ONTARIO NONPROFIT NETWORK

JANUARY 2025

The federal Social Finance Fund dissected: Change needed to better reach nonprofit social enterprise

Introduction

The Social Finance Fund (SFF) is a federal program that has both excited and frustrated nonprofits since its first announcement in the 2018 Fall Economic Statement. The sector has been monitoring the fund's development and implementation, hopeful that it could be a key revenue source, but frustrated with the lack of clarity and unaddressed concerns regarding access for nonprofits. In May 2023, the Social Finance Fund was finally launched, and it is now in the early stages of a ten-year initiative.

This resource aims to break down what the Social Finance Fund is, how it is structured, and most importantly, examines how beneficial it is for the nonprofit sector.

Background: Nonprofits, social enterprises, and the Social Finance Fund

The concept of social innovation and social finance is not new to the nonprofit sector. Nonprofits have been engaging in social innovation activities and operating social enterprises for a long time.

In 2010, ONN partnered with the Social Venture Exchange to undertake a social finance census. The census highlighted that one in five of the surveyed social enterprises had been operating for over 25 years, and one-third of the nonprofit respondents without social enterprise activity planned to start such activity in the next two years. The census also provided a detailed sector profile and insight into the demand for capital and interest in alternative financing models, such as social finance.

In 2017, ONN participated in the engagement process for the development of the federal Social Innovation and Social Finance Strategy. ONN emphasized in its submission the importance of making funds accessible to nonprofit social enterprises. This included funding intermediaries to connect small community nonprofits with investment opportunities. Additionally, ONN recommended amending federal legislation and funding structures to allow nonprofits and charities to engage in revenue-generating enterprises on an equal footing with for-profits.

The federal government also created a Social Innovation and Social Finance Strategy Co-Creation Steering Group (SG) to provide recommendations for the Social Innovation and Social Finance Strategy. Based on a year-long process, the SG developed twelve recommendations. However, implementation of the recommendations has been slow, with action on only three recommendations to date: the launch of the Social Innovation Advisory Council (SIAC), the creation of a Social Finance Fund, and the Investment Readiness Program.

In the 2018 Federal Fall Economic Statement, a $755 million Social Finance Fund was announced, generating much buzz among the nonprofit sector. The fund claims to support charities, nonprofits, social enterprises, co-operatives, and other social purpose organizations (SPOs) with accessing flexible financing opportunities to help them grow, innovate, and enhance their social and environmental impacts.

A few facts about the Social Finance Fund

- The fund is a long-term program and is poised to run until March 31, 2039. The majority of the funds are expected to be repaid to the federal government by the end of the program.
- The fund is not a grant. It does not appear to be able to provide grant/loan combinations either.
- Over the first five years (starting in 2023), three fund managers will receive a total of $400 million from the Social Finance Fund to invest. The three fund managers are expected to leverage the $400 million to attract additional private investments. The goal of this government funding is to attract private equity into Canada's social finance market. Of note, private equity typically wants market rate returns on its investment.
- The three fund managers in turn invest the money they receive from the SFF into intermediaries of their choice. These intermediaries pool together private investment funds with the government funds and then use the collective pool to invest in a variety of social purpose organizations. Initial investments (outside Québec) are primarily to social finance intermediaries with potential for market rate returns.
- Fund managers and the social finance intermediaries need to invest with the following in mind:
    1. Return of capital to the federal government,
    2. Return of capital with profit to the private investors, and
    3. Cover operating costs.
- In this first phase of the fund, except for Québec, the focus is primarily on social purpose for profit organizations where it is easier to generate the financial returns on investment required by the structure of the fund.
- The point of contact for social purpose organizations seeking investments are social finance intermediaries to discuss their investment needs. These intermediaries are seeking investment opportunities to generate social, cultural, and/or environmental impact while producing financial returns.
- The Social Finance Fund Hub website has a FAQ page that provides more information.

Investment Readiness Program

An Investment Readiness Program (IRP) was also created alongside the SFF to help social purpose organizations improve their capacity to access social finance. It was piloted between 2019-2021, with $50 million investment, and then renewed for another $50 million between 2021-2024. The IRP ended on March 31, 2024. The IRP was one of the only sources of funding for nonprofits looking to pursue revenue generating strategies, supporting activities such as awareness raising, business development, feasibility studies, and ecosystem development.

The IRP played an important role in building the social finance ecosystem. However, with the program being over, many nonprofit social finance initiatives and activities were forced to come to a halt before they were investment ready. Only a few nonprofits who received IRP funding have been able to access investment from the Social Finance Fund, indicating the need for more rounds of IRP.

Social Finance Fund managers and their portfolios

Since nonprofits cannot directly apply for the Social Finance Fund, and they are expected to reach out to social finance intermediaries instead to access investment, it is helpful to know who these intermediaries are, and what their investment priorities are. Below are the three fund managers of the SFF. The social finance intermediaries that they have invested in so far are listed on their websites.

Realize Capital Partners

A joint venture between Rally Assets and Relay Ventures that received $135 million from the Social Finance Fund. They state that they invest in initiatives that create positive social and environmental impact with a focus on social equity.

Currently they are investing in 10 social finance intermediaries, three of which are specifically investing in nonprofits or charities as noted on their website:

- Jubilee Fund: Community-based fund manager providing loans to nonprofits and social enterprises in Manitoba.
- New Market Fund Rental Housing Fund II: Partners with nonprofits across Canada to take ownership of and improve existing housing stock and to create new affordable housing developments.
- Windmill Microlending's Community Bonds: A charity that provides loans to foreign-trained professionals in Canada to enable them to work in the field they trained in before coming to Canada.

Boann Social Impact

A partnership between the Table of Impact Investment Practitioners, BC Non-profit Housing Association, The Cooperative Housing Federation of BC, The Cooperative Housing Federation of Canada, and Community Impact Investments that received $154 million from the Social Finance Fund.

Currently they are investing in 12 social finance intermediaries, two of which are specifically investing in nonprofits or charities as noted on their website:

- New Market Funds: Support nonprofit housing acquisitions across Canada to preserve long-term affordability and invest in purpose-built, multi-family rental housing owned by nonprofits.
- Thrive Impact Fund: Designed by nonprofit and social enterprise leaders who have experienced barriers and understand the need for patient financing. Provides flexible and equity-like debt financing to nonprofits and social enterprises in British Columbia.

Fonds de Finance Sociale - CAP Finance
A network of financial institutions and organizations that are working in Québec and are focused on the social economy and solidarity-based finance. They invest specifically in Québec.The Québec ecosystem for social finance has been many years in the making and as a result, Québec has a wide variety of social enterprise funds including patient capital and specialized investment vehicles.[1] They received $89 million from the Social Finance Fund which they will use to invest in their network of intermediaries to extend their existing work.

Nonprofits: The missing perspective from the Social Finance Fund
We know undertaking due diligence regarding social purpose investments takes time. Enterprises that are smaller, earlier stage, and enterprises operating in complex social and funding environments take the most time to evaluate and support. The nonprofit corporate structure and the nature of nonprofit enterprises fall in this more “difficult to evaluate” category which is why the sector needed access to a specialized social finance fund in the first place. In addition, nonprofits are limited in their ability to use equity instruments to access capital as they have no shareholders.

The current structure of the SFF is not set up to address these barriers or meet these unique needs of nonprofits as it still uses a traditional investor focused investment model. This means that fund managers and their intermediaries have to look for investments that produce sufficient rates of return to fund the repayment of private investors with profit, repayment of most of the funds to the federal government within 10 years, and cover the operations of the wholesalers and intermediaries.

To date, nonprofits and charities have largely been celebrated by the government as a key beneficiary of the Social Finance Fund. Unfortunately, our analysis highlights that this is not the case. Nonprofits should not be too hopeful that this fund will help them build their community initiatives. If the federal Social Finance Fund and its fund managers truly intend to break down barriers for charities, nonprofits, and co-operatives to access flexible financing opportunities, the lenders need to proactively engage with and invest in nonprofits. To do this, the federal government needs to implement changes that address the sector’s concerns. This includes:

[1] https://fiducieduchantier.qc.ca/en/financing/our-financial-products/
https://fonds-risq.qc.ca/nos-produits-financiers/pret-de-predemarrage/

- Lengthening the repayment period for return of Social Finance Fund capital to government and lowering the percentage of capital to be returned subject to increased investment in nonprofit enterprises. This would allow the fund to provide longer-term "patient" capital investments, loan guarantees, and grant/loan combinations. Local intermediaries could afford the increased operating costs to approve smaller loans and earlier stage loans.
- Releasing another round of funding similar to the Investment Readiness Program for nonprofits and charities to continue exploring revenue strategies, building ecosystems, running learning and capacity building programs and to use as start up funding.

A collaborative approach to make change and support nonprofits through the fund

In an ever-shifting economic climate, nonprofits are working to future-proof their organizations to help ensure they can address increased demand for their programs and services and support for communities. Fund managers and the nonprofit sector need to work together to ask the federal government to make changes to the Social Finance Fund structure. These changes will help increase accessibility of the fund to nonprofits, expanding support for nonprofit social enterprises and supporting revenue generation.

About ONN

ONN is the independent nonprofit network for the 58,000 nonprofits in Ontario, focused on policy, advocacy, and services to strengthen the sector as a key pillar of our society and economy. We work to create a public policy environment that allows nonprofits to thrive. We engage our network of diverse nonprofit organizations across Ontario to work together on issues affecting the sector and channel the voices of our network to government, funders and other stakeholders.

For more information:

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