The BC-Alberta Social Economy Research Alliance

The Nonprofit Sector Capital Market in BC and Alberta

A Working Paper

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1. Project Overview

This paper explores the current state state of the Nonprofit Sector Capital Market in British Columbia and Alberta. It is important to note that this is a working paper, and not a final draft. The authors welcome feedback and suggestions from readers.

This report starts by providing a general overview of the Nonprofit Sector Capital Market and emerging trends in order to provide the reader with the necessary information and context for the ensuing discussion. The following sections focus specifically on BC and Alberta in an attempt to shed light on the recent developments of this unique Capital Market, as well as to highlight the potential role that finance could play in the development of the greater social economy. Lastly, by examining advances made in other provinces and countries, we attempt to identify the best methods and tools which could be implemented to increase the effectiveness of the Nonprofit Sector Capital Market within BC and Alberta.

Before discussing methods to develop the Nonprofit Sector Capital Market it is important to keep in mind the fundamental purpose of these efforts. Although researchers and practitioners are dedicated to creating specific organizations, legislative changes, industry practices, and financial instruments that will hopefully act to increase the effectiveness and efficiency of this Capital Market, its ultimate role is to *support* the social economy. By providing access to capital, the Nonprofit Sector Capital Market allows nonprofit organizations to fulfill their missions, thus helping communities better serve the needs of their people.

1.1. Objectives and Significance

The broad objectives of this study are 1) to gain a better understanding of the size, scope and nature of the Nonprofit Sector Capital Market in BC and Alberta, and 2) identify the best methods for strengthening and leveraging this Capital Market to support and develop the organizations within the social economies of BC and Alberta.

This project was commissioned by the BALTA steering group largely because information on the Nonprofit Sector Capital Market that specifically pertains to BC and Alberta is sparse. Previous studies had either been done at a national level or they were focused on specific projects and instruments within the Nonprofit Sector Capital Market of BC and Alberta. It was felt that this report could act as a point-source for information relevant to BC and Alberta.

1.2. Expected Outcomes

In the development of this study by the BALTA steering committee, a number of objectives were identified as key outputs for this study. These outputs are grouped into two topics:

1. **The Current Capital Market**: A description of the Nonprofit Sector Capital Market in BC and Alberta. This includes: a list of the major players, which capital instruments are currently used, what the role and functioning of governments is, the current use of program related investments (PRIs) by foundations, and other recent developments in the Capital Market.

2. **A Successful Capital Market**: The identification of what a successful Nonprofit Sector Capital Market would look like. This is achieved mainly through the benchmarking of other regions and by attempting to identify the unmet needs of BC and Alberta's nonprofit organizations. This in turn leads to the identification of gaps which currently exist in the Nonprofit Sector Capital Market of BC and Alberta. Recommendations are made to address the shortcomings of the current market.

1.3. Organization of this Report

This report is organized into eight sections, Section 1 being this introduction. Section 2 provides the reader with background information on the Nonprofit Sector Capital Market, including the concept of non-financial returns on investment, and the differing financing needs of organizations at different stages of development.

Section 3 summarizes the findings of our literature review. This section examines recent developments and trends, as well as some of the barriers that prevent nonprofit organizations from obtaining adequate capitalization.

Section 4 examines the current state of the nonprofit sector in BC and Alberta, which are the practitioners or capital seekers in this Capital Market. This includes a description of the size and scope of the market using aggregated data as well as more detailed descriptions of the co-operative sector and social enterprises.

Section 5 explores the investor side of the Nonprofit Sector Capital Market. It begins by examining the aggregate data presented in Section 4 and then continues by examining specific categories of capital providers, such as federal and provincial programs, foundations, venture philanthropy funds, credit unions, and banks.

Section 6 examines what a "successful" Nonprofit Sector Capital Market might look like. Section 6 first provides a theoretical description of a successful model and then assesses the current Nonprofit Sector Capital Market against that framework.

Section 7 explores international best practices in the Nonprofit Sector Capital Market, including the US and the UK, as well as programs and policies from other provinces in Canada.

Finally, Section 8 makes recommendations for ways to strengthen the Nonprofit Sector Capital Market of Western Canada. Suggestions include a comprehensive policy infrastructure and addressing the lack of access to equity.

1.4. The Parameters of the Nonprofit Sector Capital Market

The Nonprofit Sector Capital Market can be technically defined as the Capital Market which serves organizations that are incorporated as nonprofit societies or nonprofit cooperatives. Limiting our scope to solely nonprofit organizations, however, can be problematic. There are other types of organizations, including for-profit co-operatives and social purpose businesses, which may also be relevant to this discussion. Quebec, for example, includes for-profit co-operatives in their “economie sociale” because they are democratically controlled. Here, we define the Nonprofit Sector Capital Market as the market which serves the financial needs of nonprofit organizations, but we also use the broader term, “social economy organization” where relevant.

“Social economy” is a term with multiple definitions, but we are satisfied with the following description which is provided by The Canadian Community Economic Development Network (CCEDNet):

“The Social Economy consists of association-based economic initiatives founded on values of:

- *Service to members of community rather than generating profits;*
- *Autonomous management (not government or market controlled);*
- *Democratic decision-making;*
- *Primacy of persons and work over capital; and,*
- *Based on principles of participation, empowerment.*

The Social Economy includes: social assets (housing, childcare, etc.), social enterprises including co-operatives, equity and debt capital for community investment, social purpose businesses, community training and skills development, integrated social and economic planning, and capacity building and community empowerment. The Social Economy is a continuum that goes from the one end of totally voluntary organizations to the other end where the economic activity (social enterprise) blurs the line with the private sector.”[1]

With these broad definitions in mind, we take the Nonprofit Sector Capital Market to be the market which supports the financial needs of the nonprofit organizations within the social economy. Although BALTA has purposely narrowed the scope of this paper to the nonprofit sector, many of the instruments and policies highlighted within this paper are relevant to *all* social purpose organizations.

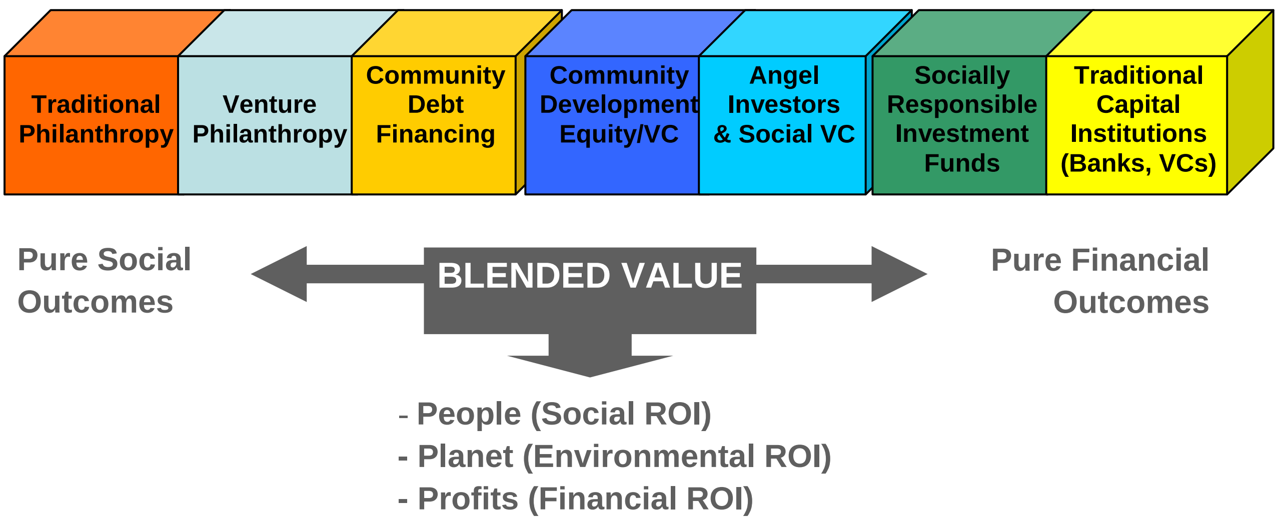
For obvious reasons relating to the scope and goals of BALTA, the geographical region is primarily focused on BC and Alberta. When looking for relevant examples of organizations and capital market instruments outside of BC and Alberta, an effort was made to use other Canadian examples. This is because we believe that Canadian examples are of the greatest interest and relevance to BALTA. When benchmarking against international practices, most of our research came from examples and studies related to the United States and the United Kingdom. This was done for two reasons:

1. Relative to Canada, both the US and the UK have very developed Nonprofit Sector Capital Markets.
2. Many historical, legal, political, and cultural similarities exist between Canada and both the US and the UK, making the comparisons more relevant than if we had benchmarked Canada to less similar social economies.

[1] CCEDNet National Policy Council. *Social Economy Roundtable Consultation Briefing Notes*, 2005.

2. An Introduction to the Nonprofit Sector Capital Market

The concept of a Nonprofit Sector Capital Market is a relatively new one. Until recently, the traditional capital market seeking to maximize pure financial returns existed at one extreme, while the philanthropic market seeking pure social returns existed quite separately at the other extreme, and little or nothing lay in between. The choices for financing a nonprofit organization were limited to grants, donations, or conventional loans. Over the past decade or so, changing investor sentiment and the increasingly complex needs of the nonprofit sector have contributed to the creation of many investment products that fall somewhere between the two extremes of pure financial returns and pure social returns. Jed Emerson calls this the "blended value zone", where capital can be invested for a blend of social, environmental, and economic returns. Investment products in this zone include various forms of secured and unsecured debt, debt/equity hybrids, and equity equivalents. Jed Emerson provides the following schematic of the "blended value zone":[2]



Just like for-profit business ventures, nonprofits and social enterprises require different types of financing at different stages of development, as well as other specialized types of support, *to move from start-up to sustainability*. A typical development path for a nonprofit or social enterprise could involve the following types of financing: seed capital (usually in the form of grants) to formulate an idea and conduct feasibility analyses, start up funding (usually grants, but could include equity equivalents) to begin operations, primary financing (grants or fee-for-service revenue) to roll out their first programs, secondary financing (grants, fee-for-service revenue, or specialized debt products) to expand program offerings, mezzanine financing (grants, fee-for-service revenue, or specialized debt products) to go to scale, and finally, the “Holy Grail”: reaching the mainstream, where the organization has sufficient cash flow, reputation, and history that it can attract regular, conventional bank financing such as senior debt, lines of credit, and more.

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[2] www.blendedvalue.org.

In this paper, we will propose that a successful Nonprofit Sector Capital Market would provide a range of financial products and services matched to these different stages of development, with the appropriate amount of capital available at each stage. We will then assess the status of the Nonprofit Sector Capital Market in British Columbia and Alberta using this lens.

3. Insights and Assumptions

We carried out a selective literature review which uncovered a number of reoccurring themes. Some of these themes seem to be generally accepted as fact, or else they are rapidly emerging as important trends. This review is not meant to be comprehensive in its scope. Instead, it is used to highlight many of the assumptions and establish some important terminology; thus laying the groundwork for the discussion which follows.

3.1. The Market is Under-Developed

To gain an understanding of the Nonprofit Sector Capital Market, it is often compared and contrasted with the traditional capital market. In the traditional market we see that a business requires, and has access to, a wide variety of financial instruments. These instruments are tailored to the current phase of the business' life-cycle, as well as the specific application and risk of the capital. However, when we examine the Social Purpose Capital Market, it is apparent that there are far fewer instruments available to social economy organizations. Nonprofits have traditionally been restricted to grants, donations, and just a few basic services from financial institutions. Additionally, the traditional capital market offers a variety of risk-related financial returns to the investor. The Nonprofit Sector Capital Market, on the other hand, has traditionally only offered tax credits as a financial incentive for those who donate to registered charities (resulting in a financial return of approximately -85% after the benefit of the tax credit).

This apparent lack of diversity and development in the Nonprofit Sector Capital Market creates severe funding problems for many nonprofit organizations. Many people have been actively calling for, and working on, the development of the Nonprofit Sector Capital Market. They commonly approach the subject in one of two ways:

1. **Development of the Market as a Driver of the Social Economy**: This argument states that further development of the Nonprofit Sector Capital Market, by way of new instruments, incentives, institutions, regulations and practices, is essential to supporting and furthering the growth of social economy organizations.
2. **Development of the Market as a Reaction to the Social Economy**: This asserts that the static nature of the Nonprofit Sector Capital Market does not reflect the important changes that have occurred in the social economy (as discussed below). For example, social enterprises do not fit into the traditional mould of either a nonprofit or a traditional business. Consequently, they are chronically underserved by *both* capital markets in Canada. Thus, improving the Nonprofit Sector Capital Market would increase the efficiency and effectiveness of these dynamic social economy organizations.

Since it is apparent that a robust capital market is essential to support any sector, it is widely believed that substantial gains can be made, both in helping current nonprofit organizations and also in driving the growth of future ones, by improving the Nonprofit Sector Capital Market.

3.2. Natural Disadvantages

Nonprofits are often extremely efficient and effective at meeting their goals and serving the communities that they operate in. However, when we examine them from a strictly financial perspective (as many investors and financial institutions do), we find that there are three major hindrances to servicing these social economy organizations which are frequently cited:

1. **Internalized Costs, Externalized Benefits**: Our society allows (and our economy encourages) most businesses to externalize many of their environmental and social costs. Nonprofits and Social enterprises choose to internalize many of these costs as they seek to generate both financial and non-financial returns. Additionally, nonprofits tend to externalize benefits to the public (e.g. educated citizens, restored watersheds, etc.), which are not properly valued by the conventional financial market. Thus, nonprofits are at a major disadvantage within the conventional financing paradigm- their costs are higher and their financial returns are lower than conventional businesses, and many of the benefits they create are shared freely with the public. These organizations offer a blended value which is not recognized by the traditional market. These factors place nonprofit organizations at a disadvantage to traditional businesses when it comes to accessing capital because in a traditional market, *capital seeks the maximum risk-adjusted financial return*.
2. **Lack of Equity**: Equity is the major driver of investment in the traditional market (via the global stock exchanges) but most social economy organizations cannot by law offer equity investments, due to the rules of their incorporation. Equity is essential to a business' capital structure during pre-revenue and pre-profitability stage is, and it is also typically required to support debt. Thus, social economy organizations are at a disadvantage both attracting investment and securing debt.
3. **Lower and Restricted Cashflows**: Cashflow is the lifeline of a traditional business. However, since nonprofits usually rely on grants and donations (as opposed to earned revenues) they often do not have adequate proven cashflows to support the debt that is required to expand operations or purchase major assets. The cashflows that nonprofits do possess typically come from sources that financial institutions are less familiar with (foundations, governments etc). As such, many financial institutions do not regard them as secure cash flows capable of supporting debt. Additionally, as previously mentioned, most grants are tied to specific programs making them unavailable for servicing debt.

Since these have been identified as areas which are restricting the development of the Nonprofit Sector Capital Market, there are many attempts to find ways to overcome these obstacles. For example, many organizations have been looking at ways to provide social economy organizations with equity-equivalents. These efforts have resulted in instruments such as patient capital and they will be discussed further in Sections 6 and 7. Social enterprises, which are focused on earning revenues through the sale of goods or services, are one way in which nonprofits have attempted to increase unrestricted cashflow.

3.3. The Emergence of Social Enterprises

The emergence of social enterprises, as well as for-profit businesses with socially aligned goals, is another major "theme" which is frequently cited in the literature. The main driver of this trend seems to be the increasing adoption of business principles by philanthropists, foundations, and social economy organizations. This focus on for-profit business practices started in the early to mid-1990s and it was largely driven by the "general enthusiasm for business, which reached a fever pitch during the booming 1990s".[3] Simply put, the for-profit venture seems to have been an extremely effective means to maximize financial return. Many asked: couldn't this same engine be tuned to maximize other returns instead?

A new generation of philanthropists decided to use the same tools which made them wealthy to help make the nonprofit organizations they supported more effective. Although this is most obvious in practices such as venture philanthropy and social enterprise, it is becoming increasingly common for nonprofits to apply "business rigor" to all levels of operations. This includes an increased focus on transparency, as well as social metrics so that agencies can prove their effectiveness to potential investors/donors in achieving non-financial returns. A brief scan of a foundation's website, even one who does not claim to take a venture philanthropist approach, reveals goals such as "building and maximizing the capacity, effectiveness and financial sustainability of social innovators."[4] Also, in a recent survey of nonprofit organizations in Canada, the US, and the UK, 69% of respondents agreed that philanthropists were increasingly adopting methods borrowed from for-profit investors.[5]

Another one of the oft cited reasons for the adoption of business principles, especially pertaining to social enterprises, is the belief that the application of traditional business rigor to nonprofits will help bring improved financial performance to these organizations. This, it is believed, will not only help nonprofits become more efficient with the funds they currently have, but it could also help them when seeking new sources of capital.

Another important driver of this move towards social entrepreneurship is simply as a means to obtain funding for the nonprofit's mission. Nonprofit organizations in Canada faced a major reduction in government funding in the 1990s. Between 1992 and 1999, government spending on programs was reduced by 20%.[6] The previously mentioned survey found that 96% of nonprofits felt it was important for them to explore new ways of accessing capital.[7] However, it is not just a shortage of capital that makes earned revenues so attractive, it is also the security and freedom they offer, as compared to grants. Many nonprofits are challenged by funding uncertainty, often due to changing objectives of funders. Additionally, nonprofits face a shortage of funding for certain aspects of their organizations. For example, nonprofits commonly claim that program-specific funding is available while such things as working capital, operations, the acquisition of assets, and expansions are chronically underfunded. Both of these ideas (a decrease in government funding and difficulty obtaining funding for some aspects of operations) are supported by a comprehensive study of Canada's nonprofit organizations (more detail of this study in Section 4). Some of the findings of this study are summarized below in **Table 3.1**. While a

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[3] William Foster and Jeffery Bradach, *Should Nonprofits seek Profits?* Harvard Business Review, February 2005.
[4] www.kahanoff.com/about/mission_statement.php.
[5] Natasha van Bentum and Maggie Leithead. *Strengthening Organizational Capacity*, 2007.
[6] Michael Hall et al. *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective*. Imagine Canada, 2005.
[7] Natasha van Bentum and Maggie Leithead. *Strengthening Organizational Capacity*, 2007.

majority of nonprofits report problems with funding in nearly every category, this is especially true for the "Government Dependent" organizations.

Table 3.1 – Reported Funding Issues by Revenue Dependency: British Columbia/Canada

		Reported Problem		
Nonprofit's Main Source of Revenues		**Over-reliance on Project Funding**	**Unwillingness to Fund Core Operations**	**Reductions in Government Funding**
Government Dependent	BC	68%	75%	88%
	Canada	71%	72%	78%
Earned Revenues Dependent	BC	50%	52%	61%
	Canada	54%	52%	59%
Donations/Gift Dependent	BC	45%	59%	48%
	Canada	43%	53%	48%
Diverse Funding Sources	BC	57%	68%	65%
	Canada	60%	64%	68%

Source: Vic Murray. The Nonprofit and Voluntary Sector in British Columbia: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations. Imagine Canada, 2006.

Although this move towards adopting business principles, including generating revenues, is widely accepted as a fact, there is no documented proof that nonprofits, as a whole, have yet managed to actually generate a significantly greater percentage of their revenues through enterprising behaviour or otherwise. An article in the Harvard Business Review compared nonprofits in the US from 1970 to those in 2000. It found that the percentage of earned revenue for nonprofits operating in 1970 was nearly identical to nonprofits operating in 2000 (46% v. 47%, respectively).[8] However, this study examined *nonprofits only* and not the social economy as a whole. Many social economy organizations that tend to have a more enterprising focus, such as co-operatives, are not structured as nonprofits and therefore they would have been omitted from the study. Supporting the idea that nonprofits are moving towards revenue generation (but perhaps have not yet made such a move), is a recent Bridgespan survey which found that over half of nonprofits felt that earned revenues would play an "important" or "extremely important" role in their organizations in the future.[9]

Overall, the anecdotal evidence suggests that there has been an increased focus on earned revenues for nonprofits and social enterprises. However, it would be informative to track over time the number social economy organizations and the sum of their earned revenues so that we could get a clearer picture of the magnitude of this shift. For now, we consider the rise of social enterprises and a general increasing focus on earned revenues to be an accepted trend.

[8] William Foster and Jeffery Bradach. *Should Nonprofits Seek Profits?* Harvard Business Review, Feb 2005.
[9] Natasha van Bentum and Maggie Leithead. *Strengthening Organizational Capacity*. 2007.

3.4. Shifting Demographics

With the aging of the baby boomers, combined with current low birth rates, it is thought that there will be two important forces affecting social economy organizations. First, an increased strain will be put on social organizations as they are called upon to care for our aging population. It has been estimated that Canadians 65 years of age and older will account for nearly 25% of Canada's population by 2030, almost double the 13% they make-up today.[10] This demographic pressure emphasizes the need for an improved Nonprofit Sector Capital Market, to help fund these social economy organizations.

The second effect of the aging population is that there will be a major transfer of wealth as a portion of estates and savings are bequeathed to foundations and nonprofit organizations. In 1999, researchers from Boston College (John J. Havens and Paul G. Schervish) estimated that by 2052, $41 trillion in assets would be transferred - $6 trillion of this to charities.[11] In Canada this wealth transfer has been estimated at between $200B[12] and $1 trillion dollars.[13] Although these numbers are only estimates (in fact, many people question why we have not already begun to see the effects of these transfers)[14], even the lower-bound estimates are substantial enough to attract the attention of financial institutions, thus leading to the potential for further development of the Nonprofit Sector Capital Market.

Another important demographic factor is the erosion of the middle-class and the increasing wealth disparity which occurred in Canada. This occurrence is supported by numerous studies and surveys. For example, Andrew Heisz examined data from 1976 to 2004 and found that, in general, income inequality remained relatively stable until the late 1980s. However, since that time Canadians have witnessed a significant increase in income inequality. The middle-class (as defined by income) has decreased in size as both the lower- and higher-income classes have increased in size. Also, the disparity between the top 10% of incomes and bottom 10% of incomes has increased – from $110,000 in 1995 to $147,600 by 2004, as lower-income families experienced falling real incomes, and middle- and upper-income families experienced rising real incomes.[15] If this trend continues, we could witness an increased dependence on the services that Canada's nonprofit organizations provide as an increasing number of lower-income families struggle to make ends meet.

3.5. High Cost of Capital

There have been reports which place the cost of fundraising for nonprofits – what we might call a "cost of capital" for traditional businesses – as high as 50%.[16] This is a result of the significant resources that nonprofits must devote to fundraising campaigns and writing grant requests. For-profit businesses, even high-risk businesses, have costs of capital that are substantially lower than this. This high cost of capital

[10] www.td.com/economics/special/ca1106_charity.jsp
[11] John J. Havens and Paul G. Schervish, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*. Boston College Social Welfare Research Institute, October 1999.
[12] www.50plus.com/Money/BrowseAllArticles/index.cfm?documentID=7500
[13] www.td.com/economics/special/ca1106_charity.jsp
[14] *Wealth Transfer: A Digest of Opinion and Advice*. The Journal of Gift Planning, V. 10 (2), 2006.
[15] Andrew Heisz. *Income Inequality and Redistribution in Canada: 1976 to 2004.* Analytical Studies Branch Research Paper Series. Volume 2007, Number 298.
[16] Arthur Wood and Maximillian Martin. *Market-Based Solutions for Financing Philanthropy*.

suggests that stable long-term funding, combined with an increased development of the Nonprofit Sector Capital Market, has the potential to lead to significant efficiency gains. This, in turn, could greatly increase the ability of nonprofits to serve their communities.

3.6. Changing Investor Sentiment

There is a great deal of speculation that a change in investor priorities is well underway. This shift is away from profit maximization and towards socially and environmentally-conscious investments. It has been suggested that these socially conscious investors could help drive the development of the social economy. This belief that investors have changed their motivations stems from the fact that socially responsible investments (SRIs) have been the fastest growing segment of all investment funds. In the US, SRI mutual funds have increased from 55 funds with $12B in assets in 1995, to 260 mutual with $202B in assets as of 2007.[17] Worldwide, it is estimated that $2.71T, or 11% of all assets under management, is involved in socially responsible investing. Of these SRIs, the community development sector has grown most rapidly in the past decade – from $4B to nearly $26B. However, we must be wary when making judgments regarding investor sentiments. Although SRI growth is considered a positive trend, it does not prove that investors are actually willing to trade financial returns for social ones by investing in social enterprises. Virtually all SRIs claim that they can meet or beat regular investments financially, *plus* provide a social return.

3.7. Cultural Barriers

While the social enterprise sector is vibrant and growing, interviews with social enterprise experts David LePage (Executive Director of Enterprising Nonprofits) and Tim Draimin (former Executive Director of Tides Canada Foundation) revealed some challenges. First and foremost, there is a significant cultural gap that must be bridged: nonprofit organizations are not trained to take risks, but enterprises require risk-taking in order to succeed. Once this cultural gap is bridged, nonprofits generally need a lot of technical assistance to build their capacity in entrepreneurship and enterprise management. It is only at this point that nonprofit social enterprises would be able to take on significant investments. Consequently, there is a long pipeline of social enterprise development: first, are the vast numbers of nonprofits that have not yet considered an enterprising function; then, there is a smaller group of nonprofits that are convinced in concept, but need a lot of help to prepare their business plans; finally, there are a very small number of successful, entrepreneurial social enterprises that have huge potential but are limited by lack of capital.

Another important component, which acts as a barrier to social enterprises, is the fact that nonprofits lack dedicated staff to explore the potential for new enterprising opportunities. This is because nonprofits do not have the funding to support such personnel. In reality, hiring personnel to explore opportunities and potentially run revenue generating operations is an *investment*. However, in our current system there are few, if any, organizations that would be willing to support this type of investment for a nonprofit as most funding agencies prefer to support specific programs.

[17] www.socialinvest.org/resources/sriguide/srifacts.cfm

3.8. Summary

Jed Emerson sums up the general feeling regarding the Nonprofit Sector Capital Market, which is echoed throughout the literature:

"it is widely felt that the (Nonprofit Capital) Market itself does not offer enough capital in the size, form and appropriate stages needed by the nonprofit sector. This is reflective of the fact that the Nonprofit Capital Market is in many ways neither fully developed nor mature."[18]

Thus, it is widely believed that the development of the Nonprofit Sector Capital Market could better support the social economy by:

- improving the efficiency of the existing system by creating new tools and services to *better serve existing nonprofits and social enterprises*;
- creating new tools and services to help support and *drive the creation of new nonprofits and social enterprises*.

As Asad Mahmood of Deutsche Bank said at a Causeway conference on social finance, his bank believes that anything which has a cashflow can be financed. The key is to bring "differently motivated" money together.[19]

4. The Current State of the Nonprofit Sector Capital Market in BC and AB: Practitioners, or Capital Seekers

This section attempts to provide the reader with a basic overview of the nonprofit and voluntary organizations within Canada, and more specifically, within BC and Alberta. These are the organizations which require capital and would directly benefit from an improved Nonprofit Sector Capital Market. The providers of these funds (i.e. the "funders" and the financial intermediaries) will be discussed in Section 5. Also included in this section is a discussion on co-operative businesses. Co-operatives are an important part of the social economy but since many are not recognized as nonprofits, they were largely left out of the initial, aggregated data on nonprofits. Finally, this section examines some of the social enterprises that are operating in BC and Alberta. These businesses, like co-operatives, are not typically structured as nonprofits, but they are influential social economy organizations and their existence creates new demands and new possibilities for social finance.

Parts of this section were influenced by, and therefore have significant overlap with, the BALTA research paper "*Preliminary Profile of the Size and Scope of the Social Economy in Alberta and British Columbia*" by Dr. Jose Sousa and Evelyn Hamden. For a more comprehensive review of the topics in this section (and to some extent Section 5), it is recommended that you refer to the original article.

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[18] Jed Emerson. *The US Nonprofit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Instruments.* The Roberts Foundation, 2000.
[19] Coro Strandberg. *Causeway :Social Finance Forum*. October 15, 2007.

4.1. Nonprofit and Voluntary Organizations: an Overview

Much of the data we have regarding Canada's nonprofit sector comes from two surveys conducted by Statistics Canada; the *National Survey of Nonprofit and Voluntary Organizations* (NSNVO), from 2003, and the *Canada Survey of Giving, Volunteering and Participating* (CSGVP) from 2004. These surveys provide the most extensive information regarding Canada's nonprofit sector to date. The information from these surveys has been analyzed and reported on in numerous excellent reports. It is these secondary sources which are cited in this report.

Regarding the definition of a nonprofit or voluntary organization, there are five main structural criteria used by these surveys: nonprofits must be organized, private, non-profit distributing, self-governing, and voluntary.[20] These criteria were used to try to avoid classification based on legal structure, and instead include all applicable organizations from the voluntary sector, nonprofit sector, charitable sector, civil society sector and community-based organizations. However, these criteria did create problems when describing publicly funded institutions such as universities and hospitals. These institutions are not entirely "private" and some would argue they belong to the public economy rather than the social economy. Ultimately, hospitals and universities were included in the original aggregated data. Also, co-operatives (which many *would* include as important players in the social economy, as co-operative principles place mission above maximizing profit) are generally not included in this aggregate data. This is because co-operatives (unless designated as nonprofit co-operatives) distribute benefits to their share holders (members) and thus fail the "non-profit distributing" criteria. It is also important to recognize that NSNVO only include registered, or incorporated, organizations. Consequently, the unincorporated nonprofit organizations, such as small community groups, were also omitted. We did not attempt to estimate the social or financial impact of these non-registered social economy organizations.

Also of note, in Canada nonprofits are broadly categorized as charitable or non-charitable. The Canadian Revenue Agency (CRA) defines charitable activities as: "the relief of poverty, the advancement of education, the advancement of religion, or other purposes that benefit the community in a way the courts have said are charitable."[21] Registering with the CRA as a charity affords specific tax advantages, which aid in attracting donations and grants. However, charitable status also comes with limitations on how a society may use its resources; for example, political activities are limited. Organizations that do not fit the CRA criteria, such as sport clubs and professional groups, are ineligible for charitable status and the associated tax credit.

4.1.1. Nonprofits and Voluntary Organizations: Canada

According to the data provided by the NSNVO, the nonprofit and voluntary sector consists of over 160,000 organizations which vary greatly in both size and scope. The total sector adds over $75B to the national economy which equates to approximately 8.5% of the GDP.[22] If we include all of the voluntary hours provided by Canadians then the sector accounts for 2.073M full-time equivalent jobs. This

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[20] Michael Hall et al. *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective.* Imagine Canada, 2005.

[21] http://www.cra-arc.gc.ca/tx/chrts/dnrs/fq/menu-eng.html#q1. Accessed May 5, 2009.

[22] Michael Hall et al. *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective*. Imagine Canada, 2005.

translates to 12.1% of the economically active population of Canada being employed in the nonprofit and voluntary sector. This makes Canada's nonprofit sector, proportionally, the second largest in the world.[23]

A more recent search of the CRA website shows that these numbers have held steady since the time of the survey as there are still roughly 160,000 nonprofit organizations in Canada. [24] Just over half of these, or 83,466, are registered charities, of which, 74,057 are charitable organizations while 9,407 are foundations.

When examining this sector, it is neither accurate nor useful to think of the nonprofit sector as a single, cohesive industry. Many of the organizations included within this aggregate data are not what we would necessarily consider participants in the social economy (like the hospitals and universities previously mentioned). Although it is not the goal of this paper to define what should and should not be included in the social economy, we feel it is necessary to filter some of this aggregate data. The huge budgets of hospitals, universities, and colleges contribute greatly to the total economic impact of this sector. Filtering out these institutions reduces the sector's contribution to $34.7B (approximately 4.0% of the GDP) and the number of full-time equivalent jobs to 1.541M.[25] Also of interest, by removing the large publicly-funded institutions, the major source of financing shifts from government to fees, or earned revenues (see **Table 4.1**).

Table 4.1 – GDP Contribution and Revenue Sources with and without Hospitals, Universities, and Colleges

	With Hospitals, Universities, and Colleges	W/out Hospitals, Universities, and Colleges
GDP Contribution (bill.)	$ 75.9	$ 34.7
Fulltime Equiv. Jobs (mill.)	2.073	1.541
Sources of Revenues:		
Government	51%	39%
Fees	39%	48%
Philanthropy	9%	12%

Source: Michael Hall et al. *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective.* Imagine Canada, 2005.

4.1.2. Nonprofit and Voluntary Organizations: British Columbia and Alberta

Imagine Canada used the data from the 2003 NSNVO to compile profiles of the nonprofit sector of each province. From this we see that BC and Alberta together comprise approximately 25% of Canada's 161,000 nonprofit and voluntary organizations with 20,000 and 19,000 organizations respectively. Again, hospitals, universities and colleges account for a disproportionately large amount of the revenues. With these removed, the organizations have approximately equal total revenues in each province, at $9B (see **Table 4.2**). According to the CRA, of these nonprofit organizations, approximately 58% and 46% are registered as charitable organizations in BC and Alberta, respectively.

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[23] ibid
[24] www.cra-arc.gc.ca/tx/chrts/nln_lstngs/cnrg_ntrm-eng.html Accessed June 17, 2008.
[25] Michael Hall et al. *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective.* Imagine Canada, 2005.

Table 4.2 –Nonprofit Organizations in BC and AB: Number and Revenues

	British Columbia	Alberta
Number of Organizations[1]	20,000	19,000
Total Revenues (mill)	$ 11,000	$ 10,000
Paid Staff (000's)	147	176
Less Hospitals, Universities & Colleges		
Total Revenues (mill)	$ 9,000	$ 9,000
Paid Staff (000's)	114	105
Registerd Charities[2]	11,587	8,825

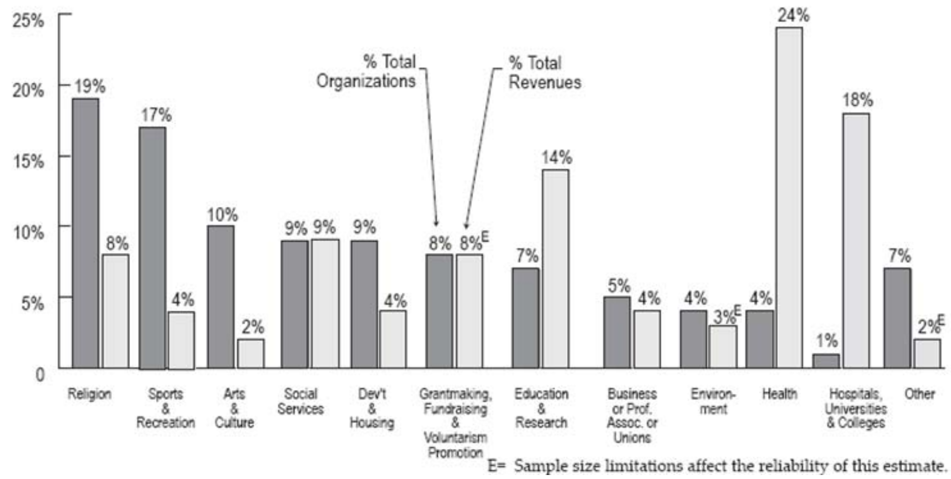
Sources: [1]Factsheet: *The Nonprofit and Voluntary Sector in British Columbia, Alberta*. Imagine Canada 2005
[2]www.cra-arc.gc.ca/tx/chrts/nln_lstngs/cnrg_ntrm-eng.html Accessed June 17, 2008.

Activity Areas and Revenues: The Imagine data shown in **Figure 4.1** shows that the most common type of nonprofit organizations are ones not necessarily associated with the social economy. In BC these are Religious, which account for 19% of all nonprofits, followed by Sports and Recreation, 17% of nonprofits. In Alberta (**Figure 4.2**), Sports and Recreation organizations outnumber religious organizations (26% and 19%, respectively). Despite the large numbers, the small scale of these types of organizations means that they have a limited impact on total revenues. In Alberta, where Sports and Recreation and Religion combine for 45% of all organizations, they account for just 16% of the revenues. Conversely, Hospitals, Universities, and Colleges account for just 1% of the organizations in BC and Alberta, but 18% and 11% of the revenues. Although these organizations may not immediately come to mind when we think of "social economy organizations", it is difficult to disaggregate this data. For example, many churches reach outside their congregations to serve their broader communities. The Edmonton City Centre Church Corporation (or E4C) is a nonprofit organization owned by local churches which funds a very diverse set of social activities and organizations. Also, some sports and recreational group may specifically target disadvantaged youth and most also promote healthy activities and social interaction.

The more "traditional" nonprofit types - Social Services, Development and Housing, Environment, and Grantmaking, Fundraising and Voluntarism Promotion - combine for 30% of the organizations and 24% of the revenues in BC[26] and 25% of the organizations and 34% of the revenues in Alberta.[27] These percentages translate into approximately 6,000 organizations with $2.64B in revenues in BC, and 4,750 organizations with $3.4B in revenues in Alberta.

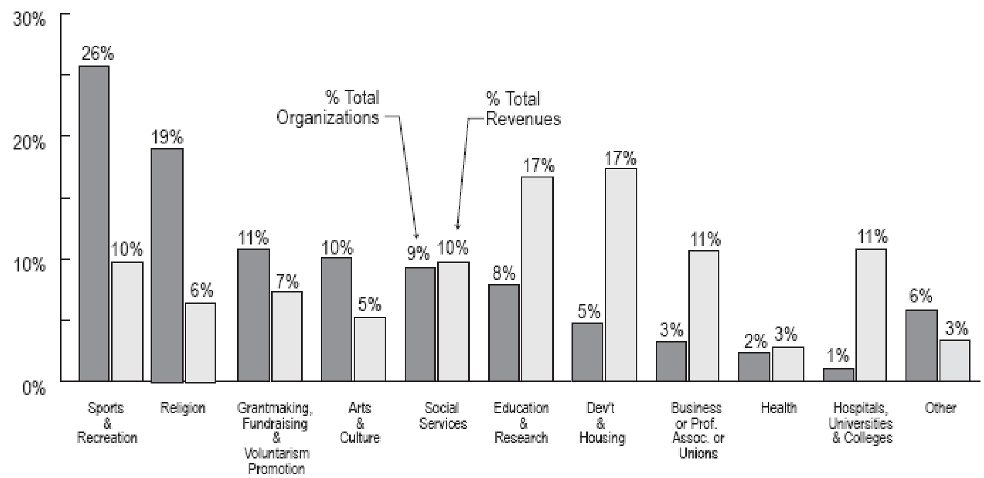
[26] Vic Murray. *The Nonprofit and Voluntary Sector in British Columbia: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.
[27] Robert Roach. *The Nonprofit and Voluntary Sector in Alberta: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.

Figure 4.1 – British Columbia: Percentage of Organizations and Revenues by Activity Area



Source: *Voluntary Sector Factsheet: British Columbia*. Imagine Canada, 2005.

Figure 4.2 – Alberta: Percentage of Organizations and Revenues by Activity Area



Source: *Voluntary Sector Factsheet: Alberta*. Imagine Canada, 2005.

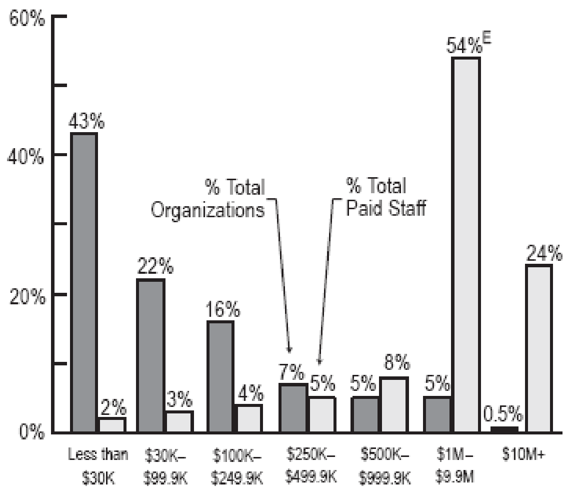
Target Population: Although many of Canada's nonprofit organizations are member-based and target only members (e.g. professional associations and unions) nearly half of all organizations claim that they serve their members as well as the general public (46% both nationally and in Alberta[28], 49% in BC[29]).

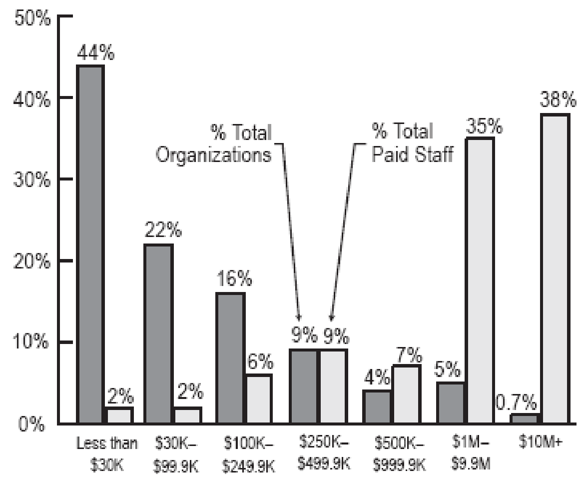
Size: There is a significant size disparity among nonprofits operating in BC and Alberta. The majority of these organizations are quite small while a few are very large. In both BC and Alberta, 90% of all organizations have annual revenues of less than $500,000, while more than 65% have annual revenues under $100,000. The vast majority of people (approximately 80%) employed in the nonprofit sector work

[28] Robert Roach. *The Nonprofit and Voluntary Sector in Alberta: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.
[29] Vic Murray. *The Nonprofit and Voluntary Sector in British Columbia: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.

for the 6% of the organizations with annual revenues greater than $1M (**see Figure 4.3**). This disparity in size may suggest different financing and strategic needs. For example, the 65% of organizations which have annual revenues of under $100,000 may have less complex financing needs, but greater need for technical assistance. There may also be potential to aid these organizations through consolidation of back office support, and other cooperative service provision. The largest organizations may have much more complex financing needs, as well as a sounder foundation from which to leverage newer investment products and programs, such as patient capital, program related investments, and social enterprises.

Figure 4.3 – Percentage of Organizations and Paid Staff by Revenue Size for Alberta and British Columbia





Source: *Voluntary Sector Factsheet: Alberta*. Imagine Canada, 2005.
Voluntary Sector Factsheet: British Columbia. Imagine Canada, 2005.

4.2. Co-operatives

Since many co-operatives do not fit the criteria of a nonprofit organization, most were excluded from the aggregate data that was summarized above in the above section. However, co-operatives are important organizations that have played a valuable role in Canada's social economy for over a century. Being democratically controlled by their members, they exhibit many similar aspects to the nonprofit sector. Every cooperative subscribes to the following cooperative principles[30]:

- 1st Principle: Voluntary and Open Membership
- 2nd Principle: Democratic Member Control
- 3rd Principle: Member Economic Participation
- 4th Principle: Autonomy and Independence

[30] International Cooperative Alliance, http://www.ica.coop/coop/principles.html

- 5th Principle: Education, Training and Information
- 6th Principle: Co-operation among Co-operatives
- 7th Principle: Concern for Community

We have divided these organizations into either financial or non-financial co-operatives. The financial co-operatives, or credit unions, will be discussed in Section 5 which deals with financing the social economy. Again, Dr. Souza and Evelyn Hamden have done a more comprehensive job summarizing the size and the scope of co-operatives in BC and Alberta and we urge you to refer to their article if you are seeking more detailed information on both co-operatives and the intermediary organizations which help support them.

The chief source of information regarding Canadian co-operative organizations comes from the Co-operative Secretariat, a Federal government program which acts to collect and share information regarding co-operatives. It does so both with and between different levels of government, as well as other key stakeholders. The Co-operative Secretariat's key activities are a result of The Co-operative Development Initiative (CDI) which has two initiatives. One is to act as an advisory service to new and existing co-operatives. The other is to fund innovation and research in the co-operative sector. The Co-operative secretariat also publishes numerous reports and statistics on co-operatives.

According to the Secretariat, there are over 8,800 co-operatives employing in excess of 150,000 people in Canada. Over 2,000 of these organizations are non-profit housing co-operatives and approximately 500 are child care co-operatives. In total, these co-operative organizations hold over $210B in assets and the non-financial co-operatives had nearly $30B in revenues as of 2007. British Columbia is home to approximately 400 non-financial co-operatives which do nearly $600M in business each year. Alberta has nearly 500 co-operatives which do over $1.4B in business annually. See **Table 4.3** for a list of the five largest co-operatives in Alberta and BC, as ranked in the Secretariat's list of the 50 largest co-operatives in Canada. These organizations have played, and continue to play, a crucial role in supplying goods and services to all Canadians, especially those in rural regions.

From a financing perspective, one of the unique aspects of co-operatives -- whether for-profit or nonprofit -- is their ability to receive equity investments from their members. This equity, attracted directly from the members who receive the benefit of the co-operative's activities, can provide a key advantage in supporting the organization's long-term financial sustainability.

Table 4.3 Non-financial Co-operatives in BC and Alberta

Rank by Revenues AB	CAN	Name of Co-operative	Province	Total Revenues	Assets	Members	Full-Time Employees	Part-Time Employees
1	4	United Farmers of Alberta Co-operative Ltd.	Alberta	$1,624,058,000	$549,361,000	221,289	775	453
2	5	Calgary Co-op Assn Ltd.	Alberta	$925,959,000	$313,785,000	413,274	1,232	2,530
3	27	Medicine Hat Co-op Ltd	Alberta	$104,706,638	$28,958,907	28,577	100	105
4	34	Red Deer Co-op Limited	Alberta	$97,518,192	$21,507,574	43,000	145	227
5	35	Western Drug Distribution Center Limited	Alberta	$97,383,946	$25,138,611	448	55	25
				$2,849,625,776	**$938,751,092**	**706,588**	**2307**	**3340**

Rank by Revenues BC	CAN	Name of Co-operative	Province	Total Revenues	Assets	Total Members	Full-Time Employees	Part-Time Employees
1	13	Mountain Equipment Co-op	British Columbia	$227,527,000	$128,933,000	2,466,788	465	731
2	28	Peninsula Consumer Services Co-operative	British Columbia	$103,880,634	$35,024,833	34,504	63	136
3	31	Vanderhoof and District Cooperative Assoc.	British Columbia	$99,856,779	$29,694,157	15,348	38	50
4	39	Otter Farm & Home Co-op	British Columbia	$95,368,089	$35,451,676	26,481	152	73
5	46	Mid Island Consumer Services Co-operatives	British Columbia	$59,382,555	$23,269,632	25,349	12	1
				$586,015,057	**$252,373,298**	**2,568,470**	**730**	**991**

Source: The Co-operative Secretariat and Souza, Jorge and Evelyn Hamdon. *Preliminary Profile of the Size and Scope of the Social Economy in Alberta and British Columbia*. BALTA, 2008.

4.3. Social Enterprises

As previously described, social enterprises are an emerging trend within the nonprofit sector. Social enterprise "applies an entrepreneurial approach to addressing social issues and creating positive community change."[31] Although defining social enterprise can be difficult (see section 4.4.1), this paper will discuss those social enterprises that have a direct connection to a nonprofit organization: they either operate as a nonprofits themselves, or are owned in whole or in part by a nonprofit organization.

Social enterprise is an important trend within the Nonprofit Sector Capital Market because social enterprises tend to have somewhat unique capital requirements, such as an even greater need for equity or patient capital, and more complex working capital and cash management needs.

4.3.1. Defining "Social Enterprise"

It is generally accepted that social enterprises are rising in both numbers and relative importance. What is more difficult is determining just how many social enterprises are actually operating in BC and Alberta. Much of this is challenge is related to the fact that the definition of a social enterprise is still developing. In our research, we uncovered a number of different classification systems for social enterprises; these include:

- **By Revenues**: any nonprofit which earns *any* percentage of its revenues in order to support its mission; or, only nonprofits which earn a "*significant*" portion of their revenues; or, only nonprofits which are "*self-sustainable*" on earned revenues.
- **By Location**: any revenue generating enterprise which operates in an impoverished region with a community economic development focus.

[31] Centre for Social Enterprise, http://www.centreforsocialenterprise.com/what.html, accessed May 5, 2009.

- **By Legal Structure**: any revenue generating enterprise that fits into a certain legal structure; such as nonprofits, registered charities, co-operatives etc.
- **By Target Population**: any revenue generating organizations which targets "disadvantaged" groups (for either employment or for services) such as aboriginals, the physically or mentally impaired, the homeless, children, elderly, minorities, immigrants etc.
- **Inclusive Definition**: Any business (nonprofit or for profit) which targets environmental and/or social returns in addition to financial returns.

This paper does not seek to define social enterprise. However, for the purposes of our research, we will focus on those social enterprises that have a direct connection to a nonprofit organization. Even with a working definition, it is still difficult to find reliable data on social enterprise in B.C. and Alberta. However, some independent studies have been done which shed some light on the size and scope of these social enterprises. For example, in their research into the expected demand for funding from the Social Enterprise Fund, the organizers of the Edmonton Social Enterprise Fund estimated the number of social enterprises operating in their city. The researchers grouped organizations into three tiers of nonprofits:

- **Tier 3 – Registered Nonprofits**: 4,382 registered nonprofit organizations and 397 nonprofit public and private companies in Edmonton. Of these, 704 have significant (over 45%) portions of earned income as well as revenues in excess of $100,000 per year.
- **Tier 2 – Community Development**: There are approximately 500 organizations operating in community development in Edmonton. These include, among others, organizations that operate in vocational training, nonprofit daycares and after school centres.
- **Tier 1** – **Operating Social Enterprises**: Of the 68 organizations that responded to the survey, there were 23 organizations in Edmonton which actively engaged in creating products and services to earn revenues in an effort to achieve social or environmental goals. This category expands to 50 if co-operatives with social and/or environmental initiatives and earned revenue are included.[32]

Other organizations have made their own estimates regarding the number of social enterprises operating in their regions (each using its own definitions for "social enterprise"). These estimates are interesting on their own, and taken together they lend further support to the notion that social enterprises are increasing in size and scope in many regions.

- **The United Kingdom**: In 2003 a government commissioned study reported that there were an estimated 5,300 social enterprises and 500 socially driven businesses operating in the UK.[33] The Bank of England estimated that nearly half of these SE's earned at least 75% of their revenues.[34]
- **Quebec**: In 2002 it was reported that there were 6,254 social enterprises (non-profits and co-operatives) operating in Quebec with annual revenues of $4.3B.[35]

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[32] Anna Bubel. *Social Enterprise Fund: Business Case*. 2007.
[33] *Guidance on Mapping Social enterprises*: *Final Report to the DTI Social enterprise Unit*. Ecotec Research & Consulting Ltd., 2003.
[34] Financing Social enterprises. Bank of England, 2003

4.3.2. Social Enterprises Operating in BC and Alberta

We have compiled a selective list of social enterprises which are currently operating in BC and Alberta. This is not intended to be a comprehensive list; rather, it is intended to provide the reader with a feel for the range of activities that social enterprises operate in.

British Columbia

- **Potluck Café & Catering**: Established in 2002, the Potluck Café provides employment training and subsidized meals for residents of Vancouver's Downtown Eastside. The Potluck Café earns a significant portion of its revenues by offering high-quality catering services.
- **Starworks Packaging and Assembly**: Starworks was established by the Developmental Disabilities Association and it achieves its social mission by employing people with disabilities. It achieves its financial goals by allowing small and medium-sized enterprises to outsource their light labour and assembly work.
- **The Cleaning Solution**: The Canadian Mental Health Association (Vancouver-Burnaby) started this independent social enterprise which provides professional janitorial services. It currently employs over 20 people with mental health disabilities.
- **Atira Property Management**: Atira Women's Resource Society has been providing assistance to women who face violence for 25 years. In 2002 it launched its for-profit property management service to help fund its nonprofit operations. This social enterprise benefited as one of the first organizations to receive support from Enterprising Nonprofits (discussed in Section 5). Now it has become successful enough to not only help in funding the Atira Resource Society, but it has also supported other social enterprises such as the Cleaning Solution and the Potluck Café.
- **Light House Sustainable Building Centre**: A nonprofit company which promotes the adoption of green buildings. Lighthouse provides fee-based consulting services for governments and developers. These consulting services act to further Lighthouse's mission while also funding its many non-profit services.
- **Landscaping and Sewing With Heart**: In 2002 Coast Mental Health established Landscaping With Heart, a co-operative social enterprise which provides landscaping services and employs people with mental disabilities. The success of the landscaping business led to the creation of Sewing with Heart, which uses scrap materials to create and sell unique nylon bags and also employs persons with mental health problems.
- **Cafe Etico**: CoDevelopment Canada (CoDev) is a BC-based nonprofit that was established 20 years ago to help achieve social change in Latin America. It created the social enterprise Cafe Etico in Vancouver as a means to sell Latin American coffees and promote fair trade.
- **Happy Planet**: Happy Planet was started in 1994 and it sells organic beverages and soups. It is an example of a successful for-profit business with social and financial goals that align perfectly.
- **Small Potatoes Urban Delivery (Spud)**: A for-profit company which originated by delivering organic groceries to residents in the lower mainland. Spud has been successful enough to expand into multiple cities in both Canada and the US and it continues to promote the benefits of organic and natural foods.

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[35] Nancy Neamtan and Rupert Downing. *Social Economy and Community Economic Development in Canada: Next Steps for Public Policy*. Chantier de L'Économie Sociale. 2005

Alberta

- **Kids in the Hall Bistro**: E4C is a church-owned charitable organization that has been operating in Edmonton since 1970. Kids in the Hall Bistro is E4C's first attempt at establishing a social enterprise, providing employment and training to disadvantaged youth while subsisting mainly on earned revenues.
- **Ethnicity Catering**: The Centre for Newcomers is an organization that provides a number of free services to recent immigrants; helping them settle into Calgary. It recently established the enterprising nonprofit company, Ethnicity Catering, to provide employment for new immigrants.
- **Flavour Budzzz Catering**: This Edmonton-based social enterprise employs people with persistent mental illnesses. It is operated by Distinctive Employment Counselling Services of Alberta (DECSA), a nonprofit that assists people with employment barriers in finding work.
- **Just Shirts:** A Calgary-based clothing worker co-operative that sells fairly-traded clothing. Profits are reinvested in developing the company or returned to the (typically) Latin American producers of the clothing.
- **Women Building Futures & The Fixit Chicks:** Women Building Futures (WBF) is an innovative charitable organization that helps women find meaningful careers by providing mentorship and training. WBF started The Fixit Chicks, a for-profit corporation that offers workshops designed for women, and all proceeds from Fixit Chicks are used to support WBF.
- **Serenity Funeral Service**: In an effort to provide high-quality funeral services at a more reasonable cost, a number of Edmonton-based churches joined together to start Serenity Funeral Service. Serenity is a registered nonprofit organization that has provided funeral services to well over three thousand families since it was founded in 1999.
- **Habitat for Humanity & Restore:** ReStore accepts donations of building supplies and furniture and then resells them to the public. All proceeds are used to support Habitat for Humanity's endeavours to provide affordable housing to those in need. There are 59 ReStores located in Canada, including five in Alberta and ten in BC.

Also present in both BC and Alberta, are more established social enterprises such as the YMCA and YWCA, Goodwill Centres, and Salvation Army thrift shops. A more complete and constantly updated list of social enterprises can be found on The Social Purchasing Portal's website.

Canada's Social Purchasing Portal is an online exchange pairing social purpose businesses (including social enterprises) with organisations who are seeking socially responsible suppliers. Networks like this are key to building a market for social enterprises and the products and services they produce. Vancouver's Social Purchasing Portal documents that over 35 new jobs have been created and over $500,000 has been invested in the Downtown Eastside as a result of the marketing opportunity provided by the portal. There are localized versions available in Vancouver, Toronto, Winnipeg, Surrey, Fraser Valley, Calgary, Vancouver Island and Waterloo Region, with another ten communities on the way.

Source: www.sppcanada.org

4.4 Conclusion: Differing Financing Needs

Given the diversity of organizations that may seek capital from the Nonprofit Sector Capital Market, including nonprofits, co-operatives, and social enterprises, the Nonprofit Sector Capital Market will have to serve a wide variety of financing needs. For example, nonprofits with significant proportions of revenue from the government might be well served by factoring (or accounts receivable financing) of their government receivables. Co-operatives might wish to have a more developed equity market. Social enterprises may have a greater need for cash management services and working capital. A successful Nonprofit Sector Capital Market would provide a wide variety of financial instruments customized to the needs of these unique sectors.

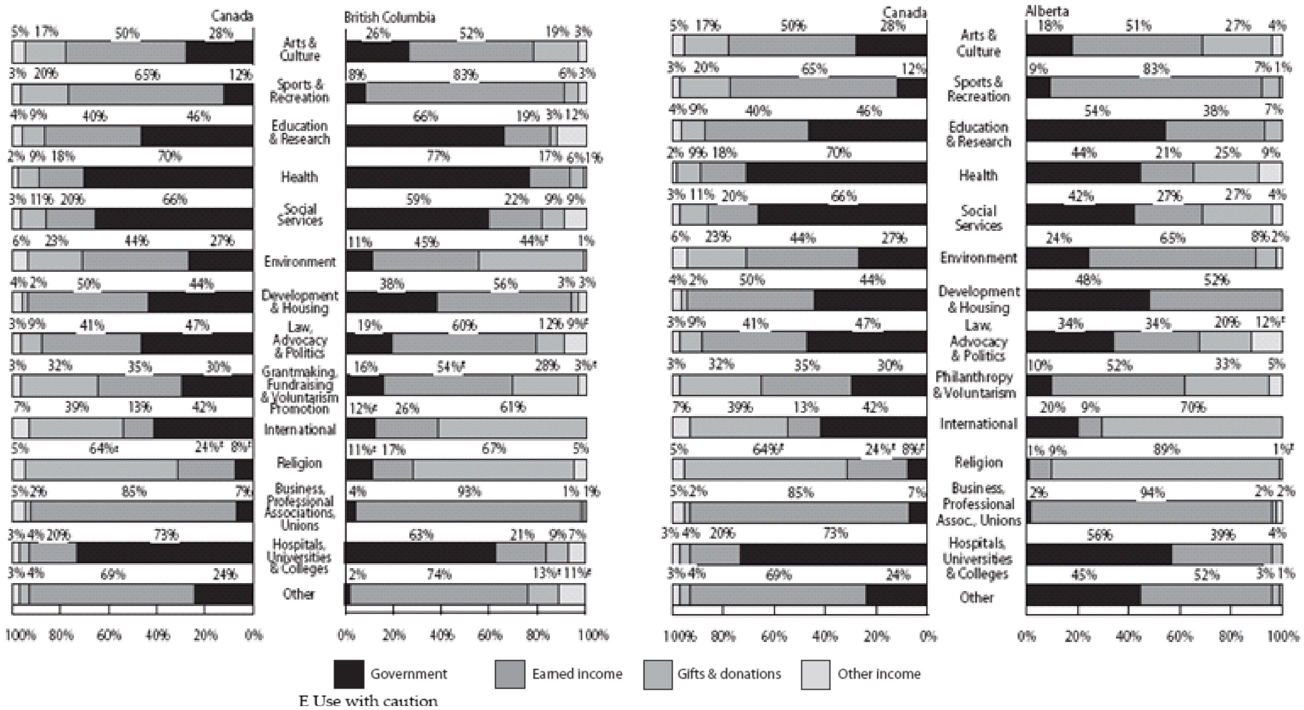
5. The Current State of the Nonprofit Sector Capital Market in BC and AB: Capital Providers

This section continues with the description of the current state of the Nonprofit Sector Capital Market. However, whereas the previous section described the organizations which require funding, this section examines the organizations and programs which provide the funding for the aforementioned organizations of the social economy. Capital providers will be described by type of fund and mandate here, along with the range of products and services they provide. In section 6, we will assess the Capital Providers group as a whole, placing the type and amount of capital provided along the Nonprofit Sector development path from idea to maturity, in order to determine the relative strengths and weaknesses of the current Nonprofit Sector Capital Market in BC and Alberta.

5.1. Source of Revenues

Particularly relevant to social finance is the source of revenues for BC and Alberta’s nonprofit organizations. In BC, government funding accounts for 49% of revenues and earned income generates 31% of the $11B in total revenues. Fifteen percent comes from gifts and donations while the remaining 5% is from various other sources. If we again eliminate hospitals, universities and colleges, then these numbers change to 46% from government, 34% from earned income, 16% from gifts and donations, while the remaining 5% comes from other sources. However, the reality is more nuanced than these aggregated numbers suggest. Hospitals, Universities and Colleges, Health, and Social Services are dominated by government funding, while Sports and Recreation and Professional Associations get the vast majority of their revenues from fees. This is of course what one would expect to find – the organizations which provide a greater (traditional) public service tend to be more heavily funded by the government.

Figure 5.1 – Funding Sources by Activity Area: British Columbia and Alberta Relative to Canadian Averages



Source: Vic Murray. *The Nonprofit and Voluntary Sector in British Columbia: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.
Robert Roach. *The Nonprofit and Voluntary Sector in Alberta: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.

Figure 5.1 shows funding sources by activity areas and compares the funding in BC and Alberta with the national averages. In 11 out of the 14 activity areas, BC is above the national average when it comes to government funding of nonprofits. In Alberta it is just the opposite, 11 of the 14 activity areas are below the national average for government funding.

A detailed breakdown of the source of funding for nonprofit organizations (excluding hospitals, universities and colleges) in BC and Alberta has been included in the **Appendix**. This shows that, of the three levels of government, the provincial government is the largest funder to the nonprofit organizations, contributing 30% of all revenues (versus 15% from the federal government and 1% from municipal governments). This provincial funding comes from payment for nonprofit goods and services ($1.59B, or 60% of provincial funding) as well as grants ($1.04B, or 40% of provincial funding). The federal government actually provides more support in the way of grants to BC nonprofit organizations ($1.19B) but it contributes significantly less via revenues for goods and services ($217M). Still excluding hospitals, universities and colleges, the nonprofit and voluntary organizations in BC earned 34% of their total income. This earned income includes non-government fees for goods and services (59.7% of earned income), membership fees (29.8%), investment income (7.2%), and charitable gaming (3.4%).

In Alberta, the picture is significantly different. Earned income is the largest contributor to revenues at 49%, while government funding accounts for just 33% of revenues. Gifts and donations make up 16% and various other sources account for the final 2% of revenues. The elimination of hospitals, universities, and colleges increases the impact of earned income (51%) and gifts and donations (18%), whereas government funding is reduced to 30%.[36] The earned income break-down is similar to that in BC with 60% coming from fees for goods and services (non-governmental) and approximately 27% coming from membership fees. However, charitable gaming revenues contribute significantly more to nonprofits in Alberta with $288 M, or 6.6% of all earned revenues. The fact that nonprofits in Alberta earn over 50% of their revenues may be a surprising fact to many. However, it should be recognized that in all provinces there is significant diversity that exists between the different activity areas. From **Figure 5.1** it can be seen that Social Service nonprofits in Alberta earn just 27% of their revenues while Sports and Recreation earn 83% of their revenues.

At one third of revenues, the government funding of nonprofit organizations is lower in Alberta than anywhere else in Canada. The chart in the **Appendix** shows that this is largely a result of fewer grants from both the provincial and federal governments. It is interesting to observe that, compared to BC, the municipal governments in Alberta provided substantially more grant support to nonprofit organizations. Regarding provincial support of nonprofits, it should be noted that this data comes from 2003 – when the Survey of Nonprofit and Voluntary Organizations was done. With Alberta's growing wealth, the provincial government has been spending more money in the social sector. In Alberta's 2008/2009 budget, the government announced additional spending of $877M over three years to increase low income housing, as well as $60M over three years to provide grants for cultural and artistic nonprofits.[37] It is possible that the provincial support of nonprofits may have increased since the survey was completed.

Confirming the earlier suggestions that a reduction in government funding has created significant problems for nonprofits is the fact that 66% of all organizations in BC who receive government support have reported reductions in government funding. Also in line with previous assumptions was the finding that 62% of these organizations reported problems with obtaining funding for operations and 55% reported that they generally received funding for specific projects only. Interestingly, despite these decreases in government support, 35% of nonprofits in BC reported an increase in revenues from 2000 to 2003, which is more than those who reported decreases in revenues (29% in BC, 22% nationally).[38] This suggests that many nonprofits have been relatively successful in finding new sources of funding.

5.2. Federal Government

The federal government is a significant supporter of the social economy in Canada. The direct funding of nonprofits through grants, the provision of tax incentives that attract funding (chiefly the tax credit associated with charitable status), and income tax exemption for all nonprofit organizations are the most obvious means of support. All levels of government can also support nonprofit organizations through targeted purchasing programs. In addition to these direct methods, the federal government also funds many intermediary agencies that support, or have the potential to support, social economy organizations through direct funding and/or technical assistance.

[36] Robert Roach. *The Nonprofit and Voluntary Sector in Alberta: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.
[37] www.alberta.ca/budget2008/#
[38] Vic Murray. *The Nonprofit and Voluntary Sector in British Columbia: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Imagine Canada, 2006.

One important way in which the federal government funds the development of small and medium sized enterprises (SMEs), including some nonprofit and social economy organizations, is through its Regional Development Agencies. In the West, the federal government funds Western Economic Diversification Canada (WD).

5.2.1. Western Economic Diversification Canada

Western Economic Diversification Canada (WD) is operated by the federal government and its mandate is to promote the development and diversification of the economy in Western Canada. According to its website:

"*WD helps to fill the gap between traditional bank lending and the availability of venture capital for small business by working in partnership with western financial institutions and not-for-profit organizations.*"[39]

Two of WD's main priorities are community economic development and fostering entrepreneurship through small business development. This would seem to make it a good potential resource for social entrepreneurs. However, after a recent "refocusing" in 2006, WD announced that:

"*WD's core programs and services will support projects that have an economic focus, but not support projects with social, cultural or other indirect economic objectives.*"[40]

Although it is primarily focused on providing funding and support for the development of infrastructure and for-profit businesses, WD still potentially provides some indirect support for nonprofits and social enterprises in the form of its Loan and Investment Program. Through this program, WD encourages financial institutions to lend to SMEs that would otherwise not qualify for loans. WD does this by providing a 10-20% loan loss contribution to credit unions such as VanCity, thus reducing their risk when lending to these businesses.

For the Growth Capital program, borrowers must have fewer than 300 employees and less than $25 million in annual revenues, and the loans of up to $500,000 must contribute to incremental economic growth in Western Canada. The Microloan program has been developed to encourage lending to very small businesses, which typically means under $1mil in revenues per year. In BC this is done through VanCity and Coast Capital, and in Alberta it is done through the Servus Credit Union. Loans are very small, typically from $15,000 - $70,000. According to Vancity, the Microloan program has enabled it to lend to small businesses which it otherwise would not have been able to (including qualified social enterprises).

WD's website states that from its induction in 1995 until 2008, these programs have leveraged $37mil in loan loss reserve contributions into nearly 3,300 loans to SMEs, totaling over $250M.

WD also funds Community Futures, a network of community and economic development centres in rural communities throughout Western Canada. Community Futures (CFs) have a mandate to support small

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[39] www.wd.gc.ca/245_ENG_ASP.asp
[40] www.wd.gc.ca/images/content/DOCUMENT-pan9_e.pdf

businesses and promote job creation – mainly in rural areas. Community Futures are nonprofit corporations, run by a board of volunteers. There are nearly 300 of these Community Economic Development Centres across Canada, 36 of which are in BC and 30 are in Alberta. These Centres provide technical support services in addition to providing loans to businesses that are unable to obtain funding from traditional financial institutions. According to the Community Futures Pan West Annual Report, in 2006/2007, the CFs in BC made 635 loans totaling $26.1M and the CFs in Alberta made 360 loans totaling $17.1M.[41] As CFs are primarily focused on job creation and long-term economic viability, only social enterprises with high revenue potential are likely to benefit from loans.

WD does have a granting program that focuses directly on nonprofit organizations for projects that support one or more of WD's strategic outcomes: innovation, business development and entrepreneurship and community economic development.

Overall, WD currently focuses much more heavily on supporting for-profit businesses than social economy organizations. However, with its infrastructure and resources it has the potential to play a larger role in the future if the federal government should choose to make this a priority.

5.2.2. Business Development Bank of Canada

Like Western Economic Diversification, the Business Development Bank of Canada (BDC) works to develop SMEs by providing capital and advisory services. BDC, a financial institution wholly owned by the government of Canada, offers secured term loans, subordinated debt, and venture capital investments – as well as a fee based consulting service. BDC's focus is on high-potential for-profit companies and BDC does not have any mandate or provision for social enterprises, nonprofits or community development enterprises. Despite its current focus, the BDC has the resources and infrastructure to be useful for social enterprises with high revenue potential. Also, if the federal government chose to support social enterprise more in the future, the BDC could be a potential avenue through which to do so.

5.2.3. Co-operative Development Initiative

The Co-operative Development Initiative (CDI) was a five-year program which ended March 31, 2008. The cooperative sector is anticipating renewal of this program in 2009, with some minor changes. CDI was created by the federal government in partnership with the cooperative sector to develop co-operatives and help them find innovative ways to serve the needs of rural and disadvantaged communities. Fifteen million dollars was allocated, funding two main components; Advisory Services ($5M) and Innovation and Research ($10M).

The Advisory Services component provided expert assistance to groups that either operated existing co-operatives or were looking to establish a new co-operative. The Services arm of CDI worked directly with regional partners (such as the Alberta Community and Co-operative Association and the British Columbia Co-operative Association) to provide these services to co-operatives around Canada. According to the CDI's Advisory Services annual report, they assisted over 100 co-operatives in BC, over

[41] www.communityfutures.ca/provincial/PDF/PWCF_AR07.pdf

25 in Alberta, and over 100 federal co-operatives (i.e. co-operatives that serve multiple provinces).[42] These co-operatives reported very high levels of satisfaction with the services they received.[43]

The Innovation and Research aspect of the CDI provides multi-year funding ($5,000 to $75,000 per year for up to five years) to research and test innovative applications of the co-operative model. According to the CDI website, it funded a number of projects in Western Canada – including four in Alberta and 18 in BC. A partial list of funded projects is given below.

Alberta

- Building Critical Awareness and Strategic Alliances: A pilot forum to promote cross-sectoral awareness and exploration of co-operatives as effective solutions to immigrant integration issues
- Saint-Isidore Co-operative Community Solution
- Market study for the development of rural co-operatives dedicated to local diversification

British Columbia

- Documenting the Best Practices of Co-operative Developers
- Expanding a University Food Co-operative Beyond Campus Gates
- The Alberni-Clayoquot Healthcare Co-operative Project
- Building Union Support for Community Health Care Co-operatives
- Development of a Rural Regional Social Services Co-operative
- Wood, Not Waste - Fraser River Log Salvage Project

5.3. Provincial Government

Provincial governments are the largest direct financers of the social economy. This capital can come in many forms-- grants and contributions, tax incentives, targeted purchasing, loans and loan guarantees.[44] Additionally, provinces are a significant source of fee-for-service revenues for many social service nonprofits, as departments such as the Ministry of Health and Ministry of Child and Family Development contract with nonprofits to provide social services for mental health, supportive housing, etc.

Each province creates its own guidelines, objectives and infrastructure for supporting nonprofit organizations. Typically, a province will have numerous programs and agencies which provide capital to nonprofits that fit their criteria for funding. In Canada, Quebec is the leader when it comes to provincial funding for the social economy. It has created a diverse and coordinated approach to funding social economy organizations which will be discussed further in Section 6. Neither Alberta nor BC has adopted this comprehensive approach, but BC has developed a number of programs and funds to support the social economy.

Although the provincial government of Alberta provides significant funding for the social economy through grants and contributions, contracts and fee for service payments, they do not appear to have tax

[42] www.coopscanada.coop/pdf/initiative/CDI-AS_Annual_Report_2005-06.pdf
[43] *Report on the Mid-Term Evaluation of the Co-operative Development Initiative*. March 2006.
[44] Tessa Hebb *et al*. *Financing Social Economy Enterprises*. Carleton Centre for Innovation. August 2006.

credits, loans or other financing vehicles targeted at social economy organizations or accessed by such organizations.

What follows is a partial list of programs and funds in BC that could support social economy organizations.

Investment Tax Credits: In Section 6 we examine how some governments have promoted investments in social enterprises by offering tax credits to investors. The provincial government of BC has not gone so far as to create a specific tax credit program for social enterprises, but they have broadened an existing tax credit program making it potentially relevant to some social enterprises and co-operatives. British Columbia's Venture Capital Programs were created to help ensure that entrepreneurs have access to early stage venture capital. This is done by providing equity investors with a 30% refundable tax credit for investing in Eligible Business Corporations and holding the shares for at least five years. This diverse program, which also includes tax credits for employee ownership, has expanded to include tax credits for clean technology development as well as community economic development. With the Cleantech Venture Capital program, the province has agreed to provide up to $5M in tax credits in 2008 and $7.5M in tax credits for each subsequent year. Eligible Business Corporations will: i) increase energy efficiency and conservation, ii) reduce greenhouse gas emissions, or iii) reduce the environmental impact of energy production, generation, storage, transmission, delivery, provision or conversion.[45] The Community Venture Capital budget sets aside an additional $3M in tax credits to promote investments in businesses located outside of the Greater Vancouver and Capital Region Districts. Eligible Business Corporations must be actively engaged in promoting "community diversification". Although these programs are generally aimed at for-profit companies, some social enterprises may benefit from this program. However, it is limited only to social enterprises that are organized as corporations as the tax credits apply to equity investments only.

Coast Opportunity Funds is a large new two-part fund that has just recently been established in BC. It is composed of two $60M funds – one is a conservation fund which was capitalized by private funders (much of the funding actually came from large US foundations) and the other is an economic development fund which was contributed equally by provincial and federal governments ($30M each). The innovative aspect of these funds is that they have seemingly conflicting goals yet they are managed by a single board. With one board and one vision, the funds were created to develop the economy of the central and northern coast of BC while maintaining the ecological integrity of the region. Within each of these funds $2M in planning grants have been designated to support the early stages of planning and development (i.e. seed capital, research funding, and start-up capital). The grants are available to the 27 First Nation communities located in the Central and North Coasts of British Columbia and Haida Gwaii. The conservation fund will be set up as an endowment while the entire $60M of the economic development fund will be disbursed as grants over five to seven years.[46]

Northern Development Initiative Trust was established in October 2004 by the provincial government of BC. With two contributions totaling $185M, Northern Trust is the most significant economic development agency of Central and Northern BC. The trust supports community economic development

[45] www.cse.gov.bc.ca/programsandservices/BusinessServices/Investment_Capital/Venture_Capital_Programs
[46] www.coastfunds.ca/index.htm

by funding a number of diverse initiatives such as feasibility studies, capacity building, grant writing, and support for community foundations.[47] According to its 2007 annual report, over the first 10 years of operations (2005 – 2015), Northern Trust intends to inject $200M into the local economies.[48] It believes that this will attract up to $1B of additional investment. By the end of 2007 the trust had approved $33.4M in funding. The budget for these projects totals over $211M. This means that the trust has been able to leverage $178M of external financing; over five dollars for each dollar it has supplied. Interestingly, the trust recognized that small communities lacked the dedicated staff to even apply for grants. It remedied this by creating the Small Community Grant Writing Program which funds the hiring of grant writers in these communities. In 2007, these communities applied for $4.6M in new grant funding.

A similar program, although with a smaller endowment ($50M) and a stronger focus on for-profit economic development, is operated by the **Southern Interior Development Initiative Trust**.[49]

The Columbia Basin Trust was established in 1995 when the BC provincial government agreed to contribute $295M to establish the trust. The trust was funded by the province in recognition of the damage that was done to the area as a result of the Columbia River Treaty. The Trust now has a $321M endowment which it uses to promote social, environmental and economic well-being in the Columbia Basin. In 2007/2008 the trust committed to provide over $6M in funding, much of which goes to the nonprofit sector.[50]

Agri-Food Futures Fund is a $22.8M fund established in 2000 and jointly capitalized by the provincial (60%) and federal governments (40%). The fund was established to develop the agriculture industry in BC across a number of goals. Many of these goals are commercial, but the fund also targets such areas as the integration and adoption of environmental values and practices, diversifying and developing a First Nations agri-food industry, and developing a sustainable agri-food industry on Vancouver Island.[51]

The **Nechako-Kitamaat Development Fund (NKDF)** was formerly known as the BC-Alcan Northern Development Fund. It was established in 2000 with Alcan and the government of BC each contributing $7.5M. The fund was created to promote sustainable economic development in Northern BC. NKDF has targeted $700,000 in grants for 2008/2009.

5.4. Aboriginal Programs

Programs to support Aboriginal enterprise development exist at both the provincial and federal levels. Although some of the business development programs are related to sustainable development and the nonprofit sector, most are targeted towards general economic development – including capacity building,

[47] http://northerndevelopment.bc.ca/about-northern-development
[48] Northern Development Initiative Trust: 2007 Annual Report

[49] http://www.sidit-bc.ca

[50] Columbia Basin Trust: 2007/2008 Annual Report
[51] www.agf.gov.bc.ca/indcomp/afff.htm#Overview

job creation, economic infrastructure and economic diversification. Souza and Hamdon's BALTA paper does a good job covering these funds and we encourage you to refer to their paper for more details. Below is a list of some of these provincial programs and funds.

Alberta

- First Nations Economic Partnerships Initiative
- Alberta Aboriginal Economic Development Initiative
- Strategic Economic Initiatives
- Economic Capacity Building Program
- Regional Partnership Development Program

British Columbia

- Native Economic Development Board (created by the BC Ministry of Aboriginal Relations and Reconciliation)
- Economic Measures Fund
- Economic Opportunities for First Nations in British Columbia (a Federal government program)

5.5. Foundations

Foundations play an integral part in financing social economy organizations in Canada. In total, the Canadian Revenue Agency (CRA) lists 9,407 foundations in Canada, with 1,483 of these in BC and 857 in Alberta. Many of these foundations are very small or inactive (regarding grant making). Imagine Canada keeps a database of Canada's most important, active foundations. It lists over 3,100 foundations, approximately 2,400 of which are active in grant making. Of these active foundations, Imagine Canada estimates that they hold assets totaling over $13.9B and make grants in excess of $1.2B each year. It is interesting to note that these granting levels exceed the CRA regulations, which stipulate that foundations must grant an average of 3.5% of their endowments each year. **Tables 5.1** and **5.2** show Canada's largest foundations by assets and grants, respectively.

Foundations are generally divided into two categories, public and private. Each category contains foundations which vary greatly in size, scope and objectives. There are approximately 1091 public foundations in BC and Alberta (734 and 357, respectively). The largest and most prominent of these are often community foundations, such as the Vancouver Foundation, the Calgary Foundation, and the Edmonton Community Foundation. There are 164 community foundations in Canada, up from just 32 in 1990. Twelve of these are located in Alberta and 42 in BC.[52] These foundations typically receive funding from individuals and corporate donors, in addition to occasionally receiving government support. The economies of scale afforded to these large organizations allow them to operate multiple funds with minimal overhead expenses. For example, the Vancouver Foundation has assets of approximately $830M

[52] www.cfc-fcc.ca/index.cfm

which is comprised of over 1000 individual funds.[53] As such, it is able to manage these funds with exceptionally low overhead expenses.

Table 5.1 – Largest Canadian Foundations: Ranked by Assets

Rank	Foundation	Assets
1	Fondation Lucie and André Chagnon	$ 1,301,159,000
2	Vancouver Foundation	$ 564,807,111
3	J. W. McConnell Family Foundation	$ 471,824,119
4	Sick Kids Foundation	$ 470,592,784
5	Winnipeg Foundation	$ 346,980,307
6	Calgary Foundation	$ 294,868,519
7	Fondation Marcelle et Jean Coutu	$ 228,376,759
8	Jewish Community Foundation of Montreal	$ 190,860,053
9	Loyalty Foundation	$ 181,712,206
10	The Edmonton Community Foundation	$ 145,154,861

Source: Jason Taniguchi. *Canadian directory to foundations & grants*: *20th ed.* Imagine Canada, 2006.

Table 5.2 – Largest Canadian Foundations: Ranked by Grants

Rank	Foundation	Grants
1	The Ontario Trillium Foundation (2005)	$ 94,346,800
2	Sick Kids Foundation (2005)	$ 61,596,901
3	Vancouver Foundation (2003)	$ 32,272,711
4	RBC Foundation (2005)	$ 31,240,305
5	Alberta Foundation for the Arts (2004)	$ 28,306,680
6	Fondation Lucie and André Chagnon (2004)	$ 21,725,000
7	The Calgary Foundation (2006)	$ 21,631,462
8	The Chastell Foundation (2004)	$ 19,583,086
9	La Fondation Sackler (2004)	$ 19,574,534

Source: Jason Taniguchi. *Canadian directory to foundations & grants*: *20th ed.* Imagine Canada, 2006.

Not all foundations support traditional nonprofit enterprises. Many of Canada's largest foundations have been created to provide funds to a single organization - often hospitals, colleges and universities (evident from **Tables 5.1** and **5.2**). To get a better picture of foundations that support traditional and enterprising social organizations in BC and Alberta, we eliminated those foundations which do not broadly support nonprofits. **Tables 5.3** and **5.4** list the ten largest supporters of nonprofits in BC and Alberta.

[53] Vancouver Foundation. *2006 Community Report*.

Table 5.3 – Ten Largest Foundations in British Columbia: Ranked by Assets

Rank	Foundation	Year	Assets	Grants	Type
1	Vancouver Foundation	2006	$ 829,863,853	$ 32,692,715	Public
2	Sherman Foundation	2007	$ 213,564,859	$ 10,119,514	Private
3	Victoria Foundation	2006	$ 100,757,727	$ 2,348,582	Public
4	The Jim Pattison Foundation	2006	$ 87,131,984	$ 14,764,285	Private
5	The John Volken Foundation	2005	$ 82,523,965	$ 1,150,000	Private
6	Loyalty Foundation	2006	$ 65,311,985	$ 6,827,928	Private
7	Tula Foundation	2006	$ 60,703,829	$ 4,275,070	Private
8	The Terry Fox Foundation	2007	$ 51,369,295	$ 14,516,000	Public
9	Rick Hansen Man in Motion Foundation	2006	$ 48,458,961	$ 1,207,496	Public
10	United Way of the Lower Mainland	2006	$ 37,248,529	$ 24,943,626	Public
	Total		**$ 1,576,934,987**	**$ 112,845,216**	

Source: www.foundationsearch.ca

Table 5.4 – Ten Largest Foundations in Alberta: Ranked by Assets

Rank	Foundation	Year	Assets	Grants	Type
1	The Calgary Foundation	2007	$ 311,033,781	$ 31,506,581	Public
2	The Edmonton Community Foundation	2006	$ 203,504,001	$ 6,741,292	Public
3	Norlien Foundation	2006	$ 103,165,710	$ 3,562,238	Private
4	The Kahanoff Foundation	2006	$ 89,532,384	$ 4,293,698	Private
5	Oriole Charitable Foundation	2006	$ 71,321,977	$ 2,110,000	Private
6	United Way of Calgary and Area	2005	$ 69,481,641	$ 32,055,346	Public
7	Max Bell Foundation	2006	$ 65,803,025	$ 1,802,752	Private
8	Carthy Foundation	2006	$ 60,587,981	$ 2,413,479	Private
9	The Muttart Foundation	2006	$ 57,008,345	$ 3,305,557	Private
10	United Way of the Capital Region	2006	$ 21,408,995	$ 12,303,662	Public
	Total		**$ 1,052,847,840**	**$ 100,094,605**	

Source: www.foundationsearch.ca

5.5.1. Program Related Investments

The traditional model of a foundation is to establish a permanent endowment, or asset base, and use the income from the endowment to make grants to registered charities in line with the foundation's mission. The endowment is invested in the private market, with the goal of maximizing returns in order to maximize granting and grow the endowment. This model has a long history; however, many in the foundation community believe that their foundations could have more impact in their targeted communities by not just granting to the targeted communities, but using the endowment to make direct (repayable) investments into their targeted communities.

These direct investments are called Program Related Investments (PRIs). In addition to the annual grants that a foundation would normally give, the foundation also becomes a community lender (instead of simply lending its money to the conventional capital market as it invests its endowment in traditional financial vehicles), financing mission-aligned projects with its endowment funds on a repayable basis. PRIs offer a number of benefits over traditional grants-only programs, including:

- the ability to invest more capital into the social economy than the normal granting budget would allow;

- the ability to preserve foundation assets by "recycling" funds instead of the one-time utilization that grants allow;
- the ability to finance significant asset acquisitions for social economy organizations, helping them to build their asset base for future financing opportunities; and,

the opportunity to foster grantee/borrower self-sufficiency

Even if 5% of the endowments of Canadian foundations were invested in PRIs it could have an enormous impact by enabling more nonprofit organizations to acquire assets or by funding growth opportunities. As of 2006, there was over $310M invested in the form of PRIs in the US.[54] Although this has grown greatly in recent years, this still represents just 1/20th of 1% of foundation assets in America. Canadian Foundations have been slower to adopt the use of PRIs, mainly due to previously restrictive CRA regulations, but this seems to be changing. According to Martin Garber-Conrad of the Edmonton Community Foundation, the topic of PRIs has become increasingly common in the meetings of the Canadian Community Foundations, and the board has struck a task force to explore them. The Edmonton Community Foundation became the first community foundation in Alberta to actively engage in PRIs when it helped to establish the Social Enterprise Fund (which is discussed in further detail in Section 5.5). The Muttart Foundation became the first private foundation in Alberta to initiate PRIs when it recently dedicated $1M of its endowment towards them (of which, approximately 60% has been distributed). The Vancity Community Foundation (VCF) has also begun a PRI program. According to its website it will make 10%-15% of its endowment available for loans (approximately $1M to $1.5M) and to date it has loaned roughly $600,000 of this.[55]

It must be noted that it is not only the dollar amount in grants or PRIs that is important for the development of social economy organizations – it is also when and where the money is placed. Foundations are uniquely positioned to provide the much needed seed money and start-up money that these organizations require, and also to invest with a longer-term outlook than traditional investors might. They also have the potential to provide "risk capital" in more complex, layered capitalization of projects or social enterprises. The use of grants and PRIs in tandem could prove to be a powerful combination for foundations seeking to support nonprofits and social enterprises alike.

5.5.2 Emerging Funds and Venture Philanthropy

In an effort to highlight their unique approaches to funding, these new funds and venture philanthropy are discussed apart from other funds and more traditional philanthropy. Venture philanthropy is a new, more integrated approach to philanthropy that takes its name from the conventional business concept of venture capital. Venture capitalists make early equity investments in new business ventures. However, one of the most valuable contributions that a venture capitalist brings to the business is his or her business expertise, knowledge of the industry, and professional network. Venture philanthropists are also seasoned business people who operate by similar principles, but invest their money and business expertise in nonprofits and social enterprises, seeking to use their skills and experience to maximize social outcomes. Venture philanthropy is characterized by:

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[54] http://foundationcenter.org/findfunders/statistics/pdf/02_found_growth/2006/04_06.pdf
[55] www.vancity.com/MyMoney/AboutUs/WhoWeAre/Subsidiaries/VancityCommunityFoundation/TypesofSupport/

- multi-year funding support;
- organizational capacity building;
- a focus on metrics to calculate social return on investment;
- deeper, more engaged relations between investor and practitioner, and
- an awareness of grants as capital investments.[56]

Social Capital Partners: One of Canada's most influential venture philanthropy organizations is Social Capital Partners (SCP) in Toronto. Headed by Bill Young, a successful entrepreneur, SCP takes a true venture capitalist approach but applies it to for-profit and non-profit social enterprises that employ marginalized people. Recognizing the need for a variety of financial instruments, SCP provides grants, conventional loans, and near-equity in the form of subordinated debt.[57] SCP invests nationally, including B.C. and Alberta. BC investments have included Atira Property Management and Cook Studio

Social Venture Partners (SVP)- BC and Calgary: The SVP program is based upon a successful model of venture philanthropy first established in Seattle. There are now 23 SVP organizations in North America, including one in Vancouver (BCSVP) and one in Calgary. SVP is a network which was established for senior business leaders who are interested in an innovative, hands-on approach to philanthropy – "fully engaged investors" as opposed to "cheque-book" philanthropists. BCSVP and SVP Calgary are both made up of about 100 partners who each contribute $5,000 per year for at least 2 years. This has resulted in distributions exceeding $2M to date which has been used to support 12 nonprofit organizations in Alberta, and 27 nonprofits in BC with both money and in-depth technical assistance.

BC Social Enterprise Fund: In 2005, BCSVP established the BC Social Enterprise Fund in partnership with Vancity and the Vancouver Foundation to specifically target social enterprises. This fund supports second stage social enterprises, which BCSVP describes as nonprofits engaged in revenue generation. BC Social Enterprise Fund has supported many social enterprises, some of which were previously discussed, including:

- The Cleaning Solution
- Starworks Packaging and Assembly
- Coast Foundation: Landscaping with Heart
- Neil Squire Foundation
- Atira Women's Resources Society

Enterprising Nonprofits is a funding program that provides grants to nonprofits who are interested in starting a social enterprise. Grants are specifically targeted towards providing technical assistance: they fund business development, planning and feasibility, and organizational development. Technical assistance is also provided through orientation sessions. ENP is a partnership of British Columbia-based funders including Bell Canada, the Canadian Centre for Community Renewal, Coast Capital Savings Credit Union, the Columbia Basin Trust, Northern Development Initiative Trust, United Way of the

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[56] Jed Emerson. *The US Nonprofit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Instruments*. The Roberts Foundation, 2000.
[57] http://www.socialcapitalpartners.ca/available_financing.asp

Lower Mainland, Vancity Credit Union, Vancity Community Foundation, Vancouver Foundation, and Western Economic Diversification Canada. ENP has recently launched ENP-Toronto to expand their work into the greater Toronto area, and expansion into Alberta is being explored.

Ecotrust Canada is an innovative nonprofit organization which is working to build the "conservation economy" in BC's coastal regions. This means that Ecotrust Canada works to develop social enterprises - mainly for aboriginal and rural communities - that offer triple bottom line returns. Ecotrust Canada Capital manages a $7.5M Natural Capital Fund which has invested over $10M since 1999.[58] A significant portion of this capital comes from program related investments from foundations. Ecotrust Canada has supported many successful social enterprises in BC including: [59]

- **Iisaak Forest Resources** is an FSC-certified, native-owned forestry company in Clayoquot Sound.
- **Trilogy Fish Co.** is a locally owned sustainable seafood company in Clayoquot Sound.
- **Pacific Coast Fishermen's Conservation Company** is a licensed bank owned by a group of BC hook-and-line ground fish companies.
- **Nuu-chah-nulth Seafood Development Corporation** is a First Nations seafood company.
- **Bella Bella Fish** is a fish processing company that is owned by the Heiltsuk Nation on the Central Coast.
- **Atleo Air** is a local transportation company in Clayoquot Sound.
- **Native Fishing Association** is an organization that owns fishing licenses and quota for BC First Nations.

Edmonton Social Enterprise Fund (SEF) was developed by the City of Edmonton and the Edmonton Community Foundation, who contributed $3 million each to initially capitalize the fund. The United Way and other community partners have contributed additional capital. The fund aims to bridge the gap between traditional philanthropy and traditional capital by providing unique funding previously unavailable to social enterprises and affordable housing providers in Edmonton. The SEF will provide patient capital, social enterprise loans, and mortgages for affordable housing. The SEF will also provide technical assistance as well as brokerage functions to social enterprises. The SEF will seek a "balanced portfolio" in order to remain financially sustainable, which includes market rate returns, below market rate returns, and grants. Due to the recycling of funds, it estimates that it will be able to provide over $21M in loans and grants in the first five years.

According to SEF's Executive Director Bob Ward, the fund has been having some difficulty finding immediate demand for its loans. Mr. Ward said that they have had to adjust their focus to work on capacity building of nonprofits in Edmonton – in an effort to drive appropriate demand. This is an interesting fact given that preliminary demand analysis estimated that affordable housing providers in Edmonton were seeking $63M in capital for 30 projects while social enterprises require $10M to fund 24 ventures. This initial lack of take-up seems to highlight the need for further assistance in helping nonprofits develop viable financing proposals.

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[58] Interview with Pieter Van Gils and Emily Beam, Ecotrust Canada Capital, April 2008.
[59] www.ecotrust.ca/services_overview/enterprises

5.6. Financial Co-operatives

Financial co-operatives, also known as credit unions, have played a very important role in the development of the social economy in Western Canada. As of 2007, there were 49 credit unions operating in BC with a total of 368 branches and over 1.6M members. Together they control approximately $42B in assets.[60] The largest credit unions in BC are Vancity and Coast Capital Savings. Vancity Credit Union is BC's largest credit union, and the second largest in Canada, with over 400,000 members and $14 billion in assets. Coast Capital Savings is the third largest credit union in Canada and it has approximately 400,000 members and $9B in assets.[61]

Vancity warrants special mention here, as it is widely considered a major driver in the development of the social economy in BC. Vancity has a detailed community leadership program that focuses on climate change, facing poverty, and growing the social economy. Vancity has a specialized division of Business Banking, called Community Business Banking, which focuses solely on providing day-to-day banking services to the Nonprofit Sector. Community Business Banking's nonprofit lending portfolio stands at nearly $150 million, and they manage over $400 million in deposits. Vancity also provides subordinated debt to the Nonprofit Sector through a specialized portfolio within its subsidiary, Vancity Capital. Vancity Capital's Social Enterprise Portfolio offers subordinated debt to nonprofits, social enterprises, First Nations ventures, cooperatives, and social purpose businesses. Vancity is also home to the groundbreaking Vancity Community Foundation and Enterprising Nonprofits.[62]

According to Credit Union Central Alberta, there are over 70 credit unions with approximately 210 branches in Alberta. Credit unions in Alberta have been growing rapidly, from 600,000 members in 2005 to over 700,000 by the end of 2006.[63] Collectively, they hold assets of over $14B. The largest credit union in Alberta, and the fourth largest in the nation, is Servus Credit Union. It serves 195,000 customers from 50 locations and it has $4.2B in assets.[64]

Credit unions operate throughout BC and Alberta, including rural communities that are often underserved by banks. Since they are structured as co-operatives (as opposed to corporations) they often have more freedom in serving their members and their communities – as opposed to striving only to maximize profits. However, there is a large amount of diversity among the credit unions. Credit unions can choose to mimic traditional banks in their actions and services, or they can choose to make community development a priority. It is in this regard that we see a difference between the large credit unions in Alberta and BC. Credit unions in BC have been very influential in developing BC's social economy. Servus, on the other hand, is active in traditional community giving but it does not use its financial infrastructure and expertise to advance the social economy as credit unions in BC have done. The lack of large, influential credit unions in Alberta puts the social economy organizations there at a disadvantage, relative to those operating in BC.

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[60] www.credit-union.com/index.cfm?method=pages.showPage&pageid=d9e69a23-0b96-f349-376e-1faa4fc207fa
[61] Coast Capital Savings: 2007 Annual Report

[62] Vancity Credit Union: 2006-07 Accountability Report

[63]www.albertacreditunions.com/public/bins/index.asp
[64]www.servuscu.ca/nav_about_servus/default.htm

5.7. Banks

Canadian banks differ greatly from US banks when it comes to community investment and development. One main factor is the Community Reinvestment Act of 1977 (Section 6 deals with the CRA in greater detail), which obliges US banks to invest every community that they have a mandate to operate in. Consequently, US banks are much more involved in financing the US social economy (particularly as it relates to community economic development and social housing) than their Canadian counterparts. This leads to different types of community involvement, even within the same company, depending on which country the bank is operating in. For example RBC operates in both Canada and the US but its approach to community reinvestment differs greatly between the two countries. According to its website, RBC Bank USA has a Community Development Lending Program which works with other non-traditional funders to provide a variety of different types of funding for community economic development, including affordable housing.[65] There is no such program in Canada. Instead, RBC Canada seems to take a more traditional corporate philanthropy approach. Its Canadian website highlights the amount of money that it has donated rather than community projects it has funded.

RBC's approach is the norm in Canada. Although the "Big Five" banks have the potential to play a significant role in serving the social economy organizations in Canada, currently this is not the case. In BC this is illustrated by the fact that Vancity, which is a fraction of the size of the national banks, holds a 40% market share for nonprofits.[66] Also, a scan of the company websites, annual reports, and community involvement documents, reveals that Canadian banks look at contributing to community development as an activity that is separate from their primary activities. Most funding is achieved through charitable donations and the encouragement of donations and volunteerism on the part of their employees. This is unfortunate from a financing perspective because banks have the resources and capacity to provide financing much more efficiently than other institutions. In fact, many of the specialized financing programs which have been discussed (such as PRIs) could be seen as a response to nonprofit organizations' challenges in obtaining appropriate financing from the banks.

The general consensus is that Canadian banks treat nonprofits as they would any other business, however, even this assertion is frequently challenged. Organizations have often claimed that their nonprofit status actually hinders them in dealing with banks. According to Anna Bubel of Another Way in Edmonton, even nonprofit organizations with good funding and years of experience can have problems accessing basic financing. The belief is that banks are unfamiliar with, and therefore uncomfortable with, the structure of nonprofits and their "unconventional" cashflows. Having increased access to loans, mortgages, and lines-of-credit would certainly benefit nonprofits and social enterprises alike.

6. A Successful Nonprofit Sector Capital Market

Now that we have surveyed BC and Alberta's Nonprofit Sector Capital Market, we will step back and ask the question: is this market currently successful and fully developed? If not, what would a successful and fully developed Nonprofit Sector Capital Market look like? It is unlikely that we could establish, or

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[65] www.rbcbankusa.com/communityinvolvement/cid-96942.html
[66] Coro Strandberg. *Causeway: Social Finance Forum*. October 15, 2007.

agree on, a single definitive answer. However, despite differing opinions, we propose that there are some general characteristics that would define a successful Nonprofit Sector Capital Market.

In the most simplistic sense, a market is a collection of people looking to invest their savings into projects which require funding. Also, working to bring these sources of capital together with the projects are financial and informational intermediaries. A functioning market is one that unites these varied, and differently motivated, sources of capital with the most suitable investment vehicle, doing so in an effective manner. In other words, it should minimize the number of cases where organizations are left lacking adequate capital (in volume *or* type) for extraneous reasons such as inadequate information, lack of financial intermediaries, lack of instruments etc. Additionally, transaction costs should be as low as possible, and the market should be flexible to meet the changing needs of capital-seeking organizations.

An effective market should be able to properly support an organization at each stage of development. It should have appropriate funding – i.e. neither too little nor too much – at each stage. Also, investors should be rewarded appropriately for the level of risk they assume. A successful market, then, must be comprised of differently motivated investors with different levels of risk tolerance such that there is sufficient funding available at each stage of organizational development.

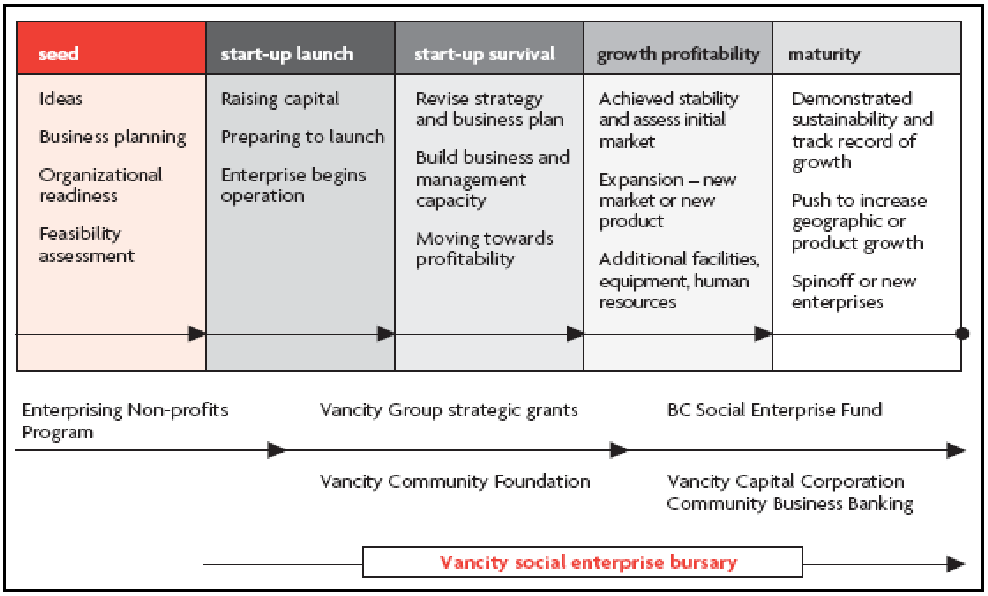
Jed Emerson identifies these development stages within the Nonprofit Sector context, and the type of funding required for each stage:[67]

- **Early Stage**: seed capital and startup capital;
- **Intermediate Stage**: primary funding (for rolling out programs) and secondary funding (for stepping-up initial programs); and,
- **Senior Stage**: mezzanine funding (growth capital - to “go to scale”) and mainstream funding.

Vancity Credit Union also sees value in this framework. Vancity has been working across its many granting and banking functions to create programs that support social economy organizations throughout each development stage.

[67] Jed Emerson. *The US Nonprofit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Instruments*. The Roberts Foundation, 2000.

Figure 6.1 – Vancity's Enterprise Development Path



Source: Vancity Accountability Report 06/07

In summary, essential traits of a successful market are:

- Efficiency, flexibility, and transparency;
- a wide variety of financial instruments and a wide variety of financial returns; and,
- sufficient levels of capital and appropriate types of capital at each stage of organizational development.

We will utilize these key factors to assess the current state of the Nonprofit Sector Capital Market in BC and Alberta.

6.1. Assessing the Current Nonprofit Sector Capital Market in BC & Alberta

6.1.1. Efficiency, flexibility, and transparency

Although B.C. and Alberta-specific data on this topic is sparse, North American Nonprofit Sector Capital Markets in general do not score highly in these areas. As discussed in section 3.5, Wood and Martin report that nonprofits face combined transaction and capital costs of up to 50%. Grant applications and reporting are often cumbersome, decision cycles can be very long, and success rates are low.

Additionally, sifting through the widely varying mandates and requirements of capital providers is difficult and time-consuming. At the 2008 B.C. Social Enterprise Summit (BCSES), one of the main messages that was heard from social enterprise practitioners and funders alike was that it was very difficult to locate the right partners, even where they do exist. To address this barrier, a database of relevant capital providers in BC and Alberta is one of the tasks included in the BCSES workplan.[68] This project has already begun, with contributions from Enterprising Nonprofits, Vancity, BALTA, and BCSES partners.

6.1.2. Wide variety of financial instruments and financial returns

The scan of current capital providers in B.C. and Alberta provided in section 5 of this paper reveals a fairly wide variety of capital providers and associated financial instruments. However, we note that patient capital and equity-like financial instruments are not very well represented, which will be further discussed in section 6.1.3. Additionally, financial returns on these existing investment instruments lack diversity, falling mostly into two groups: -100% (grants), and +~5% (standard senior lending rates). Investment tax credits could be one way to provide further diversity in financial returns for investment in the Nonprofit Sector Capital Market.

6.1.3. Sufficient levels of capital at each stage of organizational development

Does the current Nonprofit Sector Capital Market in B.C. and Alberta provide sufficient levels of capital at each stage of organizational development? This is an important concept because it is essential to both the creation of social economy organizations and in helping them achieve scale. Examined from the development continuum perspective described in the introduction of this section, we believe that there are gaps which limit market efficiency and effectiveness.

At the incubation and start-up stages, we find some fairly significant gaps. Early stage development typically requires funding in the form of grants from the government or foundations. However, as previously established, most grant funding is tied to specific programs, rather than supporting organizational development.

At this stage, nonprofits often lack the resources to explore new opportunities. In BC, Enterprising Nonprofits (ENP) recognized this problem and it provides grants to fund technical assistance to help nonprofits plan new enterprising activities. ENPs incubation program has supported some of BC's most successful social enterprises, including the Potluck Café, Starworks Packaging and Assembly, Landscaping with Heart, and Atira Property management. Alberta does not have an equivalent organization to help spur the development of social enterprises. The initial lack of take-up for the funding offered by the Social Enterprise Fund (SEF) is perhaps indicative of the fact that Alberta lacks a social enterprise incubator. The SEF's director, Bob Ward, said that many nonprofits he spoke to were interested in launching revenue generating activities but they cited a lack of resources and knowledge for developing such programs. ENP has recently expanded to Toronto and is exploring expansion to Alberta as well.

In the intermediate stages of development, enterprises look to first roll-out programs and then step-up the scale and impact of successful programs. There is a relatively large amount of capital available (relative to early stage funding), mostly in the form of grants from the government and foundations and also

[68] http://www.enterprisingnonprofits.ca/summit, accessed May 5, 2009.

revenue generation for some organizations. However, restrictions on the use of these grants for core funding hinder organizational development. Venture philanthropy (via BC-Social Venture Partners and Social Venture Partners-Calgary, providing technical support and mentoring in addition to funding, is available at this stage, but in relatively small quantities.

To bring successful programs and ventures to scale, large amounts of patient capital are needed. There must be enough for funding available to support significant rollouts of the successful ideas, but -- as these programs and ventures generally take years to fully develop -- the capital provider must also be willing to stay invested in the program or venture for the medium to long term. In the traditional Capital Market, this is the role for equity investment. However, we have already outlined the barriers to equity investment in the nonprofit sector Capital Market. Patient capital, or other equity-like investment products, are sorely lacking in B.C. and Alberta.

At the mature or senior stages, nonprofit organizations generally do have adequate sources of capital. These enterprises can access capital through the traditional capital market, typically credit unions and banks. In BC, nonprofits that are near maturity also have access to subordinated debt through Vancity Capital. Vancity Capital has the ability to provide somewhat riskier financing to medium-sized organizations that might not qualify for financing from traditional banks, although the nonprofit portfolio is relatively small (around $5mil). Nonprofit organizations in Alberta do not have the benefit of a similar financial institution. In conclusion, nonprofit organizations that are able to launch successful programs do have access to significant capital through traditional capital providers, although there are still some limitations and barriers, and they may have difficulty in obtaining the additional financing that would allow them to increase the scale of their operations.

6.2. Conclusion

The Nonprofit Sector Capital Market in BC and Alberta has many, but not all, of the attributes of a successful Capital Market. From our research into the current state of the market, we feel that it currently lacks:

- a diversity of financial returns for investors;
- an adequate level of efficiency and transparency (which is required for increased levels of investment);
- the necessary funding required for each stage of development, particularly patient capital.

However, from our research we believe that the Nonprofit Sector Capital Market does possess:

- differently motivated investors, including individuals, financial institutions, and government players;
- a large number of diverse nonprofit organizations with significant capital and assets;
- increasing awareness and interest;
- an increasing diversity of financial instruments.

7. International Best Practices

To move from the general to the specific, we have chosen to highlight some specific examples of innovations in nonprofit sector financing outside of B.C. and Alberta. Understanding what has worked in other regions can help guide policies in Western Canada.

7.1. Policy Infrastructure

7.1.1. United States

The US is a leader in many areas of community finance, including the nonprofit sector. As previously mentioned, the US has a well-developed and well-capitalized philanthropic system which has created influential movements such as program related investments and the use of metrics in charitable and social economy organizations (such as the attempts to calculate a Social Return on Investment). However, where the US has had the largest impact (certainly in terms of dollar-impact) has been through targeted federal programs. These mandates have been used to increase community investment and development.

Community Development Financial Institutions (CDFIs) play a central role in financing community development by providing financial services to distressed communities that are typically underserved by banks. There are over 1000 CDFI's in the US, approximately 800 of which are recognized by the US treasury Departments CDFI Fund.[69] These institutions are funded by US banks, pension funds, and most significantly, the US Treasury through the CDFI fund.[70] CDFIs can take the form of community development banks, credit unions, loan funds, or venture capital companies. The largest area of investment for CDFIs is housing (44%) followed by businesses (20%).[71] The oldest and largest CDFI is Shore Bank which has $2.4B in assets and claims to have financed over 52,000 affordable housing units.[72] CDFIs have been active in the US for many years but have recently experienced rapid growth due to the creation of large federal government programs such as the Community Reinvestment Act (CRA) of 1977, the creation of the CDFI Fund in 1994, and the legislative changes in 1995 which allowed for investment in CDFIs to qualify under the CRA. Thanks to these, CDFI capital pools are valued at over $14B, making them the most important source of capital for social enterprises.

The Community Reinvestment Act: Congress passed the CRA in 1977, making it mandatory that all banks serve the credit needs of all communities in which they are chartered to operate. This was done in an effort to reduce "redlining", the practice of avoiding service to low income neighbourhoods. The initial effectiveness of the CRA was limited due to weak regulatory enforcement. However, in 1995 changes to the CRA regulation and monitoring increased enforcement. This caused an immediate boost to community investment in the US as many banks set up bank-owned Community Development

[69] www.cdfi.org
[70] Tessa Hebb *et al*. *Financing Social Economy Enterprises*. Carleton Centre for Innovation. August 2006.
[71] ibid
[72]www.shorebankcorp.com/bins/site/templates/child.asp?area_4=pages/nav/about/right_side.dat&area_2 =pages/about/corp_info.dat&area_7=pages/titles/about_title.dat

Corporations that serve nonprofits, small businesses, and low income housing providers. Between 2001 and 2005, the assets in CDFIs grew 84% to $14B.

Today in the US, the relationship between banks and CDFIs serves as an excellent model for social finance. Banks, thrifts and credit unions are not only a major source of capital for CDFIs, they also provide services such as technical assistance and board governance for nonprofits.[73] Also, CDFIs work with banks by providing riskier capital, such as subordinated debt, allowing the banks to then lend to the clients while keeping them within their risk tolerance levels.

The CDFI Fund: Operated by the US Treasury Department, the CDFI find was created in 1994 to promote community development through the direct support of CDFIs. The CDFI Fund achieves its mandate, chiefly, through two channels:

1. Direct investment and support of CDFIs: Since its inception it has awarded $864M in grants in addition to providing training and technical assistance to CDFIs[74].
2. New Markets Tax Credit (NMTC) Program: Created in 2000, the NMTC has already attracted $16B of private investment to community development. The program permits tax payers who invest in designated Community Development Entities (CDEs) to receive a credit against Federal income taxes. According to the US Treasury CDFI Fund website, to qualify for CDE status, an organization must meet the following criteria:[75]
   - be a domestic corporation or partnership;
   - have a primary mission of serving or providing financing to low-income communities or persons; and,
   - maintain accountability to residents of low-income communities through representation on a governing board of or advisory board to the entity.

The investor receives a credit of 5% of the investment amount for the first three years and 6% for the flowing four years. This results in a credit worth 39% of the cost of the investment. In 2007 the CDFI Fund awarded $3.949B in tax credits to CDEs. For 2008 the Fund had $3.5B in credits to allocate but it has received requests for an incredible $21.3B worth of credits.[76] This demonstrates that the NMTCs still have substantial appeal for CDEs and their investors. The NMTC program recently released another $3.5B in tax credits for 2009.

Between the CRA, which ensures that banks serve low-income neighbourhoods (i.e. “the infrastructure”), and the CDFI fund, which provides incentives for investing in low-income neighbourhoods (i.e. “the capital”), the US government has created powerful national policies which have driven a substantial amount of investment in its low-income neighbourhoods.

7.1.2. United Kingdom

The UK federal government has chosen to make the social economy, and social entrepreneurship in particular, a priority in their economic development strategy. As a result, elements of their Nonprofit

[73] new economics foundation. *Reconsidering UK Community Development Finance*
[74] http://www.cdfifund.gov/who_we_are/about_us.asp
[75] ibid
[76] ibid

Sector Capital Market are developing quite rapidly. The UK has created an integrated approach which attempts to address multiple issues simultaneously, such as financial intermediaries, tax incentives, and increased transparency.

Many of these changes started when the Chancellor of the Exchequer appointed a Social Investment Task Force headed by Sir Ronald Cohen - the former CEO and chairman of one of Europe's most successful private equity groups. This task force delivered five recommendations to the government in October of 2000. The taskforce felt it was important to benchmark other successful models; as a result many of the recommendations mirrored US policies. These five recommendations were:

1. Introduce the Community Investment Tax Relief (CITR).
2. Help set up Community Development Venture Capital Funds (CDVCs).
3. To encourage the disclosure of banks' lending activities. It was also recommended that if banks did not comply then the government should follow the US by making disclosure mandatory.
4. To encourage the investment in community development finance by charitable trusts and foundations by allowing program related investments, grant and loan guarantees, and investment in CDVCs.
5. To provide support for Community Development Finance Institutions (CDFIs).

The response was immediate as the Chancellor accepted the report, in principle, in November, 2000. Barclay's was the first bank to disclose its lending activities in February, 2001. The Co-Operative bank, Unity Trust bank, and HSBC soon followed. The first CDVC, Bridges Community Development Venture Fund was launched in May of 2002 and by July of 2002 the CITR legislation was enacted.[77]

The Impact of Community Development Finance Institutions (CDFIs): As in the US, CDFIs also play a major role in the financing of communities and social enterprises in the UK. CDFIs have largely arisen in the past decade as a means to address financial exclusion. The goal of the Social Investment Task Force was to apply entrepreneurial practices in an effort to drive higher social and financial returns as well as increased private and institutional funding. Since the recommendations were made, CDFIs have experienced a major boost in public funding.[78] Through the Phoenix Fund, the development of the Community Development Finance Association (CDFA), and the Community Investment Tax Relief (CITR), the number of CDFIs nearly doubled to 80 between 2004 and 2006. According to the CDFA, as of the end of March 2007, CDFIs have:

- financed 15,000 businesses and households;
- created and sustained 33,000 jobs;
- total outstanding loans of £287M (up from £181M the previous year) and capitalization of £569M (up from £440M); and,
- Earned £6.6M from their portfolios in the 12 months to March 2007.[79]

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[77] *Enterprising Communities – Wealth Beyond Welfare: A 2005 update on the Social Investment Taskforce.* CDFA Conference, July 6-8, 2005.
[78] Cristoph Kneiding and Paul Tracey. *Towards a Performance Evaluation Framework for Community Development Financial Institutions in the UK.* Hansetic University: Discussion Paper Series, No.3. February 2008.
[79] *Inside Out 2007: The State of Community development Finance.* www.cdfa.org.uk

Mixed success: Although CDFIs have increased in number and in their impact on their communities, there is some debate over their success to date. The CITR was a key component of the Task Force's recommendations as it was deemed an essential tool for CDFIs to attract capital. The main driver of this capital is a 25% tax credit (5% each year for 5 years) for those who invest in CDFIs. Despite the high praise it received from all those involved, the CITR has not been without its problems. A study conducted by the New Economics Foundation (supporters of the CITR) found that only 4% of CDFIs felt that the CITR provided them with effective financing.[80] Consequently, CDFIs have remained relatively small and they have not yet proven to be sustainable. Many CDFIs have begun to move away from the small, risky loans they originally started with and towards the more profitable investments. As such a shift occurs, CDFIs risk reducing their social impact. There has been a call for ongoing funding of CDFIs which creates an interesting dilemma. The government wanted to promote an entrepreneurial spirit in an effort to avoid ongoing funding but it seems that without continual funding, the UK could end up with a number of bank-like institutions which are risk-averse. A study carried out by the New Economics Foundation found that overall CDFIs have made positive contributions to their communities but they have not reached their potential. The UK CDFI experience is perhaps a case of overwhelming expectations. The idea of social entrepreneurship suggested that CDFIs simply needed a hand-up and they could soon become sustainable. This notion is proving unrealistic and potentially damaging as the positive impacts of CDFIs risk being overshadowed by what some see as their failure to gain scale and reach sustainability.

Community Development Venture Capital Funds (CDVCs): Recognizing the important role that CDVCs play in the US, the Social Investment Task Force recommended the development of CDVC's in the UK. CDVCs are for-profit businesses that leverage external investments (from institutional investors, foundations, government, etc.) and make equity investments in businesses that operate in low-income neighbourhoods. Like traditional venture capitalists, they also provide expert advice and guidance. Bridges Ventures, established in 2002, is the first such venture capital fund to be established in the UK. It's first fund raised £40M of investments; £20M from the private sector and £20M from the government. In 2007 Bridges launched a second fund - this time with £75M entirely raised from the private sector. Bridges has now invested in 24 businesses employing over 700 people.[81]

A paper published by Bridges Ventures summarizes the UK experience as follows:[82]

1. **Market Creation**: this was achieved with the creation of the Social Investment Task Force, the implementation of the tax credit, and the expansion of community development finance institutions and Program Related Investments by foundations.
2. **Market Development**: this is stage that where the UK currently sits. It involves the development of new social enterprises including both enterprising nonprofits and socially driven for-profits. It also saw the creation of the Community Interest Company (CIC) and the Office of the Third Sector – a federal office working to support the social economy.
3. **Robust Market**: this is the ultimate goal of the UK's social economy initiatives. It would have a developed Social Capital Market that could include a Social Investment Bank and perhaps even a Social Investment Stock Market.

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[80] *Reconsidering Community Financing*. New Economics Foundation.
[81] www.bridgesventures.com/aboutus_history.php
[82] Laura Howard. *Equity-Like Capital for Social Ventures*. Bridges Community Ventures.

7.1.3. L'Économie Sociale au Quebec

Quebec has created the most developed social economy and associated Capital Market in Canada. As mentioned in Section 4.4.1, already in 2002 there were 6,254 social enterprises with revenues in excess of $4B, employing over 65,000 people. A detailed description of Quebec's social economy exceeds the scope of this paper but we feel it is important to note the role the provincial government has had in developing Quebec's social economy. Quebec has a long history of social enterprises, particularly financial and agricultural cooperatives. However, the social economy did not begin to gain real political acceptance until 1996 when the provincial government invited a diverse set of socio-economic stakeholders to participate in the Conference on the Economic and Social Future of Quebec. This action resulted in the creation of *chantiers*, or taskforces, including the very influential *Chantier de l'economie sociale*. The *Chantier* is an umbrella organization that brings together other umbrella organizations within the social economy. It works to ensure that these voices are heard by the provincial government. Since the conference in 1996, the provincial government has been working to address the needs of the social economy. As a result of these collaborative efforts, Quebec boasts many developed social enterprises (often co-operatives), especially in the areas of financial services (Desjardins is Canada's largest credit union), agriculture, social housing, funeral services, homecare services, daycare and training services.[83]

7.1.4. Canadian Provincial Tax Credits: Nova Scotia and Manitoba

Tax credits can be used to provide additional financial incentives for investors – making the risk-reward profile more attractive. Provincial governments across Canada have used tax credits to spur investments in targeted industries (such as R&D, high-tech, and film). Nova Scotia and Manitoba have used tax credits to support investment in social enterprises and community economic development.

Nova Scotia Equity Tax Credit: Established in 1993, this program promotes investment in small businesses, co-operatives, and more recently, community economic development through its Community Economic Development Investment Funds (CEDIF). This program provides a 30% tax credit (up to $15,000 per year) if the individual invests in an approved business for at least 5 years. Its success in generating investments for small businesses and co-operatives led the government to expand the Equity Tax Credit to include investments in CEDIFs as well. Investments in CEDIF's also qualify for RRSP investments.[84] Local investor interest in the CEDIFs continues to grow. As of April 20, 2009 there were 48 funds managing over $32M in assets, from more than 4,800 individual Nova Scotians.[85]

Manitoba CED Tax Credit Program: Similar in structure to Nova Scotia's Equity Tax Credit, Manitoba offers a 30% tax credit for investments in approved community enterprises or CEDIFs. Tax credits are limited to $9,000 per year and investments must be held for at least 3 years. To date, there have not been any investments in CEDIFs. There have been 565 equity investors in nine community enterprises, totaling $1.87M.[86] Interestingly, In Alex Chernoff's investigation into the use and effectiveness of this program, he reports that government officials had no knowledge regarding the

[83] Marguerite Mendell. *The Social Economy of Quebec*. 2003.
[84] www.gov.ns.ca/econ/cedif/background/history.asp
[85] www.gov.ns.ca/econ/cedif/funds/
[86] Alex Chernoff. *Creating Capital Pools to Support Social Enterprise Development in Manitoba*.

success of the nine community enterprises. The importance of collecting such data will be commented upon in Section 7.

In 2003, a CED tax credit proposal was submitted to the provincial government of Alberta. The final report, *A Community Economic Development Investment Fund for Alberta*, lays out the many benefits of a CED tax credit program, including:[87]

- increased employment and therefore increased personal tax revenues;
- increased business revenue and therefore increased tax revenues;
- simplicity of contributions (vs. investments which require securities commission approvals);
- avoids the creation of a government oversight body; and,
- investments in local housing and small-business initiatives.

The report suggested setting up a designated CED organization which administers the tax credit fund. Corporations and individuals would contribute directly to this organization for which they would receive a 50% tax credit on the first $50,000 and 30% for investments beyond $50,000. The designated CED organization would then loan the funds to approved CED enterprises (this report suggests targeting micro-enterprises, small businesses and low-income housing). The benefit of having an intermediary organization that administers the fund is that it creates greater funding flexibility; unlike many other programs (such as BC's current tax credit program) this system does not require equity investments in order to qualify for a tax credit. The Alberta tax credit report called for a trial program using $5M in tax credits. These credits would in turn leverage $10M - $13.125M in investments. The report included a cost-benefit analysis which it felt conservatively placed the rate of return for the province at over 18%.

Ultimately, this program was not adopted by the Alberta government. However, we feel that it stands as a good model for both BC and Alberta if either government is inclined to target increased investments in housing, CED, social enterprises, or nonprofit organizations.

7.2. Innovative Patient Capital Funds

Patient capital is an essential ingredient for the success of for-profit businesses. It is the capital that allows a business to function while it is in the pre-revenue or early operating stages. It can also allow a business to expand its operations and so it is also often referred to as "growth capital". Patient capital is something that has largely eluded nonprofits and social enterprises as their structures prohibit equity investments. However, this is beginning to change as more and more nonprofit funders have realized the importance of patient capital for nonprofits. Unlike for-profit businesses, patient capital for social economy organizations is typically structured as debt or a "recoverable grant", with below-market financial returns.

[87] Anna Bubel and Miranda Ringma. *A Community Economic Development Investment Fund for Alberta: Final Report*. November 2003.

The Alterna Community Alliance Housing Fund, Ottawa, ON

This recently created housing fund serves as an excellent model of cooperation between organizations with different areas of expertise but a singular goal; addressing the need for affordable housing. The fund was capitalized with a $2M investment by the pension fund of the Public Service Alliance of Canada (PSAC) but it required the collaboration of many different groups to actually get the fund launched. Alterna Savings Credit Union set-up the deposit products and guaranteed a market rate of return to PSAC. This allowed PSAC to invest in affordable housing while still meeting its fiduciary duties. The lending approvals are made by Alterna with help from the Ottawa Community Loan Fund – a nonprofit CDFI with specific knowledge regarding Ottawa's affordable housing projects. The Centretown Citizens Ottawa Corporation, Ottawa's largest non-profit housing corporation, also contributed to the project by conducting the initial feasibility assessment. Lastly, the Carleton Centre for Community Innovation acted as an intermediary between the various groups.

The fund will be used to provide low-cost financing for affordable housing, mainly in the form of second-mortgages. The possibility of other types of funding, such as primary mortgages, pre-development financing, and bridge financing, also remains open. Perhaps even more importantly, this fund potentially serves as a template for other institutional investors who, in conjunction with financial institutions and nonprofits, are interested in community-based investments.

The Cincinnati Equity Fund (CEF) is an example of a "near market" patient capital fund (as opposed to a nonprofit patient capital fund). The $46M capital pool was established in 1996 to promote commercial and low-income housing developments in Cincinnati's downtown core. The fund provides subordinated debt at below-market interest rates in order to help kick-start projects that otherwise would not have occurred.[88] The fund has lent out over $33M to 30 projects. This success has led it to seek as much as $25M in new funds so that it can continue lending.[89]

The Nonprofit Finance Fund (NFF) is an American Community Development Financial Institution (CDFI) that has been an active advocate of patient equity for nonprofits. According to its website, the NFF believes that we need to move away from the mindset of "program funding" and towards a more holistic "organizational funding". This shift involves the more frequent usage of patient equity for nonprofits. In 2007 NFF made over $21M in new loans, bringing its cumulative total to over $171M and its total outstanding loans to $45M.[90] NFF acts as an intermediary financial organization by working directly with nonprofits to establish how much patient equity they actually require in order to operate efficiently. Capital is then raised by NFF through its extensive network of foundations and partners. As a nonprofit itself, NFF can receive PRIs from foundations which it then loans out to other nonprofit organizations. This model allows foundations a simplified method of participating in PRIs. More recently, NFF launched a new entity called NFF Capital Partners. Leveraging its position as a trusted third party, NFF Capital Partners does not actually fund nonprofits; instead it links them with foundations willing to provide growth capital. NFF Capital Partners is able to provide accurate and unbiased

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[88] www.3cdc.org/content.jsp?sectionId=16
[89] Dan Monk and Lucy May. "*Cincinnati Equity Fund to Deepen Capital Pool*". Business Courier of Cincinnati, June 6, 2008.
[90] Nonprofit Finance Fund: Annual Report 2007

assessments of how much growth capital is actually required, as well as auditable records of how the nonprofit organization is performing.[91] This intermediary position provides a very valuable service by allowing foundations to fund *non-program specific* aspects of a nonprofit, while also ensuring that their capital is being used effectively.

8. Recommendations and Conclusion

Making specific recommendations for the Nonprofit Sector Capital Market is a difficult proposition. As this report hopefully demonstrates, the Nonprofit Sectors of BC and Alberta are large and complex. The Nonprofit Sector Capital Market is comprised of many diverse groups, including nonprofit organizations, social enterprises, co-operatives, community development agencies, various funding agencies, as well as the vast network of intermediary organizations that support and connect them all. The Nonprofit Sector is also closely tied to the various levels of government, as it is heavily reliant on public funding. This complexity means that developing a more effective Nonprofit Sector Capital Market will not be easy, nor will it happen overnight. There is no "silver bullet" or quick fix. However, this is not to imply that an effective and fully developed Nonprofit Sector Capital Market is impossible, or even unlikely.

From our research into the current state of the Nonprofit Sector Capital Market in B.C. and Alberta, combined with our scan of international best practices, we offer the following recommendations as themes to be explored in advancing the development of the Nonprofit Sector Capital Market to better meet the needs of nonprofit organizations.

8.1. Comprehensive Policy Infrastructure Approach

We believe that taking a comprehensive approach is the most effective method to developing the Nonprofit Sector Capital Market. This is not to diminish the importance of the individual organizations that are on the ground working to improve their communities. Rather, a carefully considered plan of action from the federal or provincial level—developed in partnership with the nonprofit sector and broader social economy-- would be the most effective way to support these social economy organizations. Much of the social economy has been created in a piecemeal, or ad hoc, approach – working to fill the social gaps as they appear. Broader government-led programs have the potential to identify the gaps and obstacles which exist and target them in a more direct and presumably efficient manner. B.C. and Alberta have the opportunity to learn from the experiences in the US, UK, and even other Canadian provinces such as Quebec and Nova Scotia, and adapt them to the Western Canadian environment. Key elements of a comprehensive policy infrastructure could include:

- Investigation of available legal structures for nonprofits and social enterprise to ensure that they meet the needs of the sector and do not constrain innovation;
- Investment tax credits;
- Increased availability of loan guarantees and other supports; and,
- A targeted government purchasing program to develop markets for nonprofits and social enterprises.

[91] www.nonprofitfinancefund.org/details.php?autoID=119

8.2. Addressing the Lack of Equity or Patient Capital

We have already discussed the financial instruments which are used as a substitute for equity. We believe that additional patient equity instruments would be beneficial to nonprofit organizations because they help to overcome many of the financing difficulties that they face. These include:

- An over-reliance on program funding
- A lack of funding and the dedicated staff to develop and administer revenue-generating enterprises
- Challenges in acquiring assets. Patient equity could act as the risk capital, or the down payment, to help nonprofits secure capital assets.

The expansion of PRIs is perhaps the most likely method of introducing more patient equity into the market. Canadian foundations have the benefit of learning from the successes that are occurring in the US, as well as from the few pioneering foundations that have initiated such programs in Canada. Foundations already have three critical features that make them excellent candidates for providing patient capital: they are well capitalized, they are mission-driven, and many already have close ties to the nonprofits they fund. The Edmonton Community Foundation, the Muttart Foundation and the Vancity Community Foundation have all implemented PRIs. It is vital that the impact of these programs be documented so that they serve as examples to other foundations and even financial institutions.

8.3. Additional Suggestions

There are two other general principles which do not fit into the above frameworks, but will nonetheless be important in creating advances in the Nonprofit Sector Capital Market.

- **Visible Success Stories**: Nothing speaks as loudly as success. The creation of impactful nonprofits, sustainable social enterprises, profitable PRI portfolios and healthy, vibrant communities will increase the awareness of the social economy which will encourage further investment and lead advances in capital market development. The impact of nonprofit organizations and social enterprises must also be measured, documented, and communicated.
- **Collaboration**: The traditional capital market generates efficiencies through standardization, centralization, and consolidation. We can observe some similar efforts in the social sector: the US has made some efforts to standardize grant requests so that nonprofits spend less time and effort writing proposals; community development financial institutions pool funds and distribute them to local organizations; foundations have been pushing nonprofits to measure the impact of their programs so it is easier to determine which programs warrant the most funding. Still, the nonprofit sector remains fragmented and diverse, making it more difficult to serve financially. Although diversity is desirable, there may be value in combining like-minded nonprofits to enhance synergies and create larger and more efficient organizations.

Although we often take it for granted, it is important to recognize that the modern conventional capital market took decades, even centuries, to build. Its creation required intensive efforts from businesses, financial institutions, and governments alike. The traditional capital market has experienced continual modification and often outright restructuring to meet the needs of the evolving enterprises that it serves. The Nonprofit Sector Capital Market will require similar levels of effort and coordination if it is to reach its full potential.

Appendix

	Alberta Organizations (Excluding Hospitals, Universities and Colleges) Amount	% Total Revenues		BC Organizations (Excluding Hospitals, Universities and Colleges) Amount	% Total Revenues		All Organizations (Excluding Hospitals, Universities and Colleges) Amount	% Total Revenues
Revenue From Government								
Payments from the federal government	$87,539,773	1%		$217,105,245	2%		$1,505,063,091	2%
Payments from the provincial government	$1,469,329,102	17%		$1,588,053,803	18%		$8,551,956,531	11%
Payments from the municipalgovernment	$59,762,198	1%		$51,029,948	1%		$1,001,668,540	1%
Government payments from other	$9,917,478	0%		$4,153,905	0%		$84,760,908	0%
Total Government Payments	**$1,626,548,551**	**19%**		**$1,860,342,901**	**21%**		**$11,143,449,070**	**15%**
Government Grants and Contributions								
Grants from the federal government	$429,502,263	5%		$1,193,547,686	13%		$5,205,314,016	7%
Grants from the provincial government	$404,065,604	5%		$1,037,214,502	12%		$9,755,379,277	13%
Grants from the municipal government	$93,098,457	1%		$29,113,666	0%		$995,148,362	1%
Government grants from other	$2,138,999	0%		$6,961,764	0%		$119,625,599	0%
Total Government Grants	**$928,805,323**	**11%**		**$2,266,837,618**	**25%**		**$16,075,467,254**	22%
Total Revenues From Government	**$2,555,353,874**	**30%**		**$4,127,180,519**	**46%**		**$27,218,916,324**	**36%**
Earned Income From Non-Governmental Sources								
Charitable gaming	$287,795,111	3%	6.61%	$101,312,977	1%	3.4%	$1,229,768,874	2%
Membership fees	$1,156,712,272	13%	26.55%	$897,591,729	10%	29.8%	$11,699,530,741	16%
Fees for goods or services (non-governmental)	$2,616,874,974	30%	60.07%	$1,801,622,359	20%	59.7%	$15,843,379,066	21%
Investment income	$294,885,466	3%	6.77%	$215,905,892	2%	7.2%	$3,196,448,914	4%
Total Revenues From Earned Income	**$4,356,267,823**	**51%**	100.00%	**$3,016,432,957**	**34%**	100.0%	**$31,969,127,595**	**43%**
Gifts and Donations								
Individual Donations	$907,458,653	11%		$1,110,245,974	12%		$7,991,880,133	11%
Fundraising organizations/community founations	$104,702,581	1%		$69,037,695	1%		$993,244,007	1%
Disbursements from nonprofits	$155,981,731	2%		$100,248,275	1%		$1,242,260,766	2%
Corporate sponsorships, donations or grants	$358,094,443	4%		$173,232,156	2%		$2,575,685,869	3%
Total Revenues From Gifts and Donations	**$1,526,237,408**	**18%**		**$1,452,764,100**	**16%**		**$12,803,070,775**	**17%**
Other Income	**$170,369,641**	**2%**		**$405,613,930**	**5%**		**$2,770,484,688**	**4%**
Total Revenues	**$8,608,228,746**	**100%**		**$9,001,991,506**	**100%**		**$74,762,781,888**	**100%**