

Written Submission for the Pre-Budget Consultations in
Advance of the 2019 Budget

MaRS Centre for Impact Investing

Recommendation: That the government invest in Canada's most innovative, impact-driven enterprises and businesses. The recommendations of the federally-appointed Social Innovation and Social Finance Strategy Co-Creation Steering Group should guide the government's investment.

Investing in Impact to Create an Economy that Benefits Everyone

Social barriers, from disability to homelessness to addiction, prevent many Canadians from contributing to Canada's economy. Eliminating these barriers is an economic imperative. Canada's competitiveness relies on addressing the challenges that are holding back Canadians' efforts and talent.

Organizations that pursue social goals through business are one tool to tackle these challenges. These entities, some non-profit and some for-profit, combine strategies to serve communities with revenue earned on the market. They form an essential component of an economy that benefits everyone.

To reach their potential, some such entities need investment. But many investors do not yet understand how social purpose and business can coexist and even complement one another. They do not yet value an investment's impact alongside its return. A gap in capital keeps many organizations less than what they could be.

Impact investors are starting to fill the gap. Impact investors allocate capital – as debt, equity or in another repayable form – to both earn a return and achieve a social or environmental goal. They partner with their investees to enhance and measure impact. Some invest on flexible terms, such as for long periods or at low rates.

Impact investors often invest through funds. Yet many of Canada's impact investment funds do not operate at scale. Their small sizes can limit their ability to attract investors, cover their costs and offer financial products flexible to the needs of their investees. With more capital, these funds could put more money into the hands of people solving some of Canada's most difficult problems.

This is why we recommend that the federal government invest in Canada's impact investment funds, funds financing some of our most innovative, impact-driven enterprises and businesses.

The federal government appointed a Social Innovation and Social Finance Strategy Co-Creation Steering Group in June 2017. It charged the Steering Group with writing a social innovation and social finance strategy. The Steering Group consulted across the country before submitting its strategy in June 2018. The federal government should look to that strategy to guide its investment.

Impact Investing's Rise Around the World and in Canada

More and more investors want their money to serve people and the planet. The Global Impact Investment Network's *2018 Annual Impact Investor Survey* spoke to 229 entities managing \$228 B (US) in impact investments. Respondents that had completed the survey five years before reported a compound annual growth rate of 13% in assets under management. Over half of respondents had made their first impact investment in the past decade.¹ Women and millennials are two key forces behind impact investing's rise.²

¹ Global Impact Investing Network. (2018). *2018 Annual Impact Investor Survey*. Retrieved from: <https://thegiin.org/research/publication/annualsurvey2018>

² See U.S. Trust. (2018). *2018 Insights on Wealth and Worth*. Retrieved from <https://www.nielsen.com/content/dam/niensenglobal/dk/docs/global-sustainability-report-oct-2015.pdf>; Morgan Stanley Wealth Management. (2016). *Investor Pulse Poll*. Retrieved from

In 2015, Canadian entities reported over \$9.2 B in assets under management invested in impact. 96% of impact investors targeting competitive returns said financial performance had met or exceeded their expectations.³

EXAMPLES OF LEADING CANADIAN IMPACT INVESTMENT FUNDS

FUND	Renewal Funds, BC	Chantier de l'économie sociale Trust, Québec	InvestEco, Ontario
STRATEGY	Renewal Funds invests in early-growth stage companies in Canada and the US that deliver environmental or social impact. It targets a return of at least 2.5x over a minimum of 10 years. Six companies have exited its portfolio.	The Chantier offers patient, unsecured debt to finance operational costs of start-up and expansion projects. It also offers patient, secured debt to real estate projects. It lends between \$50,000 and \$1.5 M. It does not require capital repayment for fifteen years.	InvestEco invests in expansion-stage companies in Canada and the US that promote health and sustainability in the food and agricultural sector. It seeks a competitive return in partnership with companies that conserve land, reduce carbon emissions and deliver a healthier product to consumers.
TYPE OF CAPITAL	Equity and Debt	Debt	Equity
SECTORS	Organics and Environmental Technology	All	Food and Agriculture
SIZE	Renewal2: \$35 M Renewal3: \$63 M Renewal4: \$100 M (target)	~\$52 M	~\$75 M ⁴
PORTFOLIO	Renewal2: 5 ventures Renewal3: 12 ventures	212 projects across 168 enterprises.	14 ventures
WEBSITE	renewalfunds.com	fiducieduchantier.qc.ca	investeco.com

The Opportunity to Drive More Capital Into Impact

Despite the activity, impact investing in Canada is still far from its potential. Many investors still do not understand the returns and the risks. Though some foundations have championed impact investing, many foundations have not yet matched their investment portfolios to their missions. Minimal federal support (in contrast to countries like the UK and the US) has meant slow movement into those projects perceived as riskier than mainstream investments.

By investing in impact investment funds, the federal government can quicken the pace at which foundations, banks, pension plans and others invest in impact. It can grow funds to a sustainable size and diversify the financial products those funds offer to their investees. It can take advantage of impact investing's momentum and take another step to an economy in which all Canadians have a real and fair chance to succeed.

<http://www.morganstanley.com/pub/content/dam/msdotcom/ideas/investing-in-the-future/Investor-Pulse-Sustainability-2016.PDF>

³ Responsible Investment Association. (2016). *2016 Canadian Impact investment Trends Report*. Retrieved from: <https://www.riacanada.ca/impact-trends>

⁴ Impact Assets. (July 25, 2018). *InvestEco Capital*. Retrieved from http://www.impactassets.org/ia50_new/fund.php?id=a014400000oXNZLAA4

The table below outlines a few examples of funds ready to expand with the federal government's support.

ILLUSTRATIVE EXAMPLES OF CANADIAN FUNDS READY TO EXPAND WITH FEDERAL SUPPORT

	What could a federal investment achieve?
<p>New Market Funds manages \$65 M in a set of impact investment funds. Its \$25 M Affordable Rental Housing Fund invests equity in affordable housing projects. It invests to fill equity gaps, to allow projects to expand and to let partners take their equity out of stabilized projects. It has invested in one project (49 units) and committed to another four (358 units). The Fund will eventually finance around 750 units of new affordable rental housing.</p>	<p>With \$10 M in patient capital from the federal government, New Market Funds could attract \$40 M of additional investment, reduce the cost of affordable housing finance and help to create 1,500 new affordable homes for nearly 4,000 people.</p>
<p>MaRS Catalyst Fund is investing \$5 M in early-stage Canadian companies. It has invested so far in five ventures solving problems in health, education and clean technology. It works closely with its entrepreneurs to drive impact. It intends to earn market returns.</p>	<p>With \$5 M in first-loss capital from the federal government, MaRS Catalyst Fund could raise a second fund of at least \$25 M to support ventures applying their talents to Canada's challenges.</p>
<p>VERGE manages \$3 M in two loan funds in southwestern Ontario. The Startup Fund lends up to \$100,000 on flexible terms to early-stage enterprises. The Breakthrough Fund lends \$50,000 to \$500,000 on flexible terms to established enterprises, affordable housing projects and community real estate. The provincial government seeded both funds.</p>	<p>With \$1 M in patient capital from the federal government, VERGE could expand the Breakthrough Fund to \$6 M to support local projects delivering community impact.</p>

International Examples of Public Investments in Impact Investment Funds

Other jurisdictions have invested public money to finance organizations pursuing impact through business. Canada may learn from their examples. The Canadian context, however, differs from that of these jurisdictions. An investment plan for Canada must reflect Canada's conditions.

INTERNATIONAL EXAMPLES OF PUBLIC INVESTMENTS IN IMPACT

Figures to Mar. 31, 2018	Social Impact Accelerator (part of the European Investment Fund)	Big Society Capital	Portugal Social Innovation
DESCRIPTION	A fund-of-funds that invests to support social entrepreneurs in Europe.	An institutional investor that invests to support social enterprises and charities in the UK.	A government initiative that will invest to spur new solutions to Portugal's social problems.
YEAR OPENED	2013	2012	2014
PLACE	The EU	The UK	Portugal
AMOUNT HELD	€243M	£625 M	€55 M (another €70 M to distribute as grants)
SOURCES OF CAPITAL	Public and private financial institutions	Dormant accounts and major banks	EU and Portuguese public funds
AMOUNT INVESTED	€135 M	£436 M	Not yet investing

			(€12M distributed as grants)
AMOUNT LEVERAGED FROM OTHER INVESTORS	€259 M	£805 M	Not yet investing
RETURN TARGET	Market-rate venture capital	4-6%	Not available
INVESTMENT TOOLS	Equity	Debt and equity	Loan guarantees and equity
INVESTEES FOCUS	Venture capital funds	Property funds, loan funds, venture capital funds, social banks and other impact investment intermediaries.	For-profit and non-profit organizations
NUMBER OF INVESTMENTS	12	74	Not yet investing
NUMBER OF ORGS. SUPPORTED	79	800	Not yet investing