Can you Make a Profit by Investing for Blended Returns

Prepared by the Social Housing Services Corporation

Can you make a profit by investing in social venture?

The answer to the question of whether an investor can profit from investing in a social venture is *theoretically* yes—social ventures should be able to generate near-market rates of return. In other countries where social ventures have demonstrated profitability, investing in them has become a common practice for investors seeking near-market returns in addition to positive social developments.

In Canadian practice, however, the answer leans to no. Though non-profit funders and governments now support the model, and many environmental social enterprises have realized success, the vast majority of businesses have struggled to yield financial returns significant enough to draw in large numbers of investors. This is particularly the case with social enterprises devoted to human developmental returns, many of which have clung to non-profit status.

These two factors (i.e. unprofitability and tendency for non-profit status) have concurrently diminished the prospect of investing in most social enterprises—particularly those focused on human development— and legally eliminated the possibility of acquiring equity investments in these businesses. At the same time, however, equity investments are needed to bring scalability to social enterprise and to advance their overall competitiveness in Canada's marketplace.

Securing finance for certain categories of social venture remains one of the biggest challenges faced by the business movement. The small amount of existing financing mechanisms for social enterprise are inefficient, fragmented, undercapitalized, and, consequently, unable to meet the needs of entrepreneurs and their businesses.

It is not that there is an inherent problem in the social enterprise model. The struggle of social enterprises can be attributed to other areas, especially Canada's legislative/policy environment, which does not meaningfully support this type of business activity. The social enterprise model cannot easily be accommodated within current legislative framework, which problematically polarizes non-profit and for-profit business structures. A "middle ground" legal structure for social enterprises in Canada is needed, but has yet to be established.

This paper examines the key challenges that impede the viability of Canadian social ventures through two lenses: legislation/policy and marketability.

Methodology (clarification)

The literature on Canadian social enterprise is rich conceptually and theoretically, but is vague on the subject of monetary profitability. There have been no pan-sectoral studies on the levels of financial returns yielded through these businesses. Experts are not even sure of how many social enterprises are currently in operation in Canada.[1] This has made obtaining financial information for purposes of this report unfeasible. As a result, this paper relies primarily on qualitative analysis of the small, but growing body of literature on social enterprise in Canada. It is also informed by a number of interviews with players in Ontario's philanthropic and social innovation sectors.

Matters of definition

It is not uncommon to find discrepancies and incongruent definitions in literature on social enterprise in Canada. The objectives and conceptions of social enterprise concepts vary depending on the institutional and cultural contexts from which they emerge—authors have criticized the burgeoning nomenclature as contributing to misunderstandings and over-complicated models, thus impeding its viability.[2] The first section of this report therefore outlines the key concepts and definitions from which it has been informed.

The emergence of social enterprise

In relative terms, Canada's non-profit and voluntary sector is massive. 12 per cent of the nation's economically active population is employed in the sector—a number nearly equivalent to Canada's full-time manufacturing workforce.[3] Overall, the sector accounts for 8.5 per cent of Canada's GDP. When examining core non-profits (excluding hospitals, universities and colleges) this statistic holds its notable status, with 5.5. per cent of the active population being employed in this sector.[4]

The non-profit sector has historically developed and administered programs and initiatives with social and/or environmental objectives. Financing for these programs

[1] Although MaRS has started tracking social entrepreneurial activity.
[2] Peredo, Ann M. and Murdith McLean. "Social Entrepreneurship: A critical review of the concept," *Journal of World Business,* 41, p. 56-65 (2006).
[3] http://nonprofitscan.imaginecanada.ca/files/en/misc/jhu_report_en.pdf
[4] http://sig.uwaterloo.ca/sites/default/files/documents/1-SocialInnovationPolicyTour2009Report.pdf

typically came from governments and/or philanthropy. Financial returns were not considered relevant, and social returns to communities were unmeasured, or done so inconsistently, leaving questions in terms of program efficacy and value for monies provided.[5]

However, "current investing and funding models are ill equipped to cope with the tsunami of fiscal and demographic pressures building in Canada."[6]

New and innovative approaches to social investment have aggressively emerged over the past decade to promote financial sustainability of socially beneficial initiatives, thus promising a more sustainable model for funding social development and making the orthodox "social program" system look anachronistic. Though relatively nascent in Canada—especially when compared to the US and UK—the social venture sector advocates for market-based solutions to issues that have otherwise been ignored by orthodox profit-driven enterprises.

Defining social venture

Though there are currently numerous definitions of social enterprise circulating, for purposes of scope and clarity, this report will adhere to the social venture model as articulated by MaRS, an Ontario research institute and social innovation incubator. According to MaRS, social ventures have appeared in the economy in two fundamental ways:

> **Social enterprise(s)** are profit-seeking business operated by non-profit organizations whose financial objectives and environmental, ethical, and/or social objectives are broadly equivalent (i.e. "blended returns"). Activity within the sector is driven by social missions and often by the aim to be as financially self-sufficient as is possible.[7]
>
> To achieve financial sustainability, social enterprises must embrace and appropriate "business principles, market characteristics and values (competition, diversification, entrepreneurship, innovation and a focus on the bottom line)," while upholding diligence to public sector values and public interest(s).[8]
>
> Since there are no shareholders in a non-profit organization, profits generated through social enterprises are wholly reinvested into the work of the organization.

[5] http://www.socialfinance.ca/uploads/documents/Social_Finance_Primer_Final_Version.pdf
[6] http://www.marsdd.com/blog/2010/02/09/new-capital-on-the-horizon/
[7] http://www.socialfinance.ca/knowledge-centre/glossary/term/social_enterprise/
[8] http://www.socialfinance.ca/uploads/documents/MaRS_Social_Entrepreneurship_Part_1_Social_Venture_Finance-1.pdf

Most importantly, they must have goals or missions beyond generating revenue and are required to demonstrate—preferably through social/environmental metrics—tangible benefits to the community in which they operate.[9]

Social purpose businesses can be defined as "commercial for-profit entities created by entrepreneurs to address social issues that maintain their social purpose at the core of their operations, while existing in the market community."[10] Similar to social enterprises, social purpose businesses are premised on blended returns (i.e. a combination of financial, social and financial returns).

They are not very prominent in Canada because social issues have historically been tackled in the non-profit sector and, as this paper demonstrates, are not as financially lucrative to potential entrepreneurs and investors

It is a common misconception that social venture belongs solely in the realm of non-profits—social purpose businesses demonstrate that private enterprise business models can simultaneously deliver on social and financial missions.

There is no available data on the number of social ventures operating in Ontario, although some organizations have endeavoured to track this figure. According to one estimate, there were over 6,200 social ventures in Quebec in 2009, employing in the range of 65,000 people and generating in excess of $4 billion in revenues.[11] Though the reliability of the number is questionable, experts believe that the business model is growing across Canada: "with the increasing public awareness of the notion of social entrepreneurship and social enterprise, greater consumer demand for green products, together with the increased competition for limited grant funding."[12]

Governments and foundations have expressed enthusiastic support for the model, largely because it offers the potential to replace diminishing funding, diversify non-

[9] For case studies demonstrating social entrepreneurship in action, see http://www.enterprisingnonprofits.ca/sites/www.enterprisingnonprofits.ca/files/uploads/documents/VCF_Guide_CH1.pdf

[10] http://www.socialfinance.ca/uploads/documents/MaRS_Social_Entrepreneurship_Part_1_Social_Venture_Finance-1.pdf

[11] Pearson, R. (2009). The Non-profit Market in Canada, *The BC-Alberta Social Economy Research Alliance*.

[12] Harji, K. and Hebb, T. (2009). The Quest for Blended Value Returns: Investor Perspectives on Social Finance in Canada," *Carleton Centre for Community Innovation*. See also Carter, T.S and Man, T.L.M. (2009). Business Activities and Social Enterprise: Towards a New Paradigm, *National Charity Law Symposium, the Canadian Bar Association/Ontario Bar Association*.

profits organizations' funding bases,[13] improve organizational sustainability and enhance organizational capacities to address complex societal challenges.[14]

Defining social venture capital

Social finance involves an array of "tools, instruments and strategies where capital deliberately and intentionally seeks a blended value return" in multiple areas where there exists a human need.[15] For purposes of clarity, this report focuses primarily on one tenet of social finance: *social venture capital*.

According to MaRS, **social venture capital** is a form of venture capital investing that provides capital to businesses deemed socially and environmentally responsible. These investments are intended to provide attractive returns to investors and to provide market-based solutions to social and environmental issues.[16] It is (business) venture focused, and should not be confused with social investing, ethical investing, double or triple bottom line investing, and so on.

The legislative/policy environment

Supporting socially beneficial initiatives is constitutionally within Canadian governments' mandate. However, current policy and regulatory systems cannot effectively accommodate the dual objectives implicit in social venture business models, which exist in the space where the non-profit sector, the for-profit sector and the public sector overlap. In fact, the "for-profit" and "not-for-profit" labels associated with social ventures exist mainly to reflect the legislative frameworks that Ontario's social entrepreneurs must creatively work within to operate their emerging businesses.

Although social ventures have grown increasingly sophisticated, there have been limited corresponding changes to relevant legislation and regulation. It is becoming increasingly

[13] Gannitsos, I. (2003) Enterprising Non-Profits Program: a report on non-profits and their social enterprises, 2000-2002, *Enterprising Non-Profits Program*.
[14] http://www.socialfinance.ca/uploads/documents/MaRS_Social_Entrepreneurship_Part_1_Social_Venture_Finance-1.pdf
[15] Harji and Hebb, 2009.
[16] http://www.socialfinance.ca/uploads/documents/MaRS_Social_Entrepreneurship_Part_1_Social_Venture_Finance-1.pdf

apparent that Canada's "governments should modernize the organizational infrastructure that applies to social enterprise to better enable it to flourish."[17]

The *Canada Corporations Act* is particularly problematic for non-profit organizations and charities operating social ventures. The Act has not undergone significant changes since its enactment in the early 1900s. The *Canada Not-for-Profit Corporation Act,* which received Royal Assent in June 2009, is designed to update the *Canada Corporations Act* by improving "governance, accountability and administration of existing and future non-profits and charities that incorporate federally."[18] Crucially, however, there is nothing in this legislation that is specifically geared toward encouraging social ventures.

In Ontario, the *Corporations Act* (Ontario) has recently been updated to better align the province's treatment of charitable entities with the rest of Canada, although experts advocate that it is still in need of changes. The *Charitable Gifts Act,* which prohibits charities from owning more than 10 per cent interest in any business,[19] is now repealed and the *Charities Accounting Act* "has been amended to permit charitable entities to hold real or personal property for as long as such property is being used for its charitable purposes."[20]

Though these legislative developments will prove beneficial for Canadian non-profits, federally and provincially, social venture and social enterprise remains legally unrecognized. And those entrepreneurs operating these organizations have been forced to establish their businesses under limited different legal forms to accomplish their missions—either a charitable, non-profit, for-profit, or co-op organizational structure.[21]

Legislative impact on social ventures

As the line increasingly blurs between non-profit and for-profit activities, governments have been moved into a double-bind. On one hand they are obliged to give non-profit organizations a competitive advantage over market forces by providing incentives, such as tax-exemption status and the ability to generate revenue through tax-deductable donations. On the other hand, governments must ensure that these privileges do not compromise or compete with for-profit organizations.

---

[17] http://www.centreforsocialenterprise.com/f/Legislative_Innovations_and_Social_Enterprise_Structural_Lessons_for_Canada_Feb_2009.pdf
[18] http://www.centreforsocialenterprise.com/f/Legislative_Innovations_and_Social_Enterprise_Structural_Lessons_for_Canada_Feb_2009.pdf
[19] www.carters.ca/pub/article/charity/2008/tsc1024.pdf
[20] http://www.ogilvyrenault.com/files/MaRS_Legislative_Innovations_2010.pdf
[21] http://www.ogilvyrenault.com/files/MaRS_Legislative_Innovations_2010.pdf

For non-profits, perhaps the most impactful outcome of the competitive compromise is that they cannot legally have shareholders in their organizations (i.e. no individual or group can hold financial interest in revenue generating activities of a non-profit organization)—thus defeating a non-profit's ability of garnering equity capital, and reaching scalability. Non-profits are also limited in the amount of debt they are allowed to take on. These regulations have cultivated a cultural aversion to borrowing "and a limited risk-taking orientation when traditional funding may be withdrawn in the event of failure, thus stifling new, risky, or innovative solutions to social issues."[22]

Legislative Innovation

Faced with similar dilemmas, the British government has rejected the polemic non-profit/for-profit dualism by instituting a new hybrid organizational structure called a "community interest company" (CIC). CICs embrace shareholdership; however, dividends are subjected to a cap of 5 per cent above the Bank of England base lending rate, and a maximum of 35 per cent of the distributable profits. Unused dividend capacity from year-to-year may be carried forward five years.[23] "Asset Lock" provisions ensure that the assets of the CIC are used primarily for benefit of the community.[24] Organizations are also subjected to a "Community Interest Test" by the UK Government's CIC regulator.[25] These two elements ensure diligence to the mandates allowed by legislation.

Several American states have introduced a similar organizational structure called "low profit limited liability company (L3C)." L3Cs are designed to generate a 0-5 per cent rate of return, which legislators have determined to be "the gap" between non-profit (0 to –100 percent ROI) and for profit (+5 per cent ROI) entities. The L3C framework enables more flexible and commercially-oriented options for ownership structure—allowing "different classes of investors (individuals, government agencies, non-profits, foundations and for-profit businesses) to invest with varying degrees of risk and return.[26] The model also makes it significantly less onerous to make program-related investments (PRI). Unlike CICs, investment returns generated through L3Cs are not subjected to a cap, which makes them much more attractive to investors seeking

[22] Harji and Hebb, 2009. See also Strandberg, C. (2007) The Social Purpose Capital Market: An Opportunity for the Canadian Charitable Sector.
[23] http://www.ogilvyrenault.com/files/MaRS_Legislative_Innovations_2010.pdf
[24] http://www.cicregulator.gov.uk/CICleaflets/CIC%20INFORMATION%20PACK%20V00.04%20Final.pdf
[25] See http://www.cicregulator.gov.uk.
[26] http://www.ogilvyrenault.com/files/MaRS_Legislative_Innovations_2010.pdf

financial returns. With other exceptions, L3Cs are subjected to the laws that govern limited liability companies (LLC). [27]

Neither the L3C or CIC legal structures could be easily introduced in Canada. When compared to the UK and US, Canadian social ventures—in theory and practice—are considerably less mature and prevalent. Without a stronger demand, relevant policy and legislative decisions are less likely to occur. Moreover, the existing corporate legal structure differs greatly from the US and UK, problematizing the transferability of the model into Canada (e.g. the LLC business form does not exist in Canada).

As noted above, Canada and Ontario have taken small steps toward a context in which social ventures could operate and compete more commercially, as they are intended to do. However, considerable progress is still to be made in the area.

It is becoming increasingly apparent that a "made in Canada" structure needs to be developed. A working group of the Social Innovation Generation (SiG@MaRS) has recommended legislation for Ontario which would provide for the establishment of Community Enterprise Corporations (CECs). According to the working group, CECs would be comprised of elements from both CICs and L3Cs. CECs would have the ability to issue shares and possess the ability to "borrow money and pledge its assets and give security thereof."[28] They would be allowed to generate profits and return them to security holders; however, the amount of returns would be capped, similar to British CICs.

By legislating a whole new cadre of business, this approach would allow social entrepreneurs to more easily secure venture capital in a way that correlates risk with return. It is likely that legislation resembling what SIG@MaRS has proposed will eventually materialize. Currently, there are a handful of organizations advocating for a meaningful dialogue between government leaders, policy makers, financial leaders and social entrepreneurs about how the Canadian legislation and policy can be more conducive to social ventures and generating social venture capital.[29]

Investing in Canadian social enterprises

[27] http://causeway.wikispaces.com/Resources
[28] http://www.ogilvyrenault.com/files/MaRS_Legislative_Innovations_2010.pdf
[29] These organizations include CAUSEWAY and its collaborative members: MaRS, Tides Canada Foundation, J.W. McConnell Family Foundation, Carleton University, Canadian Co-operative Association, Social Capital Partners, Ashoka Canada and PLAN Institute.

Going "green"

In Canada, the social ventures that have experienced the highest levels of financial success are typically those with a focus on yielding primarily environmental returns to communities. Indeed, social ventures involved in green/clean technology and organic food have emerged as popular choices among investors, and tend to account for the greatest share of this type of investment.[30]

In the eyes of public and private actors, it is becoming increasingly clear that the prosperity of our society is directly linked on environmental sustainability. This realization has created a systemic demand for sustainable products and services. A growing demographic of environmentally conscious consumers has also driven a green consumer products market that has grown as much 25 per cent annually in the past five years.[31]

On the surface it would appear that any environmental company would qualify as a social enterprise, because environmentally positive outcomes are implicit in these business models. However, many companies, particularly those involved in the energy sector (i.e. "clean tech"), do not qualify for this status on the grounds that they are enmeshed with unethical energy and resource corporate giants. Other green businesses have avoided associating themselves with the business model for strategic purposes—the standards expected of social entrepreneurs might problematize future business decisions. Nonetheless, there is a growing community of social enterprises in the environmental sector focused primarily on organics, consumer products and green building products.

With an increasing demand for green products and services, and a corresponding rise in the number of green social entrepreneurs, numerous investment management firms have emerged to finance environmental social purpose businesses.[32] For example, Renewal Partners Co. has supported environmental entrepreneurs for over a decade. The firm's first Renewal Investment Fund has generated an annual return of about 12 per cent.[33] The firm's $30 million Renewal2 Investment Fund is slated to close on May 31st, 2010, with the goal to triple the money over the course of the next ten years. Numerous other intermediaries—such as Investeco, Emerald Technology Ventures and

[30] Anonymous interview, 2010.
[31] http://www.theglobeandmail.com/report-on-business/your-business/grow/new-product-development/a-new-capitalism-coloured-green/article1540693/
[32] http://www.socialfinance.ca/uploads/documents/Building_the_Case_for_Social_Finance_in_Canada.pdf
[33] http://www.theglobeandmail.com/report-on-business/your-business/grow/new-product-development/a-new-capitalism-coloured-green/article1540693/

Ecotrust Canada Capital—have emerged to capitalize Canada's growing environmental social purpose businesses.[34] Consequently, venture capital and equity capital for environmental entrepreneurs is reasonably accessible. [35]

Investing in human (i.e. social) development

While the social enterprise model has been a relatively good fit for many environmental businesses, the situation is quite different for social ventures focused primarily on *social* returns (i.e. human development)—the majority of which have struggled to stay out of the red.

The bulk of these social ventures have been able to survive only under the non-profit legal framework and through the traditional avenues of not-for-profit funding, such as government programs and philanthropy.[36] As indicated above, this limits their ability to garner equity in their businesses and thus poses obstacles to their ability to attain the scalability required to compete with other private market players.

The literature on social enterprise makes very few references to profitability, and its optimism has arguably misrepresented the financial abilities of social purpose businesses. For example, the activities of Social Capital Partners (SCP)—one of Canada's few market intermediaries focused on human development social enterprises—have become well known in the social services community. The businesses in its portfolio are often cited as exemplary models of social purpose business.[37] It is less-known, however, that the SCP-affiliated businesses have depended on grants from governments and/or philanthropic foundations and/or in-kind support to balance their books. In fact the only SCP-affiliated business that has generated near-market financial returns is Atira Property Management.[38] The remainder of SCP's portfolio has financially underperformed.

This is not to criticize SCP or the social purpose business model. There are numerous factors that impact the profitability and market competitiveness of this category of social venture:[39]

- The inherent business capacity of the social enterprise, including the operating and financial capacity;

---

[34] http://www.socialfinance.ca/uploads/documents/Building_the_Case_for_Social_Finance_in_Canada.pdf
[35] http://www.socialfinance.ca/uploads/documents/Building_the_Case_for_Social_Finance_in_Canada.pdf
[36] http://causeway.wikispaces.com/Resources;
http://www.trilliumfoundation.org/User/Docs/PDFs/research/Social_finance.pdf
[37] NM – forthcoming.
[38] http://www.socialcapitalpartners.ca/portfolio/sroi-reports
[39] http://socialcapitalpartners.ca/images/uploads/docs/SCP_5_Factors.pdf

- social enterprise business models are often more complex than employed by orthodox businesses, and must usually make certain compromises to meet their social objective(s);
- employment-focused social enterprises must cope with the size and nature of employment barriers faced by target employees, and the related skills/training gap that may exist; and,
- the degree of emphasis on social mission.[40]

The lacklustre financial performance of human development social purpose businesses has prompted the movement in Canada to rely on its social returns as a means to attract investors. Under current rationales, however, social returns are not recognized to have market value, and offsetting profits to achieve them is perceived by mainstream investors to be a financially uncompetitive action that belongs in the philanthropic realm. This knowledge gap is very prevalent in Canada, and has been cited as an obstacle to the development of the social enterprise model.[41]

Capital market intermediaries[42]

The bulk of Canada's small number of social finance intermediaries are engaged in debt financing, with almost none engaged in equity or quasi-equity financing. This has led to a "disequilibria in both the loan and equity markets for social enterprise—the supply too often exceeds the demand for loan capital; the reverse is true in the case of equity."[43] This imbalance has recently been made more acute by SCP's decision to scale back its "growth financing" activities on the grounds that the activity was too "labour intensive and [did] not represent the most efficient use of [their] time and resources."[44]

Without intermediaries such as SCP there are limited opportunities for risk-managed, pooled investing, making the provision of social finance equity a very inefficient and resource-heavy activity.

Another challenge is that there is limited coordination or co-investment among capital suppliers that do exist;[45] as Harji and Hebb put it,

[40] For example, when Ben and Jerry's Ice Cream was bought by corporate giant Unilever, the social/environmental performance of the business was slowly marginalized in terms of operations and organizational culture. See http://goodcap.net/resources/Venture_Capital_Journal_july108.pdf
[41] Harji and Hebb, 2009; Mendell, M. and Nogales, R. (2008). Social enterprises in OECD Member Countries: What are the financial streams.
[42] Intermediaries are financial actors that "mobilize savings, evaluate projects, manage risk, and facilitate transactions." Harji and Hebb, 2009.
[43] Harji and Hebb, 2009.
[44] http://www.socialcapitalpartners.ca/financing/types-of-financing/growth
[45] http://www.cafonline.org/pdf/Venturesome_FinancingCivilSociety_1806091.pdf

> this mismatch between supply and demand is compounded by the lack of efficient intermediation, with high search and transaction costs caused by fragmented demand and supply, complex deals, and a lack of understanding of risk. This includes a lack of understanding of the various components of structuring deals that include non-traditional financial instruments, as well as the assessment and incorporation of social risks and returns.[46]

The Monitor institute has noted that these barriers increase the "information and transaction costs" for social investors.[47] The current cost of raising capital for social ventures accounts for 22 to 43 per cent of the funds raised; in contrast, orthodox for-profit ventures spend between 2 and 4 per cent raising capital.[48]

On the demand side of things, there is the question of absorptive capacity. Assuming there was more capital supply available, "would Canadian social ventures have the absorptive capacity to use the capital to build their operations and their commensurate ability to achieve improved social and environmental outcomes?"[49] To address the potential issue for absorptive capacity, there is further need for strategic and operational capacity building on the demand side (although judging from the myriad of social innovation organizations currently in operation, this is becoming less of an issue).

Social impact measurement

Other social enterprise fundamentals have not resonated with investors. On this topic, research by Hebb suggests that private investment in social ventures is impeded by the hesitancy of investors to observe the validity of social impact measurement models, or "social metrics."[50]

Social metrics refers to the practice of quantitatively identifying the social outcomes of an enterprise's business activity, often expressed in monetary terms. Measuring social impact is considered by experts to be a key organizational activity for social enterprises for two main reasons: the information resulting from assessments allows social entrepreneurs to identify objectives, strategies, risks and evaluate businesses' ability to meet their preferred social outcomes; and, most germane to this paper, assessing these

---

[46] Harji and Hebb, 2009.
[47] Harji and Hebb, 2009.
[48] Meehan, W., Kilmer, D., and O'Flanagan, M. (2004). Investing in Society, *Stanford Social Innovation Review,* Spring, pp. 34-43.
[49] http://socialventureexchange.org/?p=149
[50] Hebb, T., A. Hamilton, and H. Hachigian (2009). Responsible Property Investing in Canada: Factoring both Environmental and Social Impacts in the Canadian Real Estate Market, *Carleton Centre for Community Innovation*.

outcomes lets investors know that they are indeed contributing toward social or environmental progress.[51]

A standard, pan-sector social impact measurement model has yet to be established in Canada, or the world. Currently, there are dozens from which organizations can choose, depending on the nature of the outcomes they seek. On this account, some experts have accused social metrics of being unreliable, and vulnerable to inflated calculations.[52]

Both mainstream investors and foundations have expressed suspicion over how accurately social impact measurement tools can capture the social returns of business activities.[53] After all, how can one measure social "goodness?" This suspicion is directed in particular to social purpose businesses that aim to generate human development-related returns. Environmental social enterprises, on the other hand, do not face such harsh criticism, because they are able to base their assessments on widely-recognized impact models employed in the environmental industry, such as carbon measurements—though most also include a social aspect in organizational social impact assessments.

It should be noted that not all investors have shrugged off the concept of social venture. But given the typically lower returns, social venture capitalists tend to be motivated by some additional concern for positive social and/or environmental outcomes, and are willing to offset financial gain with social returns.[54] Other investors capitalize businesses solely on the ground of the potential social returns they could yield. In either case, social venture capitalists—just like their orthodox counterparts—are concerned in enterprise fundamentals, and aim to identify sustainable business models that can successfully deliver on their mission. And like any investment, there exists a correlation between risk and return(s).

Moving forward: The horizon of social finance in Canada?

The very notion of social enterprise is still in a nascent, largely theoretical state, and as such the relevant financing mechanisms are not yet in place. Though some Canadian

[51] http://issuu.com/eastsky/docs/iris_webinar
[52] http://www.monitorinstitute.com/impactinvesting/images/Impact-Investing-Report_000.gif
[53] Hebb, 2009; Anonymous interview, 2010.
[54] Emerson, J. (2003). The Blended Value Proposition: Integrating Social and Financial Returns, *California Management Review*, 45(4).

investment firms have realized profits through social financing initiatives, they have been typically small in size and have required intense involvement on behalf of investors and entrepreneurs. Harji and Hebb speak to this experience when they suggest that the greatest challenge to the growth of the social enterprise sector may be a lack of efficient intermediaries.[55]

However, there are a number of legitimate ideas that have been gaining some momentum with regard to the ways that social financing and investment processes could be streamlined and pooled to be less onerous and more tangible for investors. The following presents a number of these proposed initiatives:

- The Intersol Group is examining the prospects of a loan and investment fund modelled after the Nonprofit Finance Fund in the US, which seeks to provide working capital and bridge loans to non-profit and charitable organizations. Using private sector (banks) and philanthropic capital, the fund would act as an intermediary, providing access to capital for organizations that traditionally have had a difficult time securing financing loans and financing.[56]

- The Social Investment Organization is looking into the possibilities for "a province-wide or national investment offering that would provide financing to community organizations operating social enterprise initiatives."[57] This initiative would involve the establishment of a social enterprise pool, or a "fund of funds," as well as a vehicle for individuals and institutional investors to invest in the underlying pool.

- MaRS and Edgestone Capital are seeking to establish a social venture fund, which would aim to encourage social innovation and fund social entrepreneurs. It would be primarily for early stage ventures with strong potential to scale (similar to the focus of Social Capital Partners).[58]

  Causeway has also proposed a similar initiative called a blended investment fund, which would "invest in blended value enterprises across Canada that generate both financial and environmental/social returns... The fund would seek

[55] Harji and Hebb, 2009.
[56] http://www.marsdd.com/blog/2010/02/09/new-capital-on-the-horizon/
[57] http://www.socialinvestment.ca/documents/RFP_ImpactInvesting_Dec2009.doc
[58] http://www.marsdd.com/blog/2010/02/09/new-capital-on-the-horizon/

to achieve market or near-market financial returns while targeting measureable social and/or environmental impact."[59]

Both would be based off of Bridges Ventures Social Entrepreneurs Fund in the UK.

- Causeway has advocated for a social investment bank, which "would help drive deal flow, lead financial product/instrument innovation, perform social and financial return analyses, underwrite social venture deals, and assist with due diligence."[60]

- Adam Spence, executive director of the Ontario Association of Food Banks and founder of the Social Venture Exchange, has recently suggested that bonds could be used as an means of providing financing for projects or work with positive social and environmental outcomes, particularly with regard to housing and community infrastructure.

  For decades, bonds have been successfully issued by UK, US and European governments to finance the repair and construction of affordable housing units (i.e. public housing bonds). In the US, Housing Authority Bonds "issued by state or local governments to help finance the construction or rehabilitation of affordable rental housing. Under certain programs, the proceeds from Housing Authority bonds may also be used to help low-income individuals and families purchase a home. The interest received by investors in these bonds is generally exempt from federal, state, and local income taxes."[61] They are typically issued by local public housing authorities and secured by the net rental revenues, and may or may not be guaranteed by the state or federal government.[62]

  The UK government has recently implemented their first Social Impact Bond, which can be defined as "a contract between a public sector body and Social Impact Bond investors, in which the former commits to pay for an improved social outcome. Investor funds are used to pay for a range of interventions to improve the social outcome... This first issue will fund social organisations working to reduce the re-offending rates of short-sentence male prisoners leaving Peterborough Prison. The Ministry of Justice has agreed to make payments to

[59] http://www.socialfinance.ca/uploads/documents/Building_the_Case_for_Social_Finance_in_Canada.pdf
[60] http://www.socialfinance.ca/uploads/documents/Building_the_Case_for_Social_Finance_in_Canada.pdf
[61] http://www.investopedia.com/terms/h/housing-authority-bonds.asp
[62] http://socialventureexchange.org/?p=149

investors in the event that re-offending is reduced below an agreed threshold."[63] Thus, initiatives of this type correlate risk with return, while providing an incentive to provide socially beneficial services.

Spence notes that a $200 million bond was issued by Toronto Community Housing Corporation, and that it could be replicated by other larger providers in Canada.[64]

[63] http://www.socialfinance.org.uk/services/index.php?page_ID=15
[64] http://socialventureexchange.org/?p=149