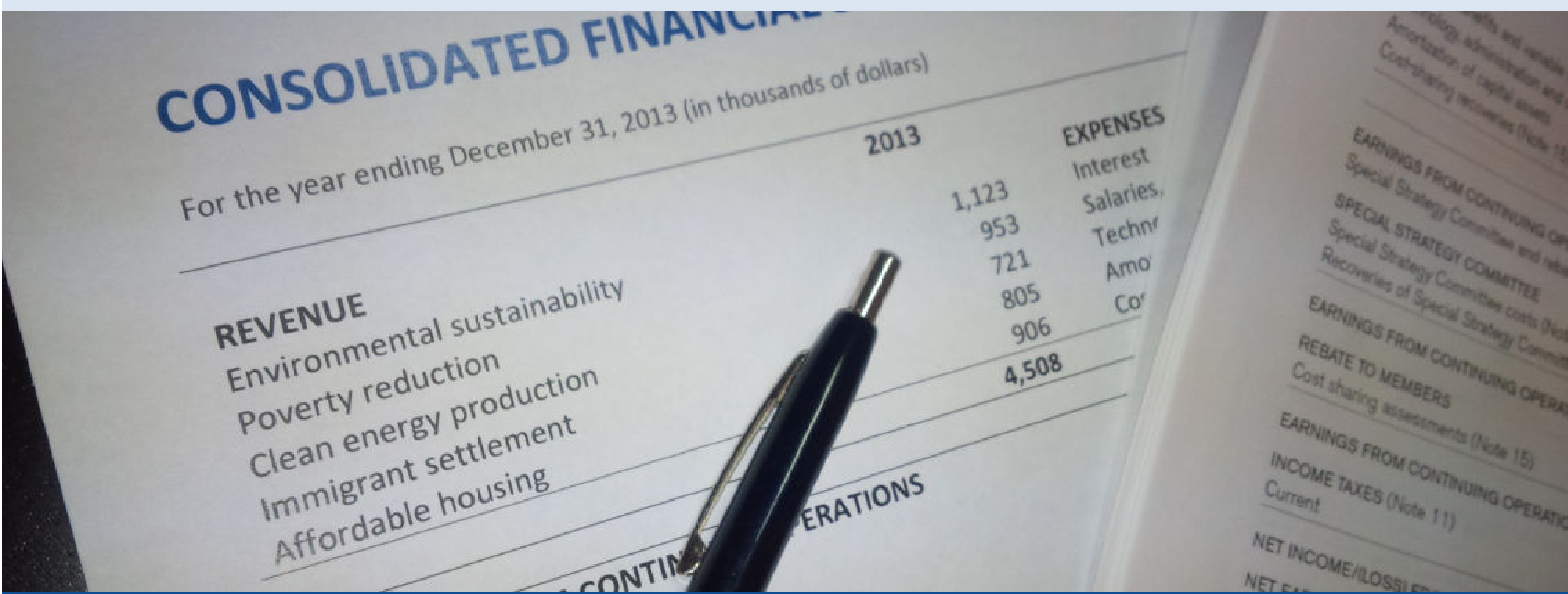
credit union

SYSTEMBRIEF

Social finance and credit unions

Differentiating by making a difference



Credit Union Central of Canada

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about the author

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Born in Ottawa, Dominique Biron-Bordeleau has been a policy analyst for financial co-operatives in Canadian Central's Ottawa policy team since July 2012. Her work focuses on government relations, social finance and credit union social responsibility.

Dominique's passion for politics led her to be an intern for the Parliamentary Internship Program in 2011-2012. This non-partisan program gives ten young Canadians from across the country an opportunity to work closely with Members of Parliament on both sides of the House of Commons, while, at the same time, to study the Canadian parliament as well as other legislatures in Canada and abroad.

While living in Montreal, Dominique interned for Radio-Canada's consumer affairs program *La Facture*.

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contents

introduction

Offering a loan to help a non-profit day care in a low-income community expand its services; helping members make socially responsible investments; providing preferential rates for the purchase of fuel efficient cars; contributing to a community capital fund for environmental businesses. These are all examples of social finance.

They are also examples of how Canadian credit unions are contributing to social finance – an emergent category of finance that marries the aims of philanthropy with the mechanics of conventional financing. Put simply, social finance is an approach to managing money that delivers both positive social and/or environmental benefits as well as a financial return.[1]

Together, credit unions are among the dominant players in social finance in Canada, with some $1.35 billion in impact investment assets.[2] This is perhaps unsurprising as credit unions are themselves an early model of social finance. Indeed, their origins in Canada in Alphonse Desjardins' caisse populaire de Lévis and the Antigonish Movement in the Maritimes gave working people access to financial resources that were not available to them through the banks. By pooling their own limited resources, these individuals, as members of the credit union, could access loans to buy farming equipment or to start a small business.

For the past few years, social finance has been growing and gaining momentum. In the space of a year from 2010 to 2011, socially responsible investment assets grew 16 per cent to just over $600 billion.[3] As social finance gains in popularity, there are new opportunities for credit unions to continue leading and innovating in this space and maintain their commitment to the seventh co-operative principle[4]: working for the sustainable development of their communities.

The purpose of this System Brief is to show credit unions the opportunities within social finance to develop strategies to grow their business and to further enhance their competitive advantage in the financial services market place. First, we define social finance and explain why it matters. We then examine why social finance is gaining momentum and look at the major players in the field. The System Brief concludes by describing some of the new opportunities for credit unions in social finance, specifically, expanding offerings in this emerging sector and measuring their impact. By doing so, it can help credit unions to further distinguish themselves in their markets and communities.

[1] MaRS Centre for Impact Investing, "Your Guide to Social Finance", 2010, http://socialfinance.ca/guide/what-is-social-finance/quick-overview. (accessed : 16 August 2013).
[2] The Social Investment Organization, "Canadian Socially Responsible Investment: Review 2012," 2013, http://www.socialinvestment.ca/wp-content/uploads/CSRIR-2012-English.pdf. (accessed August 26, 2013): 21.
[3] *Ibid*., 4.
[4] The co-operative principles are guidelines by which co-operatives put their values into practise. The seventh guideline focuses on building strong communities.

section 1

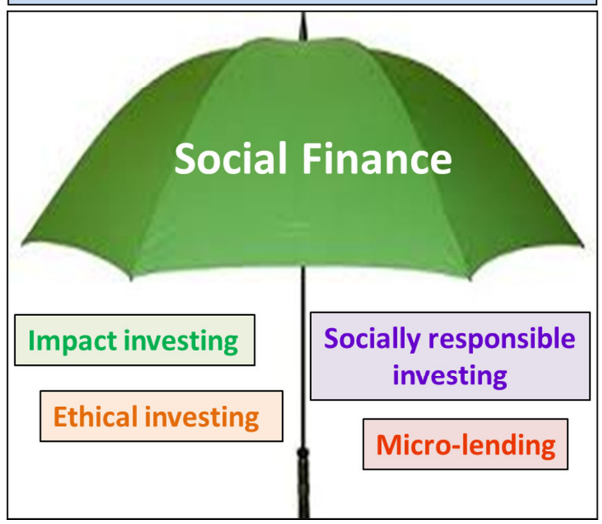
what is social finance and why does it matter?

What is social finance?

Previously an exclusive interest for niche investors, academics, social policy researchers, and a few pioneering institutions – including credit unions – social finance has today entered the vernacular of governments and financial institutions. But are we all talking about the same thing? What is social finance?

In Canada, where the concept is only a few decades old, social finance faces definitional and awareness challenges. Not everyone agrees on what social finance refers to. A 2012 report prepared for the federal government identified this challenge and found that "[while] there is a low level of awareness around social finance across the financial sector…there is a higher level of awareness of associated terms such as socially responsible investing or corporate social responsibility."[5]

Terms associated with social finance



These terminology and awareness challenges were evident during the course of our research. One associated term often used interchangeably with social finance is impact investing. In a report commissioned by the Mental Health Commission of Canada, the authors suggest that social finance and impact investing are one and the same.[6] Yet, another leading source, the guidebook at SocialFinance.ca, defines the two terms as distinct concepts.[7] So there remains a lack of clarity about whether or not social finance and impact investing can be used synonymously.

However, for the purpose of this System Brief, we borrow from the definition used by the Toronto-based MaRS Centre for Impact Investing: social finance should be understood as an approach to managing money that delivers both positive social and/or environmental benefits as well as a financial return. As such, it is an umbrella term for associated concepts like impact investing, socially responsible investing (i.e. ethical investing) and micro-lending.[8] These concepts are mechanisms through which the principles of social finance can be applied.

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[5] Karim Harji et *al*., "*Redefining returns: Social Finance Awareness and Opportunities in the Canadian Financial Sector,"* June 2012, http://purposecap.com/wp-content/uploads/Redefining-Returns.pdf. (accessed August 26, 2013): 5.
[6] Hadley Nelles and Adam Spence, "Blended Financing for Impact: The Opportunity for Social Finance in Supportive Housing," March 2013, http://www.hscorp.ca/wp-content/uploads/2013/03/Paper_BlendedFinancingforImpact_Final.pdf. (accessed August 26, 2013): 17, in MaRS Centre for Impact Investing. (2011).
[7] MaRS Centre for Impact Investing, (2010).
[8] *Ibid*.

MaRS has defined these three concepts as follows:[9]

- **Socially Responsible Investing (SRI) (i.e. ethical investing):** "Socially responsible investing (SRI) is the inclusion of environmental, social and governance considerations into the management and selection of investments" (Source: Social Investment Organization).
- **Impact Investing:** "Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return." (Source: GIIN).
- **Micro-lending:** "Micro-[lending] refers to loans under $25 000 made to entrepreneurs who typically cannot access traditional forms of commercial financing for their businesses. These loans are generally paired with business training and technical assistance."[10] (Source: Coro Stranberg from socialfinance.ca).

What does social finance mean for credit unions?

The social finance approach can be applied to credit unions' activities and product offerings to generate a positive social and/or environmental impact as well as a financial return for the institution and their members. Credit unions can be engaged in social finance both directly and indirectly.

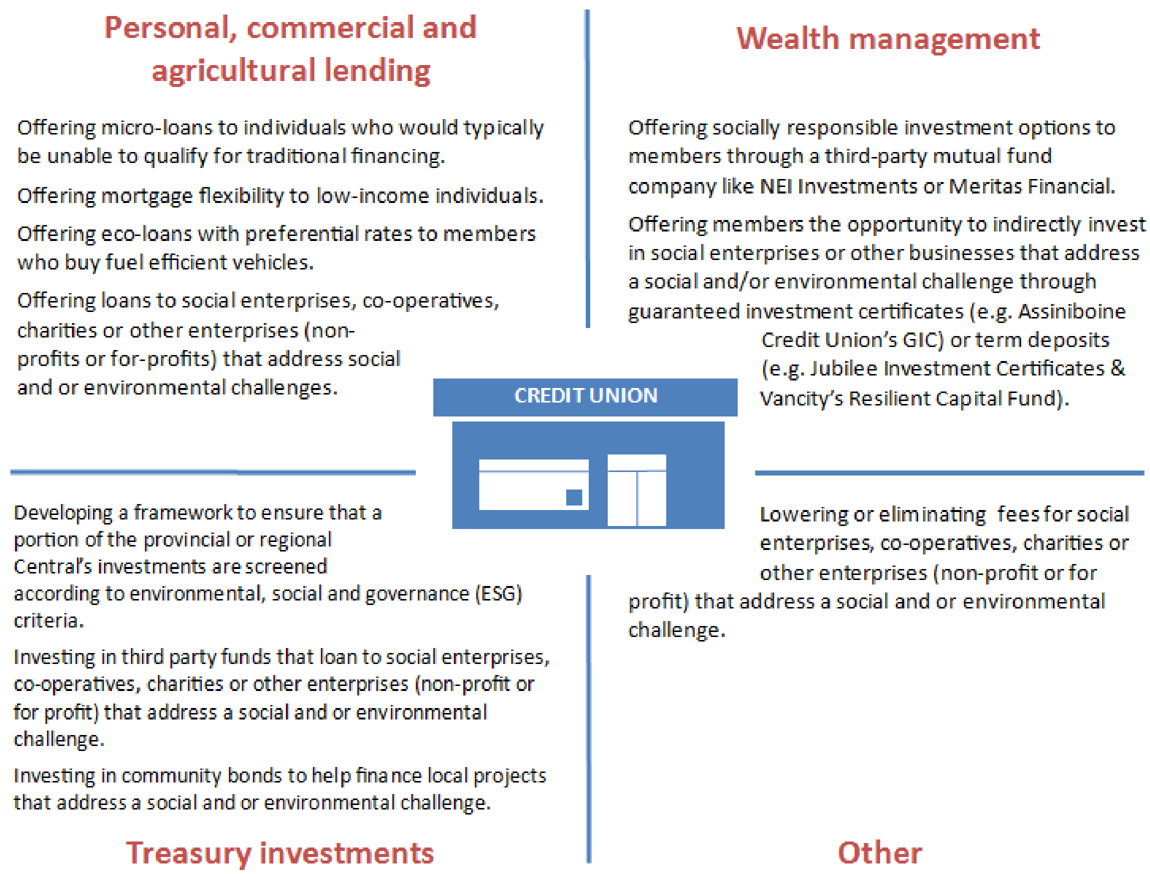
Many credit unions practice social finance directly by offering their own products that are aligned to social or environmental outcomes, like "eco-loans", preferential rates on loans to entice members to, for instance, purchase a low-emissions vehicle or a high-efficiency home appliance. Another direct form of social finance is granting a loan to for-profit businesses, co-operatives, charities, or non-profits whose activities have a social and/or environmental purpose. Credit unions also practice social finance indirectly by offering socially responsible investment products to members through other partners, such as NEI Investments.

Both ways of practicing social finance, whether direct or indirect, allow credit unions to tap into new business opportunities and distinguish themselves from their competitors in their markets.

Figure 1 illustrates some of the ways that credit unions can directly and indirectly apply, or continue applying, the social finance approach to their various business activities.

[9] *Ibid*.
[10] Within the credit union system, there are examples of loans of up to $50,000 made to individuals and businesses. For example, through its micro finance program, Saskatchewan-based Affinity Credit Union offers loans of up to $50,000 to individuals and/or businesses that have a solid business plan to start up or expand their businesses within the province.

Figure 1 **Examples of social finance business lines for credit unions**



Why does social finance matter?

Experts wisely caution that social finance is not a panacea to solve the world's ills nor should it be used as a justification for governments to withdraw from developing public policy to address pressing problems.[11] What social finance offers is the potential to foster market-based solutions to social and environmental challenges, using methods other than grants.[12] Indeed, it is a way to "unlock capital and place it in businesses and projects that address issues like affordable housing, clean water, greater access to education and other pressing problems."[13] As such, social finance is motivated by benefits for the investor, in addition to benefits to the broader society. It is this concept of blended returns that distinguishes social finance from traditional finance and makes it most attractive.

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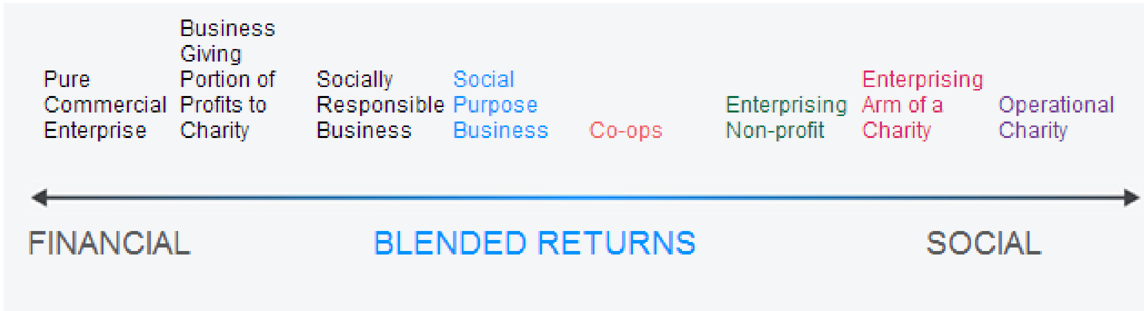
[11] E.T. Jackson and Associates Ltd., "Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry," July 2012, http://www.rockefellerfoundation.org/blog/accelerating-impact-achievements. (accessed August 26, 2013): 48.
[12] Trish Nixon, "Mission possible? Assessing the appetite, activity and barriers for impact investing among Canadian Foundations" (paper presented at the 2013 annual Canadian Responsible Investment Conference, Vancouver, British Columbia, June 17-19, 2013): 5.
[13] E.T. Jackson and Associates Ltd., (2010): 4.

Figure 2 **Social finance: The blended returns spectrum**
(Source: MaRS Centre for Impact Investing)



In addition to bringing benefits to the broader society, social finance represents a way for credit unions to distinguish themselves in their respective markets. Since the 2008 financial crisis, the terms of competition in domestic financial services have changed. Financial institutions are under increasing scrutiny to show the social good side that banking can achieve.[14] As a result, firms are competing less over prices of similar products and services, and more over innovation, quality and service, which are tied up to social finance.

A 2012 study commissioned by the Global Alliance for Banking on Values also showed that financial institutions that base their decisions for the greater good, individuals and society as opposed to the maximization of profits are outperforming their competitors in areas such as return on assets, growth in loans and deposits, and capital strength.[15] Hence, by making social finance a core part of their business model, credit unions will not only continue to fulfill their mission of servicing members and their communities but will also have a distinguishing advantage over competitors.

[14] John Canady, "HBR, How Banks Should Finance the Social Sector," January 13, 2013, http://blogs.hbr.org/2013/01/how-banks-should-finance-the-s/. (accessed September 9, 2013).
[15] The Global Alliance on Banking on Values Press Release, "Report shows sustainable banks outperform world's largest banks," March 8, 2012, http://www.gabv.org/our-news/report-shows-sustainable-banks-outperform-worlds-largest-banks. (accessed September 9, 2013).

section 2

what accounts for the momentum in social finance?

In the last few years, social finance assets have grown and the number of players involved has expanded. A recent report by the Social Investment Organization (SIO) shows that between 2010 and 2011, socially responsible investment (SRI) assets grew 16 per cent to just over $600 billion.[16] The research found that the bulk of SRI assets in Canada are attributable to large pension fund investments at $532.7 billion - representing 89 per cent of the total.[17] Impact investment assets also represent an important part of those investments. In fact, impact investment assets grew 20 per cent in Canada since 2010, with some $5.3 billion in total assets in 2011.[18]

Many attribute the growth in social finance to the 2008 financial crisis, which exposed the limitations of traditional finance and created demand for solutions to pressing social problems.[19] Indeed, the financial crisis has provided motivation to include environmental, social and governance (ESG) considerations into investment decisions as opposed to seeing these considerations as potential risks to be mitigated, or as irrelevant considerations for investors (i.e. what economists refer to as externalities). Market performance also shows that integrating ESG factors in investment decisions can offer equal and often market-beating rates of return to traditional investment.[20]

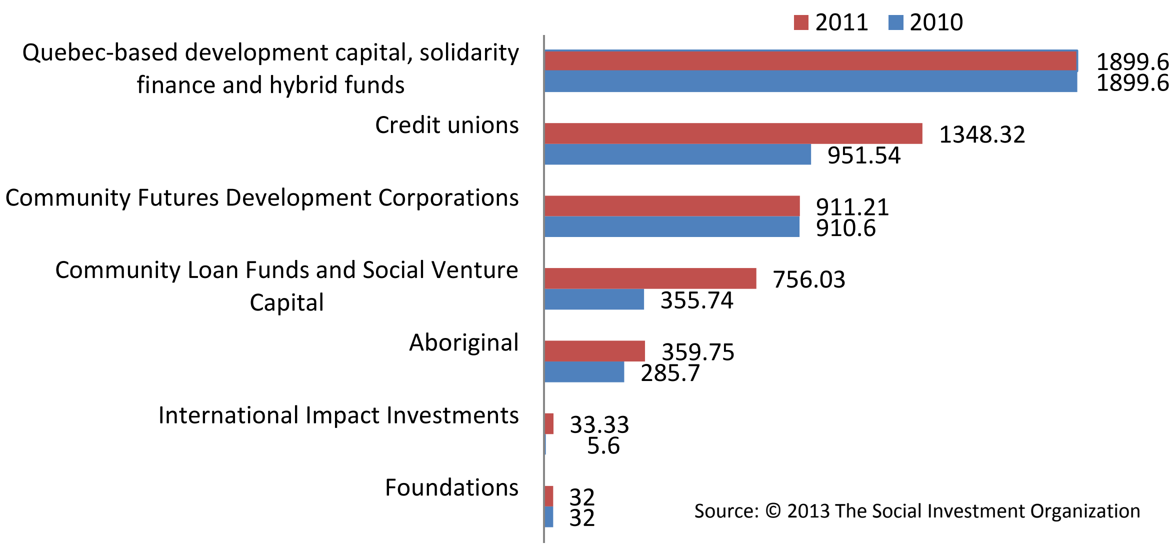
As mentioned earlier, credit unions are among the leading investors in social finance and this commitment has been growing. The most recent study showed that second only to Quebec-based development capital, solidarity finance and hybrid funds,[21] credit unions collectively represent the largest category of impact investment assets, with some $1.35 billion in the sector in 2011.[22] This number represents a 42.7 per cent increase from 2010. As the table below shows, among the other players responsible for the growth in social finance are foundations, pension funds, retail investors, high-net-worth individuals and families.[23]

Another important player whose impact investment assets are not fully represented in figure 3 is the Desjardins Group – Canada's largest financial co-operative representing more than 300 caisses populaires in Quebec as well as in Ontario, Manitoba and New Brunswick. As of December 31, 2012, Desjardins' Caisse d'économie solidiaire - which invests in socially engaged enterprises - invested $488 million in co-operatives and non-profits associations. Further, Dévelopment International Desjardins - a pioneer in the

[16] The Social Investment Organization, (2013): 6.
[17] *Ibid*., 6, 9.
[18] *Ibid*., 6.
[19] E.T. Jackson and Associates Ltd., (2012): 5.
[20] Trish Nixon, (2013): 5.
[21] The SIO report notes that there is no reported growth for the Quebec-based funds and foundation assets categories for 2011 as they were not available for the 2012 review.
[22] The Social Investment Organization, (2013): 21.
[23] E.T. Jackson and Associates Ltd., (2012): 9.

deployment and development of microfinance around the world – invested $25 million in various microfinance projects as of June 2013.[24]

Figure 3 **Impact investment assets in Canada (in millions)**



Recently, others have been showing increased interest. In January 2012, the Royal Bank of Canada (RBC) announced a $20 million commitment to social finance, consisting of a new $10 million RBC Impact Fund and a $10 million investment from the RBC Foundation into socially responsible investment (SRI) funds.[25]

Enthusiasm for RBC's announcement stems from the potential it has to trigger similar investments from other large institutions in Canada's business community. TD Canada Trust, for example, recently partnered with Purpose Capital and the MaRS Centre for Impact Investing – two leaders in social finance - on a white paper, which explores the impact investing sector, products, and actors in North America.[26] The attention afforded to social finance by these institutions has caused some to argue that this represents a significant seismic shift which can take "impact investing from an interesting cocktail conversation to the top of the business agenda in the main boardroom of RBC Centre."[27]

Not only are major financial institutions showing interest in social finance, but the federal government is as well. In October 2013, the federal government announced in the Throne

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[24] The Desjardins impact investing numbers included in this paragraph were provided directly to Canadian Central from the Desjardins Group.

[25] Royal Bank of Canada press release, "RBC announces $20 Million in Commitments to New Social and Environmental Initiative," January 24, 2012, http://www.rbc.com/newsroom/2012/0124-social-finance.html. (accessed August 26, 2013).

[26] Purpose Capital, ""Impact Investing White Paper for TD Bank Group," http://purposecap.com/project/impact-investing-white-paper-for-td-bank-group/. (accessed August 26, 2013).

[27] Adam Spence, "Today, Impact Investing Goes Mainstream in Canada," SocialFinance.ca Blog, January 24, 2012, http://socialfinance.ca/blog/post/today-impact-investing-goes-mainstream-in-canada. (accessed August 26, 2013).

Speech that it intends on acting on the opportunities presented by social finance and the successful National Call for Concepts for Social Finance launched by the former minister for Human Resources Skills Development Canada (HRSDC),[28] Diane Finley, in November 2012. The call asked Canadians to offer ideas on how the federal government could support social finance and new instruments. In May 2013, HRSDC released its report, “Harnessing the Power of Social Finance”, containing the findings of the national call for concepts, which received more than 150 proposals. Specifically, the final report highlighted 15 concepts, including social investment funds - citing Desjardins’ micro-credit programs as a model - and social impact bonds.[29]

[28] In the summer 2013, the federal government changed the name of Human Resources and Skills Development Canada (HRSDC) to Employment and Social Development Canada (ESDC).
[29] Human Resources and Skills Development Canada, “Harnessing the Power of Social Finance”, May 2013, http://www.hrsdc.gc.ca/eng/consultations/social_finance/report/index.shtml. (accessed November 30, 2013).

section 3

what's next? opportunities for credit unions in social finance

As evidenced by their $1.35 billion in impact investment assets,[30] credit unions are among the leaders in social finance. A number of factors help to explain this. To begin with, credit unions have strong relationships with community organizations and agencies which can be key players in identifying the need for, and contributing to the success of, social finance initiatives as partners. Several credit unions are also driven by their own mission or vision statements to deliver triple-bottom line performance – the identical wheelhouse that compels social finance.

As new players begin to develop their social finance strategies, credit unions should continue to define their social finance programs and reaffirm their commitment to make social finance a core part of their business model in order to enhance their competitive advantage in this sector. While applying the principles of social finance to the products they offer, it is also important for credit unions to use metrics that can help tell the story of how they are mobilizing capital to achieve social and/or environmental impact.

By drawing on examples of credit unions that are contributing to social finance, the first part of this section will highlight how they can directly or indirectly expand their social finance offerings to continue leading and innovating in the field. The second part of this section will highlight tools and certification models so credit unions can measure the positive impact they and their members are generating as a result of incorporating social finance principles into their business strategy.

Opportunities for credit unions to expand their social finance offerings

As mentioned above, credit unions are well positioned to align their business model to social finance as the very principles of the approach make it a natural fit for most, if not all credit unions. But, there is also a clear competitive financial advantage for credit unions to expand their social finance offerings. Studies have shown that financial institutions that incorporate social finance principles outperform their competitors.[31]

Credit unions that are considering incorporating these principles to their business model can do so through their roles as investors, lenders, wealth-managers and educators.

Investors

Socially responsible investments (SRI) represent an important asset category of the social finance marketplace, with some $600.9 billion in 2011.[32] While experts in social finance recognize that SRI is important and surprisingly profitable compared with conventional investing, many point to impact investing as a way for investors – like credit unions – to be

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30 The Social Investment Organization, (2013): 4.
31 The Global Alliance on Banking on Values Press Release, (2012).
32 The Social Investment Organization, (2013): 4.

more proactive in their investments.[33] Unlike many SRI funds that primarily focus on screens,[34] impact investing takes the approach of making targeted investments in projects and businesses that serve a clear social/environmental purpose.[35]

One way credit unions can participate in impact investing is by placing capital in large third-party funds which invest in non-profits, charities, social enterprises or co-operatives that have a clear social or environmental purpose. Examples of such funds include the Community Forward Fund,[36] that lends to non-profit and charities and the Renewal Funds,[37] that invest in underfunded sectors that are critical to a sustainable economy such as the organic and natural food and green products sectors. Another is the National Co-operative Investment Fund, currently in development, focused on the development and growth of co-operatives.

Credit unions can also partner with community organizations to participate in impact investing projects. The YWCA Toronto, for example, reached out to community partners to build YWCA Elm Centre – an affordable housing project geared to low-income women, women living with mental health issues and families with Aboriginal ancestry.[38] For this project, YWCA Toronto combined various financing strategies including a community housing bond worth $1 million and set at a four per cent fixed interest rate over ten years.[39] While no credit union was involved in this project, it is a prime example of the types of projects credit unions could play a significant role in developing.

Lenders

Credit unions have an excellent reputation for their support of small businesses. In May 2013, the members of the Canadian Federation of Independent Business (CFIB) rated credit unions as the preferred source of financial services. In fact, credit unions took the best overall scores across all business segments, including micro businesses, small businesses and mid-sized businesses.[40]

Building on their reputation and relationship with small businesses, credit unions can develop programs to finance small-and medium-sized social enterprises – businesses that apply market-based strategies to achieve a social purpose. One such example is the Resilient Capital™ program offered by Vancity Credit Union (Vancity) which makes targeted debt or equity investments in social enterprises.

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33 Trish Nixon, (2013).
34 Screens are a strategy used by socially responsible investors to select and manage investments by either avoiding investments in harmful companies based on their environmental, social and governance (ESG) performance or encouraging investments in companies that show improved corporate practices based on ESG factors.
35 Trish Nixon, “Mission possible? Assessing the appetite, activity and barriers for impact investing among Canadian Foundations” (paper presented at the 2013 annual Canadian Responsible Investment Conference, Vancouver, British Columbia, June 17-19, 2013): 1-2.
36 The Community Forward Fund (CFF) is a fund that provides loans to charities and non-profits. It is managed by the non-profit Community Forward Fund Assistance Corporation (CFFAC), which engages the non-profit/charitable sector, oversees the loan process, and holds financial coaching sessions.
37 Renewal Funds is a social venture fund dedicated to delivering financial returns by investing in leading environmental and social mission businesses in Canada and the USA.
38 Hadley Nelles and Adam Spence, “Blended Financing for Impact: The Opportunity for Social Finance in Supportive Housing,” March 2013, http://www.hscorp.ca/wp-content/uploads/2013/03/Paper_BlendedFinancingforImpact_Final.pdf. (accessed August 26, 2013): 24, in MaRS Centre for Impact Investing. (2011).
39 *Ibid*., 3.
40 Canadian Central Press Release, “Credit unions serve with excellence, nine years and counting,” www.cucentral.ca/r.aspx?ID=8yu6. (accessed August 26, 2013).

Vancity partnered with the Vancouver Foundation – Canada's largest community foundation - to create the Resilient Capital™ program that invest in social enterprises and blended value businesses. The program, which is secured by a loan loss reserve sponsored by the partners, is financed by investors who put a minimum of $50,000 in a term deposit with Vancity. The term deposits earn interest and are 100 per cent insured over a five, six or seven year (non-redeemable) term. Although deposit investors do not directly participate or have an economic interest in the potential gains or losses in the underlying investments or loans to be made by Vancity under the program to qualified social enterprises, they do receive exclusive web access to project and impact reporting to let them know how their investment is helping to make a difference. To date, the program has raised $13.45 million and has invested more than $3.5 million in 11 social enterprises from various sectors, including local, natural and organic food, green technologies, affordable housing and aboriginal communities.[41]

As lenders, credit unions can offer preferential rates on mortgages to underserved individuals. For instance, through its Equity Building Program, Saskatchewan-based Affinity Credit Union (Affinity) partnered with community players to provide low-income individuals with equity loans to a maximum of five per cent of the purchase price of a home, repayable over a five year term. The credit union is able to provide these mortgages because the City of Saskatoon grants the five per cent down payment, and Canadian Mortgage and Housing Corporation (CMHC) or Genworth Financial Canada offer mortgage loan insurance flexibilities.[42]

Additionally, credit unions can operate microfinance programs to provide loans to individuals or groups that traditionally do not have access to financing as a result of having no credit history or capital. OMISTA Credit Union (OMISTA) in New Brunswick offers such a product by being the lending partner for the New Brunswick Multicultural Council's (NBMC) Micro Loan Program. Through this partnership, OMISTA offers loans of up to $15,000 to internationally-trained professional immigrants with permanent resident status to upgrade their foreign credentials. The NBMC plays a role in the review of participant applications and the Federal government guarantees up to 80 per cent of unpaid loans. OMISTA offers the loans at an interest rate of prime plus one per cent.[43]

Another example of a social finance-oriented product some credit unions offer are eco-loans with preferential rates for members who purchase fuel-efficient cars, or for individuals and businesses who improve the energy efficiency of their homes or operations. For instance, Affinity partnered with the Saskatoon Environmental Society (SES) to provide Energy Retrofit Loans to non-profit organizations that upgrade their facilities to improve the energy efficiency of their operations.[44] Another example of a credit union that offers preferential rates on loans to help members make their homes more energy efficient is New Brunswick Teachers Association Credit Union (NBTA). In October 2013, this financial co-operative launched a six month Heat Pump Loan Campaign at a

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41 "Resilient Capital" http://resilientcapital.ca/. (accessed August 26, 2013)
42 "Affinity Credit Union - Affinity Housing Initiative Programs," http://www.affinitycu.ca/personal/loans-and-credit/mortgages/affinity-housing-initiative/index.html (accessed September 9, 2013).
43 CBC News, "Loan program for immigrant professionals launched," May 15, 2013, http://www.cbc.ca/news/canada/new-brunswick/story/2013/05/15/nb-immigrant-loan-program-multicultural.html. (accessed August 26, 2013).
44 "Affinity Credit Union - Energy Retrofit Loans," http://www.affinitycu.ca/community/community-development-lending-financial-services/energy-retrofit-loans/index.html. (accessed September 9, 2013).

four per cent fixed interest rate for the first three years to encourage members to purchase a new, or upgrade an existing, heat pump.[45]

Wealth managers

Contrary to popular belief, socially responsible investments do not produce lower rates of return than non-SRI investments. In fact, several of the top Canadian mutual funds are socially responsible investment (SRI) products.[46]

Credit unions can offer SRI investment options to members who wish to both make a strong financial return and support responsible companies. Several credit unions already offer members socially responsible investment options through mutual fund companies such as NEI Investments (NEI). This fully Canadian mutual fund company, owned in part by Desjardins Group and by the regional credit union Centrals, is home to Canada's largest team of in-house SRI specialists who provide environmental, social and governance (ESG) analysis to portfolio managers through strategies like positive and negative screening guidelines, shareholder activism, and community development investments.[47] Credit unions also offer SRI funds through other fund managers like Meritas Financial, developed in 1999 by Ontario's Mennonite Savings and Credit Union and today a division of Qtrade Financial Group.

Credit unions can also enable their members to invest in community-based projects or businesses that have a social and/or environmental purpose through financial vehicles like guaranteed investment certificates (GIC) or term deposits. In fact, Manitoba-based Assiniboine Credit Union (ACU) assures its members who invest in an ACU GIC that their money is placed in a credit union committed to "strong governance, social and environmental responsibility, and the investment of skills, expertise and resources to foster sustainable communities."[48]

In addition, through a partnership with the Winnipeg-based Jubilee Fund Inc., ACU allows members to invest in a fund that provides risk capital in the form of loan guarantees or bridge financing for community economic development projects.[49] The Jubilee Fund is financed through Jubilee Investment Certificates purchased by individuals who are, or become, members of ACU. Investment certificates are purchased directly from the Jubilee Fund as three or five year term deposits with a minimum investment of $1,000. Although ACU does not directly sell the certificates, it does manage the fund and promote it to members who want to invest money in the community, while receiving a return of slightly less than GIC rates. As a way to share risk, ACU and the Jubilee Fund jointly make loans to community projects or businesses that focus on issues such as poverty reduction, low-income housing and access to credit.[50]

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[45] New Brunswick Teachers Association Credit Union – "Buying a heat pump this year?", http://www.nbtacu.nb.ca/buying-a-heat-pump-this-year/. (accessed October 11, 2013).
[46] Jacqueline Nelson, "Socially responsible investment funds hold their own," *The Globe and Mail*, March 17, 2013, http://www.theglobeandmail.com/globe-investor/investment-ideas/number-cruncher/socially-responsible-investment-funds-hold-their-own/article9845687/. (accessed August 26, 2103).
[47] NEI Investments, http://www.neiinvestments.com/Pages/AboutNEI/NEIInvestments.aspx. (accessed September 10, 2013).
[48] Assiniboine Credit Union – ACU Guaranteed Investment Certificates, http://www.assiniboine.mb.ca/My-Finances/Investing/Social-Responsible-Investing/ACU-GIC.aspx. (accessed September 10, 2013).
[49] Jubilee Fund – The Fund: Frequently Asked Questions, http://www.jubileefund.ca/faq.php. (accessed September 10, 2013
[50] *Ibid*.

Educators

As social finance continues building momentum, experts agree that education is essential to bringing social finance into the mainstream.[51] Not only is there an opportunity for credit unions to raise the level of understanding of social finance among staff, but also among members who may be less familiar with this field.

Several resources are available to credit unions that wish to raise the level of awareness and understanding of social finance. MaRS Centre for Impact Investing offers free webinars on new social finance trends and opportunities in both official languages. In 2008, MaRS also created a social finance information hub to bring together the voices of social finance practitioners and thought leaders across the country and internationally. This hub, at SocialFinance.ca, is one of the leading resources to learn more about best practices, success stories, job opportunities, conferences and challenges in social finance in Canada and internationally.

The Social Investment Organization - a national membership-based organization for financial institutions, investment firms and financial advisors – has identified that the key barrier to the advancement of responsible investing in the retail sector is attributed to the lack of awareness of responsible investing products and services by financial advisors. To address this lack of awareness among financial advisors, the SIO engages in outreach activities to encourage financial advisors to participate in the SIO membership and conferences. It also offers a two-hour face-to-face course entitled *Responsible Investment and Your Clients* as well as intensive sessions on responsible investing, which qualify for continuation education (CE) credits, at its annual Canadian Responsible Investment Conference.[52]

Credit unions can also create a position to increase the level of understanding of financial advisors. For example, ACU created a position responsible for educating staff about SRI principles and investment opportunities. This SRI specialist also helped develop the credit union's SRI strategy and delivered more than 85 presentations in the community over the past four years on the benefits of SRI.[53]

Credit unions can present their own webinars and workshops to members who are beneficiaries of a particular social finance program. Alterna Savings and Credit Union (Alterna Savings) does precisely this for members who receive a loan through its Community Micro-Finance Program – a program to help low-income or new Canadians start a new business or operate a new start-up. By touching on "everything from accounting and marketing to sales strategies and life skills,"[54] Alterna Savings' webinars and workshops respond to one of the objective of their program: helping loan recipients "achieve solvency within a competitive business environment."[55]

Finally, credit unions can help members become successful investors of their own. To do this, they can offer OnCourse® Portfolios – a program available exclusively to credit union members to help them build and manage an investment portfolio that aligns with their

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[51] E.T. Jackson and Associates Ltd., (2012): 40, 43, 49, 50.
[52] Social Investment Organization, "Financial Advisor Program", http://www.socialinvestment.ca/financial-advisor-programs/. (accessed November 30, 2013).
[53] "Assiniboine Credit Union – Meet Cheryl Crowe," http://www.assiniboine.mb.ca/My-Business/Investing/Socially-Responsible-Investing/Cheryl-Crowe.aspx. (accessed September 10, 2013).
[54] Robin Brunet," Small and Successful," *Enterprise* (July 2013), p. 19.
[55] *Ibid.*

values, while maximizing their return.[56] Several credit unions[57] offer this program to members who wish to learn about investment products and mutual funds options to make values-based successful investments.

Opportunities for credit unions to measure their impact

Observers of the field increasingly suggest that the development and adoption of social impact measurements are essential to bringing the social finance to the next phase in its evolution.[58] The growth and acceptance of social finance will depend on the ability of investors to measure the social and/or environmental benefits resulting from their investments. These metrics will provide "standardized definitions, rating systems, and performance management tools for measuring the social and environmental impact of investments [to investees]."[59]

While expanding their social finance offerings, credit unions can rely on metrics to ensure that their impact goals are being met.[60] This will enable credit unions to distinguish themselves from competitors that deceptively promote products or activities that appear environmentally or socially oriented, but operate much more as public relations exercises.

One resource available to credit unions to enhance their use of social and/or environmental metrics is the Guidebook for impact investors on impact measurement. This 2013 guidebook published by Purpose Capital – a Canadian impact investment and advisory firm – in collaboration with the Government of Canada, provides "a basic overview of social metrics for impact investing [as well as] a description of how they can be used."[61]

Among the most commonly used impact assessment tools are the Impact Reporting and Investment Standards (IRIS) and the Global Impact Investing Rating System (GIIRS).[62] "IRIS provides a standardized [classification] and a set of consistent definitions for social, environmental and financial performance."[63] GIIRS uses definitions and classifications from IRIS to "[assess] companies as well as funds and their portfolio companies on four performance areas: governance, workers, community and environment."[64]

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56 "OnCourse Portfolios." http://www.oncourseinvestments.com/. (accessed September 10, 2013).
57 Among the credit unions that offer the OnCourse® Portfolios program are Affinity Credit Union, Servus Credit Union, Interior Savings Credit Union, Access Credit Union and Cornerstone Credit Union.
58 E.T. Jackson and Associates Ltd., (2012).
59 Margot Brandenburg, "Impact Investing's Three Measurement Tools," *Stanford Social Innovation Review,"* October 3, 2013, http://www.ssireview.org/blog/entry/impact_investings_three_measurement_tools. (accessed August 26, 2013).
60 Hilary Best and Karim Harji, "Social Impact Measurement Use Among Canadian Impact Investors*,"* February 2013a, http://www.purposecap.com/wp-content/uploads/Social-Impact-Measurement-Use-Among-Canadian-Impact-Investors-Final-Report.pdf. (accessed August 26, 2013): 8.
61 Hilary Best and Karim Harji, "Guidebook for Impact Investors: Impact Measurement," February 2013b, http://purposecap.com/wp-content/uploads/Purpose-Capital-Guidebook-for-Impact-Investors-Impact-Measurement.pdf. (accessed August 26, 2013): 4.
62 Hilary Best and Karim Harji ., (2013a), 9-10.
63 E.T. Jackson and Associates Ltd., (2012): 31.
64 *Ibid.,* 31.

Figure 4 **Examples of businesses using GIIRS and IRIS**

Vancity Credit Union	**"GIIRS allows Vancity to access verified data, benchmark social and environmental performance of perspective investments against comparable companies and track social and environmental impact over an investment's lifecycle."[65]**
The Grassroots Business Fund	**"IRIS provides clarity on what to measure and how to measure it. It enabled the Fund to have consistency across its portfolio of investments and helped the Fund to reduce the reporting burden on investees and communicate better with their stakeholders."[66]**

One of the limitations of IRIS and GIIRS is that they measure outputs, not outcomes. The former refers to investment results that can be measured, while the latter refers to a concrete social or environmental change that occurred as a result of the investment. Even though there is a lack of consensus on how measuring both outputs and outcomes can be achieved, research points to the need to develop more outcome-based measurements as investors have a preference for them.[67]

Besides IRIS and GIIRS, two other widely used tools are Pulse and the social return on investment (SROI).[68] Pulse "provides a data management platform to collect, manage, and report on impact portfolio data [and integrates the IRIS taxonomy]"[69]. On the other hand, the social return on investment (SROI) is "a methodology that seeks to monetize the social benefits that occur within an initiative."[70]

Another way that social finance investors, including credit unions, can report the impact of an investment is through case studies. Although case studies - which refer to a "description of the inputs, activities, outputs, outcomes and impacts of an intervention"[71] - are not a precise measure of impact compared to other tools, they do have the benefit of capturing broader community level impact. They also have the benefit of conveying impact in a simple way to stakeholders at low cost.[72] Through case studies, Resilient Capital™ term depositors receive impact reporting from the fund. Here's an example of how the funds' impact is communicated through case study:

> **"Salish Soils is a state-of-the-art composting facility on the Sechelt Indian Band Lands on the Sunshine Coast. In December 2012, Salish Soils received Resilient Capital™ financing for the facility's expansion. By diverting organic waste products that might otherwise end up in a local landfill and converting them into nutrient-rich mulch, Salish Soils reduces carbon dioxide emissions, creates green jobs and premium soils for local gardens, organic farms, greenhouses, landscapers and the local regional district. The composting site also aims to contribute to improving food security on the Sunshine Coast, a region that produces less than three per cent of the food it consumes."[73]**

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65 Hilary Best and Karim Harji, (2013b), 11.
66 *Ibid*.
67 Hilary Best and Karim Harji, (2013a): II Executive Summary.
68 E.T. Jackson and Associates Ltd., (2012): 32.
69 *Ibid*., 32
70 *Ibid*., 32.
71 H. Best and K. Harji, (2013a): 11.
72 *Ibid*.
73 Resilient Capital – News, http://resilientcapital.ca/2013/02/salish-soils-receives-financing-to-create-a-new-way-for-a-first-nation-community/. (accessed October 11, 2013).

In addition, credit unions can rely on certification models to identify businesses that have both the potential to generate impact and offer a rate of return, without having to prepare performance audits of their own. The B Corporation rating system, which is spearheaded by the non-profit B Lab, "provides investors with third-party assurance that the company will achieve social and environment impact, will maintain their mission after financing and can command a higher valuation."[74] Based on a series of social and environmental criteria, the B Lab surveys a company's performance on standards relative to governance, impact on employees, community, environment, and consumers. Companies that meet these rigorous standards receive the B Corporation certification.[75]

Today, there are more than 800 certified B Corporations from 27 countries and 60 industries. In Canada, there are currently more than 60 B Corporations. Even though not all B Corporations are social enterprises, they are all engaged in social finance as their focus is on changing the way business works as they seek to create value for society, not just for their shareholders. The B Corporation movement essentially sees itself has being "to sustainable business what Fair Trade [certification] is to coffee."[76] As such, it offers a way for companies to differentiate themselves from competitors who may be more engaged in environmental or social activities as public relations strategies.

Another tool available for credit unions is the SVX. This online platform allows Ontario-accredited investors,[77] including Ontario-based credit unions and *caisses populaires* as well as the credit union central and the *caisse populaire* federation, to connect with social enterprises that have demonstrable social and/or environmental impact. The SVX is being led by Toronto-based SiG@MaRS[78] in close collaboration with the TMX Group Inc., and is supported by several partners, including the Government of Ontario.[79]

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[74] Hilary Best and Karim Harji, (2013b): 10.

[75] "B Corporation," http://www.bcorporation.net/.

[76] B Corporation, "The Non-Profit Behind B Corps," http://www.bcorporation.net/what-are-b-corps/the-non-profit-behind-b-corps. (accessed August 26, 2013).

[77] Government of Ontario – Securities Act, http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90s05_e.htm. (accessed September 10, 2013): subsection 73.3 (1) and 73.1 (1).

[78] Funded by the Ministry of Economic Development and Innovation of Ontario, SiG@MaRS is a partnership between Social Innovation Generation (SiG) and the MaRS Centre for Impact Investing (MaRS) that creates industry standards and regulation in Canada and offers practical support for social ventures.

[79] MaRS Centre for Impact Investing, "The SVX," http://impactinvesting.marsdd.com/strategic-initiatives/svx-formerly-the-social-venture-exchange/. (accessed August 26,2 103).

conclusion

Social finance may still exist on the periphery of the mainstream, but it has been gaining attention, momentum and investment dollars in recent years. Government, financial institutions, and individual investors are acknowledging that the market can do much more to address societal challenges, such as homelessness, climate change and unemployment. Although it is not a panacea to solve the world's ills, social finance has the potential to bring together two distinct approaches: the philanthropic world of donations and sponsorships with the return-oriented world of traditional investments.[80] In fact, social finance is a global approach which considers that a successful investment does not exclusively amount to financial gains, but also to positive social and environmental outcomes for the community at large.

Whether they call it by that name, Canadian credit unions are collectively a large and leading player in social finance. This is a strong competitive advantage credit unions have over other financial institutions and one worth preserving and building upon. Whether it is in their capacity as investors, lenders, wealth managers or educators, credit unions can take greater ownership of this concept by elaborating initiatives to raise awareness of this emerging sector and to meet members' expectations. They can do this by investing in third party funds that lend to businesses that serve a social or environmental purpose, by partnering with community organizations to invest in projects that respond to social problems such as affordable housing, by developing microfinance programs, and by building innovative products for members who want to participate more actively in social finance.

At the same time that credit unions work towards impactful actions, it is also essential for credit unions to measure the positive impact they are generating. Metrics can tell the story of credit unions' commitment to mobilizing capital for social and/or environmental benefits. Adopting metrics also assists credit unions to distinguishing themselves from organizations that are preoccupied with socially or environmentally friendly initiatives as an approach to simply attract clients and earned media.

Since their humble beginnings, credit unions have had strong roots in social finance. Co-operative financial institutions grew from a need in society, and more specifically from the need of working people to access loans they could not obtain from traditional banks. Financial co-operatives remain inhabited by this spirit and distinguish themselves from other financial institutions by their dedication to serving their communities.

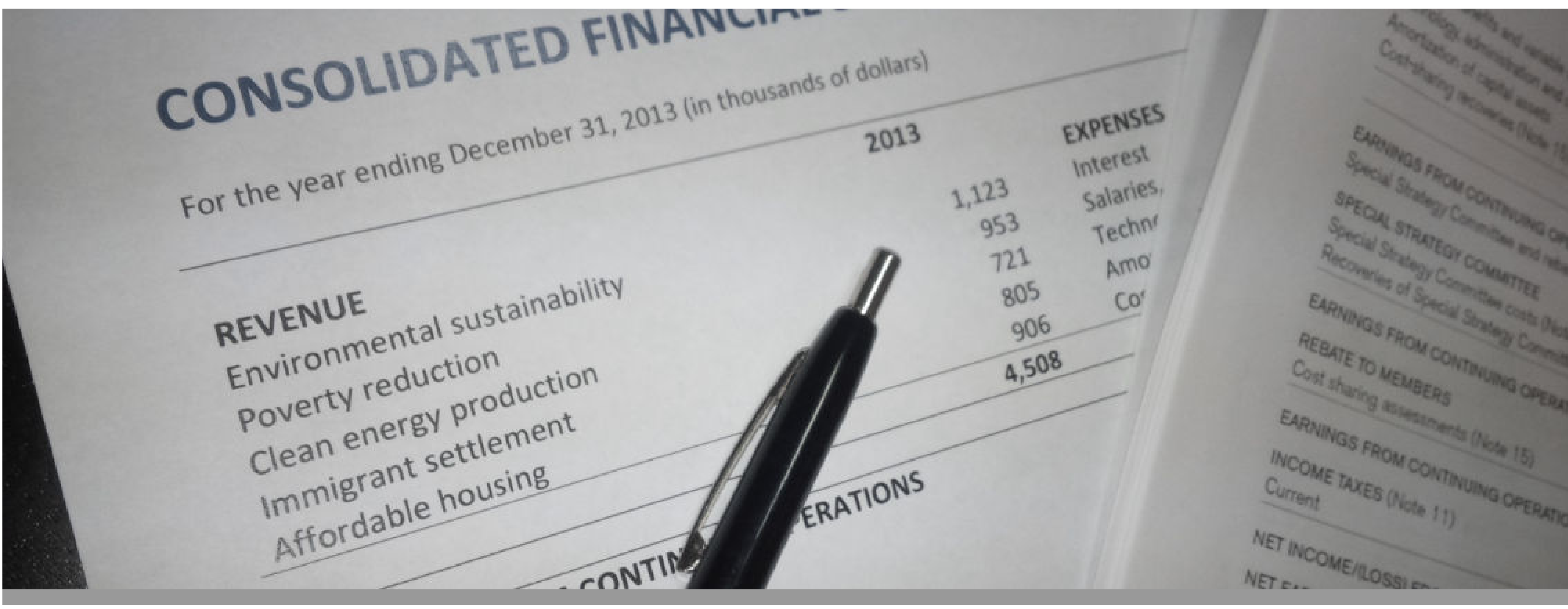
In this way, social finance is not a departure as much as it is a continuation of an approach begun long ago that many credit unions continue to adhere to today. Embracing it and making it a core part of the modern credit union model can be a distinguishing feature of the system at large and individual credit unions in their markets.

[80] MaRS Centre for Impact Investing, (2010).

about us

Credit Union Central of Canada (Canadian Central) is the national trade association for the Canadian credit union system. Canada's credit unions are vital competitors in the financial services industry. Canadian Central represents five regional Centrals and one Federation representing 332 credit unions with more than $159.2 billion in assets and serving over 5.3 million members, outside of Quebec. For more information about Canada's credit union system and Canadian Central visit www.cucentral.ca.

For the ninth consecutive year, Canadians ranked credit unions first in overall Customer Service Excellence, among all financial institutions, surpassing all Canadian banks in Ipsos 2013 Best Banking Awards. Credit unions also took sole honours in the Values My Business and Branch Service Excellence categories. Credit unions tied for first among all financial institutions for Financial Planning and Advice and Telephone Banking Excellence.



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