Carleton
Centre for
Community Innovation

The Utilization of Social Finance Instruments by the Not-For-Profit Sector

Dr. Tessa Hebb

Working Paper #12-02

The Utilization of Social Finance Instruments by the Not-For-Profit Sector
Carleton Centre for Community Innovation

Table of Contents

Acknowledgements

We would like to thank HRSDC Communities Development and Partnerships Directorate for their support of this work. We would also like to thank Babita Bhatt for her contribution of the literature review in this report and Babita Bhatt, Hugues Letourneau, and Lesley MacKinnon for their contribution to the interviews conducted for this report.

Executive Summary

- This report draws on 41 interviews conducted in 2011/2012 with Not-For-Profits (NFPs), charities and social enterprises as well as social finance intermediaries in Canada in order to gain a deeper understanding of their use of social finance instruments. It is a qualitative study that uses semi-structured, open ended questions and is not intended to provide a representative sample, but rather to draw insight from these organizations' experiences.

- We use four sub-groups to draw up our selective sample and in our analysis of the findings, the Not-for-Profit (NFP) Sector, Registered Charity Sector, Social Enterprise Sector, and Social Finance Intermediaries[1].

- We provide a review of the current literature on social finance instruments with a particular emphasis on their use in Canada.

- We define social finance as "the practice of investing capital to generate a positive social and/or environmental impact while also generating a financial return." We also include earned income as a source of social finance for NFPs where the earned income is generated from market-based activity rather than government contracted fee-for-service.

- The NFPs in this survey utilize earned income from government contracts for a significant portion of their annual revenues.

- Registered charities in this survey continue to rely on grants and donations as their primary source of revenue.

- Few of the NFPs and registered charities surveyed use credit (ie. loans, or lines of credit). None use external equity or venture philanthropy as a source of finance.

[1] Social enterprises can broadly be defined as any organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission (Task Force on Social Finance, 2010) . Social finance intermediaries play a key role in the transfer of funds from the investors to the investees. Social finance intermediaries include foundations, credit unions, and community investment organizations.

- Most social enterprises in this survey use social finance instruments including market-based earned income, loans and lines of credit.

	Line of Credit/ Loans	Equity	Social Enterprise Revenue
6 NFPs	1		0
15 NFP/Charities	5		0
10 Social Enterprises	6	2	10

- The NFPs and registered charities surveyed see their future growth supported by increased grants and donations.

- Social enterprises in this survey see future growth supported by market-based activities.

- Social finance intermediaries surveyed see NFP skills and knowledge at both the board and management levels as key for 'credit readiness' in the sector.

Introduction

The NFP sector plays an important role in Canadian economy and society. However, the sector is facing a serious sustainability challenge due to reducing government and donor funding and increasing demand from society (Scott, 2005; Phillips et al., 2010; Phillips and Hebb, 2010). To deal with the challenge, many NFPs are diversifying their income streams across a range of new opportunities. These opportunities include market-based sale of goods and services, developing social enterprises, and turning towards social finance for new sources of capital.

Social finance is a practice of investing capital to generate a positive social and/or environmental impact while also generating a financial return (Task Force on Social Finance, 2010). Sometimes called impact investing, social finance encourages positive social or environmental solutions at a scale that neither purely philanthropic support nor traditional investment can reach. The word “finance” refers to the diverse funding methods for social sector organizations. Finance can include operating or growth capital and it can be delivered in varying ways ranging from grants and sales to loans to equity investments. The purpose of this report is to provide a deep understanding of the breadth and scope of new financing opportunities and social finance instruments that are currently being used by the NFP sector in Canada.

NFP sector in Canada

“If Canada works as well as it does as a country today, it is in no small part due to the significant economic, social, cultural, educational and environmental contributions of Canada’s charitable and nonprofit organizations” (Imagine Canada, 2010).

This quote from Imagine Canada provides a glimpse of the significance of the NFP sector in Canada’s development. Canada boasts of having one of the largest NFP sectors in the world comprising over 161,000 charities and NFPs (Imagine Canada 2010), employing 2 million people and leveraging more than 12 million volunteers (Causeway Social Finance, 2011). This sector accounts for $106.4 billion or 7.1 per cent of Canadian economy (Statistics Canada 2010). The narrow scope of the NFP sector (excluding universities and hospitals) grew to $35.4 billion in 2008, doubling its contribution to GDP from 1997, to stand at 2.4% of Canada's GDP (Causeway Social Finance, 2011; Hall, 2010). In addition to making up a significant share of Canada’s economy, NFPs play an integral role in delivering services to communities (Bolton, 2010; Cheng et al, 2010; Hebb et al, 2006). They also work in partnership with government, private sectors and individuals to mobilize money, time and people's support to community endeavors (Mulholland et al, 2011).

The work sphere of NFPs will continue to expand in the wake of current social and economic challenges (Phillips, 2006; Phillips & Hebb, 2010). However, increasingly the sector is facing sustainability challenges in the face of uncertain revenues and escalating service demands from society (Harji & Hebb, 2010; Mulholland et al, 2011). Traditionally the NFP sector has relied on three core sources of revenue: government funding, philanthropy, and earned income (Bolton & Kingston, 2006; Mendell & Nogales, 2011; Phillips & Hebb; 2010). Government funding is continuously declining. For example, the March 22, 2011 federal budget proposed to reduce department spending overall by at least $4 billion per year by 2014-15 and many provinces are also anticipating or announcing cutbacks (Imagine Canada 2011). The recent financial crisis has deep impact on the NFP sector. The resulting decline in income and joblessness created huge demand for social services provided by the NFP sector; at the same time the financial crisis also affected donations from foundations and individuals.

A recent survey of the period 2008 to 2010, found that over half of the charities reported an increased demand for their products and services (Lasby & Barr, 2010). However, many of them also faced difficulty in fulfilling their mission. Even when the economy gradually started recovering, 54% of charities reported higher demand in 2010 compared to 45% that reported such higher demands in 2009. Similarly, in 2010 a higher percentage of charities (29%) reported their existence is at risk compared similar sentiments reported by charities in 2009 (ibid, p22). These figures underscore the fundamental challenge faced by NFPs to fulfill their mission on sustainable basis, in the face of uncertain support from governments and donors, and escalating demand for many of their services. Some of the NFP organizations are increasingly looking for innovative financial tools to diversify their revenue sources.

Sources of Income for the NFP Sector

The income sources for the core NFP sector (excluding hospitals and universities) are broken down as follows, the sale of goods and services at $36 billion, by far the largest source of revenue for the sector; Government transfers at $16.8 billion; and donations from individuals and businesses valued at $11.6 billion (Statistics Canada, 2010). With growing revenues from the sale of goods and services it is little wonder that the NFP Sector is increasingly looking for ways to enhance their ability to generate multiple revenue sources including new structures such as social enterprise.

Fee-for-Service

The fee-for-service model is the most commonly used social enterprise models among social enterprises (Karamchandani et al, 2009). Businesses that have trouble accessing outside capital use earnings to fund their growth. While not really a financial product, fee-for-service programming can step into this role and provide unrestricted funds for core operations or organic growth (Pearson, 2008). There are many types of fee-for-service programs; these include mandatory fees, voluntary fees, membership programs, and other hybrid approaches. In addition, there are seven models through which social enterprises can operate: pay-per-use, no frill services, para-skilling, shared channels, contract production, deep procurement, and demand-led training (Karmachandani, 2009).

Social Enterprise: A new opportunity

Some charities and NFPs are developing social enterprises to diversify their funding base in today's marketplace. Social enterprises can broadly be defined as "any organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission" (Monitor, 2009; Task Force on Social Finance, 2010). This covers a range of organizational forms from enterprising charities, NFPs, and cooperatives to social purpose businesses that are a more recent innovation (McKinnon, 2011).

The first Social Finance Census conducted in Ontario in 2010, provided a survey of 250 social ventures[2] . It presents two encouraging facts: first, social enterprise is a reasonably mature sector in Canada; and second, the sector is growing very fast. The survey reveals that some social enterprises have been in existence for a long time. For example, one third of all the respondent Social enterprises to this Ontario-based survey have been in operation for more than 10 years. In addition, the sector is growing fast, as increasing number of NFPs are engaging in social enterprise activities. The Census shows that almost fifty percent of Social enterprises that participated in the survey were established within last five years (Social Finance Census, 2010). The growing involvement of NFPs in Social enterprises activities is also helping in

[2] Social ventures are defined as enterprises that have both financial and social goals as their purpose (Goldenberg et al, 2009),

diversifying their income sources. For example, SOCIAL ENTERPRISE activities contribute more than 50% of the operating budget in one out of four NFPs who participated in the survey. The impact of social enterprise as a revenue sources is visible in the fact that one third of NFPs without social enterprise activity, plan to start a new social venture in the next two years and those who already have a social business venture are trying to expand their revenues through such activities (Social Finance Census, 2010). In other provinces such as British Columbia and Alberta the average number of year of operations of Social enterprises have been much higher, 15 and 24 years respectively (BALTA, 2010).

While social enterprises provide innovative and sustainable sources of revenue, it is not appropriate for every organization. There are many challenges and risk associated with social enterprise revenue model that are not posed by traditional grants and donations, such as repayment of principal loans and interest. Moreover, to succeed as a social enterprise, organizations must move away from risk avoidance and grant seeking mindset toward more entrepreneurial approach (McKinnon, 2011). They require a sound business plan, strong leadership and considerable amount of capital to initiate a social venture. Out of the all the challenges that Social enterprises face, one of the biggest challenges is limited access of capital to start or expand a business (Goldenberg, 2010). As aptly expressed by expressed by Alex Kjorven, Development Manager at ACCESS Community Capital Fund "We could create a tremendously positive impact for our community with a relatively small investment. Our impact is not limited by our vision, our business plan, or our track record, but by our inability to access funds from mainstream sources (Social Finance Census, 2010)."

According to Social Finance Census (2010), the capital needed by the social ventures that participated in survey is estimated at $170 million. To fill this demand gap, NFPs and social enterprises are exploring various financial tools such as public or private equity and/or credit or debt financing to meet capital need. The next section of the report discusses these social financial instruments available to NFPs[3] and social enterprise.

---

[3] NFPs have access to a range of debt instruments, but because they have no shareholders they are limited in their ability to use equity instruments to access capital. On March 9th 2012 the BC Government announced a new hybrid company structure, the community contribution company, that may help address this problem.

Social Finance Instruments

Social finance is the deliberate and intentional application of tools, instruments, and strategies to enable capital to achieve a social, environmental, and financial ("blended value") return (Harji & Hebb, 2010). Unlike traditional methods of financing which see a tradeoff between financial return and social impact, social finance is a sustainable approach to managing money that delivers social, environmental and economic benefits or "triple bottom line" returns (Emerson, 2003; Causeway, 2009; Harji & Hebb, 2010). A growing number of NFP organizations are seeking to generate increased revenues and maximize their social impact through operating as social enterprises (Canadian Task Force on Social Finance, 2010; Harji & Hebb, 2010; Mendell & Nogales, 2008; Mulholland et al, 2011; Pearson, 2008). This trend is reflected in growing earned income revenues for the core NFP sector. Social financing provide alternative financial resources to NFPs as social enterprises emerge and flourish.

> "The core non-profit sector (excluding hospitals and universities) received $80.0 billion in revenues in 2008, either earned from market activity or received as transfers from governments, businesses or households. Core non-profit institutions rely on diverse sources of revenue, whereas hospitals, universities and colleges receive the majority of their revenue (74%) from government transfers. Sales of goods and services are, by far, the most important source of revenue for the core non-profit group. In 2008, sales of goods and services accounted for 45% of total income of the core non-profit group." *The Daily*, Statistics Canada, Dec.17th 2010.

The next section of the report provides a brief overview of various social finance tools and instruments available to NFP sector. In general, the social financing tools available to NFPs are (a) equity financing and (b) credit or debt financing.

- **Equity** or **investment financing:** from organizations and/ or individuals who expect a share of profit accruing to the business.
- **Credit or Debt financing:** from organizations and/ or individuals who expect the principal money plus interest repaid according to an agreed-upon schedule (Bolton & Kingston 2006, Brodhead 2010, Handford 2005, Van Gils 2005, Wuttunee et al 2008).

Equity or investment financing

Equity or the ownership interest of shareholders in business is one of the best instruments to deal with the start-up financing problem (Handford, 2005). To start a new business, for-profit organizations generally use equity to access startup money for their business (Kingston & Bolton, 2006). However, "lack of access to equity finance is perceived by many in the social enterprise sector as a key barrier to growth and development" (Bank of England, 2003). Recently there are examples of a few NFPs that have been experimenting with various type of equity as a source of their finance. The equity options available to NFPs can be divided in two parts: a) internal sources as equity, and b) external sources of equity (Van Gils, 2005).

Internal Sources as Equity

Many scholars agree that creating equity internally is the best first source of equity (Handford, 2005; Van Gils, 2005). Below are examples of how social enterprises can build up equity internally. Past surpluses are considered as a best source of equity (Handford, 2005). Some organizations can use the money they have accumulated over the years to start a new business. One example of such an organization is Atira Women's Resource Society in White Rock BC. Atira had used their past surpluses to conduct market research when developing their property management company. However, such examples are rare as NFPs can rarely have a surplus. Moreover, NFPs with a surplus usually don't get financial assistance from the government until they use all the money they have (Van Gils, 2005).

Another feasible option that charities can implement to surmount the challenge of developing equity is to create a trust fund (Handford, 2005; Van Gils, 2005). Some organizations have been successfully using it. For example Eco-Lumber Co-op create equity by withholding 5% of the money paid for goods and services purchased from members. This money is placed in a trust account which is used as equity to secure loans. The money held in trust usually paid back to the members when the loans are repaid. However NFPs face challenges such as legal restrictions, uncertain flow of funds through internal sources, and lack of surplus, which prevent them from developing equity internally (Handford, 2005; Van Gils, 2005). External sources of equity such as philanthro-equity[4] and the emergence of venture philanthropy[5] can provide a substitute.

---

[4] Philanthro-equity describes a form of engaged philanthropy using management principles from the for-profit venture capital market (Emerson, 2003)

External Sources of Equity

Grant contributions to NFPs can also be considered as a source of equity as there is no requirement of paying back (Bolton & Kingston, 2006). However the structure and the language of grants are changing. Increasingly funders describe grants as an investment with a focus on social returns instead of financial gains (Causeway, 2009; Harji & Hebb, 2010). Unlike traditional grants used for the social programs supported by the organizations, new grants (also known as philanthro-equity) are being made available for the capacity building of the organization e.g. skill development, training etc (Pearson, 2008). These grants are rooted in management-based principles of the for-profit world, drawing on an increased desire on the part of the grantor for scalable impacts and greater measurement of outcomes.

This form of equity is becoming more common in Canada, as many organizations started providing grant for capacity building. For example, The Center for Sustainability provides Partners in Organizational Development (POD) grants to hire consultants who can give technical assistance to the NFP organizations. Another specific example of such grants is Enterprising Nonprofits (ENP), that provide grants to social enterprises to help develop their enterprises.

Venture Philanthropy

Venture philanthropy is a new, more integrated approach to philanthropy that takes its name from the conventional business concept of venture capital and integrates social returns with economic gains (Globe and Mail, 2011; Mendell & Nogales, 2008). Venture philanthropy seeks to use all the resources of the philanthropic organization and align those with its mission, this includes its endowment assets as well as its granting arm. Because endowment assets are invested venture philanthropists look for both positive social impacts and financial returns to the foundation. Venture philanthropists, who are usually seasoned and successful entrepreneurs who work in a long term partnership, generally 3- 6 years, with an organization and provide business skills and technical assistance. EBC Technology Social Venture Partners, which was created by individuals working in BC's technology industries, is an example of venture philanthropy. It supports innovative NFP groups that serve children, women at risk, and people who live in Vancouver's Downtown Eastside, and provides a combination of grants,

[5] Venture philanthropy uses similar techniques as venture capitalists with high levels of engagement between the investor and the investee bringing not just access to capital, but also expertise between the philanthropist and the organization (Pearson, 2008).

technical expertise and entrepreneurial insights to NFPs (Canadian Task Force on Social Finance, 2010). Social Capital Partners is another good example of Canadian venture philanthropy.

Equity or investment financing, whether internal or external, is beneficial for NFP organizations to start their business. However sometimes using equity structures can be controversial due to the potential conflict between shareholder interests, which are financial, and the social objectives of the NFP enterprise (Handford, 2005). Additionally, equity investors may want to be involved in the management of the business (Wuttunee et al, 2008) which may have potential in diluting the social objectives. Credit or debt financing through loans and guarantees are another option that can complement or supplement equity option with less impact on social objectives.

Debt financing or Credit

Debt financing is another way for NFPs to support their business. Traditionally NFPs were often not able to access credit such as mortgages, equipment loans, and lines of credit, due to lack of collateral (Phillips & Hebb, 2010). To solve collateral problems, many NFPs have developed new innovative financial tools to access capital through debt financing (Kingston & Bolton, 2006; Mendell & Nogales, 2008). Many charities and large foundations hold significant assets and are increasingly willing to use them for social investment purposes (Strandberg, 2010). They are using innovative ways to secure their funds. For example Carrot Cache, a local community economic development fund in Canada, provides loans to NFPs by accepting multiple guarantors who pledged to support the loans if they go into arrears (Socialfinance.ca, 2011). While Canadian charities and foundations are beginning to develop these practices Britain has been utilizing this approach for several years (UK Office of the Third Sector, 2010). An example of such UK practice is the Peabody Trust which deposited £500,000 with the Charity Bank who then lends these funds to NFPs (Kingston & Bolton, 2006).

Some organizations provide new investment instruments to investors. For example, Vancity Savings Credit Union operates a program called Shared Growth Deposits, which is known for its innovativeness (Handford, 2005). It offers two types of Shared Growth Term Deposits – Cashable or Fixed Term. The objective of Vancity is to manage the funds in such a way that they return social, environmental and economic benefits to local communities. There is an option for investor to receive either market interest rate or lower on their deposits. Whenever any patron voluntarily gives up the market interest rates, the money thus accrue to Vancity is pooled and used to provide access to credit, or reduced interest on loans for local community groups (Canadian Task Force on Social Finance, 2010).

Subordinated Debt

Subordinated debt is also referred to as sub-debt financing, mezzanine financing, risk capital or growth capital (Pearson, 2008). It is a hybrid between equity and debt. Subordinate debt is a debt because of its repayable characteristics (Wuttunee et al, 2008). Normally it has to be paid back monthly with an interest. However, similar to equity, subordinated debt is usually not supported by collateral. Subordinated debt ranks below conventional debt when it comes to claims on assets. In the case of default, creditors with subordinated debt are not paid out until after the conventional debt holders are paid in full.

Ecotrust, Vancity Capital Corporation, and Coast Capital Savings offer subordinated debt (Hebb et al, 2006). Ecotrust Canada supported community development lending by providing non-bank, higher-risk loans to entrepreneurs, cooperatives, First Nations and NFP groups that incorporate ecological values and promote jobs and diversification in rural and Aboriginal communities. Ecotrust worked in collaboration with VanCity Credit Union and the federal government's Western Economic Diversification (WD) to provide long term "patient capital", which is discussed in detail in a section below (Hebb et al, 2006). An example of subordinated loan is a loan provided by Ecotrust, from the funds made available by Vancity Capital Corporation, to Eco Lumber Co-operatives. This loan functions like equity as the interest rate is tied to the amount of sales. This way it is in the interest of co-operative to return the loan when their sales increase above a certain threshold (Handford, 2005).

Community Bonds

Community bonds are securities issued by NFP organizations to raise debt-financing (Mendell & Nogales, 2011). These are binding commitments to pay the investor a set rate of interest over the life of the bond and to return their capital at the end of the term. One of the best known examples of community bonds is Calvert Community Investment Note offered in the US, which has leveraged $200M in assets over a 15-year period (Canadian Task Force on Social Finance, 2010). Community Bonds can be very good source for NFPs to scale up their activities because they have deep relationships with their communities and constituencies. In Canada, The Center for Social Innovation (CSI) was able to raise $6.5 million to purchase real estate by issuing a 5 year, 4% mortgage backed community bond (Mendell & Nogales, 2011).

Quasi-equity or "Patient" Capital

Patient capital "is a long-term debt or financial investment with terms and conditions that do not require quick repayment or a desire to move the money on in a speedy fashion" (Handford, 2005). Social enterprises require "patient capital" for their sustainable development because it's provided for a long term, the amount of assets required for collateral are often lower than mainstream lending, and investors are not looking for higher financial return but for higher social value addition (Hebb et al, 2006; Friedman, 2007; Novogratz, 2009). Patient capital can be in the form of equity or debt.

The Fiducie du Chantier de l'économie sociale in Quebec developed a patient capital fund in 2007 to meet the need for long term investment by collective enterprises. The Fiducie offers patient capital with a 15-year moratorium on repayment of the principal. Investments range from $50,000 to $1.5 million, not exceeding 35% of the project's cost. Because of the 15-year moratorium on repayment of principal, patient capital offered by the Fiducie can be leveraged to obtain more financing (Mendell & Nogales, 2011).

This literature review examines emerging financial instruments being used by the NFP sector. Just like for-profit business ventures, NFPs organizations require different types of financing at different stages of development and it is usually best if the capital base is somewhat diversified with a mix of grants, debt, equity and equity equivalents.

At the start up stage, NFPs need to have both access to capital and technical know-how to start a business. At this stage grant and internal resources can be helpful. Operational grants, or venture philanthropy can provide external grant for startup funding. As the enterprise develops and matures, debt and equity take on a more important role. At the growth stage, demands for capital increases and enterprises look for long term financial options. Patient capital or long term bonds can provide a viable option at this stage. Moreover with an established market and sustained cash flow, credit or debt financing becomes more readily available.

Survey Background

The Carleton Centre for Community Innovation completed forty-one interviews with Not-for-Profits (NFP), Registered Charities, Social Enterprises, and Social Finance Intermediaries across Canada on their utilization of social finance instruments. Please see Appendix 1 for a complete list of interviews conducted.

Our total sample size was one hundred and fifty organizations. We divided our sample into four sub-categories of organizations to be interviewed. The NFPs, Registered Charities, and Social Enterprise samples each had forty-five organizations to be contacted (135), while the social finance intermediaries sample only consisted of 15. Thirty-one NFPs, charities and Social enterprises responded to the survey. Eleven of the fifteen social finance intermediaries agreed to be interviewed (one organization did not fit the criteria as it had not provided any loans or equity to the sector). The sample provided a representative pan-Canadian geographic cross section, eighteen organizations' respondents in the sample were selected from Ontario, nine were selected from Quebec-based organizations, three from Manitoba and BC, two from Alberta and Saskatchewan respectively, and one each from Newfoundland, Nova Scotia, NWT and the Yukon.

The interviewers included three Carleton students, who serve as research assistants at the Carleton Centre for Community Innovation and Principal Investigator Dr. Tessa Hebb. A thirty to forty minute telephone survey was then scheduled and conducted with survey participants. Interviews were conducted in both English and French. Participants were informed of their right to confidentiality as part of our code of ethics.

Methodology

The report is based on qualitative research and uses open-ended, semi-structured interviews. It does not intend to provide a representative sample, but rather to generate additional insights into the current use of social finance instruments by NFPs in Canada. Forty-one semi-structured interviews were undertaken by telephone over the months of December 2011 and January 2012. Approximately fifteen questions were covered over the course of the interview. Each interview was approximately thirty to forty minutes long. Notes were taken by the interviewer and were compiled in a synthesis case document for each interview. Interviews were conducted in English and French. Please see Appendix 2 for the survey instrument used in the study.

The interviewees were informed at the beginning of the interview that the study was a joint initiative of the Carleton Centre for Community Innovation and HRSDC. The forty-one interviews were conducted with individuals who responded positively to our request for an interview from a random sample of one hundred and thirty five NFPs, charities and social enterprise organizations, and a selected sample of fifteen Canadian social finance intermediaries. The random sample was drawn from two datasets one on NFPs and charities and the other on social enterprises. While we can draw insight from these findings we cannot generalize from this small sample to the broader population with any statistical validity.

Findings

Our survey segmented the NFP universe into 3 key groups. The first segment is registered or unregistered NFP organizations who do not have charitable status. The second segment is NFPs who also have Canada Revenue Agency charitable status and are therefore able to provide charitable tax receipts for donations. The third category is social enterprises. We define social enterprises as "as any organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission. This covers many organizational forms – ranging from enterprising charities, non-profits and cooperatives with a long tradition in Canada to social purpose businesses that are a more recent innovation (Task Force on Social Finance, 2010)." All these legal forms are found in the social enterprises interviewed in this study. The remainder of the sample is social finance intermediaries covered later in this report.

Not-For-Profits

This group of organizations is either registered or unregistered NFPs who do not have charitable tax status. We approached forty-five organizations of this type, only six agreed to participate. Their lack of responsiveness may be an indication that this group did not have the time or resources to respond to our request.

The six organizations that did respond ranged in size from annual revenues of $250,000 to $6 million. All six organizations (see Appendix 1 for complete list of organizations surveyed) were over twenty years old with two organizations thirty years and one with over forty years of experience. All organizations discussed the stress created with declining revenues in recent years. "We used to have annual revenues of $1 million, but since 2008 we have had declining revenues and now we only generate $250,000 annually" said one interviewee. This decline was noted in both public dollars available and private sources of revenue.

All these organizations generate fees-for-service but in most cases the fees-for-service are government-based contracts. All these organizations reported that earned income directly supports the mission of the organization. Such earned income was generated through a sale of goods and services including membership fees. In most cases some form of government agency either municipal, provincial, or federal pays for these organizations' services. Four of the six organizations' fees-for-service accounted for 50% or more of their total annual revenues. One relied on membership fees for 97% of annual revenue - in this case, the membership fee was paid by government agencies. In contrast two organizations' earned income only accounted for 2% of total revenues.

Other sources of revenue included grants (municipal, provincial, federal, United Way, Trillium Foundation, and other foundations including provincial lottery foundations). A few of these organizations indicated a small level of corporate sponsorships. All six NFPs mentioned their engagement with community partners as a key in their revenue generating strategies. The Boards of Directors of two of the six organizations had looked into starting a social enterprise, but none had yet to take this activity.

Most of these NFPs had no external loans or lines of credit. Most indicated that they had no need for a loan so had not ever taken one. One of the six organizations had a line of credit with a large credit union. None of the six organizations had any form of external equity. One suggested that utilizing either loans or other social finance instruments would require staff time and expertise that they did not have. However three organizations mentioned internal equity as a source of annual income. They had small investments from reserve funds that generated a stream of revenue for these organizations. Again, it was noted that in this period of low interest rates such revenue was declining. One of the organizations owned its building.

All six organizations indicated that they would like to grow their business over time. In all cases they suggested that their ideal size would be just slightly larger than their current size. In most cases they indicated that this would enable them to hire additional staff. They all felt that growth would help rather than hinder them in delivering on their mandate.

However the barriers to such growth were the need for greater capacity, staff time and resources dedicated to this function. Additionally, the restrictions placed on them by funders, the problems inherent in short term contracts were also raised as obstacles to growth. One agency mentioned the public's negative perception of their cause as a barrier to future growth.

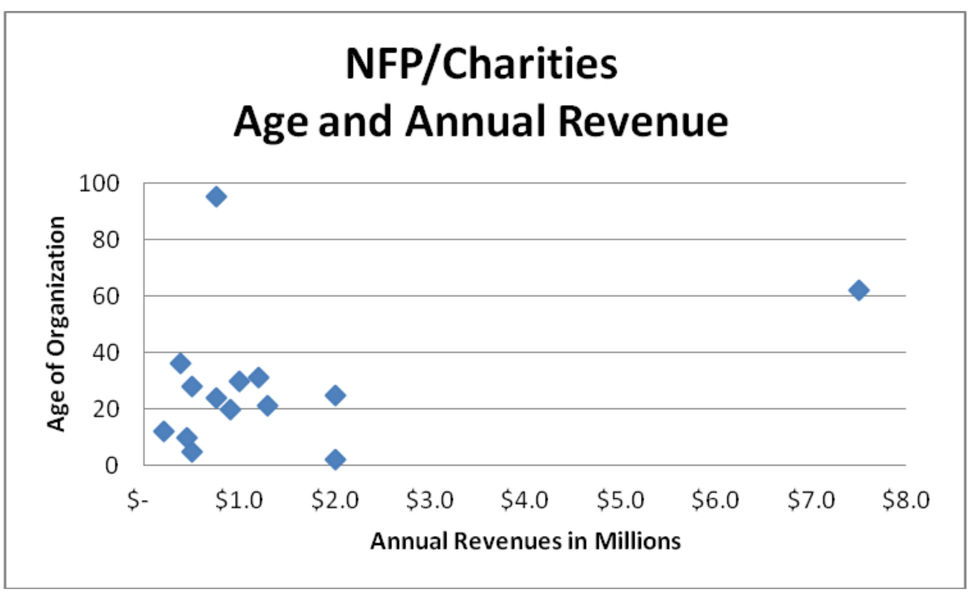
Though it was not directly raised by respondents, concerns about public perception in fund raising activities has been on the increase for the charitable/ NFP sector in recent years (Globe and Mail, 2011; Imagine Canada, 2009, 2011). One of the major issues identified is the lack of accountability in the sector for its fund raising activities and administrative costs. This includes a concern about the lack of transparency on the costs of fund raising, particularly when charities use outside sources to raise funds. Such concerns could restrict the ability of charities to raise funds in the future and could add to the barriers identified above.

When asked what sources of revenue would help them achieve their ideal size, all six organizations indicated government support for the services they offered would help them achieve their goal. They also suggested that their goals could be reached if funders provided core funding for their organizations, rather than only project-based funding.

Registered Charities

Fifteen of the forty-five NFP/registered charities that we approached responded with an interview. This represents a significantly higher response rate than we found with the non-charitable NFPs in our sample. These organizations are all registered NFPs that also have CRA registered charitable status. Such status enables these NFPs to provide annual tax receipts for donations to the organization. In some cases it also enables these organizations to receive foundation grants that are restricted to charitable organizations.

Our sample ranged in age from 2 years to 95 years of age and had annual revenues from $200,000 to $7.5 million. We found no correlation between the age of the organization and its annual revenues. Most of these organizations regardless of age have annual revenues under $2 million.



source: 3ci survey of NFPs
note: 1 of the 15 organizations did not indicate its annual revenues in the survey

Most of these organizations rely on fundraising, grants and donations as a major source of annual revenues. While one organization have earned income of 75%, another of 44% of annual revenues and two organizations had earned income of 13% to 14%, the majority have earned income of under 15% of annual revenues. Two organizations indicated that no portion of their annual revenues came from earned income.

NFP/Charities	Earned Income	Fund Raising/ Donations	Grants	Government	Corporate sponsorship	Membership fees	United Way	In-Kind
1		47%	22%				31%	
2		15%		50%	30%	5%		
3	8%	6%	26%					60%
4	45%	40%	8%			7%		
5	8%	0.3%	91%					
6	75%	5%	20%					
7	10%	45%	45%					
8	4%	66%	10%	20%				
9	5%	90%				5%		
10	5%		90%		5%			
11	15%	5%		80%				
12	34%	4%		58%			4%	
13	18%		12%	70%				
14	50%		40%		10%			
15*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	* one NFP/Charity did not answer this questions							

Five organizations indicted that annual fundraising and donations generated anywhere from 40% to 90% of annual income, indicating the importance that charitable tax receipting has for these organizations. Such activities ranged from annual sponsored national events to local and indeed neighborhood fund raising activities. Grants provided anywhere from 50% to 90% of annual revenue for seven of these organizations. Grants were generated from all three levels of government, and also from foundations, United Way, and corporate sponsorship. In many of these cases earned income covered costs of the organization not covered by foundation grants and donations which remained the primary source of revenue.

The continued importance of grants and donations for registered charities was indicated when two organizations responded that the source of their earned income was "grants and appeals to funders". This sector also indicated the importance of volunteers in their organizations as an in-kind resource that they rely on to deliver their mission. In addition all these organizations indicated a range of community partners that assist them in delivering their mission.

The missions for these organizations varies from literacy, assisting persons with disabilities, providing transportation, to housing, nutrition, and cultural support. But in all cases earned income was seen as directly supporting rather than detracting from their mission. It enabled the organization to grow and thus serve more with positive results. Thirteen of the fifteen organizations had grown over time, two had declined in recent years.

Ten of the fifteen organizations have never taken a loan. Most indicated that their Board of Directors would not be comfortable with them taking a loan, and that they would reduce programming or staff positions to reduce expenses rather than take a loan. One indicated that getting a loan is difficult. Five of the NFP/charities surveyed had taken loans or lines of credit ranging from $40,000 for cash flow purposes to in one case, $13 million for a mortgage on a building. Two such loans were with the Chantier and their partners in Quebec and provided these organizations with long term patient capital (one loan was for $13 million over 15 years, the other for $1.4 million over the same period). Another registered charity in the survey had a loan with a mainstream bank, another institution mentioned was the Caisse Populaire.

None of the fifteen organizations currently have a social enterprise. Two organizations have been thinking of starting social enterprises and have initiated social enterprise feasibility studies. While many had heard of social enterprise, there was limited appetite in this group. "We are nervous about social enterprise, we don't have the skill set required and we are in a remote area that does not have a large market to draw on," said one interviewee.

No other social finance instruments were used by any of the fifteen organizations including receiving external equity, venture philanthropy, issuing community bonds or debentures. Several draw on internal equity in the form of interest from reserve funds that provide a small stream of revenue annually.

Similar to the NFPs without charitable status, these organizations want to grow 'just a little bit bigger'. For these organizations increased size would enable them to have more resources to serve their mission. Only one of fifteen surveyed saw a conflict between business and mission, and for most increased size meant increased ability to fulfill their mission.

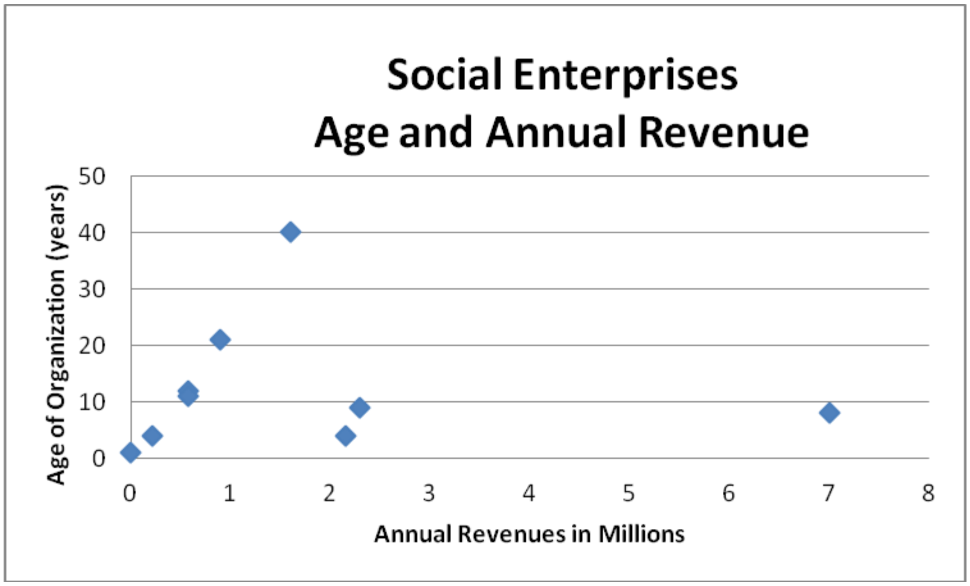
Barriers to growth were associated with economic and market volatility that impact donations and memberships. These organizations see competition in fund raising as a problem, and indicated that if they are not valued as an important organization or serve an unpopular cause it can inhibit their growth. Uncertainty in government regulation, lack of resources, and short-term funding cycles were all cited as barriers to growth.

When asked about sources of funding to help meet their future growth needs all these registered charities answered in terms of increased grants and donations. They articulated a need for more multi-year funding from government, large corporations and foundations. One of fifteen organizations mentioned social enterprise along with membership fees and greater access to large international funders. Another also indicated that in-kind support and human resources were critical for future growth.

Social Enterprises

This survey draws on ten social enterprises who responded in the random sample of the forty-five contacted. We define social enterprises "as any organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission" (Monitor, 2009; Task Force on Social Finance, 2010). This includes many organizational forms from enterprising charities, NFPs, and cooperatives to social purpose businesses. In most cases the organization identifies itself as a social enterprise in addition to its legal form. The social enterprises in this sample includes two solidarity co-operatives (a form popular in Quebec), a worker co-operative, three stand- alone NFP social enterprises, two for-profit social enterprises embedded in a charity, and two social purpose business. Such a range speaks to the diversity of the sector. Geographically four of the social enterprises interviewed are in Quebec, with one each in Nova Scotia, Ontario, Manitoba, Saskatchewan, BC, and the Yukon. Such wide geographic distribution suggests that social enterprise is gaining popularity across Canada as an organizational form, while the strong presence of social enterprises in Quebec are indicated by the larger number of interviews generated in a random sample.

Although social enterprise is a relatively new term these enterprises have been in existence anywhere from two years to forty years (though the older social enterprises tend to be those embedded in an already existing charity). However, like other small and medium sized enterprises we see a closer correlation between the age of the organization and its annual revenues, than we did with the NFPs and Charities[6].



Market-based earned income is vital to the annual revenues of each of the social enterprises surveyed. In all but one case earned income accounted for over 50% of total annual revenues. The exception is a new social enterprise embedded in an already existing charity that has yet to generate earned income and currently relies on its parent organization for funding. Across the other nine organizations, on average earned revenue accounts for 70% of total annual revenues, with four organizations generating 100% of annual revenues from earned income. The activities of these organizations include catering (3), rental space, fair trade coffee, construction (2), and home rental agency. For nine organizations earned revenue directly supports the mission of the social enterprise, in one case (a small cafe) earned revenue supports the mission of the parent organization. In contrast to the NFPs and charities in the survey most social enterprises did not indicate a role for community partners in their activities, which may speak to the more competitive aspect of the market for these organizations.

Not only do social enterprises differ from the NFPs and Charities detailed above in their reliance earned income, they also draw on other social finance instruments such as loans, and equity in

[6] The correlation between age and size among the social enterprises surveyed does not imply causation.

their operations. Seven of ten of the social enterprises surveyed had some form of external financing. Six had either lines of credit, loans, or mortgages with financial institutions, while the seventh used their own private funds as a form of equity when starting their social purpose business. One had benefited from an investment from venture philanthropy. The other three organizations in the survey did not require loans. The lines of credit ranged from $14,000 to as high as $300,000. Lines of credit were held with local financial institutions primarily credit unions and the Desjardins. One line of credit was held with a mainstream bank.

Larger loans with longer terms are used primarily to secure ownership of fixed assets such as housing and commercial buildings and take the form of mortgages. Four of the ten social enterprises have such loans ranging in size from $.5 million to $8 million. One is with a consortium of individual lenders motivated by the mission of the organization. Three of the social enterprises have received long-term, patient capital loans (15 years to repay principal) from the Quebec-based consortium of financial institutions headed by the Chantier de l'economie sociale.

Other social finance instruments mentioned in the survey are corporate sponsorships, and venture philanthropy. Most have not received any external equity investment. "Investors are not that interested in companies that return a net 2% profit per year," said an interviewee. One social purpose business used its own private funds to establish a social enterprise.

Similarly to the NFPs and charities in this survey, the social enterprises have grown over time and see growth as a way to support and enhance their mission rather than as a detractor from their mission. This may well reflect the fact that the social enterprises in this survey see their earned revenue strategies as a direct support of their mission. Though they describe their own activities through the last few years in market terms, "we are just keeping our heads above water since 2008" said one interviewee. "We are responding to the needs of the market" said another.

Most of the social enterprises would like to become significantly bigger, "the sky is the limit" said one. But for social enterprise growth requires new product lines, and new markets. Only one enterprise saw additional grant funds as means to future growth. But these enterprises describe the barriers to that growth in vastly different ways than we find in the NFP and charities surveyed. For these organizations access to capital is a major barrier to growth. "We went to eighteen financial institutions before we found one that would provide us with a line of credit." They also indicated that bureaucratic requirements can be a barrier to future growth. While NFPs and charities see access to more grants and donations as the major source of future growth, social enterprises describe market conditions as the major factor. "Changes in the marketplace" said one interviewee and "staying competitive while providing opportunities for hard to employ populations" said another. Many see access to the same support as other commercial enterprises as key to their future success.

Social Finance Intermediaries

Ten Canadian social finance intermediaries were interviewed for this report. Three provide equity investment in social enterprises, two are large community-based credit unions who provide loans to NFPs and social enterprises, and five are independent loan funds providing either loans or loan guarantees to NFPs and social enterprises. These intermediaries are based in BC, Alberta, Manitoba, Ontario and Quebec. The smallest transaction undertaken by these social finance intermediaries was $15,000 for one, while the largest was a $25 million mortgage loan undertaken by another.

Equity Social Finance Instruments

Three organizations provide equity investments. These organizations range in size from $1 million to $50 million of assets under management. They provide or have provided in the past, long-term patient capital equity investments that range in size from $100,000 to $7.5 million for the largest. Two of the intermediaries are ten years of age and one was established three years ago. Two of the three have a mission to invest in aboriginal businesses and aboriginal entrepreneurs in Canada. One has stopped making equity investments in social enterprise after it was determined that there were other ways to assist businesses in employing hard to employ populations (the mission of the organization). Another moved away from making loans to making equity investments in social enterprises over the last three years.

Given the nature of equity investments most invested in businesses that met the mandate of the investor. They look for both impact and financial viability. One hopes to generate a 10% annual return on investment. The issue of exiting from these investments was raised as a potential challenge when using this financial instrument.

Debt Social Finance Instruments

Two of the social finance intermediaries are large Canadian community-based credit unions who provide access to credit such as mortgages, lines of credit and loans. These organizations manage assets of $2 billion and $3.6 billion respectively and both have long histories in their communities stretching out one hundred years and seventy years respectively. Both provide NFPs and social enterprises with access to credit in a variety of forms, including term loans, lines of credit and mortgages, as well as a range of other financial products and services. Both have seen an increase in NFPs building long term assets and a growing awareness of social enterprise within the sector over the past few years.

Most of this debt financing is backed by some form of security from the organization such as real estate, receivables (e.g. confirmed government grants, fee-for-service) or guarantees. Each of these organizations looks for a combination of community impact and financial viability in assessing the loans for the NFP and social enterprise sectors. Evidence of strong financial governance and management are part of their criteria in assessing 'credit readiness'.

In financing this sector, these social finance intermediaries identified the following as challenges: lack of financial skills and knowledge at both the board and management levels, insufficient deal flow from social enterprises, and the potential for reputational damage.

The five other social finance intermediaries are stand alone organizations that provide loans to NFPs and social enterprises. These include community loan funds and specialized vehicles designed to provide loans to the NFP sector. They are based in Alberta, Manitoba, Ontario and Quebec. These social finance intermediaries are relatively new organizations ranging from ten years to one year of age. The largest of these intermediaries has $52 million of assets under management, while the smallest has just $250,000. These loans can range anywhere from $15,000 to $1.5 million. Several of these funds provide micro-loans to small business in their community including social enterprise. Two work in partnership with their local credit union to provide loan guarantees.

Similarly to the social finance intermediaries detailed above this group also uses both community impact and financial viability as its key criteria in determining loan readiness. In fact one intermediary uses 83 key metrics in assessing a loan opportunity. They all work with community partners in helping NFPs to become 'loan-ready'.

As we find above, the challenges identified by this group include the lack of financial expertise in the NFP sector. Several social finance intermediaries identified the 'grant mentality' of NFPs as a challenge in this sector. Comparing these findings to the NFP and Registered Charities responses above it is not hard to understand why the financial intermediaries find many NFP Sector organizations are not yet ready to take on social finance instruments in their day to day operations.

Implications of the Research

Drawing on the interviews with thirty-one NFPs, Registered Charities and social enterprises it is evident that the NFPs and charities answered the questions on their current operations, financing, and future growth in stark contrast to the views of social enterprises on a number of key issues involving social finance instruments.

The NFPs and charities interviewed have been in existence for a substantially longer period than the social enterprises, suggesting that stand-alone social enterprises are a relatively new form of enterprise in the NFP sector. Interestingly the size of annual revenues among all organizations regardless of age or type or source were roughly comparable with the largest NFP, charity, and social enterprise interviewed each with $6 to $7 million in annual revenue, while the smallest organizations in each type generate approximately $200,000 in annual revenue. While the NFPs and charities showed no correlation between age of the organization and its size, the social enterprises' annual revenues tend to increase with age in a manner similar to other mainstream businesses.

While many of the NFPs without charitable status generated annual revenues from fees-for-service, in most cases these fees were generated by government contracts and government agency memberships. Grants also provided revenue for these organizations. Charities draw heavily on their chartable tax status and continue to rely on donations and grants as the primary source of annual revenue (for many charities these two sources provide 90% or more of annual revenues) with earned income making up only a small portion of their annual revenue. In contrast, the social enterprises interviewed generated over 70% of their annual revenue (in several cases over 90%) from market-based sales of goods and services including catering, fair trade coffee, housing, and construction.

All the organizations interviewed regardless of type suggested that earned income directly supported the mission of the organization. Only in one case was there any concern that increased earned income might detract from their mission, and all felt that increased growth would help them further their mission, by increasing their service in the community. NFPs with and without charitable status indicated that community partners play a key role in their revenue generating strategies, while most of the social enterprises interviewed did not mention community partners.

Two of six of the NFPs surveyed and two of the fifteen charities have looked into starting a social enterprise, but are still in the feasibility stage, confirming that while many in the NFP sector have heard of and are interested in the concept of social enterprise, we have yet to see a broad take up in starting social enterprises. Significant learning will be required to ensure the skills and capacity necessary for social enterprise are present in these organizations.

Very few of the NFPs and charities in this survey have hard assets such as real estate. Only one of the NFPs had taken any type of loan, and that was a line of credit. Five of the fifteen registered charities surveyed had taken loans. Most NFPs and charities expressed discomfort with the idea of a loan, and several suggested that their boards of directors would not want to take on the risk of a loan. They would prefer to cut services, programs and staff. This finding confirms the suggestion made by some of the social finance intermediaries that financial expertise and deal flow are challenges that face the NFP sector. On the other hand, six of the ten social enterprises interviewed have received loans. These loans range in size from a line of credit for $14,000 to an $8 million mortgage loan. However while we found evidence of debt financing in the social enterprises in this survey, some financial intermediaries suggest that deal flow is limited is when it comes to social enterprises. They feel that capacity building is important to ensure a pipeline of social enterprise deals that are ready for debt financing. Such capacity building is also important to build the financial capability of NFPs and charities when it comes to debt financing.

Only two social enterprises had equity investments, one was from venture philanthropy and the other was self-funded. No NFPs or charities had any form of external equity investment. Several of the NFP and charities have reserve funds that supplied small amounts of interest income over the year.

The clearest contrast between the NFPs and charities on the one hand and the social enterprises on the other was in response to the question of what sources of revenue would fund future growth. All NFPs and charities surveyed answered that increased grants and donations would enable them to grow in the future. While the social enterprises responded that market opportunities would enable them to achieve future growth. Again this finding speaks to the 'grant mentality' referred to as a challenge in the NFP sector raised by many of the social finance intermediaries.

These findings suggest that while NFPs and charities are beginning to explore social finance instruments, they are still a long way from using these instruments in their day to day operations. There continues to be a high degree of reliance on donations and grants by these organizations for their funding needs. While non-charitable NFPs utilize fee-for-service income, most contracts continue to be with government agencies.

In contrast social enterprises utilize a greater number of social finance instruments including market-based earned income, loans and equity investments. These organizations demonstrate a greater reliance on the market to meet their funding needs both today and in the future.

Limitations

One of the limitations of this study is the small sample that results in selection bias. This bias holds for the researchers who draw up the sampling frame, and for the self-selective process of those who agree to be interviewed. A further limitation is a bias that may be present when interviewees are aware that HRSDC, Government of Canada is one of the sponsors of the study. This may influence their answers about sources of future revenue as they may be hopeful of influencing an increase in government funding for the NFP Sector in the future, as a result of the way in which they answer these questions. While the results of these interviews can give us greater insight into how NFPs, charities and social enterprises use social finance instruments in Canada, they do not represent with any statistical validity the collective views of each of the sectors identified in the report. These interviews are not intended to act as a survey on social finance instruments, and should not be generalized beyond the selected sample.

Additionally, semi-structured, open ended interview questions such as those asked here, are appropriate for qualitative rather than quantitative analysis. Each interview should be viewed as an individual case. The researcher then looks for patterns between the cases and draws insight when such patterns emerge. Again this process does not reveal statistically valid survey results, but rather should be used to generate further insight into our understanding and use of social finance instruments by the NFP sector in Canada.

Conclusion

This research study provides further insight into the utilization of social finance instruments by the Not-For-Profit Sector in Canada and the ways in which the social finance field can be further advanced in Canada. It draws on forty-one semi-structured interviews in an exploration of these organizations' current use of social finance instruments. It is not intended as a survey of the field and as a result one cannot make broad generalized statements on the use of social finance instrument to the whole field or to the four specific sub-sectors indicated here. However it does provide unique insight into the current use of social finance instruments by

NFPs. Additionally it explores the barriers to the use of social finance instruments in Canada and the potential opportunities that social finance instruments can offer to NFPs.

Future research would suggest that a statistically valid survey of the NFP sector could be undertaken in order to validate the findings and conclusions we have drawn from the small sample of organizations interviewed. I would recommend such a survey to test the findings of this small sample.

Utilizing social finance instruments offers a range of new possibilities for the sector going forward. But the findings here suggest that considerable financial capacity will have to be built within the NFP sector if these possibilities are to be realized. Building capacity in the sector that reinforces the mindset shift described in this report provides a good step forward in assisting the NFP sector to fully utilize social finance instruments. Seeking ways to support social finance intermediaries is also essential to building the social finance market in Canada. Finally, developing the enabling environment for innovative social finance tools is also important. Clarifying the rules under which NFPs can generate earned income, looking at hybrid legal structures such as we see in British Columbia, and encouraging not just the demand for capital but also the supply will help build the social finance market in Canada.

We are pleased to be a part of gaining a fuller understanding of this important topic.

Appendix 1: List of Interviews

Type	Name of Organization	Person Interviewed	Province
C	Canadian Centre for International Justice	Jayne Stoyles	ON
C	Community Living Tillsonburg	Art Fuller	ON
C	Crafts Council	Anne Manuel	NF
C	Hospice Peterborough	Linda Sunderland	ON
C	Moisson Outaouais	Benoît Gélinas	QC
C	National Youth in Care Network	Sheila Nyamaizi	ON
C	Northwest Territories Literacy Council	Helen Balanoff	NWT
C	Anonymous interview		ON
C	Quinte Access Transportation	Shelly Ackers	ON
C	Saskatchewan Native Theatre Company	Alan Long	SK
C	Anonymous interview		QC
C	Caring and Sharing Exchange	Marilyn Matheson	ON
C	Big Brothers & Big Sisters Norfolk	Patti O'Reilly	ON
C	Canadian Aids Society	Kim Thomas	ON
C	Maple Ridge Pitt Meadows Arts Council	Phillip Hartwick	BC
NFP	Active Living Alliance	Jane Arkell	ON
NFP	Canadian Association of Research Libraries	Brent Roe	ON
NFP	Entraide Budgetaire Ottawa	Helene Menard	ON
NFP	Red Deer Child Care	Rob Elliot	AB
NFP	South-East Ottawa Community Health Centre	Leslie McDiarmid	ON
NFP	Crisis Intervention & Suicide Prevention Centre of B.C.	Ian Ross	BC
SE	Alpine Bakery	Suat Tuzlak	YT
SE	Auberge Petite-Nation	Dominic Rozon	QC
SE	Connection Clubhouse	Norma Lewis	NS
SE	Coopérative la Maison Verte	Jason Hughes	QC
SE	Ethical Coffee Bean	Lloyd Bernhardt	BC
SE	Inner city Development Inc.	John Baker	MB
SE	Maison du Développement Durable	Robert Perreault	QC
SE	Multifaith Housing Initiative	Sue Evans	ON
SE	Radio Communautaire Fm De La Haute Gatineau	Lise Morissette	QC
SE	Regina Education Action Child Hunger (REACH)	Dana Folkersen	SK
FI	Alterna Savings	Christine Racine	ON
FI	Assiniboine Credit Union	Priscilla Boucher	MB
FI	CAPE Fund	Peter Forton	QC
FI	Chantier de L'economie Sociale Trust	Jacques Charest	QC

FI	Community Forward Fund	Nora Sobolov	ON
FI	Eco-trust	Brenda Kuecks	BC
FI	Edmonton Social Enterprise Fund	Jane Bisbee	AB
FI	The Jubliee Fund Inc.	Neil Childs	MB
FI	Ottawa Community Loan Fund	Michael Oster	ON
FI	Social Capital Partners	Bill Young	ON

total organizations contacted = 150
# of organizations participating = 41
# of organizations declined or did not respond = 109

Colour code

NFP/Charities
NFPs
Social Enterprises
Social Finance Intermedieries

Appendix 2: Survey Instrument

Organization name:
Interviewee:
Date:

Theme	Questions
Organizational Background	1. What is the social purpose/ mission of your organization? 2. What is the scope of your activities? 3. How is your organization structured? - Is it a standalone organization, a parent organization, a subsidiary of a parent organization? -If a social enterprise: Is the Social Enterprise mission driven or is it profit-driven to support other work?
Financing	1. What is the size of your organization's annual revenue from all sources? 2. How much earned income does your organization generate? ($ value and % of total) 3. Where do your major sources of funds for operations come from (estimate by percentage if possible)? (Options: Grants__, Donations __, membership fees _____, fee for service ___, social enterprise _____, Loans__, Venture Philanthropy__, Equity__, Corporate Sponsorship__, parent organization__, subsidiary organization__) 4. How does your organization generate earned income? - Does your earned income directly support your mission or is it directed to another organization that carries out the mission? - What does this earned income support in your mission? -Do you engage in any partnerships in this income strategy? - What are the barriers you face to generating earned income? - Do you have or have you thought about starting a social enterprise? -

	5. Has your organization taken out any loans or debt financing? - -If no, why not? - If yes, what was the size of the loan ⁄ financing? - Did you engage in any partnerships to get the loan? - Who provided the loan? - What were the terms of the agreement? - What was the purpose of the loan ⁄ financing? - Did you face any barriers in using social finance instruments such as loans? - Did you overcome these barriers? 6. Has your organization used any other forms of financing (ie. Equity investment)? in your organization? -If no, why not? - If yes, what was the size of the equity⁄ financing? - Who provided the financing? - What were the terms of the agreement? - What was the purpose of the equity ⁄ financing? - Did you face any barriers in using this social finance instrument? - How did you overcome these barriers?
	1.
Growth	1. How long has your organization been in existence? 2. Has the focus of your organization changed since its establishment? 3. Has your organization increased or decreased its earned income since its establishment? - If yes, has there been a change on your organization's ability to accomplish its mission? - If no, has there been a change to your organization's ability to accomplish its mission? 4. Do you want to grow your business? -What would you need to grow your business? -Would this help or hinder your mission? 5. What would be the ideal size and budget for your organization?

	6. What sources of income would support this ideal size and budget?

Questions for Social Finance Intermediaries

Theme	Questions
Organizational Background	1. Please describe your organization? 2. What is the scope of your activities? 3.How is your organization structured? 4.How much assets do you have under management? 5. How long has your organization been in existence? 6.How has your organization developed over time? 7.Have you seen a change in investment opportunities with NFPs and social enterprises in Canada? If yes, please describe the change.
Financing	1.Has your organization ever made an investment in a NFP in Canada? - If yes, please explain (size, amount, type of investments (equity or debt financing, loan guarantee, community bond etc.), - How many of these investments did you make in 2011, how many in 2010, how many in 2009). - Please describe characteristics of the investment opportunity that brought about the investment? - If no, what has prevented you from making an investment in NFPs in Canada? - Would you consider making an investment in a NFP in the future? - What would you need to make this happen?

	2.Do you provide financing for social enterprises? - If yes, please explain (size, amount, type of investments (equity or debt financing, loan guarantee, community bond etc.), - How many of these investments did you make in 2011, how many in 2010, how many in 2009). - Please describe characteristics of the investment opportunity that brought about the investment? - If no, what has prevented you from making an investment in social enterprise in Canada? - Would you consider making an investment in a social enterprise in the future? - What would you need to make this happen?

References

BALTA (2010), Elson, P.R. & Hall, P. V. *Strength, Size, Scope: A Survey of Social Enterprises in Alberta and British Columbia.* BALTA Project C16.

Bank of England. 2003. *The Financing of Social Enterprises: A Special Report by the Bank of England*, Bank of England, London

Bolton E. 2010. *Towards a new social economy*, Social Finance Ltd

Bolton M, Kingston J. 2006. *Approaches to financing charitable work: tracking developments*, West Malling, Charities Aid Foundation

Brodhead T. 2010. On Not Letting A Crisis Go To Waste: An innovation agenda for Canada's community sector. *The Philanthropist* 23

Canadian Task Force on Social Finance. 2010. *Mobilizing Private Capital for Public Good*

Causeway. 2009. Social Finance: Enabling social enterprise for public benefit. In *Causeway Policy Brief , 3*

Cheng P, Goodall E, Hodgkinson R, Kingston J. 2010. *Financing the Big Society: Why social investment matters*, A CAF Venturesome working paper

Emerson J. 2003. "*Capitalism 3.0*" available at Blendedvalue.org

Globe and Mail. 2011. "Ottawa Looks at Rewriting Rules on Charitable Giving". October 28th 2011.

Goldenberg, M. "reflections on social innovation," The Philanthropist (23:3) 2010.

Goldenberg, M., Kamoji, W., Orton, L., and Williamson, M. (2009) "Social Innovation in Canada: An Update," Ottawa, Canadian Policy Research Networks.

Hall, Michael, (2010) "Change is in the Air" *The Philanthropist*,

Handford P. 2005. *Guide to Financing for Social Enterprise*, Western Economic Diversification Canada

Harji K, Hebb T. 2010. *Investing for Impact: Issues and Opportunities for Social Finance in Canada*. Working Paper, Carleton Centre for Community Innovation.

Hebb T, Wortsman A, Mendell M, Neamtan N, Rouzier R. 2006. *Financing Social Economy Enterprises*, Carleton Center for Community Innovation, Ottawa

Imagine Canada. 2009. *Perspectives on Fund Raising.*

Imagine Canada. 2010. *A Framework for Action for the Nonprofit Sector.*

Imagine Canada. 2011. Election Kit 2011.

Imagine Canada. 2011 b. Imagine Canada Reacts to Globe and Mail Article. October 28th 2011. http://blog.imaginecanada.ca/2011/10/28/imagine-canada-reacts-to-globe-mail-article/

Karamchandani, A., Kubzansky, M., and Frandano, P. (2009) "Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty," Monitor Group, March, 2009.

Kingston J, Bolton M. 2006. New approaches to funding not-for-profit organisations. *Journal of Nonprofit and Voluntary Sector Marketing* 9

Lasby D, Barr K. 2010. Impact of Current Economic Conditions. *Imagine Canada's Sector Monitor* 1

McKinnon, Sean , 2011, "What does it mean to start a Social Enterprise", Report, Carleton Centre for Community Innovation

Mendell M, Nogales R. 2008. *Social Enterprises in OECD Member Countries: What are the financial streams?*, OECD, Paris

Mendell M, Nogales R. 2011. *Working paper on Solidarity finance*, FIESS, Montreal October 18th 2011.

Monitor Institute (2009) "Investing for social & environmental Impact: A design for Catalyzing An emerging industry", Monitor Institute

Mulholland E, Mendelsohn M, Shamshiri N. 2011. *Strengthening the Third Pillar of the Canadian Union:an intergovernmental agenda for canada's charities and non-profits*, Mowat Centre for Policy Innovation, Toronto

Neamtan, N., and Downing, R. (2005) "Social Economy and Community Economic development in Canada: next steps for public policy," Issues paper by the Chantier de lâ economie Sociale in collaboration with the Canadian Community Economic Development Network (CCEDNet) and Alliance Recherche Universits-Communauts en Economic Sociale, September (21) 2005, p 2005.

Pearson R. 2008. *The Nonprofit Capital Market in Canada*, Canadian Centre for Community Renewal (CCCR) on behalf of the B.C.-Alberta Social Economy Research Alliance

Phillips S. 2006. The Intersection of Governance and Citizenship in Canada: Not Quite the Third Way. *IRPP Policy Matters* 7

Phillips S, Hebb T. 2010. Financing the Third Sector: Introduction. *Policy & Society* 29

Socialfinance.ca 2011 *Your Guide to Social Finance* available at http://socialfinance.ca/guide

Social Finance Census. 2010, Malhotra, A., Laird, H., and Spence, A. A summary of results from the social finance census of nonprofits and social purpose businesses. Report. available at http://socialinnovation.ca/blog/social-finance-census-2010, accessed on 11/2/2011.

Strandberg C. 2010. *The State of Community/Mission Investment of Canadian Foundations*. Report, available at http://corostrandberg.com/publications/community-investment/the-state-of-community-mission-investment-of-canadian-foundations#

Statistics Canada. 2010. Satellite account of non-profit institutions and volunteering. In *The Daily.* Dec. 17th 2010.

UK Office of the Third Sector. 2010. UK Government available at http://webarchive.nationalarchives.gov.uk/+/cabinetoffice.gov.uk/voluntary-sector.aspx

Van Gils P. 2005. Fundamentals of CED Finance. *Making Waves* 11

Wuttunee W, Chicilo M, Rothney R, Gray L. 2008. *Financing Social Enterprise:An Enterprise Perspective*, Social Enterprises Knowledgeable Economies and Sustainable Communities