Vancouver Island Social Finance Report

Prepared by the VISIZ Social Finance Working Group
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Vancouver Island Social Innovation Zone
Innovation. Enterprise. Finance.

COMMUNITY SOCIAL PLANNING COUNCIL
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Vision and Purpose

The Vancouver Island Social Innovation Zone's vision is to enhance the quality of life throughout Vancouver Island by encouraging and supporting a culture of social innovation that strives to build an economy of blended economic value and social equity. In a rapidly changing region, new collaborations, thinking and approaches are required to address ongoing social, environmental and economic issues.

VISIZ provides an opportunity for Vancouver Island stakeholders to align efforts and collaborate to achieve this vision and create change together.

In 2015/2016, a number of post-secondary and community partners collaborated to:

- map the assets for social innovation, social enterprise and social finance on Vancouver Island;
- identify gaps;
- consult with Vancouver Island residents as to ways to address gaps; and
- recommend ways to move forward together

This report is one of several that describe the assets, gaps and community feedback to guide our collective direction forward.

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I. Introduction

Social Finance is a small but growing sector of investment on Vancouver Island, one that is vital to our social innovation and social enterprise.

A definition of social finance:

"Social finance" refers to a range of investment strategies with a twin focus. All aim to generate both social and environmental returns for investors as well as communities. All facilitate the efforts of sustainable businesses, social ventures, or other organizations (e.g., affordable housing societies) to impact the local community and environment positively.

Social finance includes community investing, microfinance, social impact bonds, and community loan funds. Some philanthropic investment programs (often called venture philanthropy) also fall under the umbrella of social finance.

The ability of organizations, institutions, and investors to provide social finance to such actors is affected by many variables, including capacity, education, and policy restrictions. The Vancouver Island Social Innovation Zone (VISIZ) and the Community Social Planning Council of Greater Victoria (CSPC) are looking into the challenges and opportunities currently facing the social finance sector on Vancouver Island. This is the final report on that research, plus recommendations for action.

Vancouver Island Social Innovation Zone (VISIZ)

VISIZ (http://visocialinnovation.ca/) is guided by a number of working groups. One, the Social Finance Working Group, identified the need to better understand social finance on Vancouver Island. To this end, a research project was designed to examine the "eco-system" of social finance on the Island and to recommend strategies to build the sector's capacity.

The Working Group worked with a CSPC research team to design a survey and identify sector actors and other key informants to interview. The CSPC carried out these interviews in February and March 2016. Initial results from the interviews were presented at a Social Finance Forum held April 5, 2016. Forum delegates discussed the findings and provided additional information, perspective and input around sector priorities and actions. The Social Finance Working Group provided additional analysis and developed a series of recommendations for the final report. These recommendations are also reflected in a strategic plan recently completed by VISIZ.

II.Glossary

Community Investing: is investment for the purposes of financing deep-seated needs of local communities not addressed by mainstream finance, including poverty alleviation, community and cooperative development and environmental regeneration. (http://warming.apps01.yorku.ca/library/wp-content/uploads/2013/03/NRTEE-Scan-of-the-Community-Investment-Sector-in-Canada.pdf)

Microfinance: a broad category of financial services for entrepreneurs and small business that lack access to traditional banking and related services. Microfinance often utilizes relationship-based investment or group based lending.

Social Venture: an undertaking by a firm or organization established by a social entrepreneur that seeks to provide systemic solutions to achieve a sustainable, social objective. https://en.wikipedia.org/wiki/Social_venture

Social Impact Bonds: generate investment from private sources for specified social programs by issuing contingent bonds that pay returns to investors based on a percentage of the savings received by government as a result of social programming. Investors share both the risks of programming and the rewards from savings to government. (http://carleton.ca/3ci/wp-content/uploads/Social_Impact_Bonds_in_Canada_-_From_theory_to_implementation_-_Arjun_Langford.pdf)

Social Venture: an undertaking by a firm or organization established by a social entrepreneur that seeks to provide systemic solutions to achieve a sustainable, social objective. (https://en.wikipedia.org/wiki/Social_venture)

Sustainable Business: An approach to business that manages the opportunities and obligations of a triple bottom line based on the three pillars of sustainability; social, environmental, and economic.

Venture Philanthropy: The application or redirection of principles of traditional venture capital financing to achieve philanthropic endeavours. (http://www.investopedia.com/terms/v/venture-philanthropy.asp)

Community Investment Funds: Investment funds that target local investors to local projects, often with a blended value return. (paraphrased from http://www.investopedia.com/terms/c/community_investing.asp)

Social Finance: investment strategies that generate both social and environmental returns for investors as well as communities. They facilitate the efforts of a range of businesses of organizations to impact the local community and environment positively.

III. Methodology

This research project used a qualitative research model. It identified sector actors, interviewed them, and incorporated the input from the Social Finance Forum, from the Social Finance Working Group, and from additional experts.

Note: The list of sector actors was compiled with limited time and resources. It is not an exhaustive representation of the breadth and diversity of those involved in this work. The research team acknowledge that many important stakeholders may have been missed inadvertently. They will have equally important input and experience to contribute.

Sector Actors

The first step during the initial planning phase was to identify the sector actors on Vancouver Island to interview. Input from multiple sources, especially the Social Finance Working Group, generated a list of 48 prospective interview subjects. (See Appendix 1, Table 1. Appendix 1, Table 2 records stakeholders who offer grant funding, which was outside the scope of the project.) The list of sector actors is diverse. It encompasses not-for-profit organizations, investment cooperatives, financial institutions, economic trust funds, and other social ventures. They range in size from small to large.

The actors on the initial list of 48 were all lenders, that is, all were suppliers of social finance. In order to reflect a broader range of perspectives, the list was reduced to 23 by eliminating several entries that were similar in organization mandate and depth of social finance participation. Five actors who use social finance (borrowers) were then added to the list to represent the sector's demand side. (See Appendix 1, Table 3.)

Sector Actor Interviews

A deductive research methodology is used to test theory. This research project, by contrast, used an inductive approach in order to generate theory emerging from newly-gathered data. To generate that data, the research team and Working Group developed an interview tool. It covered the following topics:

- A description of each sector actor's organization, and the finance products it utilizes or offers.
- Potential opportunities for the supply and demand of social finance.

- Current challenges and opportunities within the sector.
- Steps to be taken to improve the social finance sector.

An initial survey addressed lenders and investors, in other words, the supply side of social finance. The survey questions were then adapted for use with borrowers and investees –the sector's demand side. Sector actors were contacted to take part in an open-ended, 45-minute interview in-person, by telephone, or through an online survey. The interviews were conducted anonymously by one researcher who took notes while making an audio recording for further analysis.

Of 28 sector actors on the list, 14 were interviewed, for a response rate of 50%. Appendix 1, Table 3 compares the total number and types of sector actor identified on Vancouver Island with those who were actually interviewed.

Those identified and contacted included:

- Community Futures Development Corporations
- Credit Unions
- Investment Co-operatives
- Community Loan Funds
- Aboriginal Financial Institutions
- First Nations and related Economic Development Agencies
- Asset Management Companies
- Economic Trust Funds
- Housing Development Organizations

The data from the interviews was analyzed using the "grounded analysis" method. Grounded analysis examines data for repeated ideas or concepts. These are then coded into themes to form the basis for new theory. These themes were also used as the foundation for the questions addressed to participants of the 2016 Vancouver Island Social Finance Forum.

April 5, 2016 Vancouver Island Social Finance Forum

This event drew together actors from across Vancouver Island to learn about the challenges currently facing the social finance sector, and promising opportunities for action. The 55 participants included people involved in investment cooperatives, development agencies, private consultants, not-for-profits, social ventures, and financial institutions. An expert panel featured:

- Stephen Whipp (Wolverton Securities Ltd.)
- Liz Lougheed Green (Vancity/Knives and Forks Community Investment Cooperative)
- Susan Byrom (First West Credit Union)
- Justin Stephenson (Vancouver Island Community Investment Cooperative/ Galiano Loan Fund).

Participants broke into eight moderated groups to discuss five questions. (See Appendix 3.) The grounded analysis used for the interviews was applied to the notes taken in the discussion groups. The results were incorporated into the final conclusions.

IV. The Vancouver Island Social Finance Sector Today

Although there is an active social finance sector on Vancouver Island, many people do not use the term "social finance" to describe what they do. Like social enterprise, the terminology of social finance is somewhat familiar, but no one definition is commonly agreed upon or used. Many actors strive to generate social and environmental impact through their investing. But once again, there is no common definition or approach to measuring impact. Shared avenues for learning and development have yet to be established, although interest is growing.

As it stands today, social finance on Vancouver Island does play several important roles:

- The delivery of finance to diverse social ventures (including such local agriculture initiatives as community gardens, fish hatcheries, and new farms).
- The delivery of private investment through the Capital Investment Network and other forums.
- The development of creative pools of capital that invest in small business development and other local initiatives.
- Infrastructure development and job creation for housing and renewable energy.

Currently there seems to be ample capital available for initiatives that fall within a conventional risk profile. The factors measured to determine a project's viability are sufficient to convince investors that the project will be a success. This is good news for many initiatives that have established revenues, great partnerships, proven entrepreneurs and some equity in place. There is less capital available for those on the fringes of "conventional" and even less for outliers who are blazing uncharted territory. In the social innovation realm, non-conventional and creative enterprises are commonplace, while the capital they require may be scarce. This is "the capital gap." It is where creative capital solutions are badly needed to grow the capacity of the social finance sector and encourage new forms of social innovation.

Closing the capital gap is critical to the acceleration of social innovation on Vancouver Island. It is also an enormous challenge because of the high levels of risk involved – both inherent and perceived. The reality is that, unless the investments are philanthropic in their intention, most investors are looking for a return of their principle investment plus a return that includes a benefit, like interest or even equity. With that in mind, a number of creative investment vehicles have been developed to address the capital gap on Vancouver Island. Survey participants highlighted these because of their focus and structure. They are outlined in the section that follows. (For a detailed list see Appendix 1, Table 1.)

Social Finance Vehicles found on Vancouver Island

The following list is an overview of the common types of social finance vehicle currently active on Vancouver Island. (There are several others.)

- Community Investment Cooperatives (CICs) utilize a cooperative structure to enable members to finance and support local economic and social development. By working with an accredited financial partner (e.g., a bank or credit union), the CIC is a means for community members to direct their investments into community projects. The projects often concern affordable housing and community enterprises that create local, sustainable jobs. Sometimes, investments in CICs are RRSP eligible or earn a tax credit.

- Community Development Loan Funds (CDLFs) provide credit to local organizations, businesses and individuals. Some also provide technical assistance. The financing is usually connected with a social goal such as stabilizing a distressed community, low-income homeownership, or the growth of environmentally sustainable businesses. Typically, CDLFs provide loans to those who are not able to obtain capital from more traditional sources, or cannot obtain it on affordable terms. Historically, many CDLFs rely on some form of subsidized capital which they re-lend at market or below market rates.

- Credit Unions are financial cooperatives, and resemble banks in certain respects. Unlike banks, however, credit unions are locally owned and democratically controlled, and invest their profits in the communities where their members live. A number of credit unions focus on lending to local enterprises, affordable housing projects, and initiatives in support of local economies. Credit unions in BC serve more than 1.9 million members and hold $61.5 billion in assets (as of December 2014). Operating across the Island, they have a focus on building healthy communities through lending, cash management, and investment funds, as well as community investment activities and programs.

- Aboriginal Financial Institutions (AFIs) are nonprofit organizations funded by the federal and provincial governments to work in regions and communities with a specific focus on assisting Aboriginal entrepreneurs and small business. Similar to Community Futures, AFIs couple financing with a variety of programs and supports. There are two AFIs on the Island with mandates to serve businesses in the Nuu-Chah-Nulth and Coast Salish Territories.

• First Nations and related Economic Development Agencies: A number of First Nations located across Vancouver Island and the Gulf Islands have economic development agencies. Some serve specific communities, and some serve larger areas. Established to build First Nation self-sufficiency, many of their investments are closely aligned with social, environmental, and economic sustainability goals. The projects supported by these agencies range from individual entrepreneurs to multi-million dollar projects.

• Community Futures (CFs) are nonprofit organizations federally funded to work in regions and communities to assist entrepreneurs and small business. CFs provide a variety of programs and supports, coupled with financing and loans to help local entrepreneurs. They often collaborate with government, financial institutions and private sector partners to strengthen communities in a process that combines social with economic development.

• Private investment vehicles also are engaged in social finance on Vancouver Island. They are quite diverse. Some can be described as boutique venture capital corporations; they help connect sophisticated lenders and investors with investment opportunities with ethical, social, or environmental characteristics or goals. Others are known as "angel investors." Typically these are wealthy individuals willing to invest in opportunities with social or environmental impact and on terms on less traditional than those of venture capital corporations.

V. Themes & Gaps

A number of social finance initiatives are active on the Island for a variety of purposes. Many others serve the Island, but are not based there. Nevertheless, lenders and borrowers agree that there are capital gaps. It is notable how heavily each actor's perspective on this issue is influenced by context. Within the analysis process, it was difficult to determine the perspective and context which guided the response. For example, the lens through which a housing provider identifies solutions will differ from that of a financial institution. However, a number of key themes and gaps emerged.

Matching Investors to Investments

"Social finance needs to become part of the mainstream mix, so it's not regarded as "out there"

Investors in community-based (or simply "community-minded") social finance vehicles can be intensely motivated by the type of community that they value. So long as an investment opportunity's values align with their own, its potential rewards may appear worthwhile, even if it involves greater risk than a conventional investment opportunity. This may indicate that smaller, local, values-driven initiatives are a way to start connecting capital with pioneering innovation.

The perception of a number of interviewees was that there is a desire to invest locally and for impact. What's lacking are the opportunities to do so.

"Social finance … needs more marketing to attract investors"

Experts noted a discrepancy. While investors point to a lack of investment-ready businesses, entrepreneurs lament a shortage of investment capital. The issue may have less to do with supply and demand, than with communication, information, and 'fit.' Here, the role of financial investment advisors is pivotal. They are the ones who often make the decision as to which business will access funds. They also are conduits of information, balancing the needs of investors with those of investees. To investors, they convey information about investment opportunities; to those seeking investment, they convey information about what investors are looking for. If social impact is a feature of an investment opportunity, the advisor has to be able to present its case convincingly, with reference to the track record of social ventures. How is this to be achieved?

One solution may be to raise the awareness of investment advisors with more messaging about social enterprises and social finance. Another may be "demand-side" ambassadors who can build awareness among actors on the sector's supply side.

Risk

"People will take risks based on their value system. The one sense I have is that there is a lot more tolerance for risk in the social sphere than perceived, but you have to tell the story the right way. Here people wanted to see their money do good work locally and were willing to take on the risk. People are willing to take risk if it is congruent with their value system."

Risk mitigation was seen as a key factor in closing the capital gap in social finance. Another key factor was creativity, particularly when combined with sector experience and knowledge. For example, CDLFs don't have to make loans directly. Instead, it may be their role to mitigate the risk of an established lender and create a sophisticated lending opportunity offering multiple benefits. Consider the following story:

"Typically, a community loan fund acts as a match maker. It brings the lender and applicant together, and they work out their own arrangement. Our community loan fund has decided to take an alternative approach by partnering with a small BC credit union. First we fundraised a loan guarantee fund. Then we deposited the money with the credit union as GICs. Now, after considering proposals, we recommend people to the credit union for loans. The GICs are there to back up any loans the credit union makes to our applicants. Basically, we provide funding to guarantee loans. We receive the going interest rate on the GIC's and pay out interest to those who have loaned money to the fund."

Perception of Risk

Perceived risk may differ significantly from actual risk. Nevertheless, the perception of risk can get in the way of investment. For example, people unfamiliar with loans or investment capital may consider them more risky than grants. They may not know how to assess and explain different levels of risk to potential investors or lenders. Investors may perceive social ventures, which blend social, environmental, and financial returns, to be inherently more risky than other, "simpler" investments.

An accurate assessment of risk typically is in the best interests of both investor and investee. But for impact-driven borrowers, the costs may be prohibitive. Financial institutions familiar with both investors and social ventures can help mitigate such challenges. But there is no escaping them – they are fundamental to the design of social finance products.

Social finance is an important means for building equitable and sustainable communities. But some of the innovations in need of finance stand outside the conventional realm. Their development can be compromised by rising levels of perceived and actual risk. Some have found ways to work around the risks and close the capital gap. We have to deepen our understanding of these initiatives as well as those that fail. By sharing these lessons, the sector can invent ways to scale solutions through replication and other models.

Education & Capacity Building

Education was a strong theme throughout the conversations. This is not just about raising awareness of social finance. Specific education and capacity building is required to grow a social venture sector strong enough to attract investment.

"The social venture sector is underdeveloped. There is not a good supply of projects ready to be invested in. There needs to be more nurturing."

Several interview and forum participants expressed the need to capitalize projects at every point on the business development continuum, from idea incubation to maturity. Likewise, capital must be made available for projects in a wider range of initiatives than housing and small business. Other participants noted that investment (with the possible exception of philanthropic investment) may not apply in many instances.

Practical Social Finance Education

A series of case studies about successful social finance initiatives may be very useful. The studies could provide a step-by-step process for replication purposes. They could also help to reduce the perception of risk social finance investors.

There is also a need for professional development related to social finance and its application. Lack of knowledge is perceived as a major deterrence to engaging in social finance, for both suppliers and customers.

Education and capacity training are essential if social ventures, non-profits, and social finance investors are to understand how social finance works, how to both access and evaluate opportunities, and how to assess and address the risk each involves.

"Both lenders and borrowers involved in social finance need to have more knowledge about the process of social financing, especially if they are just getting started. Otherwise

boards of directors won't know what their responsibilities are and what they are accountable for. Social organizations…may have a strong social mandate that they are passionate about. But when it comes to their knowledge of financial business they are not as well versed and fail to create a solid financial plan."

In matters of social investment, the business know-how of applicants is critical. They have to know what investors are looking for in terms of planning, administration, and management. Accordingly, their education and training should include market analysis, competition, business technology, human resources, business planning, and risk assessment. This applies equally to new start-ups, and to the retooling of existing enterprises to make them more investment-ready. Likewise, the better social finance providers grasp these factors, the better guidance they can offer applicants.

"We need to keep sharing the benefits, opportunities and social impacts in order to increase understanding, acceptance & participation in social finance."

Also important is greater understanding of the range of investments out there and the range of social finance products. Several respondents suggested sharing stories about how various entities have managed to access different types of social finance. Social media, videos, events and guides are all ways to share such examples.

Not-for-Profit Enterprises

Informants recognized that most social ventures (for-profit and not-for-profit) require coaching, mentoring, and support across the social finance continuum. Still, there were enough comments specific to not-for-profit enterprises to warrant a separate discussion.

It takes substantial capacity to operate a business within a charitable or not-for-profit regulatory, tax and financing environment, and to make that business investment-ready. Not-for-profits that are considering (or operating) social enterprises need to build that capacity. Informants identified a need for more curriculum and training in business planning and operations, and impact measurement. Not-for-profits also need to know how to use social financing – in addition to grants and donations – to launch social enterprises.

One persistent theme concerned the education of the leaders of charitable or not-for-profit organizations. Both boards of directors and executives require a deeper understanding of social finance and social entrepreneurship. They also have to learn to work with debt, and how to assess and manage risk.

Indigenomics

Informants agreed that work in social finance would benefit from a better understanding of Indigenous views of wealth. This is particularly important in the coming years. With the restoration of rights and title, First Nations are exercising far greater authority over economic activities in their territories. First Nation government organizations will become potential sources of investment, and as well as champions of a more effective deployment of assets and investment. Increasingly, investment decisions will have to reflect and respect traditional values and offer communities a blend of social, cultural, environmental and financial returns.

First Nations are approaching values-driven investment in a number of remarkable ways. Economic development is taking place within a worldview based on cultural knowledge and values. Carole Anne Hilton, a leading entrepreneur of Nuu chah nulth descent, terms it 'Indigenomics.' It "draws on ancient principles that have supported indigenous economies for thousands of years, and works to implement them as modern practices" (Transformation International).

Product & Service

Many informants maintained that social finance has by no means exhausted the potential of existing financial products and services. Others identified gaps in this array. Several even offered inspired suggestions for promising new products or services or adaptations of current ones. These ideas span a wide range of possible impacts and applications. The following summarize five of them.

- Purchasing an existing business with an established customer base is something few nonprofit social enterprise ventures have tried. Since cost has likely been a prohibitive factor, this may be an area where social finance can play a role. Established businesses will have better ability to predict revenue compared to new ventures. Business succession, often of great importance to smaller communities, may offer similar opportunities while preserving important goods and services.

• Investing in GICs with a link to social housing would encourage investors who have low-risk tolerance to place their funds in a low-return vehicle that has steady returns.

• In order to address perceptions of risk from traditional lenders or investment professionals, one idea is to create a fund that could act as collateral to cover any defaults from such loans. One social finance actor that was interviewed used this approach effectively to encourage lenders to lend to social ventures, businesses that turned out to have a very low default rate.

• Developing a product with a range of risk tolerances and rewards could attract a range of investors. A product structured this way might also suit a diversity of initiatives and serve as a testing ground for exploring the potential of what is possible within the existing regulatory environment.

Measuring Impact

The lack of a common tool, approach, metric, or index for measuring impact is a real difficulty. Most of the social finance actors interviewed for this research do not measure impact. Instead, investment is guided by some predefined social or environmental goal, purpose, activity, or intent. Impact measurement can add significant cost and complexity to an initiative.

Effective, efficient impact measurement requires that both borrowers and lenders are clear in their intentions and choice of indicators. Only then is it possible to specify the issue that the project is addressing and to establish a means for measuring success. This can be very challenging, given the complex nature of many projects, on Vancouver Island and further afield.

Social finance investors aren't necessarily looking for complicated metrics or frameworks. What they want is a means of validating impact. (Sometimes they want it specifically in terms of the causes that prompt them to invest in the first place.) Similarly, investment brokers want a clear and compelling case for supporting an initiative. Here, social ventures may have an advantage: from their theory of change they should be able to derive suitable indicators of success. Failing that, a wide array of impact measurement tools and resources is currently available. Indeed, it may be a challenge simply to select which ones are the most practical and pertinent to the social venture in question. Growing public awareness with regard to social and environmental issues may also assist social ventures in communicating how they contribute to positive change.

Policy & Regulatory Environment

Again and again informants pointed out changes to policy and regulations that would benefit social finance. Many believe that policy and regulations can and should be retooled to incentivize impact investment. Two areas were emphasized in this regard: Registered Retirement Savings Plan (RRSP) eligibility and Securities Regulations.

"There are not enough opportunities for investors to be able to invest locally. A number of things are in the way. It seems to me that there needs to be some massaging of securities laws to allow the average investor to invest locally."

A new regulatory framework could be devised to incentivize impact investing. However, an even better idea might be to modify an existing framework. BC already has venture capital incentives for small businesses, involving tax credits for investors and holding periods. Could a way be found to apply this framework to social finance? If so, it would give a tax incentive to investors. It would also expedite market recognition of investment opportunities, since the framework is already so and provide a quicker way to get to market in a vehicle that people are familiar/comfortable with. A possible legislative incentive for people to invest in local initiatives is a mechanism such as local government bonds where someone can invest in a local area bond to support infrastructure.

"There could be a much better policy framework to encourage impact investing. It could take lots of different forms… and could go all the way to tax policy. If you invest in impact, you could write off part of your return on that investment. It is important to incentivize people to invest in a social finance endeavour."

One purpose of securities regulation is to protect non-accredited investors from losing their money. The challenge is to protect these parties without creating significant barriers to others who want to invest small amounts of money. The sophistication of an investor is equated to the amount of funds they wish to invest. Yet, the smaller the amount of money invested, the smaller the risk to an investor. Another stumbling block to local investment is the perception that a lack of diversification increases risk. Yet many targets of local investment are simple by nature – their singularity of purpose is what appeals to investors.

These are challenges to be solved.

"Put together an investment that has 5 or 6 or 10 or 12 companies in it—that might do the trick!'

Legislative and regulatory changes such as those cited above could improve and expand the social finance sector. However, such changes would take time and careful planning to implement. While working on them, it is important to keep focused on what can be done now and in the near future.

VI. Recommendations

Of the themes that emerged from the surveys, forums, and working group discussions, three key areas and associated recommendations rise to the top: education, product, and policy. In this section, each will be discussed in turn.

Education and Capacity Building

1. Knowledge Generation

a. Investors: Investors of every stripe often lack an extensive understanding of social finance. This applies to credit unions, traditional financial institutions, private investment streams, and foundations and other grant-making vehicles. Other persons have yet to buy into social finance in terms of its social and environmental, as well as financial returns. Some investors understand specific tools and strategies, others do not; some have a lot of experience in what nevertheless remains an immature sector. Opportunities to develop knowledge and share strategies and experiences would build investors' understanding of social finance and accelerate its delivery.

   i. Cultivate social finance ambassadors in a variety of investor streams. They would take a peer-to-peer approach to increasing knowledge and capacity for the delivery of social finance. For example, foundation ambassadors would share their experiences and lessons learned with peers in the foundation community. Similarly, the Capital Investment Network would inform angel investors on the subject of social finance.

   ii. Provide ambassadors and their networks with tools and resources to support delivery as needed.

b. Social Innovators: Social innovators are outcome and values-driven. While many are well-versed in the philanthropic arena, their knowledge and experience of other investment categories lacks depth. Lending, private investment, and the development and use of such tools as CICs and crowd funding tend to be unfamiliar. Even when familiar with these vehicles, social innovators struggle to know how and when to use them.

i. Engage experts in social finance and investment to deliver a strategic series of workshops. It will focus on how investment works, when to use it, and which financial tools and approaches apply at each stage of the investment continuum. Currently, Spring U., Vancity, BC Cooperative Assocation, and Scale Collaborative, among others, all provide education and training. The coordination of these programs could give rise to a sophisticated delivery mechanism.

ii. The world of social innovation is populated with unique initiatives. They are the product of the creative impulse which is inherent and essential to that world. In light of that, build one-to-one coaching into the delivery of education and training. That will ensure that innovators get the tailored coaching they require to devise "out of the box" solutions.

iii. Enhance the education and financial literacy offerings on Impact Money Finder. It currently delivers high-level financial literacy on capital and investment for social ventures.

iv. Build social finance into community-delivered incubation, acceleration, and other education programs across the social finance continuum.

c. <u>The Indigenous perspective:</u> Social innovators have much to learn and gain from working more closely with Indigenous peoples and organizations. Already these entities are partnering, investing, and building capacity on Vancouver Island and in the Coastal Communities. Traditional knowledge and ways of living on and from the land are deeply pertinent to a values-based approach to building local economies. The tapping of this knowledge must occur within a framework of mutual respect and reconciliation. It offers significant opportunities to build a sector grounded on both Indigenous and non-Indigenous capacity.

i. Encourage the development of research, curriculum, and educational opportunities that further the understanding of Indigenous perspectives, approaches, and values.

2. Enhance the Delivery of Social Finance Information

Looking for investment can be an overwhelming endeavour. It is made still more challenging when the investment world is so alien to social innovators. Tools and resources to aid the search can remove some of the barriers.

a. Enhance the investment data-base listings provided through www.impactmoneyfinder.ca. Add a searchable field for the Vancouver Island region.

b. Develop and share examples of successful social finance strategies and cases. List them all on www.impactmoneyfinder.ca.

c. Link www.hubcapbc.org and visocialinnovation.ca to www.impactmoneyfinder.ca to create continuity in information delivery. Add a collaboration platform as a capacity-building tool for innovators, investors, and their supporters.

3. Networking

Take the ambassador approach to the next level –organize events at which those involved in social finance and innovation can network. The focus of these events should be finding and building connections. They might also feature guest speakers on a wide range of topics concerning social finance.

Minding the Gaps

Regardless of the power of an idea to address social and environmental challenges, investors are risk-driven in their analysis. Consider investors on the philanthropic end of the social finance continuum, for example. Their tolerance for financial risk increases with the potential for impact and innovation in their area of interest. Other investors are not so bold. The majority require their investments to demonstrate viability in terms of repayment and returns. As a result, there are many gaps along the finance continuum. Each forces us to think differently in order to build a more comprehensive architecture of social finance. Many financing tools have been custom-built to fill one or another gap, but are not widely understood or delivered. In other words, when filling these gaps, the role of education is almost as important as that of design creativity. We recommend the following:

4. Scale social finance through:

a. sharing case studies of tools that have been successfully developed and delivered. Of particular importance are tools that have solved problems creatively for social entrepreneurs and social innovators.

b. building "how to" guides of replicable tools – CICs, community bonds, CDLFs, etc.

5. Education for investors located on a very challenging part of the continuum. These include crowdfunding participants, friends and family, governments and foundations. (See point 1.b.i. above.)

6. Start a conversation with local investors to determine the potential for a prototype investment fund. Its target might be housing, organic food, employment development, environmental sustainability, or some other specific category. Lessons learned from the development process would be shared for discussion, reflection, and iteration.

Regulation and Policies

A number of policy and regulatory innovations could create an environment more enabling to social ventures and to investors interested in that sector. They would boost investment levels in BC by encouraging the formation of new pools of local capital. (They might even stimulate investment from non-accredited investors.) The long-term outcome would be job creation, and increases in the number and scale of social ventures and community-based projects.

We propose working with the Government of BC on seven innovations:

7. Provinces such as Alberta, New Brunswick, Nova Scotia, and PEI have demonstrated how investor tax credits can drive local investment. **Therefore, create a personal tax credit for investments in locally-developed funds including Community Investment Funds (CIFs).** It should encourage long-term investment and be aligned with the Small Business Venture Capital Tax Credit program. This will give co-op businesses access to capital that will help them develop and grow.

8. Currently, the sale of investment shares is subject to regulation by the BC Securities Commission. Generally, share offerings are accompanied by a prospectus, a document that

publicly discloses full details of the investment in question. CIFs, CICs, and other small funds may choose not to issue a prospectus. In that case, they must produce an Offering Memorandum (OM), whose cost (like that of a prospectus) may be prohibitive. **Therefore, recognize CIFs and CICs in the context of BC securities regulations. Simplify the oversight process and waive the audit requirements stipulated under International Financial Reporting Standards (IFRS).**

9. **Increase the threshold on the membership of cooperative associations from 150 to 300.** Increase the maximum limit on investment shares from $5,000 to $10,000.

10. **Consider working with federal partners to recognize contributions to CIFs as pre-qualified RRSP-eligible investments.**

11. **Create incentives to stimulate the development of affordable rental housing in BC.** Currently, an equity gap is impeding that process. One approach is to issue tax credits for investors. Another is to mitigate risk through the creation of loss reserves for intermediaries. Together these measures will increase the number of affordable units on the market.

12. **The social finance sector could benefit substantially if BC's Small Business Venture Capital Tax Credit program (VCC) was expanded to include a greater range of social innovation.** However, a solid case to this effect first has to be put before the Government of BC. Financial institutions are already experimenting extensively with social innovators in multiple sectors: Aboriginal business, energy, the environment, affordable housing, employment development, and local food, among others. Some ventures have generated significant financial, as well as social and/or environmental returns; others have not. This is the experience on which we must build the case for expanding the VCC. It is recommended that research go forward to establish precise profiles (including sector, scale, and risk level) for the social ventures that would respond most effectively to a tax credit. The results would form the basis for an incremental expansion to the VCC. A close partnership with the provincial and federal governments would be essential to the success of this initiative.

VII. Conclusion

The social finance sector on Vancouver Island is still in an early stage of development. Despite its size, it has been helping to generate substantial economic, environmental, and agricultural impacts for communities across the Island. But the results of this research identify some serious barriers to realizing this sector's full potential. There are gaps in the knowledge and capacity of organizations interested and active in social finance. There needs to be a more centralized location for education resources. In-person workshops are required about social finance in general, and about establishing social finance organizations. Social finance products must be restructured to reduce their perceived risk and make them more viable in the world of mainstream investing. Lastly, legislative and regulatory policies should be amended to help incentivize investment in the social finance sector. Clearly, this will take some time and planning to implement properly.

This research project is a first step in understanding the social finance sector in our region. Because it involved a variety of social finance actors, the results are general in nature. Still, they offer a good picture of the current state of the sector. In future, more information from those on the demand side of social finance will help to clarify their needs. It will also permit a more comprehensive and detailed mapping of the vehicles involved in this sector.

Moving forward, it is important to recognize that social finance is not only a sector, but a movement. To keep it growing larger and stronger, we must continually reach out to one another and to potential allies with communication, support networks, and new partnerships.

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VIII. Appendices

Appendix 1

Table 1: Vancouver Island Social Finance Vehicles
Note: Table 1 presents information collected by CSPC and VISIZ with the time and resources available. It is not intended to be a complete or exhaustive representation of the breadth and diversity of organizations and individuals involved in the social finance sector.

Table 1 lists all the Vancouver Island social finance vehicles identified through this project and through research done by VISIZ. They are organized into broad categories with a brief description of their finance products, areas of focus, and the geographic region served.

Credit Unions

Institution	Type of Financing	Area of Focus	Region
Vancity	•Community Investment Fund •Green Building Grants •Advice and Business Loans for Entrepreneurs with a Disability (ABLED) •Microloans & Microfinance	•Green Economy / Local Economy •Social Enterprise / Ventures •Local Organic Food •Affordable Housing / Impact Real Estate •Aboriginal Partnerships •Cooperatives •Small Business •Entrepreneurs	Capital Regional District, Cormorant Island / Alert Bay
Coastal Community Credit Union	•Building Healthier Communities Fund	•Local Economy	Vancouver Island and Gulf Islands
Island Savings Credit Union	•Community Investment •Vital Loans Program (with Victoria Foundation) •First Rent Bank •Individual Development Account Program	•Low-income individuals •Loans to registered charities •Family programs and services •Community impact	Vancouver Island and Gulf Islands

Charitable Foundations

Institution	Type of Financing	Area of Focus	Region
Alacrity Foundation	Venture capital funding	Tech companies and students / recent grads	Western Canada

Private Financing

Institution	Type of Financing	Area of Focus	Region
Community Futures	Loans (and advisory services)	Entrepreneurs / small business with special focus on entrepreneurs with disabilities in rural areas	Cowichan Valley RD, Nanaimo RD, Regional District of Mount Waddington Strathcona RD,
Raven's Trust	Legal Defense Funds	First Nations legal fees to protect traditional territories	Canada

Public/Government Financing

Institution	Type of Financing	Area of Focus	Region
Canada Summer Jobs	Wage Funding	Summer students	Canada
Growing 2 Forward: BC Agri-Innovation Program	Funding	Innovation in Agrifood business	BC
BC Government Buy Local Program	Matching Funding	Local foods grown / raised / harvested / processed in BC	BC

Other Financing

Institution	Type of Financing	Area of Focus	Region
Community Micro Lending	Micro Loans (and Mentorship)	Entrepreneurs	Greater Victoria
First Nations Regeneration Fund	Loan (and Technical Assistance)	Equity for First Nations to purchase Independent Power Producer (IPP) projects in their traditional territories	BC

Institution	Type of Financing	Area of Focus	Region
Galiano Community Loan Fund	Loans	Galiano entrepreneurs	Galiano Island
Vancouver Island Community Investment Cooperative	Community Investment Fund	Affordable housing and community enterprises	Vancouver Island
Social Enterprise Catalyst	Funding, Technical Assistance, and other supports via annual Dragon's Den style event	Social Enterprise	Vancouver Island
Transition Salt Spring Co-op	Micro-lending	Local Economy Green Economy	Salt Spring Island
Wolverton Securities	Ethical Investing	Green Economy Social impact Entrepreneurs Local Business	Vancouver Island
Nuu Chah Nulth EDC	Business Loans	Aboriginal Community Support/Business Start Up	Nuu Chah Nulth Territory/Vancouver Island
Skwin'ang'eth Se'las Development Company	Business Management Capacity, Technical Skills and Employment Experience	Local First Nations economic and business development	Lekwungen traditional territories
Island Chefs Collaborative	Funding/Fundraising	Sustainability within Local Food Economy	Vancouver Island

Table 2: Grants & Funding

Note: Table 2 presents information collected by CSPC and VISIZ with the time and resources available. It is not intended to be a complete or exhaustive representation of the breadth and diversity of organizations and individuals involved in the social finance sector.

This project focused specifically on financing, rather than grants. A number of actors offer both, however. Research done by VISIZ also identified a number of organizations, foundations, and other entities whose grants and funding activities focus on social, environmental and sustainability goals. Table 2 includes this information as a reference and resource.

Charitable Foundations

Institution	Type of Funding	Area of Focus	Region
Regional Community Foundations (Including: Alberni Valley; Campbell River; Comox Valley; Nanaimo; Parksville-Qualicum; Saanich Peninsula; Salt Spring)	Grants	Broad social, economic and environmental purpose	Alberni Valley, Campbell River, Comox Valley, Nanaimo, Parksville-Qualicum, Saanich Peninsula, Salt Spring
Victoria Foundation	Grants, scholarships and loans (Loans in Partnership with Island Savings)	Broad social, economic and environmental purpose, especially food security and homelessness	Capital Regional District (Loans for South of Nanaimo, and Gulf Islands)
Vancouver Foundation	Grants	Social Innovations: o Health and Social Development o Environment and Animal Welfare o Education and Training o Arts and Culture Neighbourhood small grants for Victoria (Hillside-Quadra) and Clayoquot Sound	BC
United Way of Greater Victoria	Grants	Children, poverty and communities	Greater Victoria , Southern Gulf Islands
Telus Community Board	Grants	Broad social and environmental purpose; Focus on technological innovation in program delivery	Capital Regional District

Credit Unions

Institution	Types of Funding	Area of Focus	Region
Coast Capital Savings	Community Investment Grants	Youth	Capital Regional District, Cowichan Valley RD
Coastal Community Credit Union	Corporate Sponsorship Grants	Broad social, environmental, economic purpose	Vancouver Island, Gulf Islands
Island Savings	Growing Island Families Together (GIFT) Grant	Broad social purpose with focus on family	Capital Regional District, Cowichan Valley RD, Nanaimo RD
Vancity	•Community Investment Grants •EnviroFund Grants •Community Branch Grants •Social Enterprise Grants •Shared Success Grants •Green Building Grants	•Green Economy / Local Economy •Social Enterprise / Ventures •Local Organic Food •Affordable Housing / Impact Real Estate •Aboriginal Partnerships •Cooperatives	Capital Regional District, Cormorant Island / Alert Bay

Other

Institution	Types of Funding	Area of Focus	Region
Enterprising Non-Profits BC	Grants (and in-kind expert support)	Business planning / research	BC-wide

Public/Government Funding

Institution	Types of Funding	Area of Focus	Region
Innovations Program - BC Arts Council	Grants	Innovation in arts and cultural	BC
Capacity and Sustainability Project - BC Arts Council	Grants	Arts and cultural	BC
Island Coastal Economic Trust	Grants (and event sponsorship, scholarships)	Community-driven economic development environment, small business, transportation	Central and Northern Vancouver Island

Institution	Types of Funding	Area of Focus	Region
Clayoquot Biosphere Trust	Grants	Environmental Research Local Economy / Green Economy	Clayoquot Biosphere Region

Municipalities/Regional Districts

Institution	Types of Funding	Area of Focus	Region
City of Victoria	Grants	Broad social, economic and environmental purpose	Greater Victoria
Saanich	Grants	Broad social, economic and environmental purpose	Saanich
Regional District of Nanaimo	Grants	Broad social, economic and environmental purpose including: • the use of new approaches and techniques in the solution of community needs • start-up costs for new organizations or new programs	City of Nanaimo and Lantzville
Capital Regional District	Grants	Broad social, economic and environmental purpose with focus on arts	Capital Regional District
Cowichan Valley Regional District	Grants	Broad social, economic and environmental purpose	Cowichan Valley
Regional District of Mount Waddington	Grant	Rural tourism	Regional District of Mount Waddington

Table 3: Social Finance Actors Identified and Interviewed, categorized by type

Note: Table 3 is a list of contacts that CSPC and the VISIZ Working Group identified with the time and resources available. The project set out to interview a small sample of sector actors as a starting point for further dialogue. It is not intended to be a complete or exhaustive representation of the breadth and diversity of organizations and individuals involved in the social finance sector.

Table 3 lists nine types of social finance actor which were identified on Vancouver Island. It also indicates the number of potential interviewees associated with each, and whether their association is that of a suppler or user of social finance. The last two columns indicate the number of people within these groupings who actually were interviewed.

	Type	# supply social financing (lenders) Contacted	# use social financing (borrowers) Contacted	# supply social financing (lenders) Interviewed	# use social financing (borrowers) Interviewed
A	Community Futures Development Corporations	6	0	3	0
B	Credit Unions	3	0	1	0
C	Investment Co-ops	3	0	2	0
D	Community Loan Funds	2	0	1	0
E	Aboriginal Financial Institutions First Nations and related Economic Development Agencies	3	0	1	0
F	Asset Management	2		2	0
G	Economic Trust Funds	2	1	1	0
H	Housing Development	0	3	0	2
I	Other	2	2	1	0
	Total	**23**	**5**	**12**	**2**

Appendix 2

Interview Survey Tool

The survey tool used to interview social finance suppliers or lenders can be viewed at the following link: https://www.surveymonkey.com/r/CSPCsocialfinance

Note that while this link remains viewable, this is for information purposes only.

Appendix 3

Social Finance Forum Table Discussion Questions

The following questions were presented to groups of participants at tables during the April 5, 2016 Social Finance Forum. Discussion at each table was led by a designated facilitator and main points were recorded. These points were then summarized and reported back to the group, and used to inform the final report.

Questions:

1. What experiences have participants had in accessing investment for social innovation purposes?
2. What ideas do they have to fill potential gaps in the capital continuum?
3. What is needed to build capacity and knowledge on the topic; education, tools and resources?
4. What enabling policies and measures could be taken to improve the investment environment?
5. What are the next steps?

Appendix 4

Selection of photos from Pitch' it Event, Symposium and Royal Roads University.