



# INVESTMENT AND READINESS STREAM OF THE SOCIAL FINANCE FUND

Conversation Guide for Engagement

MARCH 2019





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## **Investment and Readiness Stream of the Social Finance Fund Conversation Guide for Engagement**

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# 1. Overview & Introduction

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From: [Employment and Social Development Canada](#)

The Minister of Families, Children and Social Development and the Minister of Employment, Workforce Development and Labour have been jointly mandated to develop a Social Innovation and Social Finance (SI/SF) Strategy for Canada.

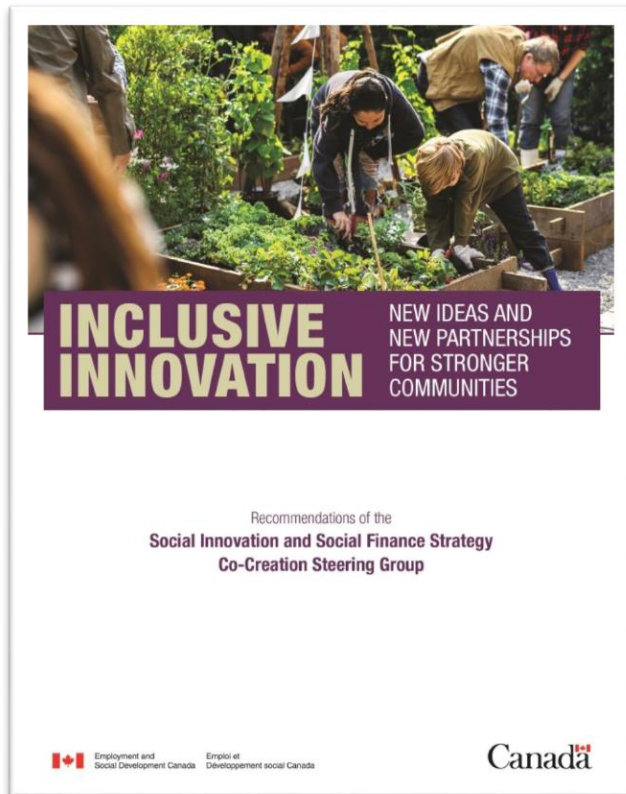
To guide the development of the Strategy, a [SI/SF Co-Creation Steering Group](#) was appointed by the Ministers in June 2017. The Steering Group brought together 16 passionate and diverse leaders, practitioners and experts from the community, philanthropic, financial and research sectors, as well as one Government representative.

To ensure the diverse views of Canadians were represented, the Steering Group led more than 50 engagement sessions and two online public consultation processes, and engaged with over 35 Indigenous organizations. These sessions included: charities and non-profit organizations, Indigenous organizations, foundations, co-operatives and mutuals, social enterprises, unions, umbrella groups, individual social innovators and community members. Other federal departments and agencies and provinces and territories were also engaged throughout the co-creation process.

In August 2018, the recommendations of the SI/SF Steering Group were released in a Report entitled, [Inclusive innovation: New ideas and new partnerships for stronger communities](#). The Report included 12 recommendations covering **skills and capacity** to equip [social purpose organizations](#) (SPOs) with the knowledge and resources to adopt social innovation and social finance approaches; **funding and capital opportunities** so that SPOs have the financial resources to develop, test, adopt, and grow innovative solutions to social and environmental problems; **market access** for SPOs to be able to find buyers for their goods and services; an **enabling policy and regulatory environment** that creates the conditions for social innovation, social finance and SPOs to flourish; **evidence and knowledge** sharing to enable SPOs and funders to work together based on what works, develop better goods and services, scale their impact and evaluate progress; and **awareness and mobilization** efforts to spur interest and build support for the growth of social innovation and social finance approaches.

**Please see Section 6 for a list of definitions.**

## Recommendations of the SI/SF Steering Group



(Full report can be found [here](#).)

- 1) **Create a Social Finance Fund**
- 2) **Establish a permanent Social Innovation Ecosystem Program**
- 3) **Invest in SI/SF data, research and knowledge sharing**
- 4) **Improve social purpose organizations' (SPOs) access to federal innovation supports**
- 5) **Incorporate social procurement into current federal efforts on sustainable procurement**
- 6) **Establish a multi-sectoral Social Innovation Council**
- 7) **Create a permanent Office for Social Innovation**
- 8) **Anchor long-term action on SI/SF through legislation**
- 9) **Address regulatory barriers impeding charities and non-profits from engaging in SI/SF**
- 10) **Experiment with new approaches to regulating charities and non-profits**
- 11) **Ensure federal grant and contribution funding practices enable SI/SF**
- 12) **Coordinate a national SI/SF awareness campaign**

## Fall Economic Statement

Inspired by the Steering Group's recommendations, in its 2018 Fall Economic Statement the Government of Canada announced two foundational elements of a SI/SF Strategy for Canada and committed to make available up to \$755 million over 10 years, starting in 2020-2021, for a repayable Social Finance Fund, as well as an additional \$50 million over 2 years in grants and contributions funding for a related Investment and Readiness (IR) Stream, starting in 2019-2020. In addition to these measures, the Government will continue to work on exploring other recommendations from the Steering Group's report.

Details on the governance and parameters of the Social Finance Fund will be developed further in the coming months and released in 2019.

The focus of this engagement process will be the Investment and Readiness stream, which will offer time-limited support over a 2-year period for successive cohorts of social purpose organizations to improve their ability to successfully participate in the social finance market.

## 2. Background on SI/SF in Canada

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Many Canadian communities face urgent challenges, such as homelessness, severe food insecurity in the North, climate change, income insecurity, and long-term drinking water advisories within Indigenous communities. These issues lower social, environmental and economic outcomes in communities, increase the cost of public services and negatively affect the economy. Resources are becoming scarcer, and community organizations, such as charities and not-for-profits, are operating with less money but more demand. These [social purpose organizations \(SPOs\)](#), including social enterprises, cooperatives and for-profit businesses with a social mission, are working to tackle these challenges with new ideas and approaches using social innovation and social finance, but need help to grow and measure impact. The development of a Social Innovation and Social Finance (SI/SF) Strategy is a way to inject and foster much-needed support and funding to help communities tackle these challenges and contribute towards Canada's commitment to the 2030 United Nations' Sustainable Development Goals by 2030.

Social innovation and social finance are still relatively new ideas. Social innovation refers to a response to a social, economic or environmental problem that, once adopted, results in better outcomes than existing approaches. Social finance refers to investments intended to create a measurable social, economic or environmental impact as well as to generate financial returns. Both are innovative approaches to tackling Canada's pressing social, environmental, and economic challenges. Used together, social innovation and social finance generates cross-sectoral partnerships amongst the private, public, for-profit, and not-for-profit sectors to create real and measurable change.

Throughout the engagement process the Steering Group heard that SPOs seek greater access to new forms of capital and capacity for early stage innovation and experimentation as well as partnership development and knowledge transfer. Recommendations of the Steering Group encouraged the Government to make targeted, near-term investments to respond to pressing gaps identified across the social innovation and social finance landscape. These investments would help SPOs increase their capacity in areas such as social research and development, partnership development, data literacy and analytics, impact measurement, business development, and use of emerging technology.

We also heard that Government can play an important role in capitalizing social finance markets that will provide SPOs with access to the patient capital needed to invest in long-term solutions. By making long-term, strategic investments across market segments, the Government could attract other investors and accelerate the development of robust social innovation and social finance ecosystems across Canada.



## SI/SF powers the development of solutions needed to meet the United Nations' Sustainable Development Goals (SDGs) by 2030



### To learn more about SI/SF:

Researchers at the University of British Columbia Sauder School of Business and the Université du Québec à Montréal prepared a [public inventory of case studies](#) to promote understanding about the concepts of social innovation, social finance, social economy and social enterprise.

### Read the SI/SF Steering Group's Report:

Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group- [Inclusive innovation: New ideas and new partnerships for stronger communities-](#)



### 3. Investment & Readiness Stream

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In the 2018 Fall Economic Statement, the Government of Canada committed \$50 million over 2 years, starting in 2019-2020, to strengthen the capacity of social purpose organizations (SPOs) through a new Investment and Readiness (IR) Stream of the larger Social Finance Fund.

The IR Stream has been developed to help advance SI/SF in Canada and build on existing supports to help catalyze community-led solutions to persistent challenges. The objective of the stream is to provide time-limited investments that support as many SPOs as possible in improving their capacity and ability to participate in the social finance market, access new investment opportunities and support them throughout the innovation cycle. These SPOs could serve a variety of populations and communities including Indigenous, rural and remote, LGBTQ2+, OLMC, people with disabilities, recent immigrants, visible minorities and cultural communities and/ or youth.

Approximately \$46 million will be made available over the 2-year period in grants and contributions with the remaining (approximately \$4 million) reserved for ESDC administration.

ESDC recognizes that there exists a broad and diverse range of experienced intermediary-level organizations who are already working with SPOs to promote and support community-driven solutions. Under the IR stream, ESDC will be funding and partnering with various intermediary-level organizations that will be called delivery partners who will offer services, supports and funding to a broad range of SPOs from across Canada along the four intersecting areas described below. ESDC will select these delivery partners and invite them to submit a proposal. It is anticipated that a large portion of funding under the stream will be reserved for delivery partners who have the networks and mechanisms to directly support SPOs. These delivery partners could use the support to provide additional services or grants to SPOs. The remaining funds will be used to strengthen expert service providers who can offer specialized knowledge and services to SPOs to move along the readiness continuum and to support partners who can help address system-level gaps. The list of funded delivery partners will be announced and made available online.

This means that ESDC will not be issuing a competitive call for concepts or call for proposals for funding under the IR Stream. The extensive year-long engagement process led by the SI/SF Co-Creation Steering Group is being used to inform the design and delivery of the IR Stream, and the selection of the delivery partners chosen to work with ESDC. For example, if you are a social entrepreneur looking for support under the IR Stream, you will be working with and seeking support from one or more of the delivery partners to identify potential projects and funding requirements.

Delivery partners will be expected to have:

- Direct experience and knowledge of the social purpose organizations and/or social finance intermediaries that they will be supporting and the right experience, knowledge, skills, abilities and partnerships in place to support their needs and challenges.
- The ability to bring together and work collaboratively with a broad range of relevant social innovation and social finance actors from across sectors and to leverage resources accordingly.
- Technical expertise and coordination skills necessary to effectively measure and report on the learning and impact of their projects.



- Broad reach across the country to ensure consistent access to supports.

## What will the IR Stream Support?

The IR Stream will fund time limited projects that support investment readiness for social finance with a focus on the following four intersecting areas.

### 1) Technical Capacity

This area will focus on providing assistance to build the technical expertise of a broad range of SPOs across Canada to access social finance investments; as well as to engage in procurement and outcome-based funding opportunities, and other new revenue sources. This would include moving cohorts of SPOs across the [investment readiness continuum](#), from SPOs that are not close to being investment ready but who are exploring the option of social finance and their capacity to access it, to SPOs that are quite close to being investment ready and just need specific technical supports to achieve their goal.

Supports would include assessing investment readiness and providing the capacity building and technical supports required to address identified barriers, including those related to impact measurement, business planning, IT and financial management, marketing, accounting services, brokerage, investment structuring, tendering and bid writing, legal services, governance arrangements, design thinking and social R&D.

Resources would also be invested to support projects that develop the social enterprise ecosystem, for example, by promoting social procurement and developing infrastructure such as online training and knowledge sharing platforms, e-commerce sites, peer-to-peer knowledge networks and communities of practice.

#### Example: Technical Capacity

A delivery partner uses investments from the IR Stream to administer grants to SPOs to access capacity-building and technical supports that address unique organizational needs. SPO recipients then use the funding to purchase a broad range of services and supports from expert service providers who target key gaps or barriers (e.g. early stage innovation, impact measurement, investment skills etc.) so that they can move along the readiness continuum and be ready to apply for social finance.

### 2) Impact Measurement and Knowledge Mobilization

This area will focus on advancing the field of impact measurement in Canada, including contributing to the development of improved methodologies for common metrics and building the capacity of SPOs to use impact metrics and data on outcomes. It will also focus on building the capacity of SPOs to undertake impact measurement, consider using outcomes-based funding approaches such as social impact bonds, and to report on the social and environmental impact of their initiatives. This area will also help to enable SPOs across Canada to connect with each other and have timely access to SI/SF data, research and knowledge in order to facilitate the scaling of successful innovations and the building of stronger SI/SF communities of practice.

### **Example: Impact Measurement**

A delivery partner implements a two-year project that helps to address gaps identified in impact measurement methodologies. The project contributes to the development of common approaches to impact measurement at the national level for SPOs. Building on current research, this project tests a range of solutions with the ultimate objective of providing SPOs, funders and investors with practical tools for impact measurement, which in turn serves the needs of SPOs across the ecosystem.

### **Example: Knowledge Mobilization**

Several Indigenous SPOs are supporting social entrepreneurs in rural, remote and northern communities with a focus on traditional learning and cultural awareness, and are seeing various degrees of success. While the programs they are developing are quite similar, these organizations could benefit from a platform that enables them to share ideas and best practices. A delivery partner, through funding from the Investment and Readiness Stream, has developed a virtual platform that is able to connect these Indigenous organizations so that they can share the necessary data, research, and knowledge to make their programs successful.

## **3) Emergence and growth of social finance intermediaries**

Social finance intermediaries are organizations such as community loan funds, credit unions, Indigenous financial institutions, and chartered banks that connect the supply side of the social finance market (i.e. social finance investors) with the demand side (i.e. social purpose organizations).

This area will focus on supporting the emergence and growth of social finance intermediaries to help ensure that there is a strong base of service providers that can effectively invest the capital that will be made available through the SFF. This could include investments in the following key areas:

- Strengthening the capacity of existing social finance intermediaries to prepare for growth, such as building their capacity to reach new groups of investors, raise more investment capital, and improve their due diligence, advisory services, and investment counseling;
- Supporting the establishment of new social finance intermediaries through early stage capacity development, such as the development of business and impact plans;
- Supporting social finance intermediaries to develop social finance strategies and investment-ready financial products (e.g. investment fund);
- Designing business models that create greater financial sustainability for social finance intermediaries;
- Research into the size and nature of the social finance/impact investing market.

### **Example: Emergence and growth of social finance intermediaries**

A national organization with extensive expertise in the social finance market acts as a provider of expert services to support organizations that are seeking to establish themselves as social finance intermediaries. To accomplish this, the expert service provider offers financial and non-financial supports to interested organizations across Canada to build their capacity in areas such as market feasibility, technical assistance, legal advice, and fundraising.



#### 4) Early-stage innovation

This area will focus on supporting SPOs throughout the innovation cycle to ensure organizations build their readiness capacity and move along the [investment readiness continuum](#). This will include investments in resources and tools that communities can access to develop or test new ideas and undertake social research and development.

##### **Example: Early-stage innovation**

A small, not-for-profit SPO based in Summerside has an innovative idea to create a new social enterprise that hires individuals with mental illness to collect and refurbish used hockey equipment and sell them to low-income families throughout Atlantic Canada. They want to engage the wider community and bring in other partners from across the Atlantic region but they have limited resources and don't know where and how to start. A delivery partner, through funding from the Investment and Readiness Stream, specializes in bold design thinking and employing collaborative and innovative practices to move from idea, to design to impact. The SPO is able to access expertise and supports through a blended range of coaching, mentoring and social R&D tools, and helps bring the partners together in a collaborative community space (i.e., lab). As a result, the SPO is able to launch the social enterprise; train, hire and support individuals with mental illness; and scale the business to have greater impact in the community.



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## 4. Consultation Focus

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To better inform the design and delivery of the IR Stream, we have launched an online engagement process to:

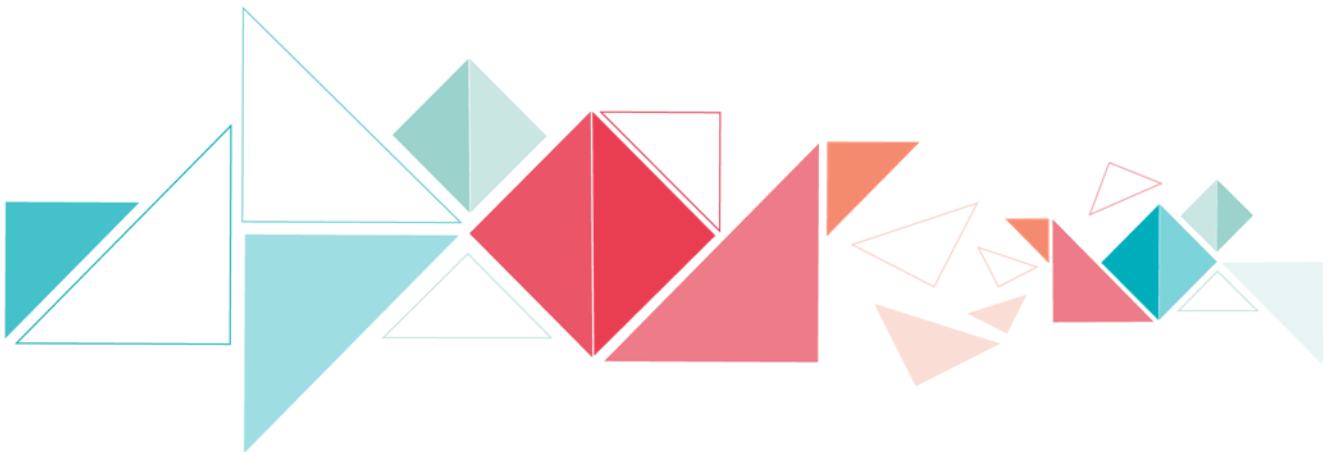
- Hear about the ways delivery partners can support your organization and your work in innovation and investment readiness;
- Validate the supports required to participate in the social finance market;
- Raise awareness of existing tools and approaches; and
- Surface ideas which have not yet been identified.

Please see Section 6 for a list of [definitions](#).

## 5. What Comes Next

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Stay up to date by visiting the Social Innovation and Social Finance Strategy webpage and the Employment and Social Development Canada consultation page.



## 6. FAQs & Definitions

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### FAQs

#### **When will the Investment and Readiness (IR) Stream launch and how does my organization access funding?**

The IR Stream is currently in development and will be launched in mid-2019. If you are a social purpose organization (SPO) looking for support under the IR stream, you will be working with and seeking support from one or more of the delivery partners.

#### **When will more information about the Social Finance Fund be available?**

Information about the Social Finance Fund will be made available later in 2019. To stay informed, we recommend that you regularly check the ESDC website.

#### **I have input for the Social Finance Fund, can I submit it now?**

The current engagement session is only seeking input for the Investment and Readiness Stream.

#### **What is the difference between the Social Finance Fund and the IR Stream?**

The 2018 Fall Economic Statement announced that the Government would make available up to \$755 million on a cash basis over the next 10 years to establish a Social Finance Fund. The Social Finance Fund will help social purpose organizations access new financing. The Social Finance Fund will make repayable capital available to newly created and existing funds in the social finance market, as well as attract new private sector investment to the social finance sector. Additional details on the design of the Social Finance Fund will be provided later in 2019.

The IR Stream is a commitment of \$50 million over 2 years to test how to build the readiness of social purpose organizations to access social finance, and to experiment with new ideas and approaches to create greater positive impacts using grants and contributions. Approximately \$46 million will be made available over the 2 year period in grants and contributions with the remaining (approximately \$4 million) reserved for ESDC administration.

#### **What outcomes does the Government expect from the SI/SF Strategy? How will it benefit Canadians?**

The Social Innovation and Social Finance Strategy will establish the foundations to deliver new, community based solutions through social finance to improve outcomes to address Canada's most persistent social and environmental challenges.

Social finance has significant potential to unlock new sources of capital to tackle pressing challenges. Further, communities that work with investors will enable new and impactful innovation interventions for vulnerable populations in areas such as employment and skills training, settlement and integration, gender equality, poverty reduction, and inclusive growth.

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Through these new tools, communities will be able to access new capital for early stage innovation and growth, business development and support, and support to access public sector procurement opportunities.

### **Have other countries experimented with Social Innovation and Social Finance?**

Yes, several countries around the world have already made ambitious investments to strengthen communities through support in social innovation and social finance. The Government of Canada is incorporating ideas that worked well while adapting them to fit within the Canadian context.

For example:

- the United Kingdom committed over £400 million to capitalize Big Society Capital, the world's first social finance wholesaler;
- the European Union has funded a network of social innovation organizations across Europe and established a €243 million Social Innovation Fund; and
- since the 1970s, the United States has promoted Community Development Finance Institutions (CDFI) through various measures, including the Community Reinvestment Act, a federal CDFI Fund and the New Markets Tax Credit Program.

Many provincial governments also have strategies in place including: social economy enterprise strategies in Ontario (2016), Quebec (2015), Manitoba (2015) Nova Scotia (2017), and Newfoundland and Labrador (2018); the enactment of social economy framework legislation in Quebec (2013); and legislation on hybrid corporate forms in Nova Scotia (2012) and British Columbia (2013).

### **How can I/my organization benefit from funding or services if I am not a direct recipient of funding through the IR Stream?**

The IR Stream will be designed to fund experienced delivery partners to provide capacity-building resources and supports to a broad range of social purpose organizations. If you are a SPO looking for support under the IR stream, you will be working with and seeking support from one or more of the delivery partners.

### **If my project does not receive funding through the IR Stream what other funding opportunities are available through ESDC?**

ESDC offers a variety of grants and contributions programs that support social innovation and capacity building projects. The Social Development Partnerships Program (SDPP) and Reaching Home are just two of a number of programs that work to ensure organizations are equipped to deliver programming to Canada's most vulnerable.

### **What types of projects will the Government fund through the IR Stream?**

To be eligible, the intermediary-led projects must help to identify and provide other SPOs with access to capacity building supports and resources (for example, technical support, tools,



funding, etc.) and/or infrastructure (e.g. platforms, networks, etc.) needed to support social innovation and social finance.

**Eligible projects must also focus on one or more of the following areas:**

- ***Technical Capacity***

Providing technical assistance to build a social purpose organization’s capacity to accept financing and to measure impact. Examples include: business plan development, accounting services, branding, brokerage, financial modelling, investment structuring, tendering and bid writing, and legal services.

- ***Impact Measurement and Knowledge Mobilization***

Advancing the field of impact measurement in Canada by building the capacity of social purpose organizations to monitor, analyze, and report on the social or environmental impacts of their interventions;

Enabling social purpose organizations across Canada to connect with each other and to share data, research, and knowledge about social innovation and social finance. This will help to build stronger social innovation and social finance communities of practice.

- ***Emergence and growth of social finance intermediaries***

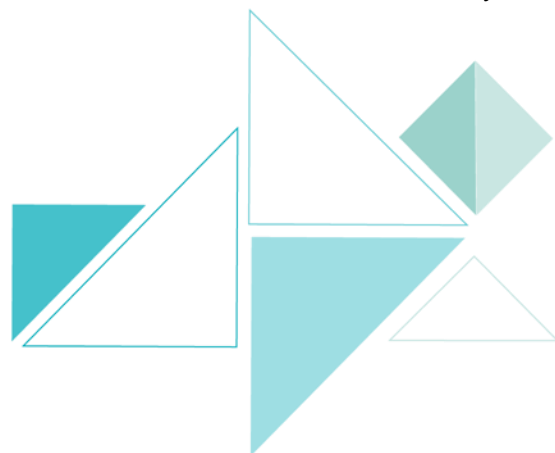
Supporting the emergence and growth of intermediaries to help ensure that there is a strong base of service providers that can effectively invest the capital made available.

- ***Early-stage innovation***

Supporting social purpose organizations to develop new and innovative initiatives that can be grown and expanded through social finance.

**How will the Government ensure that funding is distributed across the regions and various groups?**

The IR Stream will be designed to enable funding to be disseminated across the country for the benefit of all regions, as well as various groups, such as women, Indigenous communities, low-income individuals, recent immigrants and refugees, members of the LGBTQ2+ community, and persons with disabilities.





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## Definitions

### **Social Innovation**

Refers to a response to a social or environmental problem (including everything from a program or a service to different ways of structuring organizations) which, once adopted, results in better outcomes than existing approaches. Social innovations have a transformative impact, delivering improvements across organizations, communities, regions, or systems. Recent innovations, such as microfinance, fair trade, and safe injection sites are examples of social innovation that are disrupting systems of today.

### **Social Finance**

Refers to the practice of making investments intended to create a measurable social or environmental impact as well as to generate financial returns. Social finance is a key source of financial support for developing and scaling social innovation.

### **Social Enterprise**

A social enterprise is an innovative business model, whether not-for-profit or for-profit, that pursues a social, cultural or environmental mission through the sale of goods and services, with the majority of net profits directed back to its mission.

### **Social Economy**

The social economy in the Province of Quebec encompasses all of the economic activities carried out by charities, non-profit organizations, and co-operatives and mutual following key principles, including a mission to serve members or advance a social goal, rather than to generate profit; democratic governance by members; and independence from government.

### **Social Economy Enterprise**

A business venture in the Province of Quebec that pursues a multiple bottom line outlook by having positive social, cultural, and/or environmental impacts on top of generating profit.

### **Impact Investing**

A financing entity with an “impact first” orientation, seeking positive financial returns on its investments, in addition to achieving positive social and environmental returns.

### **Investment Readiness Continuum**

A spectrum of stages along a path towards investment readiness. SPOs can pursue a range of capacity building elements/modules to help move along the readiness continuum (i.e. from early stage social innovation, to enterprise development, to investment ready).

### **Outcomes-Based Financing**

Outcomes-based financing refers to project funding arrangements where payments to recipients are fully or partially based on achieving outcomes, rather than delivering activities. A common outcomes-based financing tool is the Social Impact Bond.





## **Social Impact Bond**

Social Impact Bonds (SIBs) are contractual arrangements under which investors agree to fund the upfront delivery of a project and a funder, typically government, commits to reimbursing the investor if the project achieves pre-negotiated performance targets. SIB's pay-for-performance approach can promote innovation in service delivery and generate cost savings for governments, but also elicit strong opposition among some stakeholders.

## **Social Purpose Organizations**

The entire spectrum of organizations with a mission to advance social or environmental aims. Social purpose organizations straddle the charitable and non-profit sector (including registered charities, incorporated non-profit organizations and non-profit co-operatives), the private sector (including market sector co-operatives and private businesses advancing a social or environmental mission) and hybrid entities such as Community Contribution Companies and Community Interest Companies, found in British Columbia and Nova Scotia respectively.

## **Intermediaries**

Actors who work to connect the demand with supply in the social finance landscape, including financial intermediaries such as community loan funds, credit unions, Indigenous financial institutions, and chartered banks. Intermediaries can also refer to organizations working to broker partnerships outside the social finance space, in areas such as social procurement or knowledge and skill development.

## **Community Benefit**

A social, economic or environmental benefit that a community derives from a construction, maintenance or repair project, and includes job creation and training opportunities, improvement of public space and any other specific benefit identified by the community. Community benefits initiatives are increasingly becoming a key consideration for governments looking to leverage public infrastructure investments to unlock greater economic, social and environmental value.

