



## **SIO Policy Alert**

*a periodic bulletin on public policy issues affecting the socially responsible investment industry in Canada  
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### **Social Finance Task Force calls for partnership of private, public and community sectors to help build impact investment**

Today, the Canadian Task Force on Social Finance released *Mobilizing private capital for public good*, a report containing seven recommendations for action by investors, governments, foundations and corporations to bolster the impact investment sector in Canada.

The recommendations lay out a broad range of activities, some of which could be implemented already by the private sector, but some of which require government support or policy change.

The Social Investment Organization has been working on a number of these areas in recent years. The report is a welcome addition to the public debate about impact investing in Canada, and deserves the support of the socially responsible investment industry.

### **Background**

The report deals with a profound shift that is happening in the non-profit enterprise sector in Canada. Called social enterprise, the report describes organizations and businesses that use market-oriented production and sale of goods and services to pursue a “public benefit mission.” These businesses include enterprising charities, non-profits, co-operatives and social purpose businesses. Demographic and cultural shifts combined with growing limitations on the public sector are opening opportunities for social enterprises to take a more market approach to the delivery of services. Large amounts of investment capital will be required to meet the growth potential of this sector. Therefore, the report details the changes that will be required to encourage the development of this investment capital. Investment in social enterprise is broadly called “Impact Investment,” known for its blended value proposition of delivering financial return and social impact.

### **Recommendations**

The recommendations were developed by a blue-ribbon panel of experts, including former Prime Minister Paul Martin; Vancity CEO Tamara Vrooman; MaRS Discovery District CEO Ilse Treurnicht; Social Capital Partners President Bill Young; and others.

### **Establishing the Canada Impact Investment Fund**

Of particular interest to the SRI industry is recommendation #2: “To mobilize new capital for impact investing in Canada, the federal government should partner with private, institutional and philanthropic investors to establish the Canada Impact Investment Fund.” The SIO has been carrying out work for nearly a year with an advisory committee and a consultant to develop a model for this fund, which would aggregate institutional capital from across the country for investment in regional loan funds, and other impact investing funds. The work has been supported by a grant from the Ontario Trillium Foundation. The

concept paper for this work will be complete by early 2011, at which time SIO will invite funders and investors to support the project.

The Social Finance Task Force report states: “Leveraging the work of and collaborating with the Social Investment Organization and other interested partners, the federal government should actively explore the feasibility and parameters for establishing a national fund of funds, with a view to launching the Canada Impact Investment Fund as soon as possible.” The report goes on to recommend that foundations, pension funds and financial institutions should be encouraged to become founding partners in the fund.

The Social Investment Organization commends this recommendation by the Social Finance Task Force, and welcomes involvement by institutional investors in the creation of the fund.

### **Clarifying the role of pension funds**

Another recommendation in the report is that federal and provincial governments are encouraged to mandate pension funds to disclose responsible investing practices, clarify fiduciary duty in this respect, and provide incentives to mitigate perceived investment risk.

The SIO and the SRI industry in Canada has long argued for pension ESG disclosure regulations based on the UK model in which pension funds are required to disclose their environmental, social and governance policies. We believe this would provide a major awareness-building incentive to trustees and managers of pension funds. To the extent to which impact investing is involved in ESG policies and practices, this reform would also help to encourage potential investment in social enterprise. Clarification of fiduciary rules in this regard would also help to protect pension funds that would like to expand their investment policies to include impact investments.

### **Establishment of Community Bonds**

The Social Finance Task Force also calls for creation of new bonds and bond-like instruments that could be issued by community organizations for social enterprise development. Specifically, the report calls on federal and provincial governments to “establish clear legislation and oversight mechanisms to govern the public sale of community bonds by non-profit organizations.” The SIO has supported similar recommendations in the past to encourage development of a community bond market that would have an expedited securities registration process as well as RRSP-eligibility – two key features that would be needed for success in this market.

### **Encouraging foundations to invest in social enterprise**

The Social Finance Task Force Report also calls on the foundation sector to invest at least 10% of its investment capital in mission-related investments by 2020, and to report annually on this activity. The SIO has never established a threshold for what it believes is an appropriate level of investment in impact investments by the foundation sector. In many ways, we believe that this is a decision best left to the foundation sector itself. While the SIO does not disagree with a 10% threshold, it recognizes that the remaining 90% should also not be “business as usual” in conventional and mainstream investments. The SIO calls on the foundation sector, and indeed all institutional investors, to incorporate a range of socially responsible investment strategies in fulfilling their mission to their stakeholders and to society.

The full Social Finance Task Force report is available at: <http://socialfinance.ca/taskforce/report>

### **For further information**

Eugene Ellmen, Executive Director  
Social Investment Organization  
[ellmen@socialinvestment.ca](mailto:ellmen@socialinvestment.ca)