sustainability into business purpose and corporate strategy and conducts thought leadership projects on how business can be a force for good. She maintains a website of her publications, which include research on community investment and social finance.  www.corostrandberg.com*

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*"Although Canada has some notably successful social enterprises and many more in development, our pipeline of quality investment opportunities is not yet fully developed and readily accessible." Social Finance Task Force*

*"There is a lack of sufficient absorptive capacity for capital with an imminent lack of impact investing opportunities into which large amounts of capital can be placed at investors' required rates of return." Monitor Institute*

*"Another important task for the industry is to build a pipeline full of investment-ready projects that match the available capital, and in the process strengthen the demand-side capacity of entrepreneurs and other actors that are investees of impact investors."*
*— E.T. Jackson and Associates for the Rockefeller Foundation*

## Executive Summary

Canada's social finance assets have increased dramatically over the past five years since the birth and maturity of the asset class these past three decades. However, as the foregoing quotes reveal, there is a risk that the available assets will exceed the absorptive capacity of the social enterprise sector. To accelerate the ability of non-profits and charities to grow their mission and impact through social enterprise pursuits, it is critical to match efforts to unlock the supply of capital with efforts to cultivate demand. This study focuses on the challenges and opportunities to closing the potential gap between supply and demand in social finance capital.

The paper is the result of a three-part study, funded by Employment and Skills Development Canada, which considered:

- Insights from the recent literature on the supply-demand social finance gap
- Validation of the literature findings on the characteristics of the social finance pipeline and solutions for its growth from cross-country practitioner interviews
- Input into the development of recommendations for closing the supply-demand gap from a focus group representing key social finance pipeline stakeholders

The main findings include:

**Top characteristics of non-profits and charities in the pipeline**

- Many have debt financing experience and most but not all are risk oriented
- Most have financial competency but may lack business or marketing competency
- Many lack a strong capital asset base; their strategic use of grants and community relationships help address this constraint
- Many are already launched before they receive external financing

**Top challenges faced by non-profits/charities in the pipeline**

- Business, financial, legal, governance and management capacity issues
- Lack of financial and staff resources for research and development
- Varied experience with debt financing and risk management
- Lack of access to appropriately tailored capital
- Need for control over project and mission

**Top challenges investors face sourcing deals**

- Hard to find deals; deals are too small and transaction costs are too high
- Inadequate returns (possibly a result of unrealistic expectations)
- Constraints in finding matching capital to complement their investment
- Financial products not tailored to investee needs
- Investor place-based focus limits ability to achieve national scale

**Top implications of the characteristics and challenges of the social finance pipeline**

- Leadership, management and governance capacity is a gap
- Risk identification, mitigation and sharing tools and initiatives are a gap
- Grants and donations are a strategic asset which can be leveraged
- There is a need for a national stakeholder-supported strategy to scale the social finance pipeline

**Social enterprise maturity continuum**

One of the key outcomes of the study is the development of a social enterprise maturity continuum which recognizes the many stages along the social finance pipeline. A key take-away from the continuum is that typically (and ideally) social enterprise activity can already be launched prior to receiving external repayable finance. The continuum will need further validation by Canadian practitioners; however, it will likely have implications for intermediaries and capacity building organizations seeking to scale the pipeline in Canada.

**Investment readiness**

The study also generated an "investment readiness" checklist of critical success factors for non-profits and charities pursuing social finance and investors which fund them. As well, the paper highlights a mandate issue regarding who should pay for, and provide, capacity support for the emerging social enterprise: the investor, the investee or a third party intermediary?

**Recommendations**

Finally, the paper summarizes a number of recommendations for intermediaries and capacity builders seeking pipeline growth. The recommendations address the challenges and opportunities identified throughout the study, originally in the literature scan and refined through the consultation process.

**Table 1 Issues and objectives for scaling the investment pipeline**

| Issue | Objective |
|---|---|
| **Management Capacity** | Enhance leadership, management, and governance capacity |
| **Risk management** | Improve pipeline risk management<br>Increase social procurement measures |
| **Strategic grants** | Provide strategic grants to accelerate finance-ready status |
| **Tools and resources** | Provide tools and resources through a centralized resource |
| **Replication and scale** | Support replication of successful place-based and thematic models |
| **Financial products** | Increase product offerings to enable tailoring to investee circumstances |
| **Strategic approach** | Create a national stakeholder-supported strategy |

The paper concludes with a futuristic challenge to the for-profit business sector to pay attention to the emerging for-benefit business models spawned by the non-profit and charitable sector. These mission-driven organizations could well prove the elusive business case for embedding social purpose into the traditional business model. With this potential in mind, Canada's social enterprise and social finance architects might wish to redouble their efforts to engage the private sector through social procurement, community hiring, social-benefit products, and social innovation. By harnessing business models, assets, and resources from the private sector, the social sector could leverage a profound shift in community well-being across Canada.

## 1. Introduction

Canadian communities are significant beneficiaries of the dramatic growth in social finance over the past decade. Social finance investments – which fund organizations to improve their social and environmental impact – have grown from a modest $85 million in 2000[1] to $5.3 billion in 2011[2]. While some of this growth can be attributed to increased measurement capacity, there is clearly a surge of investor interest in financing efforts that generate social and environmental value, along with traditional investment returns. Indeed, the Social Investment Organization reported a 20% year over year increase from $4.5 billion in "impact investing" assets in 2010 compared to a record $5.3 billion in 2011.

Following research into the US potential for growth in impact investing, the Canadian Task Force on Social Finance called for a comparable shift in Canada where 1% of our $3 trillion in assets under management would yield $30 billion for investment in social enterprises and more sustainable community organizations[3]. At over $5 billion, we are well on our way. If the 20% growth rate continues, Canada will achieve this target in 10 years. (To put this growth in perspective, taking 1993 as the baseline year which is about the time Vancity Credit Union launched its first community investment deposit offering for members and began its social finance lending, the impact investing field will have taken 30 years to establish itself as a mature asset class in Canada. The Chantier de l'Économie Sociale in Quebec made its first social finance loan in 1997.)

Many forces have propelled investor interest in social finance – including, particularly the spectacular success of micro-finance and the 2008 Global Financial Crisis – and this interest is expected to continue in the years ahead. With investor interest accelerating, the growth of social finance will be hampered if the pipeline of quality investment opportunities languishes. Indeed, the Canadian Task Force on Social Finance commented in 2010:

*"<u>There is much to be done</u> to ensure we have a well-developed and growing pipeline of innovative, investment-ready social enterprises across the country and that these are connected to sources of capital and business support that will enable them to grow and succeed."*[4] *(emphasis added)*

Considerable anecdotal evidence suggests a key challenge to growing social finance in Canada lies in the characteristics of the social finance pipeline – the demand from non-profits, charities, co-operatives and social purpose businesses seeking to enhance their scale and impact and which require financing to do so. (See, for example, the quotes at the beginning of this paper.) With growing Canadian investor interest in social finance, it is timely to take stock of the social finance pipeline in Canada, that is, the social enterprise activities investors expect to finance in the coming months or

[1] Identified in a 2004 scan of the "community investment" sector commissioned by the National Roundtable on Environment and the Economy.
http://corostrandberg.com/wp-content/uploads/files/nationalRoundtable_sept2004.pdf (p. 10)

[2] Identified by the Social Investment Organization in its biennial scan of socially responsible investment in Canada. http://www.socialinvestment.ca/wp-content/uploads/CSRIR-2012-English.pdf (p. 21)

[3] http://socialfinance.ca/uploads/documents/FinalReport_MobilizingPrivateCapitalforPublicGood_30Nov10.pdf (p. 5)

[4] http://socialfinance.ca/uploads/documents/FinalReport_MobilizingPrivateCapitalforPublicGood_30Nov10.pdf (p. 7)

years. Social finance will only succeed if there are bankable social enterprise initiatives available for investment.

### Definition of Social Finance Pipeline

The social finance pipeline is the aggregate investment demand from "investment-ready" organizations seeking capital to launch or grow their social enterprise activity.

The Social Finance Task Force describes the issue this way:

*"Many impact investors have difficulty finding appropriate investment-ready opportunities, in part because of the challenges inherent in launching and growing a social enterprise. These include unique governance and legal considerations, regulatory impediments, and the complexities of delivering and measuring social and financial impact. In addition, social enterprises also face challenges common to most start-ups — limited business experience, technical infrastructure, talent transitions and financing."*[5]

This paper is funded by Employment and Skills Development Canada as a knowledge development project to build national insights into the dynamics of the social finance pipeline. ESDC seeks to understand:

- Characteristics of prospective social finance recipients, including challenges sourcing social finance investment capital and investment-readiness factors
- Investor challenges placing social finance investment capital
- Measures to overcome social finance pipeline challenges and address the social finance supply-demand gap

As well, the federal government is interested in better understanding the role they could play to address social finance pipeline challenges in Canada in ways that align with ESDC's mandate to address complex social challenges in Canadian communities.

With this information, social finance actors, including the federal government, will be better positioned to scale the social finance pipeline, while continuing to mobilize impact capital and enhance the regulatory and fiscal framework in Canada.

As the Task Force commented:

*"With coordinated effort and sufficient investment in an enabling environment and infrastructure, it is possible to take impact investing in Canada from its current phase of uncoordinated innovation to a*

[5] http://socialfinance.ca/uploads/documents/FinalReport_MobilizingPrivateCapitalforPublicGood_30Nov10.pdf (p. 7)

*fully formed marketplace that can deliver impact at scale – potentially during the next five to ten years."*[6]

For social finance to realize its potential in Canada, a better understanding of the nature of the investment pipeline and measures to address performance gaps is necessary. By addressing the challenges faced by the non-profit and charitable sector in leveraging social enterprise methods to generate new revenue streams and to support vulnerable populations we can improve their ability to create socially sustainable communities for the benefit of all Canadians.

[6] http://socialfinance.ca/uploads/documents/FinalReport_MobilizingPrivateCapitalforPublicGood_30Nov10.pdf (p. 7)

## 2. Methodology

This paper is the result of a three-phase study of the Canadian social finance pipeline, as follows:

1) Literature scan
2) Key informant interviews
3) Roundtable discussion

The literature scan, conducted in March 2013, reviewed primarily Canadian publications from 2009 to 2012 which analyzed the state of social finance in Canada. Appendix A provides the full list of publications included in the scan. The literature was assessed for insights into the social finance pipeline, including its characteristics, and challenges and opportunities.

Literature used for this scan comes from the most prominent researchers on this topic in Canada and also includes reports of key thought leaders from nations more advanced in the development of the social enterprise sector.

The literature scan was used to develop a foundational understanding of the topic, provide insight into the nature of the sector and characteristics of social enterprise in Canada and inform the key informant interview guide.

Findings from the literature scan were shared with fifteen representatives of the social finance community from across Canada, including recipients and prospective recipients, investors, and intermediaries. See Appendix D for a list of interviewees and Appendix C for a copy of the interview guide. Interview questions addressed the characteristics of the social finance pipeline, challenges faced by the supply and demand side of the pipeline, and potential solutions to address the solutions.

Results from the key informant interviews, included in Appendix B, were summarized into a half-day roundtable discussion with the social finance community in Greater Vancouver. Representatives included prospective and successful social finance recipients, investors, intermediaries, academics, the private sector and government agencies. (See Appendix E for the agenda and F for a list of participants.) They were asked to comment on the implications of the literature and interview findings for scaling the pipeline, and to address and prioritize solutions to address the challenges. The findings from the roundtable discussion are included in this final report.

While social finance recipients include for-profit, co-operative and non-profit organizations, this report focuses on the non-profit and charitable sector (sometimes summarized under the acronym "NFP" throughout this report). Given the focus on the social finance pipeline, the study addresses the issues related to NFPs which are pursuing social enterprise activity, but have not yet received social finance. For the purpose of this paper, the social finance pipeline is defined as the aggregate investment demand from "investment-ready" organizations seeking capital to launch or grow their social enterprise activity.

The study does not pursue issues pertaining to tax and regulatory constraints. While critical and a barrier to social enterprise activity, they are not as salient in considering how to bridge social finance supply and demand.

This paper uses the definition of impact investing, or social finance, of the Social Investment Organization: impact investing refers to an approach to investing "where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social or environmental purpose, or to enterprising (i.e. revenue-generating) non-profits".[7] The report will use impact investing and social finance interchangeably. For the purposes of this report, financing refers primarily to debt instruments such as loans and mortgages.

Recognizing that non-profits and charities adopt different organizational structures to pursue their socio-economic and revenue generating objectives, this paper will primarily use the term "social enterprise activity", rather than "social enterprise", to describe the business approach. As with for-profit and co-operative social enterprises, social enterprise activity has the dual purpose of income generation through the sale of goods and services and social value creation.

While enterprising non-profits and charities have myriad objectives for their social enterprise activity, including measures to break the cycle of poverty (such as education and training, employment development for hard-to-employ groups, affordable housing, food security, recreational activity, and settlement support), and cultural, environmental and other social goals, this paper is interested primarily in efforts directed at vulnerable populations and income generation for parent organizations. Vulnerable populations include low income individuals, people with physical and mental disabilities, people experiencing employment barriers, ethnic groups, new immigrants and refugees, Aboriginal people, homeless persons, seniors, women, children and youth[8].

While there is limited national data available at the time of writing, a report[9] on the strength, size and scope of social enterprises in Alberta and BC reveals the following:

- 51% of social enterprises in BC and 22% in Alberta provide employment development, training and placement support;
- 47% of social enterprises in BC and 39% in Alberta generate income for a parent organization;
- 71% of social enterprises in BC and 92% in Alberta operate to fulfill a social mission.

While these results may not be extrapolated to all of Canada, they are still illustrative. In these two provinces, and possibly others, non-profits and charities serving vulnerable populations and generating income for parent organizations constitute the bulk of their social enterprising activity.

The next section summarizes the literature scan results and insights on the chief characteristics of non-profit/charitable organizations contemplating or initiating social enterprise activity, the barriers they face in accessing social finance, and investment-readiness factors. This section is followed by a summary of the "solutions" to enhance the social finance pipeline as discussed in the literature.

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[7] http://www.socialinvestment.ca/wp-content/uploads/CSRIR-2012-English.pdf (p. 21)

[8] See this report for more information on social enterprise objectives http://www.mtroyal.ca/wcm/groups/public/documents/pdf/socialenterprise2.pdf

[9] http://www.mtroyal.ca/wcm/groups/public/documents/pdf/socialenterprise2.pdf

## 3. Literature Scan Results

The first phase of this project was to generate insights from the literature on the characteristics, barriers and investment-readiness factors of Canadian non-profits and charities in early stage social enterprise activity, along with solutions for scaling social enterprise finance in Canada. These results were designed to inform the second phase of the study, in which interviewees representing the social finance sector would be asked to validate the literature results. The third and final phase, an in-person roundtable, would be asked to consider the results of the interviews and prepare final recommendations to scale the social finance pipeline.

The companion report provides a detailed overview of the literature scan results of the top characteristics, challenges and readiness factors. The following is the high-level summary of the literature scan which informed the interview questions.

**Characteristics**

According to the literature scanned, non-profits and charities possess the following general characteristics:

- Current engagement and future interest in social enterprise activity is high;
- Some openness to financing models beyond traditional donations, grants, corporate sponsorships and government contracts;
- Organizations have limited to no experience with debt and equity financing
    - Risk averse
    - Limited financial literacy
    - Grant mentality;
- Some organizations have a strong capital asset base which can be leveraged for financing;
- Organizations plan to engage internal leaders and consult other non-profits/charities, and professionals such as legal counsel, accountants, financial advisors and business people; and
- Community partners can play an enabling role, e.g. providing support, access to markets, etc.

**Challenges**

An analysis of the literature reveals the following four main challenges faced by non-profits and charities seeking to become finance-ready:

- Lack of internal and external business, financial, governance, legal and management capacity (generic and tailored to social enterprise activity);
- Lack of internal financial, staff and other resources for research and development for business development;
- Need for funder buy-in and support of social enterprise activity; and
- Lack of experience in debt financing and a culture of risk aversion.

**Readiness factors**

The literature points to eleven “readiness factors” for social finance.

1) Strong financial governance and management skills ;

2) Internal resources ;
3) Funder buy-in;
4) Collateral and security (e.g. real estate, guarantees or receivables such as confirmed government grants, or fee-for-service revenue streams);
5) Demonstration of community impact;
6) Strong community partnerships;
7) Large enough market to draw upon;
8) Track record in revenue generation and debt management;
9) Entrepreneurial mindset, rather than risk avoidance and grant seeking;
10) Sound business plan;
11) Strong leadership.[10]

The foregoing reveals that this sector is poised to take advantage of the growth of social finance capital in Canada. Barriers and challenges exist, but considerable capacity does as well. The next section will consider solutions identified in the literature scan to increase the potential for this group of enterprising charities and non-profits to become social finance recipients and grow in scale and impact.

## Solutions from the Literature Scan

The literature scan revealed the following eight "solutions" to increase the absorptive capacity of social finance. They are drawn from domestic and global assessments of the barriers and opportunities to enhance the entrepreneurial management capacity of the non-profit and charitable sector in Canada.

- Business development program expansion
- Financial management capacity grants
- Social enterprise business incubator
- Regional coordination and support system, e.g. national network of regional hubs
- Scalable approaches to building management capacity
- Scalable enterprise models
- Scalable talent development programs
- Social enterprise knowledge development in business, legal and accounting education programs

They are described and referenced in the table below.

**Table 2 Solutions to increasing absorptive capacity of social finance from the literature scan**

| Solution | Description | Reference |
|---|---|---|
| **1. Early stage business development assistance** | Expand eligibility criteria of government sponsored business development programs to explicitly include the range of social enterprise activity. In some cases, this will entail expanding eligibility criteria – in others, adding more specialized expertise (or resources) to serve social enterprises effectively. Because | Canadian Task Force on Social Finance page 27 |

[10] The latter 6 from: http://www6.carleton.ca/3ci/ccms/wp-content/ccms-files/3ci-Utilizing-Social-Finance-Report-August-16-Final.pdf (p. 6, 18 and 23)

| | | |
|---|---|---|
| **Generic and tailored to social enterprise activities** | social enterprises have unique additional needs, some of these programs may need to incorporate additional specialized expertise – e.g. how to assess the execution and financing risks associated with different types of social enterprise activity and how to measure impact. Consultation is needed to assess which existing business support programs can be modified adequately to meet the needs of social enterprises and to determine where complementary niche services delivered through more specialized regional providers may also be helpful. (see #4 below.)<br><br>Programs should be staffed with individuals who understand charities and non-profits and marketed to charities and non-profits so that they become aware of new options.<br><br>Focus programs on early stage business support and services and provide supports for both board and management. | Canadian Task Force on Social Finance Progress Report page 3<br><br>Public Policy Forum page 18<br><br>ENP page 29<br><br>E.T. Jackson and Associates page 46 |
| **2. Financial management capacity grants** | Provide planning grants to organizations to hire staff or advisory services with the necessary expertise. Grants would have to be significant enough to attract appropriate professional support. | Public policy Forum page 18 |
| **3. Social enterprise business incubator** | Develop a national program/initiative to support social enterprise development with business planning, financial management and the establishment of new enterprises. The initiative could offer affordable services for charities and non-profits and showcases successful business models. | Public Policy Forum page 18 |
| **4. Regional coordination and support system, e.g. national network of regional hubs** | Regional social enterprise business and finance support providers 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<br><br>The federal government should consider supporting a network of coordinated hubs across the country. | Canadian Task Force on Social Finance page 28<br><br>Canadian Task Force on Social Finance Progress Report page 3 |
| **5. Scalable approaches to building management capacity / investment-readiness models** | Develop a scalable management capacity development model focused particularly on financial management and strategy. Fund the development of scalable investment-readiness models.<br><br>Few scalable or sustainable models exist to build investment readiness for seed and early-stage ventures. Existing models of capacity development on the demand side have yet to achieve significant scale and reach. Many such models do not yet have a business model that has proven to be economically sustainable without an ongoing subsidy.<br><br>The reality for many of these capacity development approaches is that in order to be effective, they must be tailored as closely | Monitor Institute page 73<br><br>E.T. Jackson and Associates page pages 29, 30 and 46 |

| | | |
|---|---|---|
| | as possible to the actual needs of the ventures. It is important to ground technical assistance in local realities, by, for example, tailoring training to the specific regulatory and cultural context, and adapting supports to the different realities of each organization. | |
| **6. Scalable enterprise models** | Fund research and development of new, simple business enterprise models that have the potential for broad replication within the non-profit and charitable sector. For example, Grameen developed the innovative approach to microfinance and other organizations copied it, benefiting from the fact that somebody else had already paid for and conducted the R&D. | Monitor Institute page 74<br><br>E.T. Jackson and Associates page 27 and 46 |
| **7. Scalable talent development programs** | Develop a national program that grows the talent pipeline. The sector needs stronger finance functions, i.e. financially confident CEOs, Chief Financial Officers and Chief Operating Officers.<br><br>For example, business-plan competitions at business schools, funded fellowships for innovators, mentoring and internships. Encourage students to create and test business models that address social issues, and provide fellows with technical and leadership training.<br><br>Programs should operate at the scale required to support large cohorts of entrepreneurs and ventures. | E.T. Jackson and Associates page 29<br><br>Charities Aid Foundation page 16 |
| **8. Social enterprise knowledge development in formal business, legal and accounting education programs** | Integrate training in the social enterprise model in traditional business, legal and accounting post-secondary education programs. | Adapted from Charities Aid Foundation page 4 |

These solutions can be further organized according to whether the approach to increasing the social finance pipeline should focus on enhancing management capacity or increasing the number of enterprising initiatives. They can also be organized according to the desire for one-to-one approaches versus scalable models. Measures to enhance management capacity can be focused on existing non-profit and charitable management or new management.

This analysis results in the following potential scenarios for increasing the absorptive capacity of social finance, depending on the desired objective.

Objective: Enhance management capacity

- Existing management (current staff)
    - Business development program expansion
    - Regional hubs

  - Financial management capacity grants
  - Social enterprise business incubator
  - Scalable approaches to building management capacity / investment-readiness models
  - Social enterprise knowledge development in formal business programs
- New management (new hires)
  - Scalable talent development programs

Objective: Increase number and scale of social enterprise initiatives

- Scalable enterprise models

## Special Focus: Who pays and who provides?

The issue of who should pay for investment-readiness support was raised on a few occasions in the literature and bears consideration. (Notably these insights come from the papers focused on the global social finance pipeline, and not on the Canadian situation.)

Research conducted by the Monitor Institute and reported in their 2009 publication "Investing for Social and Environmental Impact" revealed that impact investment funds have needed to build substantial capacity to support entrepreneurs before and after investment with basic business training and strategic advice[11]. They report that increasingly private equity and debt funds are building assistance into their models. Some funds, such as Acumen Fund, provide this support as a condition of investment. In other cases, assistance is treated as a service paid for by financial recipients. A different business model provides technical assistance to support growth without funding[12].

In the UK, according to the Charities Aid Foundation paper, currently a mix of parties pays for investment-readiness assistance: third parties, investors and charities themselves[13].

The E.T. Jackson and Associates paper commented on this issue as well, noting that business support is delivered by:

- Investors in a traditional venture capital or private equity approach;
- Grant-funded technical assistance;
- Hybrid approaches that embed a combination of business and non-profit sector expertise[14].

As pointed out in the research, the lack of informed demand necessitates that capital suppliers spend time 'educating' charities in one-on-one situations, an inefficient approach. Business advisers, sector intermediaries and fundraising experts need to be equipped with knowledge and tools to help charities find help[15].

[11] http://www.monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf (p. 22)
[12] http://www.monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf (p. 73)
[13] http://www.marmanie.com/cms/upload/file/CAF_Venturesome_Access_to_Capital_0909.pdf (p 16)
[14] http://www.rockefellerfoundation.org/uploads/images/fda23ba9-ab7e-4c83-9218-24fdd79289cc.pdf (p. 29)

[15] Ibid.

| |
|---|
| Programs which enhance management capacity need to address the matter of who pays and who provides. |

The Literature Scan Results were distilled into a set of seven questions for the fifteen key informant interviews. The Interview Guide is included in Appendix C.

## 4. Interview Results

Fifteen social finance practitioners from across Canada, including intermediaries, investors, recipients and those pursuing social finance activity, were interviewed for their feedback on draft characteristics, challenges, solutions and investment readiness factors. Detailed interview results can be found in Appendix B. Characteristics and challenges are documented below and other results are profiled in later sections of this paper.

**Characteristics**

The following summarizes the general opinions of interviewees regarding the characteristics of the social finance pipeline.

**Table 3**

| Characteristics of non-profits/charities in the pipeline |
|---|
| 1. **Debt experience:** Many have debt financing experience, for example, mortgages and lines<br>2. of credit; board of directors likely to have debt financing experience |
| 3. **Risk oriented and entrepreneurial:** Most but not all are risk oriented with an entrepreneurial mindset; many have an ability to understand and manage risk, though they may not have translated their risk competency from operating a non-profit or charity to operating a business. Risk capacity and appetite grows with size of organization and venture |
| 4. **Financially competent:** Most have financial competency and many are financially sophisticated. Organizations are competent at cash flow management. Financial competency and business skills often exist at board level |
| 5. **Business skills strengths and gaps:** While organizations may not lack financial literacy they may lack business or marketing competency. However, many have strong business skills, including human resource management, strategy, and operational expertise – especially the larger non-profits / charities |
| 6. **Seek internal and external advice:** Many organizations seek advice from internal leaders. Large organizations have financial, legal and accounting staff they can engage, and many organizations consult board members with business, legal, accounting and financial expertise. They also consult other non-profits, charities, and external business professionals. Non-profits and charities are well positioned to receive pro bono help from the professional community |
| 7. **Lack strong capital asset base:** A few organizations have a strong capital asset base which can be leveraged for financing. Larger and older organizations more likely to have capital assets. Depending on the nature of the asset (e.g. equipment), may not have strong book value. Some organizations may not want to put agency assets at risk for the social venture. For example, the bigger the organization the bigger the wage liability; the equity could be overly diluted through leveraging |
| 8. **Use grants strategically:** Most use grants strategically to grow their venture, and do not have a grant mentality. They recognize that grants play a certain function, e.g. asset purchase, tier one capital, bridge financing, etc. Successful social enterprises will have a mix of grants and capital. It could be a strategic decision to cover early costs with grants rather than debt. This is a business model advantage which charities can leverage strategically |
| 9. **Community partner support:** Many but not all organizations benefit from community partnerships, good will and support. Community partners help with morale, advice, access |

| | |
|---|---|
| **10.** | to networks and markets (for sales), in-kind equipment and space, donations, etc. The opportunity exists to tap into creative community partnerships because of non-profit structure. Because the venture is typically a related business, existing partnerships are often essential for success, e.g. client and customer referrals. Business-community partnerships can be particularly beneficial for sales, e.g. via social purchasing commitments. Community partner support may be a stronger attribute in Quebec than other provinces |
| **11.** | **Launched:** Many organizations in the pipeline have an active revenue-generating social enterprise venture before they receive financing – they are already "launched". They may have a business plan and a champion entrepreneur. Their venture may or may not be incorporated |
| **12.** | **Diverse funder / donor awareness and support:** Some funders pressure non-profits/charities to pursue alternative funding sources; some are supportive providing it doesn't put the organization at risk; some funders see social enterprise activity as value-added provided it is mandate-related; some funders support the self-financing concept; other funders / donors are risk and innovation averse and not supportive |
| **13.** | **Survival versus impact motivations:** Some seek to expand their impact through additional sources of revenue or new opportunities to serve their client; others are focused on survival. If motivation is mission enhancement the initiative is likely more viable; those with a "desperate" motivation will have a more difficult time. None are pursuing social enterprise activity for pure profit motives but for mission purposes |
| **14.** | **Committed staff:** Staff are committed and passionate. There is low turnover |
| **15.** | **Growth cross-roads:** Some are on the brink of growth or at a cross-roads for their organization in terms of expansion and mission enhancement |

There were a number of differences between the literature scan and interview results in terms of the characteristics of the social finance pipeline. They can be found in the summary of the interview results in Appendix B below.

The most notable include:

- More experience with debt financing than the literature scan revealed;
- Most, though not all, are risk oriented, not risk averse;
- Most have financial competency, with the board's experience and knowledge contributing to this financial capacity;
- Rather than a grant mentality, the organizations use grants strategically to grow their ventures.

One potential reason for the different interpretations might be that the interviewees are all practitioners. Three-quarters are involved as financiers or social finance recipients, so they are commenting on their direct experience.

**Challenges**

There was some diversity of opinion among interviewees regarding the challenges faced by non-profits and charities in the pipeline. To sum up the major difference: there were differing opinions from those who thought the literature scan provided a good list of challenges, to those who thought the challenges didn't apply to them, to those who said non-profits and charities are in very specific stages with few similarities making it difficult to generalize.

However, there was enough commonality to generate a summary of the general challenges faced by non-profits and charities in the pipeline as outlined in the following table.

**Table 4**

| Challenges faced by non-profits/charities in the pipeline |
|---|
| 1. **Varied business, financial, governance, and management capacity:** Some lack these skills altogether; some have them but are not leveraging them and others have a basic level of proficiency in these areas. However, many others, especially large organizations, have these skills internally either on their staff or board while others are able to tap into this capacity through pro bono services or courses |
| 2. **Lack of legal capacity:** Legal capacity to understand the implications of pursuing social enterprise activity and how to structure it is a real gap in Canada |
| 3. **Lack of internal financial, staff and other resources for research and development:** Most organizations, especially smaller organizations, are resource constrained. They may be focused on an unviable enterprise concept and need help to find a good sector in which to invest |
| 4. **Varied experience with debt financing and risk management:** Some organizations lack experience in debt financing and competency in managing business venture risks (as distinct from program and service risks). Some lack knowledge of different financial instruments which can be used to finance their social enterprise activity. Some organizations recruit board members to address these gaps |
| 5. **Lack access to appropriately tailored capital:** There is a need for a variety of financial products which can be matched to the unique needs of diverse organizations and business models. Some need investors interested in larger and more complex transactions. Suburban organizations are not as well served as urban and rural areas |
| 6. **Need for control over the project and its mission:** Organizations may face challenges maintaining project and mission control when outside funders are involved |

**Investor Challenges**

The following is a list of challenges investor interviewees face sourcing social enterprise deals. There was a high level of agreement on the challenges among the five investors interviewed.

**Table 5**

| Challenges investors face sourcing deals (investor only question) |
|---|
| 1. **Small deal size:** Small deals are not worth changing investment policy for |
| 2. **High transaction costs:** Limited understanding of sector results in higher transaction costs; investors need to spread due diligence, legal and accounting over very small investments; extensive engagement with investments is necessary to build trust, build capacity and align values |
| 3. **Impact agreement:** It is important to get agreement on social objectives of the investment |
| 4. **Deal origination:** It is difficult to locate and source deals |

| | |
|---|---|
| **5.** | **Inadequate returns:** Unrealistic financial expectations. The small portfolio size limits potential for high return investments to balance out zero return investments |
| **6.** | **Capital availability and suitability:** Investors lack the ability to leverage additional sources of capital. Non-profits/charities require a greater range of financial products to match their needs as existing financial products are not sufficiently tailored to their circumstances. If investors only have one fund it is difficult to make the economics work |
| **7.** | **Place-based focus:** Most investors are place-based making it difficult to get economies of scale as opportunities / deals are geographically spread out. Physically located funds may not have enough deals in the pipeline. It is difficult to attract investments to place-based funds |
| **8.** | **Articulation of risk:** Conventional risk models don't apply. Investors need to look at these investments differently from traditional investments |

In addition to the foregoing, interviewees were asked to address the solutions table generated via the Literature Scan. In the interests of brevity, the solutions table will be addressed in Section XX of this paper. Many interviewees also provided their feedback on a set of "investment readiness factors". These results are summarized on page 27.

## 5. Roundtable Results

In order to test the findings of the Literature Scan and Interviews, the author convened a 3-hour Social Finance Pipeline Roundtable of 18 stakeholders on June 21, 2013. (ENP was the convening sponsor and graciously donated a venue and refreshments.) See Appendix E for the agenda and F for a list of participants.

The meeting considered:

- Implications of the characteristics and challenges of non-profits (NFPs) and charities in the social finance pipeline and challenges faced by social finance investors identified by the interview scan and amended through the interviews
- Top solutions to scale the social finance pipeline which address the implications and have the greatest potential for impact as identified originally through the interview scan and amended through the interview

The key issues and implications identified by the participants are summarized below. Solutions [recommendations] are addressed in Section 6.

**Table 6**

| Issue | Implications Summary |
|---|---|
| **Management capacity** | Leadership, management, and governance support and development is a gap. |
| **Risk management** | Risk identification, mitigation and sharing tools and initiatives tailored to this sector are a gap. Increasing market opportunities through procurement strategies can help reduce market risk, increasing business success and loan repayment potential. |
| **Strategic grants** | Grants and donations are a strategic asset which can be leveraged. They are the cheapest capital available to NFPs. Use grants to get to the launch phase; challenges faced by investors often happen further along the pipeline. Bridge early stage organizations with grants to help them become finance-ready. |
| **Tools and resources** | Both investors and NFPs need standardized tools and templates to reduce transaction costs; many already exist and need to be made more cohesive, accessible and organized. |
| **Place-based models** | Scale place-based models by replication, not by growth; don't pursue a national one size fits all model. |
| **Strategic approach** | Lack of a national stakeholder-supported strategy to scale the social finance pipeline |

## Social enterprise maturity continuum[16]

The Roundtable participants recommended the development of a social enterprise maturity continuum which recognizes the many stages along the social finance pipeline. The following is a “social enterprise maturity continuum” edited to reflect input provided at the Roundtable. Notably, the Roundtable discussion highlighted that typically (and ideally) social enterprise activity can already be launched prior to receiving external repayable finance. The chart raises the profile of grants in the social finance continuum, showing their importance as a source of capital for NFPs in planning for, and launching, their social enterprises. As well, the chart profiles the evolving business skills in use as the social enterprise activity evolves. Finally, the table was edited to reveal the number of years an NFP might pursue social finance activity before it successfully receives external non-grant financing.

This continuum may have implications for the role of ESDC or other intermediaries supporting the development of the social finance pipeline – these organizations will likely play a different role depending on the phase or stage of the social enterprise activity.

[16] Adapted from ENP’s framework: http://tinyurl.com/c7t6guj p. 31

**Table 7**

## Social enterprise maturity continuum

*Grey-shaded areas are the focus of this study with a particular emphasis on bridging stage 2 to stage 3 enterprises.  Years are averages.*

| **Stage** | Stage 0 | Stage 1: (Pre-finance) | Stage 2 (Pre-positive cash flow) | Stage 3 | Stage 4 | Stage 5 |
|---|---|---|---|---|---|---|
| **Type** | Interested | Seed | Start-up | Survival | Growth & Profitability | Maturity |
| **Year** | Year 1 | Year 2 | Year 3 | Year 4 – 7 | Year 7+ | Year 9+ |
| **Planning** | Researching | Organizational readiness | Initial business plan finalized and implemented | Revise strategy / business plan | Achieve stability and success in initial market | Demonstrated sustainability and track record of growth |
| **Development** | Brainstorming | Idea generation /evaluation | Launched | Build enterprise and manageme nt capacity | Expansion: new market or new products | Push to increase geographic or product growth |
| **Operations** | Raising awareness | Feasibility assessment | Early market development, e.g. initial customer revenues, secured contracts | Establishing markets; proof of concept | Stable; business model validated | Scale and / or replication |
| **Maturity** | Organization buy-in | Demonstrated organizational commitment; business planning | Enterprise begins operations | Moving toward profitability | Additional equipment, facilities, HR | Spin-off or new enterprises |
| **Financing** | Internal resources; modest grants | Small grants and donations | Strategic grants and donations, secured line of credit | Ability to secure early financing, e.g. micro-finance, loans | Round two financing | Round three financing |

## 6. Recommendations

The following is a summary of issues, objectives and actions to address the challenges and gaps constraining the social finance pipeline which have arisen from the study. They focus primarily on the actions prioritized by the Roundtable participants, but include some of the actions which were recommended by the interviewees and reflect their experience and priorities. As well, a quick assessment was conducted of the federal government's potential role. Not surprisingly, the federal government could play a role in all of the recommended actions, subject to resources and priorities.

**Table 8 Recommended Actions and Potential Federal Role**

| Issue/objective | Actions | Potential federal role |
|---|---|---|
| Management capacity<br><br>Enhance leadership, management, and governance capacity of NFPs pursuing social enterprise activity. | Implement / expand management and governance programs for social enterprise leaders including networking, training, mentorship and board development. | ✓ |
| | Open up federally funded business training programs to non-profits pursuing social enterprise activities. Expand mandates of business development programs (including embedment plus specialization and tailoring). | ✓ |
| | Provide hands-on accelerator navigators/ coaches to bridge early stage to later stages (support from years 3 – 7). This can include a combination of financial and technical assistance with strategic, marketing, business and fund-raising plans, feasibility studies, and IT, finance and HR management. | ✓ |
| | Develop a cohort-based annual social finance training institute. | ✓ |
| | Convene the NFP/charity social enterprise community on an annual basis to build solidarity, and support collaboration, learning and sharing. | ✓ |
| | Provide financial assistance to NFPs to join industry and trade associations and boards of trade/chambers for industry networking and intelligence. | ✓ |
| | Provide financial assistance and incentives to non-profits/ practitioners to attend conferences, events and training. | ✓ |
| | Provide matching funding to existing intermediaries which already provide above service. | ✓ |
| | Incorporate into mainstream academic business and accounting courses; provide practicums, internships and applied learning opportunities; and include social enterprise in continuing professional development. | ✓ |

| | | |
|---|---|---|
| Risk management<br><br>Improve risk management within the social finance pipeline and increase social procurement measures to increase business viability. | Provide risk sharing mechanisms for investors, e.g. loan loss / first loss reserves, loan guarantees, loss-sharing agreements or differential tax treatment to reduce investor risk.<br><br>Promote success stories and case studies targeted at investors, public and donors to reduce risk perception and brand risk, and build awareness and understanding of the social enterprise model.<br><br>Implement measures to increase public, private and non-profit sector social enterprise procurement to generate revenues and increase viability of NFP social enterprise activity[17].<br><br>Provide funding to establish and maintain a legal advice resource. | ✓<br><br>✓<br><br>✓<br><br>✓ |
| Strategic grants<br><br>Provide strategic grants to the sector to accelerate finance-ready status. | Mobilize traditional granters and donors to fund strategic / venture grants, repayable grants and forgivable loans to NFPs pursuing social enterprise activity, including governments, foundations and others. Use early stage granting as first tier capital to help NFPs operationalize their s/e efforts. Better understand the role of grants along the continuum.<br><br>HRSDC non-profit funding could have social enterprise objectives.<br><br>Fund feasibility studies, business planning, market analysis, and research capacity (R&D) for non-profits / charities pursing social enterprise activity.<br><br>Fund last mile grants and start-up capital costs such as computer systems, delivery vans, catering equipment, outdoor equipment, marketing and program expenses, prototype technologies, etc. A number of interviewees commented that grants in the range of $15 – 100K were essential to catalyze social enterprise activity in the sector. | ✓<br><br>✓<br><br>✓<br><br>✓ |
| Tools and resources<br><br>Provide standardized tools and resources through a centralized resource. | Create, improve, standardize and centralize resources, tools, and templates (e.g. for social enterprise activity feasibility studies, business plans, blended value / impact measurement, governance models, etc.)<br><br>Fund a national resource hub. | ✓<br><br>✓ |
| Replication and scale<br><br>Support replication of successful place- | Support efforts to replicate successful place-based models in other provinces.<br><br>Identity top national opportunities (e.g. recycling and home care) | ✓<br><br>✓ |

[17] Examples include procurement brokers, unbundling contracts, set-aside policies, reducing technical requirement burden, social RFP clauses, require tier 1 suppliers to source from NFPs, provide contract guarantees, conduct intra-provincial trade missions, etc.

| | | |
|---|---|---|
| based and thematic models. | and support regions with financial and other resources to roll-out thematic approaches. (This may be desirable to investors seeking a thematic versus a place-centric model.)<br><br>Identify and promote private sector "corporate social responsibility" opportunities to support social enterprise activity. Support the private sector to adopt a social enterprise approach. Broker CSR partnerships with the private sector to achieved scaled results.<br><br>Pilot different leveraging models, for example, fund large NFPs to scale up their social enterprise activity versus providing many very small uncollateralized loans to thousands of small NFPS. Scale up the most successful approach in terms of outcomes. | <br><br><br>✓<br><br><br><br><br>✓ |
| Strategic approach<br><br>Create a national stakeholder-supported strategy to scale the social finance pipeline | Create a multi-stakeholder roundtable group to develop and steward implementation of a national long-term (10+ years) scaling strategy, including a policy framework, goals, targets, partners and resources. | ✓ |
| Financial product offering<br><br>Increase financial product offerings to enable tailoring | Conduct research and promote product innovations to enable tailoring of financial products to unique NFP circumstances. | ✓ |

While the study did not generate top priorities for government action, a few key opportunities warrant consideration given their potential to leverage scale and impact for the sector. These six are drawn from the table above and summarized below.

1) Provide intermediaries funding for a) strategic grants for R&D, last-mile and start-up capital costs and b) management capacity building

2) Leverage production, distribution, sourcing, hiring and other capacities, competencies and channels of the private sector to enhance social inclusion for people with economic barriers, supporting the business sector to use a holistic approach to corporate social responsibility[18]

[18] See: http://corostrandberg.com/wp-content/uploads/2013/06/CSR-as-a-Poverty-Reduction-Strategy-Discussion-Draft.pdf and http://corostrandberg.com/wp-content/uploads/2013/10/Transformational-Social-Sustainability-Continuum.pdf

3) Building on one aspect of #2 above, adopt and promote social purchasing strategies to both the public and private sectors

4) Identify replicable, scalable and thematic social enterprise models which have national application

5) Fund risk-sharing programs such as loan loss reserves

Finally, the proposal to develop and implement a national stakeholder-supported strategy to scale the social finance pipeline seems a logical next step. Insights from this study can be used to create a national vision and scaling strategy, bringing social finance partners from across the country to develop and steward a long-term approach. The new tools of social innovation and cross-sector collaboration can be harnessed to design and implement opportunities to mobilize and place an additional $25 billion in social finance capital in Canadian communities, fulfilling the vision of the Social Finance Task Force.

The investment readiness factors identified in the study and profiled in the below box provides one tool to realize this vision.

**Investment Readiness Factors**

The study reveals a number of qualities or success factors which, if present, can increase success of financing and repayment. Both non-profits/charities pursuing social enterprise activity and investors can use the following checklist to assess investment readiness. It builds upon the Literature Scan results and incorporates feedback from interviewees.

1. Strong financial capacity
2. Ability to understand and manage risk
3. Clear financial goals and sound business plan
4. Committed entrepreneur
5. Strong internal collective leadership
6. Entrepreneurial mindset
7. Internal resources and staff capacity
8. Community support and rootedness
9. Sufficient market; responding to a recognized need
10. Transference of non-profit skills, experience and assets to business environment
11. Board support and business experience
12. Strong strategy, human resources and marketing capacity
13. Purpose is mission impact enhancement; mission impact objectives are realistic
14. Strategic use of grants and donations (e.g. asset purchase, tier one capital, bridge financing, etc.)

## 7. Conclusion

As the Social Finance Task Force recognized, although Canada has some notably successful social enterprises and many more in development, Canada's pipeline of quality investment opportunities is not yet fully developed and readily accessible. There is much to be done to ensure Canada has a well-developed and growing pipeline of investment-ready social enterprises across the country, connected to sources of capital and business support that will enable them to grow and succeed. As capital mobilization gains momentum, there needs to be a corresponding effort to cultivate the demand for capital.

The study findings reveal that there are many challenges and opportunities ahead. With coordinated and sufficient investment in enabling infrastructure and support, impact investing in Canada can reach its potential to achieve its financial and social impact goals at sufficient scale to improve conditions in Canadian communities. By addressing the challenges faced by the non-profit and charitable sector in leveraging social enterprise methods to generate new revenue streams and to support vulnerable populations, we can improve their ability to create socially sustainable communities for the benefit of all Canadians.

Thinking beyond the current business cycle, it is even possible to imagine a future state where the social enterprises spawned by the non-profit and charitable sector challenge the dominance of profit only business models. If the non-profit and for-benefit sector can roadmap its way to commercial and social success it may be the disruptive innovation that causes small and large businesses to rethink their own social purpose. If the social sector can demonstrate a business viable approach to improving social welfare through the core business model, surely other companies can follow suit?

Indeed, inspired with an audacious vision to catalyze businesses to adopt a social purpose business model, the Canadian architects of the social finance and social enterprise sector could spur profound transformation in Canadian communities. Using levers such as social procurement, community hiring, social-benefit products and social innovation, all nature of businesses can make a material difference – and social finance and social enterprise builders can show the way.

Given social pressures such as increasing inequality, decline in trust levels and diminishing social capital, if the private sector can be catalyzed to contribute its immense competencies, assets, distribution channels and influence, we can begin to see how a sustainable future can be realized. Then we will have scale in Canada!

## Appendix A

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Social Enterprise Access to SME Services, David LePage (Enterprising Non-Profits) March 2011

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Access to Capital, Charities Aid Foundation and Venturesome, 2009

http://www.marmanie.com/cms/upload/file/CAF_Venturesome_Access_to_Capital_0909.pdf

## Grey Literature

*The following three online resources may be useful in the development of a readiness checklist:*

Doing Well by Doing Good – How to Launch a Successful Social Purpose Enterprise, 2008, Toronto Enterprise Fund

MaRS Business Plans for SEs and SPBs
http://www.marsdd.com/articles/business-plans-for-ses-and-spbs/

The Social Enterprise Development Path
http://www.enterprisingnonprofits.ca/planning-your-social-enterprise

## Appendix B

## Interview Results

The following are the detailed results of the fifteen interviews responding to the first three questions.

**Characteristics of non-profits/charities in the pipeline**

There was considerable agreement amongst the interviewees on the characteristics of non-profits/charities in the pipeline, although notably this agreement was not always in accord with the literature review as noted below. However, interviewees cautioned that there is so much diversity in the sector – it should not be over-simplified in the quest for generalizations. There is no one-size fits all assessment. Characteristics of those in the pipeline depend considerably on the stage they are at along the maturity continuum. Given this context, the following reflects the general comments provided by the fifteen interviewees.

- The current engagement and future interest in social enterprise activity is high
- Openness to financing models beyond traditional donations, grants, corporate sponsorships and government contracts
- Varied experience with debt financing:
    - In contrast to the literature, there is a fair amount of experience with debt financing
    - Many have had mortgages and lines of credit
    - Board of directors likely to have had this experience
- Risk oriented and entrepreneurial
    - In contrast to the literature, most but not all are risk oriented
    - They have an entrepreneurial mindset
    - Many have an ability to understand and manage risk
    - They may not have translated their risk competency from operating a non-profit or charity to operating a business
    - Risk capacity and appetite grows with size of organization and venture
- Financial competency
    - In contrast to the literature, most have financial competency
    - Many non-profits are financially sophisticated
    - Financial competency and business skills exist at board level
    - Competent at cash flow management
- Business skills strengths and gaps
    - While organizations may not lack financial literacy they may lack business or marketing competency
    - However, many have strong business skills, including human resource management, strategy, and operational expertise – especially the larger non-profits / charities
- Strategic use of grants
    - In contrast to the literature, most do not have a grant mentality
    - Many use grants strategically to grow their venture
    - Recognition that grants play a certain function, e.g. purchase of assets, tier one capital, bridge financing, etc.
    - Successful social enterprises will have a mix of grants and capital

  - It could be a strategic decision to cover early costs with grants rather than debt
  - This is a business model advantage which charities can leverage strategically
- Lack strong capital asset base
  - A few organizations have a strong capital asset base which can be leveraged for financing
  - Larger and older organizations are more likely to have capital assets
  - Depending on the nature of the asset (e.g. equipment), it may not have strong book value
  - Caution expressed about putting agency assets at risk for the social venture; the bigger the organization the bigger the wage liability; the equity could be overly diluted through leveraging
- Seek advice from internal and external leaders
  - Many organizations seek advice from internal leaders; large organizations have financial, legal and accounting staff they can engage, and many organizations consult board members with business, legal, accounting and financial expertise
  - They also consult other non-profits, charities, and external business professionals; non-profits and charities are well positioned to receive pro bono help from the professional community
- Community partners
  - Many but not all organizations benefit from community partnerships, good will and support
  - Community partners help with morale, advice, access to networks and markets (for sales), in-kind equipment and space, donations, etc.
  - Opportunity exists to tap into creative community partnerships because of non-profit structure
  - Because the venture is typically a related business, existing partnerships are often essential for success, e.g. client and customer referrals
  - Business-community partnerships can be particularly beneficial for sales, e.g. via social purchasing commitments
  - This may be a stronger attribute in Quebec than other provinces
- Early stage
  - Many organizations in the pipeline have an active revenue-generating social enterprise venture before they receive financing – they are already "launched"
  - They may have a business plan and a champion entrepreneur
  - Their venture may or may not be incorporated
- Differing motivations
  - They have diverse motivations. Some are looking for additional sources of revenue to expand their impact and others are focused on survival
  - If motivation is mission enhancement the initiative is likely more viable; those with a "desperate" motivation will have a more difficult time
- Mission-focused
  - None are pursuing social enterprise activity for pure profit motives but for mission purposes
  - Staff are committed and passionate; low turnover
- Growth cross-roads
  - Some are on the brink of growth, a cross-roads for their organization in terms of expansion and mission enhancement

**Challenges Investors face sourcing deals**

There was a high level of agreement amongst investor-interviewees on the following investor challenges (non-investors were not asked this question):

- Small deal size
  - Small deals not worth changing investment policy for
- High transaction costs
  - Limited understanding of sector results in higher transaction costs
  - Spreading due diligence, legal and accounting over a very small investment
  - Need for extensive engagement with investments to build trust, build capacity and align values
- Finding deals
  - Difficulty finding deals
- Inadequate returns
  - Unrealistic social and financial expectations
  - Small portfolio size limits potential for high return investments to balance out zero return investments
- Capital availability and suitability
  - Lack ability to leverage additional sources of capital
  - Need a greater range of financial products to match needs of non-profit/charity
  - Financial products not sufficiently tailored to the needs of the non-profit/charity
  - Difficult to make the economics work if only have one fund/investor
- Place-based focus
  - Most investors are place-based; difficult to get economies of scale because opportunities / deals are geographically spread out
  - Physically located funds may not have enough deals in the pipeline
  - Difficult to attract investments to place-based funds
- Articulation of risk
  - Conventional models don't apply
  - Need to look at these investments differently from traditional investments
- Impact agreement
  - Good tools are increasingly available for impact measurement so it is less of a problem than it once was
  - It is important to get agreement on social objectives of the investment

**Challenges faced by non-profits/charities in the social finance pipeline**

There was considerably less consensus on the challenges faced by non-profits/charities in the pipeline. There were differing opinions from those who thought the original list of challenges from the literature review was a good list, to those who thought the challenges didn't apply to them or their experience, to those who said non-profits and charities are in very specific stages with few similarities, making challenges difficult to generalize.

1. Lack of business, financial, governance, legal and management capacity

*There are diverse views on whether or not the skills existed internally; most thought capacity existed or wasn't a unique or special problem. Two commented that legal capacity is an issue*

- They have these skills but are not leveraging it (3)
- They are not in a place of mastery; there is a skills gap (2)
- These skills exist internally or are not a problem (5)
  - Board members often have these skills
  - May not be robust
  - More capacity in this area than those not pursuing social enterprise activity
  - Larger organizations more likely to have these skills
  - If missing skillset, we take a course, meet with someone or get it pro bono
- This is no different from the small business sector (2)
- Legal capacity is a real gap in Canada; need to understand the legal implications of pursuing social enterprise activity (2)
- Be careful about misplaced confidence

2. Lack of internal financial, staff and other resources for research and development

*Most think this is a challenge for the sector, especially smaller organizations.*

- Agree (7); especially for smaller organizations; often they are focused on the wrong activity and need help to find a good sector to invest in
- Disagree (2)

3. Need for funder buy-in and support of social enterprise activity

*Most felt this was not a challenge or not relevant. A few perceive this to be an occasional challenge.*

- Not a challenge (7)
  - This is not relevant; our funders still don't buy into this; you don't need funder buy in
  - This is the opposite; there is pressure for us to develop alternative funding sources
  - Not as significant as the need for board buy-in
  - Most funders would not be alarmed provided it doesn't put the charity at risk; would like seeing funds used to leverage financing and strengthen the capacity of the organization doing what it set out to do
  - Not a challenge in my region
  - As long as it relates to your mandated service they will see it as value-added
  - The government didn't stop it; they questioned it at times
  - People like the fact we are self-financing
- Yes (3)
  - There is a need for funder education
  - Funders are risk averse (we can't do it because it creates a precedent – what is innovation but a precedent?)
  - It could be a challenge in some regions
- Both types (2)
  - Some push this and others fear it
  - There could be reservation on the part of some government funders

4. Lack of experience in debt financing and a culture of risk aversion

*There were mixed opinions on whether non-profits pursuing social finance activity are risk averse and lack experience with debt. Small majority thought these were not challenges. Possibly this is an occasional but not frequent challenge.*

- Not risk averse (5)
  - Lack business risk knowledge but not risk averse (2); understanding and managing risk in a different way; the risk of an enterprise are different from the risks of program delivery
  - We are risk takers
  - Organizations pursuing social enterprise activity are not likely to be risk averse
- Have debt experience (5)
  - Not familiar with business debt
  - Lack knowledge of financial instruments
  - Recruited a board member with this experience
- Agree (3)
- Mixed; some do and some don't

5. Lack of access to tailored capital

*A few added lack of access to capital tailored to their circumstances as a challenge.*

- Need investors interested in larger and more complex deals
- Need different financial tools; challenges in matching the financial tools to the needs of the organizations
- Location within a suburban area is a constraint because capital is in the urban centres and regional areas

6. Need for control over the project (1)

- Challenges in maintaining project and mission control when outside funders are involved

## Appendix C

## Interview Guide

### SOCIAL FINANCE PIPELINE STUDY

### Interview Guide

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**Context*:***

Coro Strandberg, Principal of Strandberg Consulting, is interviewing social finance pipeline stakeholders including investors, intermediaries, academics, thought leaders and enterprising non-profits and charities to understand the characteristics, challenges and barriers of the social finance pipeline. The questions below are derived from a literature scan and interviewees are asked to comment on the literature findings from their perspective. Interviews are non-anonymous, although the intent is to look for areas of general consensus and divergence and not to attribute remarks to people or organizations.

These interviews are one component of a project funded by Employment and Skills Development Canada to analyze the characteristics of the "social finance pipeline" to better understand the barriers and opportunities to scale the pipeline in Canada.

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**Interview Questions:**

1. ***Characteristics: What are the characteristics of non-profits/charities in pipeline? (see list below and edit/add)***

- ***Current engagement and future interest in social enterprise activity is high***
- ***Some openness to financing models beyond traditional donations, grants, corporate sponsorships and government contracts***
- ***Organizations have limited to no experience with debt and equity financing***
    - ***Risk averse***
    - ***Limited financial literacy***
    - ***Grant mentality***
- ***Some organizations have a strong capital asset base which can be leveraged for financing***
- ***Organizations plan to engage internal leaders and consult other non-profits/charities, and professionals such as legal counsel, accountants, financial advisors and business people***
- ***Community partners can play an enabling role, e.g. providing support, access to markets, etc.***
- ***Other***

2. ***[Investor only question] Investor challenges: What challenges do investors face sourcing deals?***

- ***Organizational capacity***
- ***Track record***
- ***Management skills***
- ***Other sources of capital***
- ***Small deal size***

- ***Inadequate returns***
- ***Transaction costs***
- ***Impact measurement***
- ***Other?***

3. ***Challenges: What are the challenges faced by non-profits/charities in pipeline? (see list below and edit/add)***

- ***Lack of internal and external business, financial, governance, legal and management capacity (generic and tailored to social enterprise activity)***
- ***Lack of internal financial, staff and other resources for research and development***
- ***Need for funder buy-in and support of social enterprise activity***
- ***Lack of experience in debt and equity financing and a culture of risk aversion***
- ***Other***

4. ***Solutions: What are the solutions to address the challenges? (see list/approach below and edit/add)(Note these "solutions" are taken from the Draft Literature Scan. See Attachment for further details and elaboration.)***

a. ***Enhance management capacity***

1 ***Existing management***

- ***Business development program expansion***
- ***Regional hubs***
- ***Financial management capacity grants***
- ***Social enterprise business incubator***
- ***Scalable approaches to building management capacity / investment-readiness models***
- ***Social enterprise knowledge development in formal academic business programs***

2 ***New management***

- ***Scalable talent development programs***

b. ***Increase number and scale of social enterprise initiatives***

***Scalable enterprise models***

*5. Roles, responsibilities, recommendations*

***What are the roles, responsibilities and recommendations for the federal government to advance the following or additional solutions? What are roles, responsibilities and recommendations for other partners?***

| | Solution | Federal Government Role and Recommendation? Others? |
|---|---|---|
| **Objective: Enhance management capacity** | | |
| **Existing management capacity** | Business development program expansion | |
| | Regional hubs | |
| | Financial management capacity grants | |
| | Social enterprise incubator | |
| | Scalable approaches to building management capacity / investment-readiness models | |
| | Social enterprise knowledge development in formal business programs | |
| | Other | |
| **New management** | Scalable talent development programs | |
| | Other | |
| **Other** | Other | |
| **Objective: Increase number and scale of social enterprise initiatives** | | |
| | Scalable enterprise models | |
| | Other | |
| **Objective: Other** | | |
| **Other** | | |

6. ***Additional solutions: Do the solutions described above address all of the challenges discussed in 2 above? What other solutions are necessary? What are federal government / other roles and recommendations?***

- ***Lack of internal and external business, financial, governance, legal and management capacity (generic and tailored to social enterprise activity)***
- ***Lack of internal financial, staff and other resources for research and development***
- ***Need for funder buy-in and support of social enterprise activity***
- ***Lack of experience in debt and equity financing and a culture of risk aversion***
- ***Other***

7. ***Readiness factors: What are the readiness factors? Please comment upon/suggest edits to the below.***

- ***Strong financial governance and management***
- ***Internal resources***
- ***Funder buy-in***
- ***Collateral and security (e.g. real estate, guarantees or receivables such as confirmed government grants, or fee-for-service revenue streams)***
- ***Community impact***
- ***Strong community partnerships***
- ***Large enough market to draw upon***
- ***Track record in revenue generation and debt management***
- ***Entrepreneurial, rather than risk avoidance and grant seeking, mindset***
- ***Sound business plan***
- ***Strong leadership***
- ***Other***

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***Thank you for participating in this interview.***
***Your perspectives are greatly appreciated.***

## Appendix D

### Interviewees

| Interview Type | Name | Province |
|---|---|---|
| **Investor** | Bill Young, Social Capital Partners | Ontario |
| | Derek Gent, Vancity Community Foundation | BC |
| | Nancy Neamtan, Chantier de l'économie sociale | Quebec |
| | Rankin MacSween, New Dawn | Nova Scotia |
| | Garth Davis, private equity investor | BC |
| **Intermediaries** | David LePage, Enterprising Non-Profits | BC |
| | Liz Lougheed-Green, Vancity | BC |
| | Ann Jamieson, Toronto Enterprise Fund | Ontario |
| | Brendan Reimer, CEDNET and Assiniboine Credit Union | Manitoba |
| **NFPs/charities pursuing social enterprise activity pre-finance** | France Tellier, Nanaimo Region, John Howard Society | BC |
| | Nathalie Chapman, West Island Association for the Intellectually Handicapped | Quebec |
| | Michel Pouliot, Pacific Community Resources Society | BC |
| **NFPs/charities pursuing social enterprise activity which have received financing** | Janice Abbott, Atira Women's Resource Society | BC |
| | Susanna Kislenko, Furniture Bank | Ontario |
| | Pierre Legault, Renaissance | Quebec |

## Appendix E

## Roundtable Agenda

**Social Finance Pipeline Recommendations Roundtable**
**How to improve and scale up the Social Finance Pipeline**
Friday June 21 – 8:30-12:30
12th floor boardroom
183 Terminal Ave., Vancouver, BC
Vancity head office

Convening Partner and Host: Enterprising Non-profits
Funding Partner: Employment and Skills Development Canada

**Agenda**

| Item | Action | Timing |
|---|---|---|
| **Continental breakfast** | Networking | 8:30 – 9:00 (30 min.) |
| **Welcome and Introductions** | Name and organization | 9:00 – 9:10 (10 min.) |
| **Purpose of meeting, opening remarks and review agenda** | Clarifying questions | 9:10 – 9:20 (10 min.) |
| **Three break outs:**<br>• **Characteristics of NFPs/charities (Q1)**<br>• **Challenges investors face (Q2)**<br>• **Challenges faced by NFPs/charities (Q3)** | What are the implications for scaling the social finance pipeline? | 9:20 – 9:35 (15 min.) |
| **Report backs and discussion** | What are the implications for scaling the social finance pipeline? | 9:35 – 10:05 (30 min.) |
| **Implications of characteristics & challenges** | Summary | 10:05 – 10:15 (10 min.) |
| **Break** | | 10:15 – 10:25 (10 min.) |
| **Top solutions (Q4)** | Identify top solutions which:<br>- Address implications<br>- Greatest potential for impact | 10:25 – 11:10 (45 min.) |
| **Recommendations (Q4)** | What cost-effective role can the federal government play? | 11:10 – 11:55 (45 min.) |
| **Next steps** | Summary | 11:55 – 12:00 (5 min.) |
| **Adjourn and Networking** | Networking | 12:00 – 12:30 (30 min.) |

## Appendix F

## Roundtable Participants

| Type | Proposed Participant |
|---|---|
| Investors | Derek Gent, Vancity Community Foundation<br>Jim Fletcher, BC Social Venture Partners<br>Jenn McGinn, Vancity |
| Intermediaries | David LePage, ENP<br>Liz Lougheed Green, Vancity<br>Scott Hughes, CapacityBuild Consulting<br>George Hunter, Small Business BC |
| Provincial Government | Rachel Holmes, Ministry of Social Development |
| Private sector | Corinne Campney, Director, Business Enablement, Community Affairs |
| Non-profit sector | John Kay, United Community Services Co-op<br>David Kelly, BC Labour Market Partnership Project, Non-profit Sector<br>Geordan Hankinson, Student |
| Academics | Jana Svedova, ISIS |
| Pre-finance non-profits / charities | Joanne Haramia, Jewish Family Services<br>Caroline Bonesky, Family Services of Greater Vancouver |
| Successfully financed non-profits / charities | Janet Austin, YWCA<br>Deanne Ziebart, Developmental Disabilities Association<br>Shawn Shwartz, The Cleaning Solution |
| Facilitator | Coro Strandberg, Strandberg Consulting |