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Scaling Up the Canadian Social Finance Sector

Strategy Session

October 19 and 20, 2006

Meeting Notes



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CONSULTING

Background

There is considerable interest in the opportunity of scaling up social finance in Canada. To that end, Tides Canada, J.W. McConnell Foundation and PLAN, with funding from Vancity Credit Union, hosted a 1.5 day social finance strategy session with national leaders in social finance on October 19 and 20, 2006. The purpose of the meeting was to map an accelerated growth plan for the financial infrastructure needed to support Canada's competitive, innovative and entrepreneurial social sector.

Social finance for the purpose of the meeting was described as sustainable finance with a social or environmental goal, covering a growing continuum including community investing, social enterprise finance, micro-lending, sustainable business, and philanthropic program-related investments. Premised on the view that the Canadian social sector (including charities, non-profits and community enterprises) is drastically under-financed, the meeting sought to consider how to reverse this situation through advancing the growth of the social capital marketplace.

Social Finance Example 1:

Immunisation Bond

The International Finance Facility for Immunisation (IFFIm), managed by the World Bank, is selling 5-year bonds, which yield between 30 and 33 basis points above similar-maturity US Treasury notes. The UK, France, Spain, Italy, Sweden and Norway have pledged \$4 billion over 20 years to Microsoft Corp. founder Bill Gates' GAVI Alliance to fight diseases such as hepatitis and yellow fever. By selling bonds backed by the contributions, the countries will enable the money to be spent immediately. The GAVI Alliance says the money will save 10 million lives in countries from Afghanistan to Zambia. IFFIm has AAA ratings from Moody's Investors Service, Standard and Poor's and other rating agencies.

The meeting was a follow-on from two previous sessions on 21st Century Social Finance (reports available at: <http://www.tidescanada.org>). Those efforts supplemented by an overview entitled 'The Social Purpose Capital Marketplace: An Opportunity for the Canadian Charitable Sector' lay the groundwork for this strategy session to galvanize current thinking across Canada on how to stimulate and grow the financial infrastructure needed to scale up social innovation and respond to emerging social and environmental challenges. The planning committee for the strategy session included: Ted Jackson, George Scott/Sidney Sawyer, Tim Brodhead, Al Etmanski and Tim Draimin.

There are many appendixes' that are referred to throughout this document, some of which are included where others are available upon request.

Interviews were conducted in advance to get views of session participants on key opportunities and challenges that need to be addressed to advance social finance in Canada. Appendix A includes the summary of this research and is available from Tides Canada Foundation. Appendix B is a list of session participants who were recruited for their unique and important role in advancing social entrepreneurship and social finance.

Appendix C is an inventory of initiatives underway or in development at participants' organizations that support the social sector through social financing programs, focused on opportunities that could get to scale through collaboration. Appendix D is Arthur Wood's presentation (the Keynote) which is available from Tides Canada Foundation; Appendix E is his proposal for the creation of an "Enhanced Social Investment Note".

Prior to the meeting, participants were sent a draft copy of a paper on the Social Capital Marketplace in Canada (http://www.tidescanada.org/cms/File/Social_Purpose_Capital_Marketplace.pdf).

Social Finance Example 2:

Eye Fund I

Deutsche Bank and its partners, the International Agency for the Prevention of Blindness and Ashoka, launched a \$20 million investment fund supporting eye care hospitals in developing countries. Eye Fund I will provide loans and guarantees to support the development of affordable, sustainable and accessible eye care for the world's poor while providing a near-market return for investors. The Eye Fund is modeled after a proven planning and business model that has enabled approximately 400 hospitals in the last five years to become financially sustainable. The Fund seeks to replicate this success on a large scale, ultimately assisting 4,000 hospitals over the next five years to become self-financing from user fees while at the same time serving the poor.

Meeting Summary

The following is a summary of the strategy session.

Overview

Tim Brodhead provided a high level overview of the opportunities and challenges of a national effort to scale up social finance. There are significant needs in the social sector that can be addressed through new forms of finance and new partnerships with governments and the private sector. More capital could be available in future through inherited wealth and on-line giving. Significant opportunities and risks lie ahead and this meeting is a vehicle through which we can move forward together.

Ted Jackson provided an overview of a number of international advancements in the creation of a social capital marketplace. He outlined the following framework for considering the supply of, and demands for, financial capital to invest in the social sector:

Types of capital	Supply of capital	Demand for capital
Grants		
Debt		
Equity		

He pointed to the need to ensure that barriers to the demand side were addressed, i.e. support is provided to the social sector to help build their capacity to operate social enterprises. Implementation is a key issue in the creation of a social capital marketplace, as well as getting the sector to scale. He anticipates it will take 10 years for it to come to fruition.

Inventory

Participants shared highlights of initiatives their organizations have underway or in development to support the social sector through social financing programs, focusing on opportunities that could get to scale through collaboration. These were organized into four topic areas: 1) capital provision; 2) sectoral leadership and capacity-building; 3) policy and regulatory environment; and 4) networking and collaboration with other provincial or national groups.

See Appendix C for this inventory.

Notable of the list of initiatives is the sheer number of financing efforts underway to provide investment capital and venture grants to the social sector for enterprise development, a strong platform of innovation and best practice models.

Keynote and Response: Long Term Strategic Directions for Social Finance in Canada

Arthur Wood, Director, Social Finance Services, Ashoka, provided his thoughts on a long term, strategic direction for social finance in Canada, the details of which are available in Appendix D. His key points include that the current social sector is highly inefficient and will be stretched to its limits with the aging demographic, resulting in further pressures on Canada's social security system. He posits that neither the state nor the market system are effectively serving those at the bottom of the pyramid, but perceives there is grounds for optimism with respect to the predicted growth in philanthropy and emergent forms of social enterprise and social finance. Opportunities exist to partner with those in the banking and private sectors, academia, government and foundations. He urges the social sector to collaborate on a mass scale to create the economies essential for significant financial participation by the financial sector. Governments can assist by creating effective tax legislation that supports hybrid forms of social enterprise and providing tax credits and other subsidies to help scale up the social sector.

In the following discussion he reiterated the following:

- There is considerable innovation in the asset management sector, which is seeking to flow finance to social enterprise globally.
- The term “charity” is a misnomer as charities receive most of their funding from government, or through self-generated revenues, not donors. He proposed the term “Citizen Sector” as a more apt title.
- This is an opportunity to rethink the role of governments and foundations working in partnership together on urban renewal issues.
- There are advancements in other countries of private sector initiatives we can learn from.
- Regarding subsidy allocations, there are three types of initiatives:
 - those that will always need a subsidy;
 - those that need a subsidy until they can get to scale; and
 - and those that don't need any subsidy at all.
- There is plenty of capital available. Is the social sector prepared to collaborate and move to scale in order to capitalize on this pre-existing capacity?

Dave Mowat, CEO, Vancity Credit Union and Nancy Neamtam, CEO, Chantier de/l'économie sociale, provided some reflections on Arthur's presentation. Dave Mowat commented that the sector needs to be aggregated in order for it to grow and fulfill its potential. Nancy Neamtam agreed, adding her view that there is an opportunity to collaborate through the social sector to create economic power for those who are otherwise marginalized. In Quebec the focus is on the social economy, not on economic development per se. It is important to advance development from a bottom-up perspective, through engaging unions, co-operatives, charitable, environmental and community economic development organizations, etc. She suggested that communities are well-positioned to participate in the expansion of wind energy and commented that a secondary market for investments needs to be established.

All three commentators on long term, strategic directions for social finance in Canada agreed that there is an opportunity for the social finance sector to scale up significantly and speedily. Arthur reiterated his strong view that that a key issue for getting social finance to scale is “is getting the social sector to collaborate, not so much the challenge of designing the instruments”.



Social Finance Example 3:

CI Notes

Over the past 10 years the Calvert Foundation's Community Investment Program has helped to create more than 100,000 jobs for low-income individuals, built or rehabilitated 6,000 affordable homes and financed close to 5,000 non-profit facilities, including daycare centers, community health clinics and charter schools. As of Dec. 2004, the Foundation had \$100 M in assets, of which \$79.2 M was attributable to their Community Investment Notes, the flagship fund of the program. The program achieves its goal by making below-market loans to community-based organizations. The assets of the CI Notes are placed as direct investment in community development financial organizations with missions that include low-income housing, economic development and business development in urban and rural communities. The funds are lent to the community groups at slightly below market rates.

Discussion on Long Term Strategic Directions for Social Finance in Canada

Participants provided their thoughts on key long term strategic directions for social finance in Canada. The following is a summary of the report backs from four discussion groups:

Capital Providers

- Standardize approaches to lending in the sector
- Develop a secondary market for social enterprises
- Deal with public perception of social enterprises (i.e. that they are not bankable, high risk, etc.)
- Bring together financial institutions and creative financial professionals, e.g. Vancity, Canadian Co-operative Association, The Co-operators, etc.
- Create a community equity asset class
- Identify and scale up sources of capital, e.g. pension funds and foundations
- Replicate the high net worth donor model of BC Technology Social Venture Partners (BCTSVP)
- Involve social sector in co-producing financial products/capital market
- Start with community portfolio first; securitize as second phase
- Should we focus on local (retail) capital-raising or institutional capital-raising?

Capital Users

- Deal with public perception of social enterprises
- Inventory market on demand side
- Develop assets and asset-building mindset
- Improve metrics on Social Return on Investment (SROI)
- Leverage core competencies of non-profit sector
- Support development of back office support services to non-profits
- Replicate mentor model of BCTSVP to help build capacity of social enterprises (<http://www.bctsvp.com>)

- Build capacity of sustainable purchasing organizations to purchase from social enterprises; aggregate demand through sustainable purchasing to make investments more bankable
- Involve social sector in co-producing financial products/capital market

Government Framework

- Tax law to recognize gains and losses
- Renew relationship/agenda with federal government

Collaboration Design

- Develop a collaborative table at provincial and federal levels
- Develop a decentralized national network that supports education, model development, knowledge transfer, investment platform, syndications, deal structuring, etc.
- Social finance model should support a diversity of approaches/different scenarios within an overall national framework
- Collectively analyze trends of emerging market opportunities; undertake collaborative market research to help identify enterprise potential that can be actioned at the local level

Day 2: Friday, October 20, 2006.

Tim Draimin reviewed the objectives of Day 2, which are to build upon the inventory and strategic directions identified the previous day and identify priority actions to advance social finance in Canada.

Opportunities and Barriers for Scaling up Social Finance

Coro Strandberg provided a summary of opportunities and barriers for social finance identified through the pre-session interviews with participants (included in Appendix A). The following comments were made in the following discussion period:

- Need to map out and conduct an inventory of existing financial instruments and tools in Canada, some of which is being undertaken by Human Resource Social Development Canada (HRSDC) as part of its work with the Community Finance Advisory Panel
- The Social Sciences and Humanities Research Council (SSHRC) social economy research program is a resource for this initiative
- There are cultural barriers between financial and social sectors, however the next generation of practitioners are not stuck in old traditions and this should facilitate progress

Actionable Ideas

Small Groups met to brainstorm “Actionable Ideas” to build upon the Long Term, Strategic Directions, Inventory and pre-session interviews within four goal areas, as follows:

- **Goal 1:** Access to social finance capital to scale up social sector is increased
- **Goal 2:** Social sector capacity for social financing is built
- **Goal 3:** An enabling policy and regulatory environment to scale up social finance exists
- **Goal 4:** Organizations and affinity groups are working together on a coordinated approach to scale up social finance



Within each of these goals participants were asked to identify potential initiatives to achieve the goals, then establish top 2 – 3 priorities and identify other partners and allies, resources needed and potential sources/means and next steps.

Goal 1: Access to social finance capital to scale up social sector is increased (Capital Providers)

The following key priorities were identified:

- Create instruments that are appealing to investors and users:
 - Important to design products that appeal to the investor (e.g. what are their motivating factors; need to price risk properly)
 - Identify the needs of the social sector in order to develop relevant products; the sector needs to be engaged in co-design
- Map out the Calvert Foundation model in the US to learn from their experience
- Map out current community investment sector and assess opportunities for a decentralized capital network; there are a number of organizations in this space, e.g.:
 - Vancity
 - Citizens Bank
 - Vartana
 - Community and private foundations
 - Enterprising Non-profits
 - Labour venture funds
 - High net worth donors
 - Private investment firms
 - Credit unions
 - Community loan funds
 - Canadian Community Investment Network Co-operative (CCINC)
 - Banks
 - Credential
 - Mutual funds
 - Ethical funds
 - Pension funds
 - Aboriginal capital
 - Labour funds
- Identify intermediaries for the creation of a social capital marketplace:
 - Establish a national institution to act as a social investment bank
 - Develop a social capital marketplace with the credit union system
 - Focus on developing a channel to generate smaller/complex deals

- o Recruit Vancity or a social investment management company to initiate the process, adding other functions and players to this platform as they are developed and/or recruited
- o Need to engage the banks in further development of the opportunity
- o Develop a platform that pools innovations
- Consider how to create a secondary market
- Don't focus on niche products
- Develop a platform that offers a diversity of products with different risk-return characteristics
- Develop social impact metrics

Arthur provided an example of an “Enhanced Social Investment Note” modeled after the Calvert Community Investment Note program, which would create opportunities for banking institutions to participate in social finance. Participants expressed an interest in more details on how this fund would work. See Appendix E for further information.

Goal 2: Social sector capacity for social financing is built (Capital Users)

The following opportunities were identified:

- Important for users to be involved in developing capital instruments
- Need to map out the technical assistance providers/capacity builders in this space, e.g.:
 - o Foundations
 - o Social Purchasing Portal
 - o Canadian Community Economic Development Network (CCEDNet)
 - o Enterprising Non-profits
 - o Community Foundations
 - o Vancity
 - o Canadian Community Investment Network Co-operative (CCINC)
 - o Community Loan Funds
 - o Social Capital Partners
 - o Social Venture Partners
- Have conversation with national credit union system about their possible role, e.g. start with credit unions oriented to community investment and work with them to design products, establish a delivery system and provide technical assistance
- Need to identify the markets for community investment. What are the opportunities and the capital gaps in a range of sectors, e.g. social and affordable housing, childcare, social enterprise, aboriginal enterprise, pharmacare, home care, health services sector, renewable energy
- Need to support the capacity of the social sector including financial literacy, business skills, etc.
 - o Peer learning
 - o Workshops, courses
 - o Tele-learning, distance learning, webinars, etc.



- o Guidebooks
- o Need to train users in how to structure deals
- Opportunity exists to promote social purchasing in the supply chain to create demand for social enterprises e.g.: Social Purchasing Portal, Sustainability Purchasing Network
- Work nationally by clustering regional innovations and scale from there
- Can an organization be developed to provide back office services to social sector, to free up their time and capital for social innovation (e.g. United Community Services Co-op, credit union central model)

Goal 3: An enabling policy and regulatory environment to scale up social finance exists (Public Policy)

- Need to develop a strategic communications plan with the following possible elements:
 - o Articulation of an enabling policy with a clear message, common vision, shared values, and strategic focus. (Need to confront the challenge of focus, e.g. move forward on many fronts within a broad framework, or focus on certain niches such as housing or childcare)
 - o Develop a “touchstone” book or an article that outlines a high level blueprint that shows the roles and outcomes of a comprehensive approach; longer framing document that includes facts, narrative (story) and a community investment brand
 - o Op ed articles
 - o Identify opinion leaders to promote the opportunity; identify community stakeholders who see benefit of policy and engage them in effort
 - o Consider an independent champion or link to academic resources, research institute or think tank (e.g. Policy Institute)
 - o Build a cadre of champions
- Political outreach: develop a non-partisan program to be advanced through the political arena. As political parties are developing their platforms there is an opportunity to build pre-electoral alliances within all parties in order to seed a social finance agenda
- Document the impacts of recent cuts and illustrate a role for social finance (note there are pros and cons to building off the impacts of recent cuts)
- Need to advocate all levels within government, including policy development, program delivery and politicians
- Start at the community level – make it a citizens movement first and work up to provincial and federal levels; engage cross-sectorally; build upon current regional success; focus on the provincial window
- Use social marketing expertise to help sector act like a movement
- The sector needs to speak with one voice; who represents the sector?
- Don’t position the issue as a grant/contribution issue, but a finance and investment issue. This is not about entitlement, but about technique; it is not a solution to everything but for some things and requires technical support
- Synchronize with the voluntary sector’s communication strategy

- Focus a communications strategy by identifying a series of social and environmental challenges where adaptation of traditional capital tools will work; show how we need a policy response to help adapt capital tools for solving social and environmental problems. Recognize that there will always be social needs that can't be met through a social finance agenda

Goal 4: Organizations and affinity groups are working together on a coordinated approach to scale up social finance (Collaboration)

The group identified the following principles of collaboration:

- Need for a common strategic focus
- Build trust
- Develop convening and coordinating role
- Not bricks and mortar
- Informing shared values
- Inclusive and welcoming
- Action-oriented
- Accountable

They noted that collaboration requires strong leadership to successfully advance the effort and to this end proposed a convening body to take action on social finance opportunities. Five spheres of activity or functions were outlined:

1. Alliance/movement building. Need to develop key messages to mobilize the sector; requires critical analysis and a public relations effort
2. Public policy agenda. See above for possible roles
3. Knowledge sharing and critical learning, for example trend watch, critical analysis, shared learning, academy strategy, replicable models, data collection
4. Scaling capital users and providers. Focus on replicable models, products and instruments that generate impact and scale and are durable
5. Leadership and capacity building. Involve youth, new Canadians, other sectors. Promote awareness within the social sector. Have a succession planning and mentoring program for leaders

Other partners to assist with the effort could include:

- Traditional financial services sector, including banks and insurance companies
- Canadian Community Investment Network Co-operative (CCINC)
- Venture capital sector
- Social networking technical expertise
- Academics
- Policy shops of the political parties



Resources could be generated through:

- Community, public and private foundations
- Vancity, Citizens Bank
- Vartana
- Ashoka
- Tides Canada Foundation (back office)
- Muttart Foundation (role to help modify/shift public policy)

Participants provided the following comments on the collaborative model:

- Need to maintain a balance between strong leadership and distributed collaboration
- Some skepticism exists about yet another engagement effort
- We need to move this issue from the edge of our desks to middle of our desks: how do we make this more central to each of our opportunities?
- Is the sector positioned to come together to achieve economies of scale; are we as a community prepared to collaborate?
- Need to engage the Atlantic community
- We have to recognize that geographic and diversity challenges in Canada are barriers to collaborating
- Strive for ethnic diversity; ethnic groups can model best practices in this sector

Social Finance Example 4:

Shared Growth Term Deposits

Vancity Credit Union offers Shared Growth Term Deposits and Shared World Term Deposits to investor-savers wishing to earn a competitive rate of return while advancing community development in BC and abroad. The Shared Growth fund, at \$4.7 M (2005), loans to projects reducing greenhouse gas emissions, environmental businesses, and non-profits and co-operatives buying their own buildings and creating their own businesses. Shared World (\$2.08 M 2005) finances loans for affordable housing, micro- and small-business development, alternative trade initiative such as fair trade coffee, and independent media development in new democracies.

Next Steps: Moving the Agenda Forward

Participants agreed with the proposal from the Collaboration Working Group to continue the efforts of the planning committee and broaden its mandate to advance the outcomes of this session. Participants were asked to indicate if they wished to join the planning committee. It was agreed that the initiative should continue under Tides Canada Foundation's administrative leadership. It is recognized that staff support is required to move this agenda forward.

Participants commented there is a critical need to develop a public policy agenda and to scope out a role for an intermediary/s in this space, possibly a virtual brokerage function to manage targeted sectoral strategies to raise capital.

Participants are interested in meeting again, but would prefer to do so to consider concrete, specific action plans and proposals to move social finance forward, for example identify 5 – 10 leading ideas that need investment and strategize on how to fill these capital gaps.

Tim Draimin thanked participants on behalf of the planning committee and advised the notes would be distributed along with a recommended follow-up plan of action that builds upon the strategy session.



Appendix A: Summary of Participant Interviews on Key Challenges and Opportunities to Advance Social Finance in Canada

Available from Tides Canada Foundation: info@tidescanada.com.

Appendix B: List of Participants

- Al Etmanski
- Alan Broadbent
- Andres Dussan
- Arthur Wood
- Bill Young
- Carol Hunter
- Coro Strandberg
- David LePage
- Derek Gent
- Dave Mowat
- Edward Jackson
- George Scott
- Johanne Mennie
- Kathleen Speakman
- Laird Hunter
- Nancy Neamtan
- Priscilla Boucher
- Rupert Downing
- Scott Hughes
- Tim Brodhead
- Tim Draimin

Appendix C: Inventory

Participants were asked to share top 3 highlights of initiatives their organizations have underway or in development to support the social sector through social financing programs, focusing on opportunities that could get to scale through collaboration. These were organized into four topic areas: 1) capital provision; 2) sectoral leadership and capacity-building; 3) policy and regulatory environment; and 4) networking and collaboration with other provincial or national groups.

1) Capital Provision

1. Debt/equity finance model for high net worth individuals and foundations
2. RBC partnership
3. Financing model for triple-bottom-line franchise
4. Social investment management company
5. CCA designing credit union / co-op finance model
6. Lending to social enterprises
7. Inner city / affordable housing fund in Winnipeg
8. Suite of tailored services through Community Financial Services Centre pilot in Winnipeg that could be replicated
9. Design of a community investment fund model and engagement of pension funds as potential investors
10. Investment fund in Montreal with government and private sector financing
11. Secondary market for social investments in Quebec
12. Raised \$6M from technology sector into BCTSVP. Grants go to social enterprises. This model is replicable to other sectors. Provide capacity building support / mentorship
13. Enterprising Non-profit program – expanding into rural communities and working with credit unions
14. Registered Disabilities Savings Plan
15. Inner City Credit Union branch – Pigeon Park Savings in Vancouver
16. Spring-board mortgage product. 100% financing to single mothers for home ownership
17. Vancity grants to create credit enhancements, including repayable financing
18. R&D on green venture opportunities at Vancity
19. Local and international development micro-finance products at Vancity, roughly \$5.5m
20. “Challenge Program-Related Investments” at Muttart Foundation
21. Co-op housing risk underwriting funds
22. Housing co-ops are positioned for recapitalization – developing tools to refinance housing co-op mortgages
23. Maytree Foundation small loan program (\$3,000) for immigrant credentialing through credit union

24. Investors' Circle
25. Clean Tech Venture Network
26. Tides Canada Foundation's research on community investment product
27. Tides Canada Foundation's capital pool with a charitable component
28. Research into pension fund targeted investing
29. Affordable housing fund with union pension funds
30. McConnell Foundation looking at PRIs
31. Development of a community investment vehicle for pension fund investments (ETIs)
32. Outreach to foundations and mission-based organizations on socially responsible investment
33. Development of a sustainable purchasing knowledge network to help organizations build capacity in social and environmental purchasing; hoped this will create demand for social enterprise

2) Sectoral Leadership and Capacity Building

1. Grocery store "Fresh Start Markets" brand
2. Social enterprise franchise model
3. Building capacity of sector through CCEDNet to use capital more effectively and intensively, e.g. of project: Impact measurement of social & economic development of community economic development (CED)
4. Social enterprise impact assessment tool to be developed
5. National survey of social enterprises / cooperatives through the federal government
6. Social Purchasing Portal RFP from federal government
7. Financial fitness workshops for non-profits provided by federal government
8. Aboriginal communities and non-profits owning real estate
9. Financial literacy course for non-profits at Vancity
10. CEDTAP grants to build capacity in CED and social economy sector
11. Canadian Community Investment Network

3) Policy and Regulatory Environment

1. CCA lobby for social enterprise with CCEDNet and others
2. Project to determine how provincial jurisdictions can create a better enabling environment
3. Community Finance Advisory Committee looking at legislation and tax incentives
4. Registered Disabilities Savings Plan proposal

4) Collaboration

1. Co-op development strategy to engage co-ops and credit unions
2. BCTSVP, Vancity Community Foundation and Vancouver Foundation created a social enterprise fund
3. Role of venture capital corporations and entrepreneurs to create new vehicles

4. 2nd Canadian conference on social enterprise
5. Investors Forum will be held at conference
6. Collaborative tool development – social enterprise impact tool to be developed
7. Awareness stream to promote value of social enterprise and cooperative model – collaboration within federal government
8. CCRA dialogue on charities
9. 30 groups on Community Finance Advisory Committee – access to capital is focus of committee
10. Ashoka fellowship program – identify and link fellows to scale up innovation
11. Ashoka engaging banks and cooperative sector to redesign distribution models as a turnkey effort
12. Ashoka engaging academics and government change makers
13. McConnell supporting knowledge and research
14. Network of credit unions and co-operatives to scale up community investment

Appendix D: Author Wood PowerPoint Presentation

Available from Tides Canada Foundation: info@tidescanada.com.

Appendix E: Author Enhanced Social Investment Notes Proposal

Enhanced Social Investment Notes

October 23rd, 2006 – Arthur Wood – Ashoka – awood@ashoka.org

Enhanced Social Investing Note (ESIN)

—based on enhancing the Calvert Community Investment Notes

<http://www.calvertfoundation.org/individual/investment/investmentnotes-cci.html>

Phase 1 (as is already in existence)

1. An income fund to invest in social causes is created with a range of sub par returns
2. This is then invested in social causes which have been “due diligenced” by the banking institution
3. Bank takes its margin (as currently structured: 170 bps) for due diligence and costs out of the turn on the income (Retail / Institutional return on investment)

4. A subordinated debt fund is created as a loss reserve – by donations by key not for profit funders – benefit for them is that they are leveraging the donation dollar – worst case dollar for dollar is a negative 20% IRR (vs. -100% for a one off investment)

Phase 2

1. Ashoka / Other organisations bring a range of Social Entrepreneurs to the table.
2. These are already “due diligenced” to a great extent by the Ashoka process, thus reducing costs to the bank – seeding success for an open model
3. These are then viewed in the same way as a Venture capital fund – three will fly, two will die and three will stay the same – the risk return profile is completely altered – no specific individual risk
4. Risk reduced and relative return increased
5. Achieves funding for the smaller players where one off due diligence would not make it economic to support

Phase 3 (To be developed)

1. Select investments from the Changemakers process – this should be an Open model (<http://www.changemakers.net>) around the topic to be addressed
2. Agree metric of success per project
3. Creation of a third class of philanthropic investor (ideally through Donor Advisor funds by the tax system – as in the US) – who will be asked to pay out only if the project is successful based on the above metric / parameters
4. This creates within the system a potential equity return to the other first tier capital providers – so creating through this cash flow a positive return for a social project which otherwise would never generate a return
5. This cash flow is also structured to ensure the players are motivated to work synergistically
6. Creates a further dynamic to efficiency and pressure for the project to succeed from what are now quasi investors

In essence this model creates three different capital providers

A – The original income providers (low risk income return looking to support social investment) with capital guaranteed

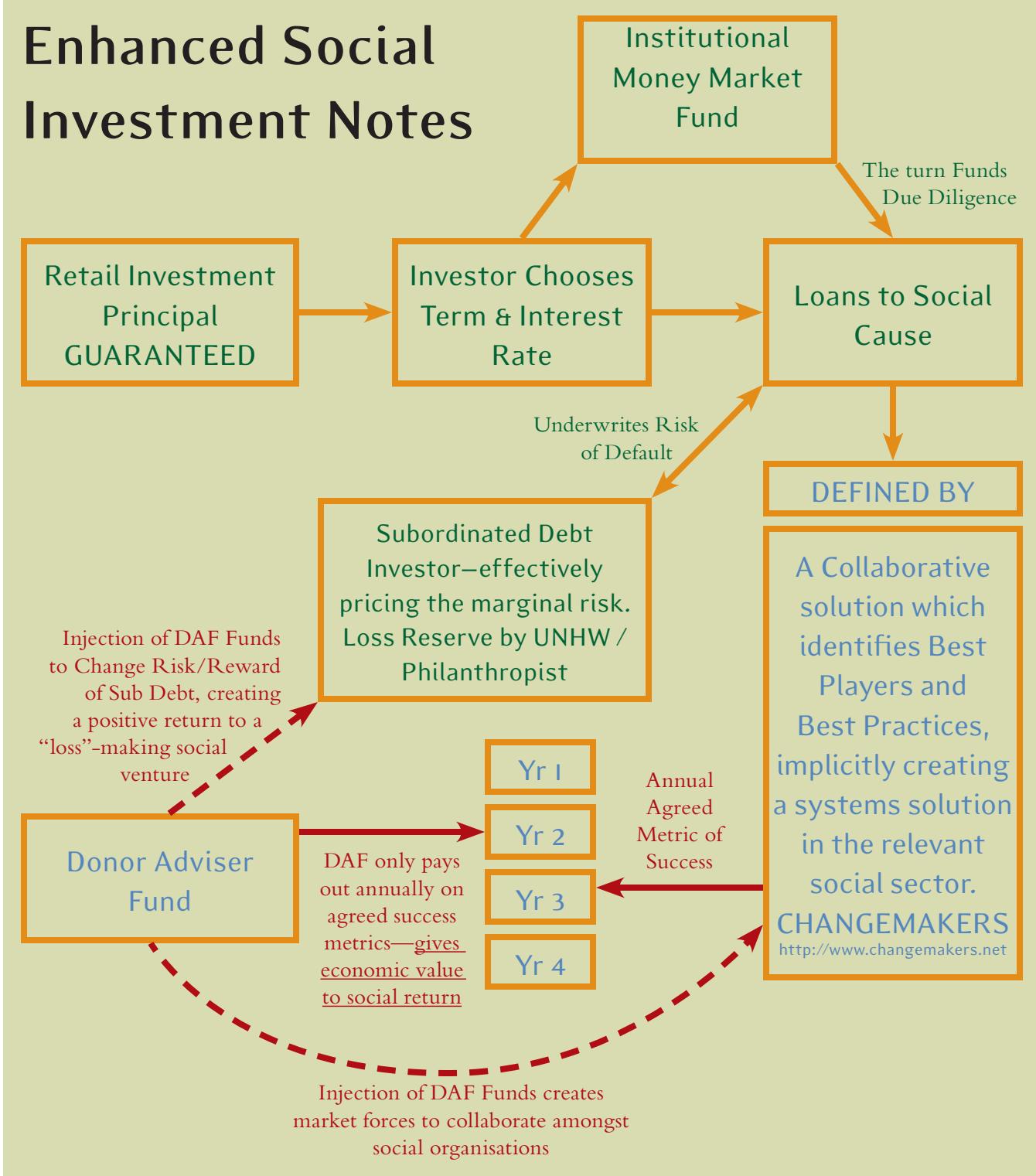
B – The individuals providing subordinated debt (They are managing now the diversified risk profile as opposed to managing the return of an individual investment – much greater leverage for each additional dollar investment)

C – A class of Philanthropic investor that is only asked to pay out (tax efficiently) on the basis something is successful (This injection of equity incentivizes all the players to participate and work synergistically)

(Both A and B Investors already exist today and that part of the model is proven)

This model, now that we have created profitable risk and return, by defining an economic return for a social project will in turn create a whole class of products and allow the whole range of capital market products to be deployed – such as Structured Product, Liquid Yield Option Notes, Warrants, Rights, etc.

Enhanced Social Investment Notes



An Example of Changemakers

PRINCIPLES EMERGING FROM INNOVATIVE SOLUTIONS	Cultural taboos and health illiteracy	High cost of providing quality health products and services	Limited reach of healthcare infrastructure
Adopt market-based models as a scaling-up strategy	<u>Foster demand for healthcare</u> PSI, Global	<u>Change the logic of your distribution model</u> Srinivasan, Locost, India*	<u>Establish micro-franchise model</u> SHEF, Kenya
Design inclusive systems	<u>Run effective prevention campaigns through cross-sector partnerships</u> BASICS and EHP, USAID, Guatemala <u>Address poverty-health vicious circle</u> Vera Cordeiro, Renascer, Brazil*	<u>Put customers first</u> Rebeca Villalobos, ASEMBIS, Costa Rica*	<u>Provide health-related consumer products</u> Unilever, Ghana
Leverage abundant resources at the community level	<u>Piggyback on established local practices</u> Fidela Ebuk, Nigeria* <u>Use peer networks for behaviour change</u> Linzi Smith, South Africa*	<u>Introduce disruptive competition</u> David Green, Project Impact, Global* <u>“System-wide” cost savings through preventative care</u> Jeff Palmer, Coordinated Care Network, US	<u>Co-create indigenous programs</u> Abhayand Rani Bang, SEARCH, India*
Introduce novel uses of technologies	<u>Establish multi-service Internet kiosks</u> Satayan Mishra, Drishtee, India*	<u>Build economies of scale</u> Aravind Hospital, India <u>Community-Based Health Financing</u> Mutual Health Organization, Sub-Saharan Africa	<u>Barefoot doctors</u> Fazle Abed, BRAC, Bangladesh* <u>Self-reliant primary health care</u> FRLHT, India

*Ashoka Fellows and Global Academy Members

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