

The Nonprofit Sector Capital Market in BC & Alberta

Rebecca Pearson

BC-Alberta Social Economy Research Alliance (BALTA)

**BALTA Symposium
November 2009**

Context

- Purpose of this paper: to provide regionally-specific information on the Nonprofit Sector Capital Market (NPCM)

What is the Nonprofit Sector Capital Market?

- Practitioners, or Capital Seekers
 - Charities and nonprofit orgs
 - Co-operatives
 - Social enterprises
- Capital Providers
 - Government
 - Foundations
 - Credit Unions and Banks

Why is the NPCM important?

- Between 1992 and 1999, government spending on programs was reduced by 20%
- A national survey found that 96% of Canadian nonprofits felt it was important for them to explore new ways of accessing capital
- More than half of nonprofits state their funders are unwilling to fund core operations
- Nonprofits are adopting entrepreneurial programs that require new and different types of capital
- Investors are increasingly seeking more than just a financial return

Blended Value



Pure Social Outcomes



Pure Financial Outcomes

- People (Social ROI)
- Planet (Environmental ROI)
- Profits (Financial ROI)

Source: www.blendedvalue.org

Structural Disadvantages

- Internalized costs, externalized benefits
- Lack of access to equity financing
- Lower and restricted cashflows

Current State: Capital Seekers

Nonprofits & Charities

The nonprofit and voluntary sector:

- over 160,000 organizations
- Contributes over \$75B or ~8.5% of GDP
- 2 million+ jobs, or 12.1% of the population of Canada
- **This makes Canada's nonprofit sector, proportionally, the second largest in the world**

Nonprofits & Charities

- major source of revenues (48%) is **fees, or earned revenues**
- **Significant size disparity:**
 - 65% have <\$100k annual revenues
 - 90% have <\$500k annual revenues
 - 6% have >\$1 million annual revenues

Co-operatives

- Over 8,800 co-ops employing more than 150,000 in Canada
- BC & AB co-ops do over \$2 billion in business annually
- For-profit and non-profit
- Ability to accept equity investment
- Co-operative Development Initiative has been renewed as of May 2009

Social Enterprise



Images from British Columbia's
Great Bear Rainforest
All photos copyright Ian McAllister



Lawn and Garden Smart

GARDEN SOLUTIONS FOR LIFE



Western Log Sort Cooperative



Starworks Packaging and Assembly



Coast Landscapes



ReStore – Habitat for Humanity



VON Health Promotion
Services



Current State: Capital Providers

Capital along the Development Path

SEED/ PLANNING	START-UP Launch	START-UP Survival	GROWTH Profitability	MATURITY
<p>Idea/Readiness</p> <p>Feasibility assessment</p> <p>Business Planning</p>	<p>Raising Capital</p> <p>Launch Prep</p> <p>Enterprise begins operations</p>	<p>Revise strategy / business plan</p> <p>Build enterprise & mgmt capacity</p> <p>Move to \profitability</p>	<p>Stability/success in initial market</p> <p>Expand to new market/products</p> <p>Equipment, facilities, HR</p>	<p>Sustainability</p> <p>Geographic or product growth</p> <p>Spin-off or new enterprises</p>

Source: Vancity Credit Union

Government

- Federal
 - Western Economic Diversification Canada (WD)
 - Community Futures
 - Co-operative Development Initiative
- Provincial
 - BC Regional funds: Coast Opportunity Funds, Columbia Basin Trust, Northern Development Initiative Trust, etc.
 - Community Diversification tax credit
 - Alberta?
- Aboriginal Funding programmes

Foundations

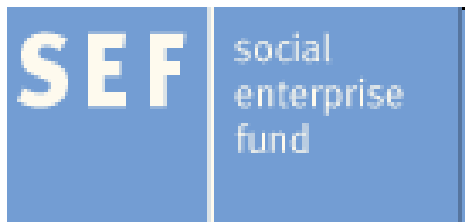
- 1091 public foundations (734 BC, 357 AB)
- Vancouver, Calgary, and Edmonton Foundations among the top 10 in Canada
- Source of equity to NPCM, in the form of grants (1-2% of revenues)
- Granting has been significantly reduced due to market performance

Program Related Investments

Benefits:

- **invest more capital** into the social economy than the normal granting budget would allow;
- **preserve foundation assets** by recycling funds instead of the one-time utilization that grants allow;
- **finance significant asset acquisitions** for social economy organizations, helping them to build their asset base for future financing opportunities;
- foster **grantee/borrower self-sufficiency**;
- From a capital point of view, the real benefit is when and where the money is placed: the ability to take **early risk, with a long-term investment horizon**

Emerging Funds & Venture Philanthropy



Credit Unions & Banks

- Major source of debt financing, conventional (mostly) and supported
- No Community Reinvestment Act here- banks tend to use traditional philanthropy model
- Several innovative credit unions

Vancity



The BC-Alberta Social Economy Research Alliance

Capital along the Development Path

SEED/ PLANNING	START-UP Launch	START-UP Survival	GROWTH Profitability	MATURITY
Grants Technical Assistance	Grants Equity PRI's	Grants Equity PRI's Microloans	Supported debt Venture Capital	Conventional debt Venture Capital

Source: Vancity Credit Union

International Best Practices

Comprehensive public policy infrastructure

- Government investment
- Tax credits
- Market building
- Infrastructure development
- Examples: UK, US, Quebec

Provincial Tax Credits

Tax credits support the social economy in

- Nova Scotia
- Manitoba
- Quebec

Early indications of potential to add to existing tax credit program in BC

Innovative Patient Capital Funds

- Fiducie (Quebec)
 - 15-year patient capital fund
- Nonprofit Finance Fund (US):
 - Integrated financial services for NPCM, including managing PRIs and tax credit investment
- The Alterna Community Alliance Housing Fund (Ottawa)
- Cincinnatti Equity Fund (US)

Conclusions

- Strong and innovative Nonprofit sector in BC and AB
- Growing need for capital
- Strong traditional banking and philanthropy models, nascent innovative investment models
- Significant gaps in equity/patient capital
- Little engagement with individual investors
- Policy infrastructure uncoordinated

Next Steps

Project A8:
A Database of Social Economy Capital
Providers in BC & Alberta





