

EXECUTIVE SUMMARY



SOCIAL FINANCE CENSUS 2010

**A Summary of Results from the
Social Finance Census of Nonprofits
and Social Purpose Businesses**

A COLLABORATIVE RESEARCH INITIATIVE OF



SVX | SOCIAL VENTURE EXCHANGE

An initiative of Social Innovation Generation (SiG) at MaRS

About

THE SOCIAL FINANCE CENSUS

The Social Finance Census is a collaborative research initiative to build a detailed sector profile and understand the demand for capital and barriers faced by social ventures in Ontario, from nonprofits to social purpose businesses. A total of 250 social ventures were profiled, generating vital data on age, revenues, assets, access to capital, capital need, resource needs, and barriers to achieving their mission. The Ontario Nonprofit Network (ONN) and the Social Venture Exchange (SVX), an initiative of Social Innovation Generation (SiG) at MaRS coordinated the research for the report.

THE ONTARIO NONPROFIT NETWORK

The Ontario Nonprofit Network (ONN) is a network of networks composed of charitable and nonprofit organizations providing public benefit across Ontario. ONN facilitates cross-sectoral collaboration helps increase the Sector's capacity to participate in public policy discussions so that we can move towards an environment able to support the changing needs of nonprofit organizations in Ontario and, by extension, the communities they serve. ONN's participation in the Social Finance Census was funded by the Law Foundation of Ontario. ONN is an incubated project of the Centre for Social Innovation. For more information about ONN, please visit www.ontariononprofitnetwork.ca.

THE SOCIAL VENTURE EXCHANGE (SVX)

The Social Venture Exchange (SVX) is an initiative of Social Innovation Generation (SiG) at MaRS, supported by the TMX Group Inc., Causeway Social Finance, and the Government of Ontario. The mission of the SVX is to develop and pilot a regulated market platform to connect social ventures and impact investors. For more information on the SVX, please visit www.socialventureexchange.org.

INSTITUTIONAL PARTNERS

THE CENTRE FOR SOCIAL INNOVATION (CSI)

The Centre for Social Innovation is a dynamic space in downtown Toronto, Canada. Our mission is to spark and support new ideas that are tackling the social, environmental, economic and cultural challenges we face today. We're creating the spaces that social innovation needs to thrive and we're contributing a few of our own ideas along the way! For more information about CSI, please visit www.socialinnovation.ca.



MaRS

MaRS Discovery District is a large scale, mission driven innovation centre located in Toronto and networked across Ontario, focused on building Canada's next generation of technology companies. MaRS works closely with entrepreneurs to grow and scale their ventures into global market leaders in life sciences and health care, information, communications and digital media technologies, clean tech, advanced materials and engineering, as well as innovative social purpose business. For more information, please visit www.marsdd.com.



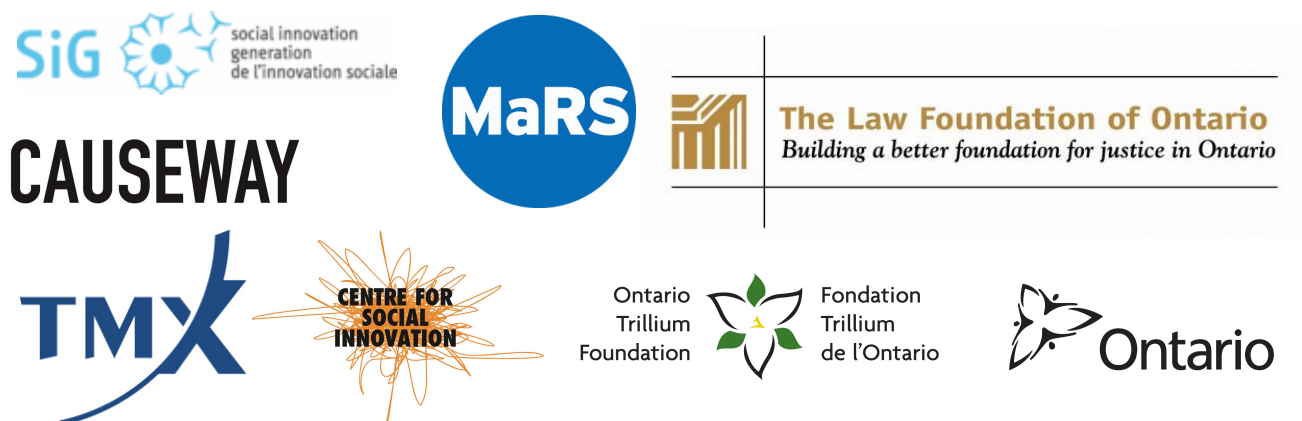
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Finally, we would like to thank all the survey participants for their time and contributions to this research. We wish you continued success in your good work.



Introduction

We are faced with seemingly intractable social and environmental problems at a global and local level, from the broad strokes of climate change and rising inequality to the finer points of alternative transportation strategies and newcomer settlement. Across the nation, a burgeoning critical mass of mature and emergent social ventures ranging from organizations incorporated as charities and nonprofits to businesses is working to address urgent social and environmental problems. Whatever their legal form, these vibrant organizations and enterprises have a powerful commitment to their mission to improve their local communities and the world they share with their neighbours.

There is a growing interest to help support the activities of these ventures to achieve greater impact. But first, we need to build a comprehensive profile of the social ventures and the tremendous good work that they are engaged in. We need to gain a better understanding of the challenges that are preventing these ventures from reaching the full scale of their desired impact. We also need to determine whether there is sufficient activity and demand for capital to meet the potential supply of financing that will emerge from increased engagement and awareness of mission aligned investors and donors. And we need to determine the education and resource needs of these ventures in order to provide them with targeted advice and support.

Accordingly, the Social Venture Exchange (SVX) project and the Ontario Nonprofit Network (ONN) entered into a joint collaboration to conduct a pilot Ontario-wide Social Finance Census: a research survey of social and/or environmental purpose businesses and nonprofit organizations. The survey is the first of its kind in Ontario representing both businesses that employ market-based strategies to achieve social and environmental mission, and nonprofits and charities that do so through a combination of charitable and market-based social enterprise strategies.

Definitions

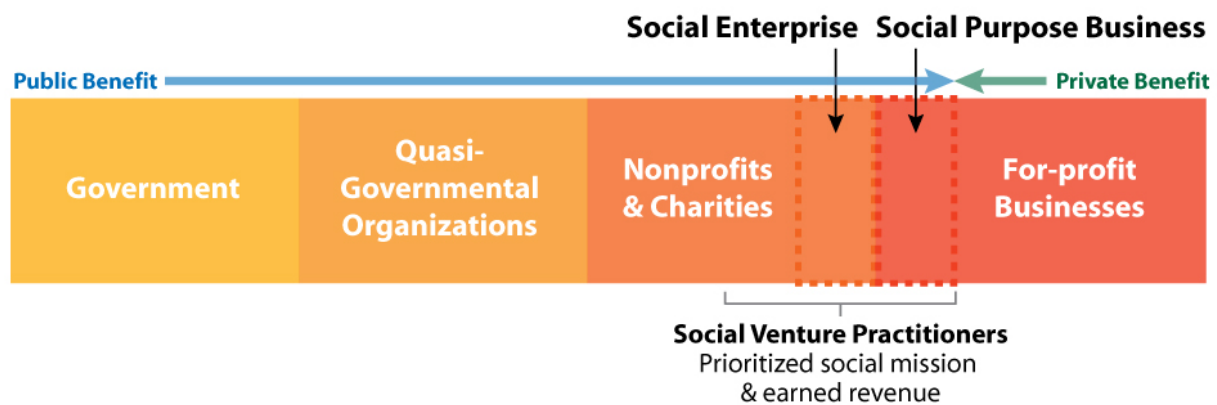
For the purposes of this research, **social ventures** refer to organizations and businesses with a prioritized social mission and earned income. In practice, this can include organizations incorporated across the spectrum, from quasi-governmental organizations to nonprofits and charities to cooperatives and businesses. This report focuses on three specific groups: charities, nonprofits, and businesses.

In the distributed survey, **social enterprises** were defined as “revenue-generating social and/or environmental enterprises (whether run as a project, or as an incorporated entity) that are owned and operated by nonprofits or charities. Since there are no shareholders in a nonprofit organization, earned revenue is re-invested into the work of the organization to advance its mission.” **Social purpose businesses** were defined as social ventures that are incorporated as for-profit businesses, but that have a defined social and/or environmental mission embedded into the DNA of their particular business.

Social ventures are still in a very formative phase in Canada. These definitions were based on the popular understanding of these forms, particularly social enterprises. The survey analysis points to a need to clarify the definition of a social venture, expanding it to include all nonprofits that engage in earned revenue activities – not just separate enterprise projects or programs, or independently incorporated social enterprise entities – that contribute a significant proportion of revenues to the

overall budget of the nonprofit. This is indicated in the Social Venture Continuum in Figure One below.

Figure One: The Social Venture Continuum



Please note that sizes of sectors are not to scale. Social Enterprise and Social Purpose Business indicators are not to scale in terms of percentage of respective sectors participating, or in terms of size in relation to each other. This diagram is intended only to demonstrate the players engaged in social venture activity. Co-operatives are also an important component of the continuum, but they have not been specifically identified in the figure. They would fit appropriately within the nonprofits and charities segment, or for-profit businesses segment, depending on their corporate form.

Target Sectors and Ventures. The geographic focus of the survey was Ontario. The established criteria for sectors and sub-sectors¹ were as follows:

- **Environment:** Environmental sustainability in sub-sectors including green energy, organic food or agriculture, consumer products, waste reduction or management and water.
- **Social:** Creating opportunities and breaking the cycle of poverty in sub-sectors including affordable housing, employment creation, food security, education, recreational activity, and settlement support.

The target ventures for the survey were nonprofit organizations with or without social enterprise activities, and for-profit social purpose businesses with a defined social and/or environmental mission. The established criteria for social enterprises and social purpose businesses were as follows:

- **Social Enterprises**
 - **Nonprofit:** Nonprofit enterprises with or without a parent nonprofit/charitable organization;
 - **Earned income:** Earned income not received through philanthropic dollars, but through the sale of products or services; and
 - **Sector alignment:** Operations align with established sectors and sub-sectors.
- **Social Purpose Businesses**
 - **For-profit:** For-profit revenue-generating enterprise;
 - **Standards and/or social mission:** Meet sustainable industry standards (audits, ratings, or certifications including B Corporation, Fair Trade qualification, organic certification, or others) and/or have a defined and explicit social mission; and
 - **Sector alignment:** Operations align with established sectors and sub-sectors.

Response Rate. Based on the established criteria, a database of 495 social ventures was developed: 133 social purpose businesses and 362 nonprofits. Of this, a total of 244 social ventures responded to the survey: 48 social purpose businesses and 196 nonprofits, for a response rate of 36 per cent and 54 per cent, respectively. Furthermore, of a total of 196 nonprofits that responded to the survey, 90 nonprofits indicated current engagement in social enterprise (these nonprofits are referred to as “parent nonprofits” for the purpose of this report), and the remaining 106 nonprofits do not currently engage in social enterprise.

Summary of Results

Basic Profile

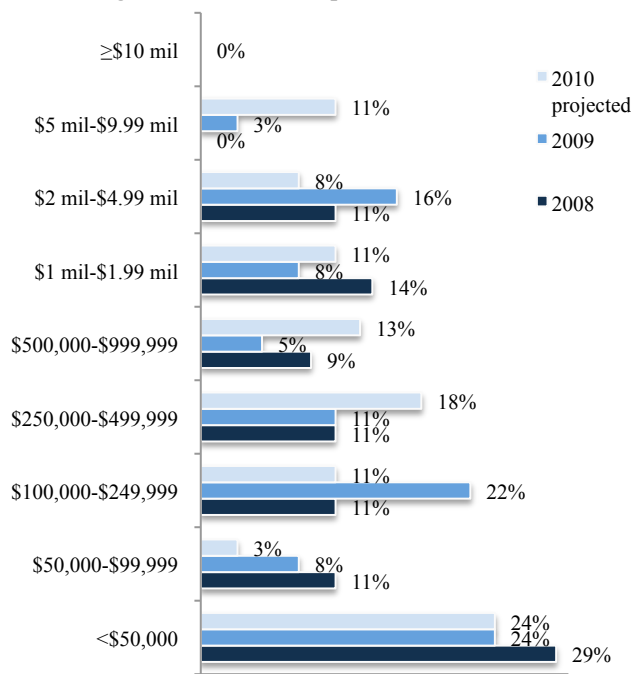
The social venture sector in Ontario is mature and growing. In particular, social enterprises and for-profit social purpose businesses are more mature than previously thought. One in five social enterprises has been operating for over 25 years, and one in four social purpose businesses has been operating for over 10 years. Also, increased public awareness of social ventures in recent years corresponds with a real growth trend in the sector: nearly half of the social enterprise and social purpose business respondents started operations in the past five (5) years. Additionally, one-third of the nonprofit respondents currently without social enterprise activity plan to start such activity in the next two (2) years.

Social ventures operate across a wide range of sub-sectors ranging from social services and sports and recreation to education and waste management. However, the sub-sector profile for nonprofits skews towards social impact focused organizations, and for social purpose businesses it skews towards environmental impact focused organizations.

Revenues and Assets

The social venture sector reported sizable revenues: 40 per cent of all social purpose businesses and over half of all nonprofits reported revenues between \$250,000 and \$5 million for 2009.

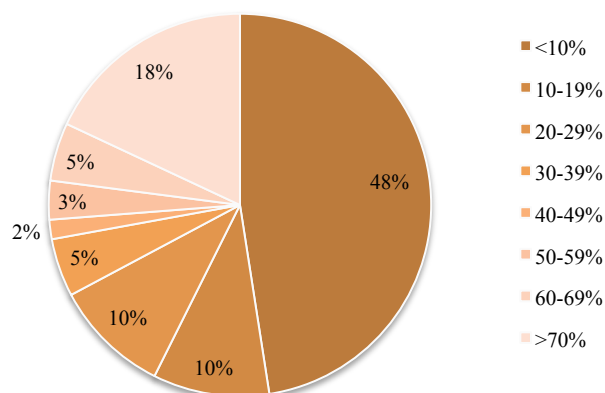
Figure Two: Social Purpose Business Revenues



Despite the difficult economic climate of the last couple of years, many social purpose businesses generated stable or increased revenues between 2008 and 2009. Sixty-three (63) per cent reported revenues for 2009 that were in the same range as revenues for 2008. An additional 29 per cent reported an increase in their revenues over the same time period.

This trend is reportedly expected to continue into 2010, with 59 per cent of the businesses expecting to achieve stable revenues, and 41 per cent expecting increased revenues over 2009. Figure Two depicts these revenue figures in detail.

Figure Three: Social Enterprise Contribution to Parent Nonprofits' Operating Budget



For those nonprofits that currently engage in social enterprise activity, the contribution of such activities to the parent nonprofits' revenues/operating budgets is significant: for one in four such nonprofits, social enterprise activities contribute more than 50 per cent towards the parent nonprofit's operating budget. Figure Three illustrates this point.

Furthermore, while the majority of such nonprofits (84 per cent) engage in social enterprise activities because it compliments their organization's mission, an additional 64 per cent do so to reduce their dependence on

donations and grant-based financing that may not be stable from year-to-year. It is no wonder, then, that 86 per cent of the nonprofits currently engaged in social enterprise are trying to earn more of their revenues through such activities. While revenues from social enterprise activities will likely never be able to fully replace the need for government grants and charitable dollars to fund certain core activities of a nonprofit, such strategies can allow nonprofit organizations to move towards greater self-sufficiency. These strategies can also allow organizations to provide employment, training, and products and/or services directly to the constituency they seek to serve, resulting in a more dynamic and inclusive social change strategy for the entire organization.

In regards to the asset base of the social venture sector, one in three of all nonprofit respondents and social purpose businesses reported long-term assets of over \$500,000. But nonprofits tend to hold larger amounts of short-term assets than for-profit social purpose businesses, due in part to grants and donations received during the year, but yet to be deployed. The largest proportion of all nonprofits (~20 per cent) hold short-term assets in the range of \$100,000-\$249,999, and the largest proportion of social purpose businesses (32 per cent) hold short-term assets of less than \$25,000.

Limited Access to Capital

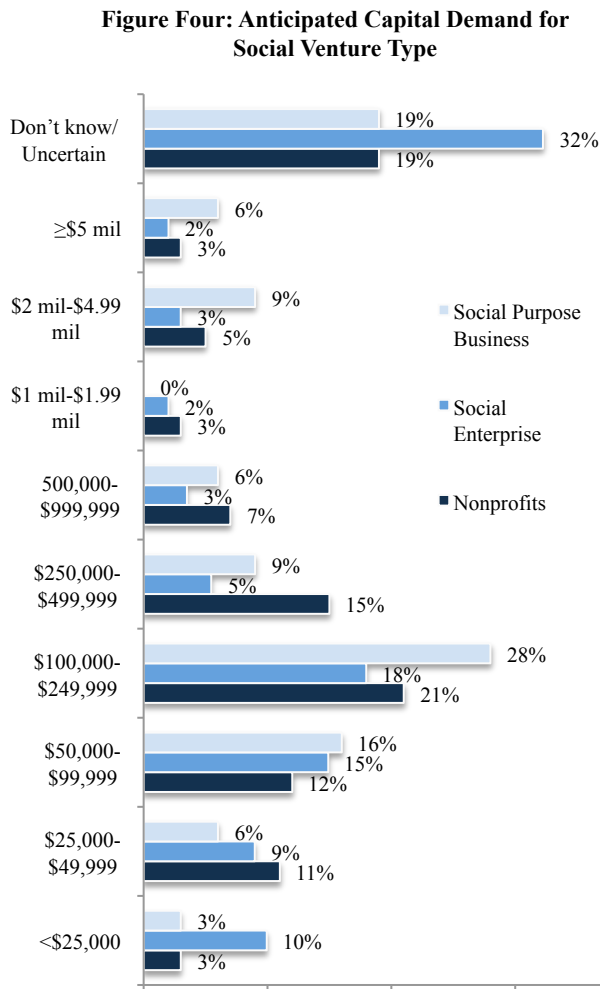
Despite the significant contribution of social ventures to Ontario's economy, the sector continues to face multiple challenges that hinder its growth and prevent it from scaling its operations for greater impact.² One such major challenge is the significantly inadequate access to capital, as reported by over 70 per cent of all social ventures. The impact of increased access to capital could be tremendous – for instance, 80 per cent of social purpose businesses stated that they could more effectively achieve their mission with improved access to capital for growth, infrastructure or working capital.

Lack of access to capital is also related to the types of capital sources that the sector uses, and that are available to it, to meet its capital needs. All nonprofits indicated a heavy reliance on government grants (>80 per cent), corporate sponsorships (~60 per cent), private donations (~70 per cent), and foundation dollars (>70 per cent) for their revenue needs. But more than half of all the nonprofit respondents indicated high difficulty or very high difficulty in accessing such funding. What's more, the majority (>60 per cent) is also dissatisfied with these available sources.

Similarly, most social purpose businesses reported using lines of credit (40 per cent) and bank loans (23 per cent) – government funding, corporate and private donations, and foundation dollars are generally not available to them. Even so, two-thirds (67 per cent) are dissatisfied with available debt sources of capital. As a result, most of these businesses also reported using the entrepreneur’s personal savings (34 per cent) and non-bank loans (25 per cent) to meet their capital needs.

Unmet Demand for Capital, and Corresponding Interest in Alternative Funding Sources

The majority of social ventures need additional capital within the next two (2) years: this includes 66



per cent of social enterprises, 61 per cent of social purpose businesses, and 57 per cent of other nonprofits that need capital to start a social enterprise. Over fifty (50) per cent of the capital demand for all social ventures is clustered between \$50,000-\$1 million, with the largest proportion of respondents (both nonprofits and social purpose businesses) indicating a capital demand of \$100,000-\$249,999. When aggregated, the average capital need over the next two (2) years for all social venture respondents that were able to anticipate their capital demand is estimated at \$170 million, which is only a portion of the actual province-wide demand for additional capital.³ Figure Four illustrates anticipated capital demand for social venture type.

Given this high demand for capital, and a corresponding limited, and decreasing, supply of capital from currently utilized sources, there is high interest amongst all social ventures to find new/alternative sources of capital to meet their financing needs. As such, both social enterprises, that usually make low use of debt – lines of credit (26 per cent), bank loans (19 per cent), and community bonds (2 per cent) – and other nonprofits, that use such sources even less, indicated a notably high interest (~50 per cent)

in pursuing debt sources of capital within the next two (2) years.

Social purpose businesses, as indicated earlier, rely mostly on lines of credit, personal savings, non-bank loans, and bank loans; they have made little use of bonds or equity in the past. However, 70 per cent of these businesses would be interested in pursuing debt financing, and half of them also stated a willingness to issue public or private equity to meet their capital needs.

Legal, Regulatory and Tax Concerns, and Lack of Infrastructure and Intermediaries

In addition to the challenge of limited capital supply, social ventures face a variety of other barriers to advancing their mission. Most respondents, and particularly nonprofits, reported legal and regulatory frameworks and considerations as another major barrier. Only 14 per cent of social purpose businesses indicated that the current tax and regulatory framework allows them to grow and thrive financially as a double/triple bottom-line business, and over 50 per cent of all nonprofits selected one or more legal and regulatory considerations applicable to their sector as a barrier to engaging in social enterprise.

Additionally, over one-third of all nonprofits strongly agreed or agreed that the existing legal framework is a deterrent to social enterprise activity. But many nonprofits (>40 per cent) are also “uncertain” or have “no opinion” as to how the legal framework restricts their organization’s engagement in enterprising activities, pointing to a lack of knowledge and clarity of the rules governing the sector’s activities. Beyond legal barriers, lack of business development support for social enterprises (47 per cent), lack of internal resources (55 per cent) and lack of investor/funder buy-in of such activity (39 per cent) are important concerns for nonprofits, both with and without current social enterprise activity. Please see Figure Five below for additional reported barriers.

Figure Five: Internal & External Barriers to Social Enterprise Activity

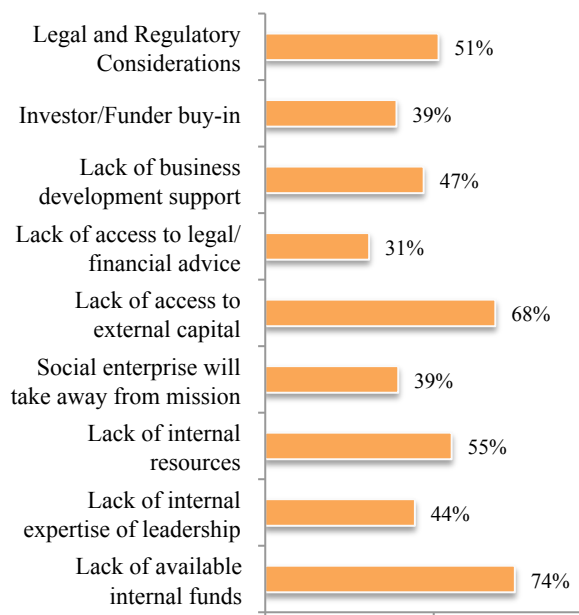
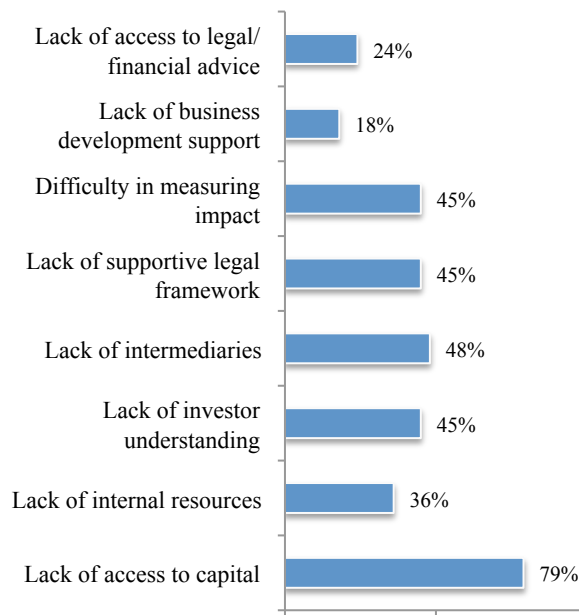


Figure Six: Internal & External Barriers to Social Purpose Business Development



For social purpose businesses, the lack of intermediaries to assist in the flow of capital towards their mission is a considerable challenge for 48 per cent of the respondents. Also, these businesses face difficulty in proving the social and environmental impact of their work. Please see Figure Six above for barriers experienced by social purpose businesses.

Strong Demand for Educational Resources, Regulatory Clarification, and Impact Measurement

All nonprofits indicated the need for a variety of educational resources, most notably regulatory and legal advice in regards to the considerations that govern their revenue-generating social enterprise

activities, as well as advanced support for organizational growth (both >60 per cent). Many nonprofits (~50 per cent) indicated the need to access expert legal and/or financial advice, tailored to meet the organizations' requirements in regards to social enterprise engagement. Similarly, many social purpose businesses desire intermediaries to support the flow of capital towards their mission. Additionally, a large number of all social ventures (>80 per cent of all social purpose businesses and >60 per cent of all nonprofits) are interested in learning about additional ways to effectively measure the social and environmental impact of their work.

Looking Ahead:

How should we support the ability of social ventures to continue and expand their mission?

The breadth of social venture activities indicates that a comprehensive and coordinated approach is the best means of supporting further development of such activities. Data from all the survey respondents suggests that increased access to capital, improved education and support services for stakeholders (practitioners, investors, and the public), and clearly understood laws and regulations are the three pillars of an effective social venture support strategy. In addition, a few practical components of this strategy may include:

1. **The development of intermediaries** to facilitate the flow of capital and build relationships between ventures and investors;
2. **The application of standards** for commitment to mission, risk assessment, as well as the adoption of standard definitions for social enterprise activity;
3. **The aggregation and development of resources** regarding available investment tools and strategies for practitioners, investors, and the broader public;
4. **Targeted reviews of specific regulations and laws;** and
5. **The development of new regulatory frameworks** tailored specifically to social ventures.

Conclusion

Our work began by posing fundamental questions about the current state and potential of social ventures in Ontario. We wanted to understand whether there is sufficient demand for capital to align with the potential pipeline of financing from impact-focused investors and donors. We also wanted to understand which non-financial barriers exist that prevent the further advancement of social venture activity in the province. We believe that we were successful in building an initial understanding of social ventures in Ontario; however, it is clear that there are further questions for future research.

Ontario has a mature and growing nonprofit and for-profit social venture sector that is innovative and entrepreneurial. These ventures have strong entrepreneurial drive, financial strength, viable business models, and a commitment to a better world. However, they have significantly inadequate access to capital for start-up, growth or ongoing operations. This limited access to capital has led to unmet capital demand in tens of millions of dollars amongst innovative nonprofit and for-profit ventures. Consequently, their ability to address social and environmental challenges is stifled.

But it is not just a money problem. Social ventures face many non-financial barriers, pointing towards the need for clearly understood and functional regulatory frameworks, as well as commonly accepted and adopted industry standards and definitions. In addition, there is a need to provide social ventures

with additional business development and capacity building support, improve investor and service-provider literacy, as well as provide more robust intermediary and advisory support services to advance the sector.

There is a great deal of work to do. We have only begun to understand and map the sector, its barriers, and its needs. This is the first comprehensive review of social venture activity and its potential in Ontario. It will be necessary to build upon this research with further study and review, but it is hoped that this research will provide the foundation for an evidence-based discussion amongst policy makers, social ventures, and investors on building a thriving social venture sector in Ontario. Finally, it is hoped that this research will spur action to help meet the identified needs of the social venture sector and increase our collective ability to achieve greater positive social and environmental impact.

ENDNOTES

¹ Note: A significant sub-sector that was not included in the target sub-sectors is nonprofit housing providers. This sub-sector has unique characteristics that require separate profiling efforts.

² There are nearly 46,000 nonprofit organizations operating in Ontario alone, representing a significant economic presence with approximately \$47.7 billion in annual revenues. At just under one million people, 15% of Ontario's entire active work force is employed in nonprofit and voluntary organizations. What's more, Ontario organizations engage 7.8 million volunteers, representing 40% of all volunteers in Canada. – *Taking Charge of your Future, Ontario Nonprofit Sector Priorities, April 2010, ONN.*

³ To determine aggregate average capital demand for the next two years, number of organizations reporting demand within a range (e.g. \$1-24,999) was multiplied by the midpoint of the range (e.g. the midpoint of the \$1-24,999 range is \$12,500). Repeating this for all ranges, the dollar amounts for each range were then aggregated. The total was then divided by the total number of respondents who answered the particular question, and then multiplied by the total number of respondents that attempted the particular survey (e.g. 106 for nonprofits without social enterprises), to arrive at aggregate average capital demand numbers for all respondents.

PUBLICATION INFORMATION

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