

# EXECUTIVE SUMMARY

## Leveraging Canada's Social Impact Funds

National Impact Investment Practitioners Table's Proposal  
to the Department of Employment and Social Development Canada October 2018

<p><b>Building an inclusive economy</b></p>	<ul style="list-style-type: none"> <li>• The members of the national Impact Practitioners Table manage high social impact funds with assets over \$500 million</li> <li>• New funds under development can attract an additional \$1.2 billion in investment</li> <li>• By acting on the recommendations of the Social Innovation and Social Finance Strategy for Canada, the government of Canada (GOC) can accelerate the reach of existing funds and the development of new ones</li> </ul>
<p><b>The Government of Canada is well positioned to be a Social Finance WORLD LEADER</b></p>	<ul style="list-style-type: none"> <li>• UK, France, USA are leading the world in providing investment, national policy and programs that help businesses for public good flourish</li> <li>• By launching the Social Innovation and Social Finance Task Force, Canada expressed a desire to be a world leader in this sector</li> <li>• Seven provinces have provided investment, tax credits and regulatory changes that have spurred the growth of triple bottom line companies that care for people and planet as well as profits, with proven impacts such as job creation</li> <li>• <b>Canada still has the potential to leapfrog the leading countries, leveraging the substantial work already well underway by our 20 funds in 7 provinces</b></li> <li>• A \$500 million Social Finance Capital Action Plan is can leverage more than \$1.5 Billion of other capital for social finance</li> </ul>
<p><b>A Social Finance Capital Action Plan</b></p> <p><b>Accelerator Fund</b></p> <p><b>Launch Fund</b></p>	<p>A \$500 million investment by the GOC would catalyze the growth of the social finance sector by mobilizing private and institutional capital. The structure would be a subordinated investment (or 1st loss capital) by the GOC, providing investors the opportunity to rank above the GOC's investment. We propose implementation in two phases.</p> <p><b>Phase I: \$150 million investment in a Social Finance Accelerator Fund</b> <i>Provide 1<sup>st</sup> loss capital to existing intermediaries</i></p> <ul style="list-style-type: none"> <li>• Allows the GOC to quickly ramp up in its knowledge of social finance through learning from existing ecosystem</li> <li>• Allows the GOC to invest in stable, well establish intermediaries ready to multiply their impact</li> <li>• Allows the GOC to leverage existing capital base 3x and drive more resources into capable hands, strengthening the ecosystem for further growth</li> </ul> <p><b>Phase II: \$350 million investment in a Social Finance Launch Fund</b> <i>Provide 1<sup>st</sup> loss capital to new and emerging intermediaries and funds</i></p> <ul style="list-style-type: none"> <li>• Supports creation of new regional and national funds</li> <li>• Allows the GOC to coordinate and leverage existing expertise and models and create collaborations and knowledge sharing</li> <li>• GOC catalyzes the leverage of more than \$1.05 billion of new private and institutional capital over the next five years</li> <li>• Encourages the creation and growth of intermediaries</li> </ul>
<p><b>Rate of Return</b></p>	<ul style="list-style-type: none"> <li>• NIIPs' 16 existing, open funds Internal Rate of Return (IRR) = <b>7.2%</b>; range from 3.5% to 20%.</li> <li>• NIIPs' 7 funds-in-development IRR (expected) = <b>4.2%</b>, range from 2% to 20%.</li> </ul>

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<p><b>Accelerator Fund Loss Analysis</b></p>	<p>We calculated a weighted-average loss rate of <b>4.5%</b> across the NIIPT's existing funds still open for investment – this is calculated on a GOC investment of \$150 million and funds leverage that capital 3-to-1 (\$450 million) for a total of \$600 million.</p> <p>The GOC has options to structure the investment capital in order to mitigate the impact of potential losses on its capital. This includes providing only a partial loss provision or structuring the investment as a low-cost loan where the interest gain is sufficient to recover any potential losses.</p>
<p><b>Creating impact and positive community outcomes</b></p>	<p><b>We recommend that GOC create a social finance fund of funds</b> as recommended (#6) in the Social Innovation and Social Finance Strategy for Canada. The Social Finance Capital Action Plan will:</p> <ul style="list-style-type: none"> <li>• <b>Accelerate</b> the capacity of an already thriving ecosystem of intermediaries, impact investors and social enterprises who are developing business models to create jobs, serve communities and create positive change.</li> <li>• <b>Leverage</b> three times current private investment capital—the GOC's investment can be leveraged at a ratio of 3:1 – creating more private capital for businesses with strong social and environmental missions, strengthen communities and build new community facilities and affordable housing.</li> <li>• <b>Create</b> positive social outcomes of reduced carbon footprint, employing vulnerable people, improved food security, access to housing and creating an economy that works for everyone.</li> <li>• <b>Engage</b> civil society and catalyze and de-risk government funding by creating financial products that leverage private investment and promote regional and local investment opportunities.</li> <li>• <b>Demonstrate</b> to the world how an inclusive economy works – mobilizing both its strong foundations and very good fortune to become the first country to declare it has met the Sustainable Development Goals.</li> </ul>
<p><b>We are Canada's Social Finance Community</b></p>	<ul style="list-style-type: none"> <li>• <b>National Impact Investment Practitioners Table (NIIPT)</b> <ul style="list-style-type: none"> <li>○ Established in 2014, we are a bilingual, practitioner-led community of fund managers across 11 regions and 7 provinces</li> <li>○ 20 existing impact funds</li> <li>○ \$520 million committed; \$330 million invested/deployed</li> <li>○ 7 new funds under development estimated at \$1.2 billion</li> </ul> </li> </ul> 