Linking Learning Leveraging

Social Enterprises
Knowledgeable Economies
and Sustainable Communities

Financing Social Enterprise

A Scan of Financing Providers in the Manitoba, Saskatchewan, and Northwestern Ontario Region

Wanda Wuttunee
Russ Rothney
Lois Gray

A research report prepared for the Northern Ontario, Manitoba, and Saskatchewan Regional Node of the Social Economy Suite

Funded by the Social Sciences and Humanities Research Council of Canada
Conseil de recherches en sciences humaines du Canada

Réseaux Connaissances Synergies

Entreprises sociales
économies intelligentes
et communautés durables

FINANCING SOCIAL ENTERPRISE:

A Scan of Financing Providers in the Manitoba, Saskatchewan and Northwestern Ontario Region

January 2008

Principal Investigator: Dr. Wanda Wuttunee, University of Manitoba
Co-Investigator: Russ Rothney, Assiniboine Credit Union
Researcher: Lois Gray, University of Manitoba

This paper is part of a collection of research reports prepared for the project
Linking, Learning, Leveraging
Social Enterprises, Knowledgeable Economies, and Sustainable Communities,
the Northern Ontario, Manitoba, and Saskatchewan
Regional Node of the Social Economy Suite,
funded by the Social Sciences and Humanities Research Council of Canada.

The project is managed by four regional partners —
the Centre for the Study of Co-operatives and the Community-University
Institute for Social Research at the University of Saskatchewan,
the Winnipeg Inner-City Research Alliance,
and the Community Economic and Social Development Unit
at Algoma University College.

The project also includes more than fifty community-based organizations
in four provinces, the United States, Colombia, and Belgium.

This particular research paper was administered by
the Winnipeg Inner-City Research Alliance (WIRA).
The opinions of the authors found herein do not necessarily reflect
those of WIRA, the Linking, Learning, Leveraging project,
or the Social Sciences and Humanities Research Council of Canada.

Table of contents

1. ABSTRACT

The objective of this research scan is to identify and describe the providers and types of financing instruments available to social enterprises in the study region: Manitoba, Saskatchewan, and northwestern Ontario.

The finance providers discussed here, fall within 3 general types:
- government backed loan guarantee programs
- credit unions and banks
- community based and private funds

2. RESEARCH SUBJECT

This Scan of Financing Providers is the first phase of a two phase study. The aim is to enhance capacity of social economy organizations, specifically social enterprises, through access to a greater range of appropriate financing options. The scan will seek to identify and describe the providers and types of financing instruments available to social enterprises in the study region: Manitoba, Saskatchewan, and northwestern Ontario.

3. BACKGROUND

3.1. WHAT IS SOCIAL ENTERPRISE?

For the purposes of this study, a social enterprise is broadly defined as a for-profit enterprise that places a strong emphasis on social and environmental objectives as well as financial objectives. This is commonly referred to as the *blended return* or *double bottom line*, and *triple bottom line* where environmental objectives are included. The enterprise will also have a clear plan for the application of profits or surpluses towards a social objective.

Under this definition, ownership and legal status are not the defining criteria. Social enterprises take on a number of forms: share capital corporation, non-share capital corporation (commonly called “non-profit”), cooperative, partnership, or sole proprietorship. For example, a social enterprise may be structured as an independent for-profit enterprise with the social or environmental values embedded in the economic activity. It could also be a revenue generating activity within a non-profit organization, or a for-profit subsidiary of a not-for-profit organization. Many, but not all, social enterprises just breakeven or make very small profits. Others may be quite profitable.

Two features of this classification are noteworthy.

- It assumes that the enterprises are active participants in the market economy, offering goods or services with the intention of earning revenue to support social and/or environmental benefits in local neighborhoods.
- The application of surpluses or profits generated by the enterprise towards a social goal is the key distinguishing feature of social enterprise under this perspective.

3.2. CHALLENGES OF SOCIAL ENTERPRISE FINANCE

Although there is considerable interest in the idea of social enterprise, there are relatively few examples operating in the study area. Is this due to a lack of financial resources available to support their development, or is it due to the challenges associated with starting and running a social enterprise? For example, the Winnipeg Partnership and the Manitoba Community Enterprise Development Tax Credit program both offer financial resources that could be accessible to social enterprises. Both are explicit in promoting social or community-beneficial enterprises. “The lack of take-up (for these programs) in Winnipeg probably says a lot more about the scarcity of commercially solid social enterprise designs than a lack of awareness or availability of the programs (to support them).” says Russ Rothney of Assiniboine Credit Union.

From the lenders’ point of view, cash flow and the ability to repay the debt are the main criteria, and sometimes the sole criteria, used to assess an application for financing. This can be a challenge for enterprise managers who are accustomed to operating in the social services arena with grants and donations as the main source of funds.

> “There are reasons why social enterprises can’t get financing. Examination of loan applications by social enterprises that I have viewed would reveal that there are aspects of their operations that make them hard to lend to.
>
> Donations and government subsidies cannot be viewed as reliable revenue under traditional lending and the social enterprise would require sufficient collateral to compensate for that. Cash flow is crucial.
>
> Directors of Social Enterprises do not want to commit to guaranteeing financing while business owners have to do this on a regular basis.
>
> The social enterprises need financial expertise and planning to make it work for them in the long-term. Well managed social enterprises do get traditional financing.”
>
>> Martin Chicilo, Director of Community Development, Affinity Credit Union, Saskatoon. (personal communication, August 18, 2007)

Social enterprises must operate in a businesslike fashion and develop business plans that are viable and sustainable in the marketplace. They must know what is expected of them and be prepared to provide this to the lender. It is helpful when lending agents are sensitive to the values and needs of this sector and are able to adapt their product and practices to serve those needs.

4. RESEARCH METHODOLOGY

This report is an attempt to illustrate the range of financing options that are available to social enterprises in Manitoba, Saskatchewan and northwestern Ontario. It is not intended to be a comprehensive listing of all the financing options available across the entire study region. Rather it is meant to provide general insights into the financing environment within the region.

The methodology included telephone/email surveys supplemented with key informant interviews, email and in person interviews and Internet research.

Key informants provided direction on the development of the survey instrument. These people are experienced in social financing, as social enterprise managers or as professionals in the finance sector. (See Appendix 2)

The survey instrument (Appendix 1) was designed as a scan of the financing providers and financing instruments available to social enterprises within the study region. The survey questions were aimed at gaining basic information including:

- a better understanding of the attitudes and perceptions of lending agencies towards social enterprise and social enterprise financing.
- identifying financial agencies that provide finance services to social enterprises.
- identifying the types of financing and financing instruments available to social enterprises.
- identifying the specific lending criteria (equity and collateral requirements, etc.) applied to the various forms of financing available by financing agencies.

A convenience sample of financing providers was drawn from the contact networks of the key informant practitioners, seeking representation from different types of financing programs from within the study region. Personal communications with finance professionals involved with social enterprises, provided additional context and background.

A total of forty-six agencies were approached:

- 13 completed the survey,
- 3 provided information but did not complete the survey form,
- 3 declined to participate
- 1 completed the survey but later excluded themselves
- 26 did not respond.

Of the thirteen survey respondents, two agencies oversee and distribute government funds that are delivered by partner agencies at the community level. These are Western Diversification in Manitoba and Saskatchewan, and Community Futures in all 3 provinces. A representative of FedNor did not complete the survey, but did provide information on the FedNor program through an informal telephone conversation. (FedNor distributes federal funds in northern Ontario.) The findings from these investigations are included in Section 6.

Eleven of the responding agencies provide direct financing that may be accessible to social enterprises. These are: Business Development Bank of Canada. Aboriginal Business Canada, Affinity Credit Union (formerly First Sask Credit Union and Saskatoon Credit Union), Assiniboine Credit Union, Women's' Enterprise Centre Winnipeg office, Social Capital Partners, Winnipeg Partnership Agreement, Canadian Worker Cooperatives Federation Tenacity Fund, North Central Community Futures Development Corporation, Community Ownership Solutions, Jubilee Fund.

Further exploration of financing agencies (both respondents and non respondents) was conducted via internet to supplement information from the surveys and key informants and to gain information on agencies and programs that were not reached through the telephone and email survey, and on the overall financing environment.

5. RESULTS: OVERVIEW

The responses of the eleven direct financing providers are summarized below. More detailed information on the responding agencies is available in the Agency Profile section of this report.

Q 1- What is your understanding of the term social enterprise?

> The responses to this question varied considerably, in some cases reflecting a level of confusion over the meaning of the term social enterprise and its place in the economic landscape. The following quotations reflect the range of responses.
>
> > "Social enterprise is an enterprise that offers goods or services to the market on a for-profit basis, and offers a service to the community. The end goal is to provide a community benefit."

“I really don’t know (what it means). It is probably a non-profit, not tied to a business. It is more likely involved in services.”

“A profit or non-profit business providing a service to the community and employment for its employees.”

“Organizations which are guided by more that the single bottom line. They measure their success, track their activities and gauge their relevance by social responsibility criteria – employment and hiring practices etc.. They have a mandate to measure their relevance beyond a single bottom line, not just by profit. They consider social, environmental and financial measures.”

“It is either a for-profit or not for-profit enterprise established to help the community or the local area. It is often employee owned or setup for a social purpose.”

“Social enterprise means any business venture that encompasses a dual mission – social and/or environmental and economic.”

“An enterprise that emphasizes both social and financial goals.”

“ An enterprise with a triple bottom line that seeks financial viability, social benefit, and environmental benefits, (or the financial and social goals in an environmentally sound way.) It is democratically owned and operated, has a governance structure that is democratic and a commitment to its constituents. It is not limited to the market but operates in the market arena even if it has a social aspect.”

“A social enterprise is a revenue generating business which has multiple bottom lines. It not only generates a profit, but is also socially conscious. It usually serves the needs of the greater good.”

“An enterprise with multiple bottom lines (financial, social, environmental). The enterprise can be for-profit or non-profit. Ideally it is an independent entity, not a program of a not for-profit organization.”

“Social enterprises are social-mission-driven organizations which trade in goods or services for a social purpose. The need to deliver on financial, social and environmental performance targets are key to their mandate.”

One lender equated social enterprise and non-profit. On this basis, they assumed that social enterprise applicants would not be eligible for services under their program. However, deeper probing revealed that many social enterprises actually do qualify for financing through these programs because, by definition, they do pursue profit through the marketplace.

Q 2. Does your institution distinguish between social enterprises and other businesses when considering their applications for financing?

Yes	6
No	5

Q 3. How frequently are you approached by social enterprises for financial services?

Weekly	3
Monthly	2
Never	2
Don't measure	4

Q 4. What types or organizational structures do you see among your social enterprise applicants? (Multiple responses accepted.)

Incorporated with share capital	4
Incorporated without share capital (non-profit)	5
Co-operative	6
Micro enterprise	3
Small business partnership	2
Other	2
Don't distinguish	2

Q 5. How frequently is your institution able to meet the needs of social enterprise applicants?

Don't know/don't measure	2
Depends on quality/viability of application	3
Frequently	2
6-8 active investments at a time	1
Time limited contributions	1
Always	1
Not applicable/don't know	1

Q 6. What kinds of services does your institution provide to social enterprise (for-profit and non-profit social economy organizations)?

Non financial services	12
Financial services	
Term loans	9
Subordinate debt/preferred shares	1
Operating lines of credit	3
Non repayable contributions	2
Equity	4

All of the agencies contacted offer some type of business consulting, mentoring, planning and support services in the areas of finance, marketing and general management. These may be as free services or on a fee for service basis. Some agencies reported additional services such as business training (accounting, marketing etc), assistance with recruiting, monitoring SROI (social return on investment) and governance support, including taking a seat on the Board of Directors.

Q 7. What major criteria do you use in assessing loan applications for credit financing from social enterprises?

The credit granting agencies reflected the following common themes regarding their applications assessment criteria:

- Ability to repay
  - Cash flow
  - Credit worthiness
  - Character and history of the borrower
  - Ability to obtain financing from commercial sources
- Security
  - Ability to meet equity requirements.
- Internal capacities
  - Management strength and capacity, strength of the entrepreneur
  - Governance and Board of Director strength
  - Strength of the business plan, financial statements and cash flow projections
- Community support

The business plan is the main assessment tool for all finance agencies. This applies to any type of enterprise that is seeking funds - conventional business or social enterprise. First and foremost, the business plan must demonstrate that the enterprise can generate sustainable revenues and profits (or surpluses) that are large enough meet the monthly debt payments. That’s done with specific, measurable, reasonable and timely projections that are well researched.

The financing agencies report that they follow their normal formal application process for social enterprises. However, some agencies have greater flexibility regarding equity requirements for social enterprises in their application assessments. This usually relates to the amount and type of equity. For example, some agencies are able to reduce the equity requirements, or accept non traditional equity such as personal computers. Some accept sweat equity or they may have some provisions to assist in filling the equity gap. A strong management team, co-investors, demonstrated cash flow management and a healthy balance sheet are very important considerations in applications from social enterprises.

Where agencies report having different criteria for social enterprises, the difference generally reflects the specific goals of targeted financing programs, such as cooperatives, or enterprises with hiring targets for disadvantaged populations, geographically targeted initiatives and Aboriginal communities.

Q 8. Does your organization have any polices relating to the way that lending officers should handle applications from social enterprises that do not have standard equity available?

Yes	4
No	4
Not applicable	3

Agencies that deliver guaranteed loan funds from Western Diversification, FedNor or private/community based loan guarantee programs are able to operate at greater risk or with less security than traditional finance sources. They have greater flexibility to structure the terms of the financing. This means that they may be able to reduce the equity requirements, offer extended repayment terms, principal deferment options and so on. These concessions generally increase the interest cost of the financing.

Q.9 . Does your organization recognize or account for alternative forms of equity? (e.g. contributed equity v. shareholder equity, or subordinated debt v. clear equity)

Yes	4
No	3
Not applicable (no equity requirements)	3
No response	1

Where consideration is given to alternate forms of equity, it is generally done on a case by case basis.

Q 10. When assessing loan or credit applications for social enterprise organizations, what weight (if any) is given to:

a) the social economic character of these organizations? (social objectives, staff commitment etc.)

Yes	5
No	4
N/A	2

Of the five agencies stating that social character is a consideration in the assessment process, four stated that this is a primary criteria. The fifth referred to a policy against lending to organizations that are involved in activities that may be detrimental to communities.

b) the donations revenue that these organizations may rely on to repay loans from your institution?

Yes	4
No	5
N/A	2

Two respondents indicated that their agency policies limit them to considering only earned income in their assessment processes. A third stated that they do not lend to non-profits. The four lenders who do consider donation income, are careful to ensure that there is a long term track record (i.e. 3 years or more) of sustainable income from this source.

c) the government grant revenue that these organizations may rely on to repay loans from your institution?

Yes	6
No	2
N/A	3

Similar to the donation revenues, lenders who do include government grants as part of the revenue stream of a social enterprise applicant, want to see a long term commitment from the government granting agency to ensure sustainability of this income. Federal government granting agencies have a further condition which limits the level of non repayable contributions from all federal government sources to 50% of the total project cost.

Q.11. Given the wide variation in revenue streams, equity and organizational objectives for social economy organizations, what are the challenges that your institution faces in assessing their financial needs and your ability to meet them?

Viability of the enterprise and the ability to repay the debt are the main considerations facing lenders assessing a loan application Having the right information to use in making these decisions is a key challenge.

One respondent explains it this way: “We are investing in a future we cannot predict. Our challenge is to come to a good judgment, based on the information that is available. The social enterprise needs to provide us with a viable project and the information to demonstrate the viability. They need to provide us with the information we need to make our decision.”

Q.12. How do your institution’s policies support handling the financing needs of social enterprises?

Several programs specify that applicants must be profit oriented in order to qualify. In those cases, the blended values of social enterprise do not attract preferential treatment. In fact, the blended objectives are sometimes confusing and this may interfere with financing applications.

Targeted financing programs may have access to special resources that allow them to provide supports for social enterprises that are not available through traditional financial sources. For example, Aboriginal Business Canada provides the equity that enterprises require to access commercial financing. Affinity Credit Union and Assiniboine Credit Union offer access to special programs through their Micro Loan funds.

Community Loan Funds like Jubilee in Winnipeg and Community First of Saskatoon, support social enterprises clients that lack sufficient equity to qualify for traditional financing. They do this through direct loans and through loan guarantees that allow the borrower to access credit through other sources such as a credit union of Community Futures.

“The policies set the criteria by which to judge certain aspects of an undertaking,” says one project manager. “We have clear policies about what we can and cannot do. If the social enterprise meets our terms, then we can support them, “says another.

Q13. What type of commitment is made to provide after-care services given that this is an important part of the success of these organizations?

> Most account managers at financial institutions are able to provide some business aftercare services, particularly in the areas of finance. Agencies such as the Community Futures Corporations, Women's Enterprise Centres, Business Development Bank have dedicated aftercare support resources available to their clients on a free or fee for service basis. Others, like Aboriginal Business Canada provide financial support to pay for certain professional services such as accounting and marketing.
>
> Smaller agencies may provide more individualized attention to their clients, sometimes in a very intensive way. For example, Social Capital Partners frequently becomes involved in certain management functions, particularly in the human resources area, and may take a seat on the Board of Directors. Community Ownership Solutions takes this a step further and provides the direct management to the enterprises that it supports financially. Agencies with more limited internal support resources, such as the Canadian Workers' Cooperative Federation, will provide linkages to external support systems for their clients.
>
> At the Jubilee Fund, "we commit to monitoring our investments through support, and access to resources that may be essential for growth, continued success, trouble-shooting, et. al. We are as vested in the success of the venture as they are."

Q.14. What types of changes in the way that Social Enterprises operate would assist your organization in better serving their financial needs?

> Responses again centred on management capacity and financial viability.
>
> > "We are looking for solid business skills and capacity. Management should be entrepreneurial and understand how to run a business properly. They need to know how to manage cash flow, and they need to be financially literate."
> >
> > "They must be viable and fit our criteria."
> >
> > "Administration and management must adhere to business practices in the areas of reporting, accounting, leadership and human resources."
> >
> > "From our social enterprise clients we need background on the organization and the players, financials, and cash flow projections that demonstrate the ability to repay and collateral (assets on or off the balance sheet)."

> “We require a clear and viable business plan showing the pursuit of profit.”
>
> “Oftentimes, social enterprises don’t have strong financial management capacity and this can be problematic, particularly around providing timely and useful cash flow statements.”
>
> “The social enterprise needs to provide us with a viable project and the information to demonstrate viability. They need to provide us with the information we need to make our decision.”
>
> “Education, education, education. They need to run a social enterprise more like a business. Revenue must exceed expenses. Otherwise I consider it a hobby.”

Q15. to Q.18

The responses to questions 15 to 18 are contained in the Agency Profiles, Section 7 of this report.

6. THE SOCIAL ENTERPRISE FINANCE ENVIRONMENT

The financing resources available to social enterprises fall within 3 general types:

- government backed loan guarantee programs
- credit unions and banks
- community based and private funds

Government Loan Guarantee Programs

Government backed loan guarantee programs form the largest and likely the most readily available source of funds for social enterprise in the current environment within the study area. None of these are specifically designed for social enterprise, but social enterprises may be able to access these funds if they fall within the program targets and priorities of local program administrators and they can provide a viable business plan based on a for-profit business model.

Western Diversification in the west and FedNor in northern Ontario (both funded through Industry Canada) back the loan guarantees that are administered through credit unions and community based developmental lenders such as the Community Futures and Women’s Enterprise Centres. These are targeted loan guarantee programs with the main objectives of job creation and/or community economic development. Aboriginal Capital Corporations (funded through Indian and Northern Affairs Canada) offer similar loan programs for Aboriginal clients.

The perception of risk is a barrier in the minds of lenders. There is an assumption that financing social enterprises carries higher risk than financing standard businesses. Small business financing is a very risky activity, especially in the startup stage. Commercial banks usually rely on the Canada Small Business Financing Program (federal loan guarantee), or similar provincial loan guarantee programs, to offset the risk of financing small and medium sized enterprises, especially startups.

Developmental lenders, such as Community Futures Development Corporations and Aboriginal Capital Corporations, exist to fill that gap in financing high risk enterprises that offer a community benefit such as job creation and community development. They issue loans at higher risk (and at higher interest rates), than standard commercial loans. Their mandate is to support projects that have a positive impact on the community. The loan guarantees allow lenders to relax collateral requirements for high risk borrowers, and/or accept non-traditional equity sources such as sweat equity in their loan qualification criteria. Risk is weighed against the potential for community benefit. Social enterprises may qualify for these loans if they can meet the tests of viability and sustainability in their business plans.

Community Futures is one of the few programs that explicitly name social enterprise as eligible under its program mandate from Western Diversification. Community Futures boards are asked to set targets for social enterprise financing as part of their operating plans. In practice, the funds are administered by local boards and there is considerable variability in the way that funds are handled at the local level. Some boards are more receptive to social enterprises applicants than others. It may depend on their understanding of social enterprises, the lending practices of the local office and the risk tolerance of local board members.

The Pan West Community Futures Network has developed a special training module to help local Community Futures boards understand the needs of social enterprises so that they can better support them.[1]

"The business plan for a Social Enterprise will have the same components as a typical plan from a business client – a marketing plan, an operations plan and a financial plan. However, the language will differ and the profit results will be handled differently" (Community Futures Training Committee. 2005. p. 38). Community Futures boards are encouraged to adapt their lending approaches in ways that will support social enterprise financing including (p 33):

- innovative ways of securing loans by recognizing the value of time and labour invested (sweat equity)
- lending for startup and subsequent development
- repayment terms based on success and the possibility of capital deferment
- including social returns along with financial returns in assessing applications

[1] CFBD Training Committee (2005). *Our Boards … Our Future: Are we there yet? Module 11 Social Economy*. Pan West Community CF Network.

Credit Unions & Banks

Credit unions and banks have access to federal and provincial loan guarantee programs to support local or regional development priorities which allow them to lend to high risk clients. However, there is considerable variation in corporate missions and goals among lenders, their awareness of the social enterprise sector and their willingness to serve social enterprise clients.

Assiniboine Credit Union and Affinity Credit Union have been leaders in the area of social enterprise financing within the study region. Both credit unions operate community financial/community development divisions that specialise in services to community based enterprises, including social enterprise. Because of the strong social mandate to reinvest in community, these lenders are more sensitive than most to social enterprise objectives and are inclined to give consideration to the impact of social enterprise organizations. “We look at the overall business viability. The process takes longer and is more labour intensive. We treat these applications as a partnership, while other financial institutions focus on personal net worth and credit rating of the borrower in making a decision on a credit application,” says Nigel Mohammed, Manager of Community Services, Assiniboine Credit Union.

While they are more attuned to the special needs of social enterprise, the credit union lending officers must follow conventional lending practices when processing loans through their community lending divisions. They require the standard measurement tools used by the commercial banking industry: a business plan and cash flow projections that demonstrate repayment capability, security and equity (usually this means cash or assets in kind).

Credit Unions are not high risk lenders, and they do not issue subordinated debt[2]. They require equity (in the form of cash or assets) from the borrower.

Affinity Credit Union and Assiniboine Credit Union both administer micro credit loan programs from Western Diversification, and they both administer special community loan funds. Affinity Credit Union administers its own community loan pool and micro loan program. Assiniboine Credit Union frequently partners with the Jubilee Fund, a community loan fund in the Winnipeg Area. Backing from these special funds allows for more flexibility in the treatment of equity and security for social enterprise clients and in structuring the finance packages for qualifying enterprises. In some cases, they may reduce the amount of equity required to support a loan and

[2] Subordinated debt: A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings. Also known as "junior security" or "subordinated loan". In the case of default, creditors with subordinated debt wouldn't get paid out until after the senior debt holders were paid in full. Therefore, subordinated debt is more risky than unsubordinated debt. (investopedia.com)

they may extend the amortization period of a loan beyond the traditional lending terms, if required.

Community Based and Private Funds

Non government sources are developing some new approaches to social economy financing.

There are community based loan funds such as the Jubilee Fund in Winnipeg, Community First Development Fund of Saskatoon and sector based funds like the Tenacity Fund managed by the Canadian Worker Cooperatives Federation and targeted towards worker cooperatives. These are funded by private donations from the local community and are set up to fund specific local priorities.

Community First Development Fund is a community investment fund operated by a non-profit charitable organization in Saskatoon. It provides non-traditional financing options for community economic development projects that help reduce poverty in Saskatoon and immediate area. The Jubilee Fund is a similar fund that serves the city of Winnipeg.

A second group operates as social venture capital funds – Community Ownership Solutions and Social Capital Partners. These are privately financed funds that target specific types of enterprises that they nurture both financially and with hands on management support over extended time frames. They are sometimes described as Social Venture Capital. These will often invest in an organization for longer time periods and take a much more active role in management than most financiers.

Social Capital Partners invests exclusively in employment based social enterprises where the social mission is around the HR strategy. Social Capital Partners represents a new style of social finance called the “engaged investor.” Fund managers generally expect to be engaged with the investments at the board and operational levels. Social Capital Partners staff play a lead role on reporting on social and financial outcomes and provide advisory and strategy services as well as HR support services if needed.

Community Ownership Solutions follows a different approach. It raises capital though a dedicated charitable organization. Those resources are used to develop, support and finance (with loans and grants) social enterprises that it develops and operates within the Winnipeg inner city. Community Ownership Solutions identifies opportunities for new enterprise development, conducts the pre-feasibility and feasibility studies, prepares the business plan, hires management, provides the start-up capital and works closely with the management team for an extended period of time. Its first venture, Inner City Renovation Inc., was launched in August 2002 with support from Social Capital Partners.

The loan funds included in this survey are relatively small in size and limited in the number of clients that they can support. However, their impact is much larger than the size of their loan portfolios as they provide an equity base that enterprises can use as leverage to access financing from more traditional sources.

7. FINANCE AGENCY PROFILES

7.1. GOVERNMENT LOAN GUARANTEE PROGRAMS

ABORIGINAL CAPITAL CORPORATIONS

Aboriginal Capital Corporations are a network of loan corporations, structured as non-governmental financial institutions. They were initially capitalized by Industry Canada, but owned and controlled by Aboriginal people.
(NOTE: The information reported in this profile was accessed from the website)

Area served

National network of regional offices - 32 active Aboriginal Capital Corporations across Canada.

Website

http://strategis.ic.gc.ca/epic/site/abc-eac.nsf/en/h_ab00155e.html

Financial services

Aboriginal Capital Corporations concentrate on providing developmental loans to enterprises that are not ready to secure business loans from banks.

Services include:

- capital loans, working capital loans, bridge financing.
- commercial loans, commonly used for capital expenditures of heavy equipment such as graders, freight trucks, buses etc. Up to $150,000 is available for individuals, up to $350,000 for Bands and up to $500,000 for Tribal Councils.
- agricultural loans, for capital expenditures such as farm equipment, livestock and land acquisition.
- Aboriginal youth business loans: capital for start-ups, expansion, modernization or the acquisition of fixed assets. Up to $15,000 with an interest rate of prime plus 2 % Available to Aboriginal entrepreneurs aged 18-35 years.

Non financial services

Various business consulting services, depending on the regional priorities.

Eligibility

Businesses must be 51% Aboriginal owned and/or operated and dedicated to the employment of Aboriginal workers.

Assessment criteria

- viable business plan with financial projections.
- management capacity and the applicant's credit, character and collateral.
- 10% owner equity.

COMMUNITY FUTURES

Local boards administer economic development funds, sometimes in partnership with other financial institutions. Individual Community Futures operate under a broad mandate and with considerable autonomy at the local level. Local Community Futures may offer programs targeted for specific sectors, such as micro enterprise peer lending loans targeted at artisans and crafters or loans targeted for specific local resource sectors etc.

Area served

National program targeting rural areas.

Website

Manitoba: http://www.cfmanitoba.ca/
Saskatchewan: http://www.cfsask.ca/
Ontario: http://www.ontcfdc.com/cover.asp

Financial services

- term loans up to $150,000 at prime plus 2% interest (minimum) over a 5 year term.
- Youth Entrepreneur Program loans up to $25,000.

Community Futures are often willing to take a second or supplementary secured position on the loan.
Local boards have flexibility regarding loan structuring (equity requirements, repayment terms and interest rates, etc.). Lower rates may be available for social enterprise and disabled applicants.

Non financial services

- Assessing and assisting with the preparation of business plans.
- providing business and market information.

Eligibility

Eligibility terms may vary depending on the priorities of the local Community Futures Board. In general the local goals are based on job creation or community benefit criteria. Ten percent equity is required, but the equity need not be cash or hard assets. Sweat equity and other forms of equity may be acceptable.

Assessment criteria

- business plan and cash flow projections.
- repayment capacity.
- risk assessment is balanced against potential for job creation and community benefit.

The fund

About $15 million has been advanced in 355 loans to Manitoba and Saskatchewan in 2006/07. Average loan size has traditionally been approximately $23,000.

FEDNOR CREDIT UNION AGREEMENT

The FedNor Credit Union Agreement is a risk sharing program between FedNor (Federal Economic Development Initiative for Northern Ontario) and the Credit Unions of Northern Ontario who administer the loans. The loan guarantees are targeted towards small and medium-sized businesses in Northern Ontario with the aim of increasing the supply of capital and availability of consulting services to businesses. The program supports development and diversification of communities in Northern Ontario.

Area served

Northern Ontario.

Website

http://fednor.ic.gc.ca/epic/site/fednor-fednor.nsf/en/fn00924e.html

Financial services

Term loans of $25,000 to $500,000. Interest rates at prime plus 3% (minimum).

Eligibility

Individual, company, corporation, joint venture, or trust that:

- has less than 250 employees and annual total sales of less than $20 million.
- agrees to participate in mentoring and counseling support if determined necessary.
- is located in Northern Ontario.
- project must result in new or increased economic activity in the region.

In general the credit unions will apply their standard commercial lending criteria in assessing loan applications. The credit unions contacted during the survey did not demonstrate much knowledge or experience in social enterprise finance and the FedNor program mandate does not promote social enterprise as an eligible target sector for the program. However, some social enterprises may still qualify under the program criteria.

The fund

A federal government risk sharing loan guarantee fund of $15 million.

WOMEN'S ENTERPRISE CENTRES

Area served

A network of regional offices across western Canada and northern Ontario with the goal of removing barriers facing women entrepreneurs.

Website

www.wecm.ca - Manitoba
www.womenentrepreneurs.sk.ca - Saskatchewan
www.paro.ca - northern Ontario

Financial services

The Women's Enterprise Loan Program offers up to $100,000 loans on a 5 year term for start-ups at prime plus 3% interest and for expansion or the purchase of an existing business at prime plus 1%.

Eligibility

- 50% or more owned and controlled by a woman (or women).
- operating or starting a business in one of the four western provinces.
- have a positive economic impact.
- equity requirements are flexible. Assets such as computers and office furniture may be accepted as equity contribution.

Non financial services

Services offered at the Winnipeg office (service offering may vary in other regions):

- seminars & workshops.
- assistance with business plans from business analysts.
- training in business planning, finance, marketing, bookkeeping, risk, human resources, tax, etc..
- videoconferencing will be available in fall of 2007.

- business analyst services. quarterly and annual financial statements reviews with a business analyst and additional support as required.
- networking events, social events, mentorship opportunities.
- listing in business directory.

Assessment criteria

Applicants must submit a clear business plan showing pursuit of profit. Assessments are based on the viability of the business plan, especially:

- strengths and weaknesses of the entrepreneur.
- market size and viability.
- cash flow and ability to repay.
- borrowers must sign a GSA (General Security Agreement). If incorporated, shareholders must sign a personal guarantee.

The fund

Winnipeg office:

- $2 million total in loans is currently outstanding. Thirty loans totaling $1 million were issued in 2006: 40-50% for expansion, 50-60% are startups.
- $10.5 million has been approved to 311 loans since 1994. Total leverage is estimated at $12.4 million in joint loans with other institutions: credit unions, BDC, chartered banks and CFDCs.

7.2. CREDIT UNIONS AND BANKS

ASSINIBOINE CREDIT UNION & AFFINITY CREDIT UNION (FORMERLY FIRST SASK CREDIT UNION AND SASKATOON CREDIT UNION

Areas served

Winnipeg MB and Saskatoon SK.

Website

www.assiniboine.mb.ca www.affinitycu.com

Financial services

- standard banking services: chequing and savings accounts Internet and ATM banking.
- operating lines of credit.
- full range of commercial lending, including a special emphasis on micro and small business micro, small loans.
- SBLA (Small Business Loans Act) term loans for fixed assets (up to $250,000).
- mortgages for real estate.
- bridge or interim financing.
- debit & credit cards (Credit Union Master Card).
- investment services: payroll plans, group RRSP.

Flexible loans and equity requirements allow lenders to reduce equity requirements and extend amortization and loan repayment beyond traditional commercial lending terms. This is assessed on a case by case basis.

Non financial services

- financial counselling to strengthen financial capacity.
- referrals to other business development services and agencies.

Eligibility

- no restrictions.

Assessment criteria

- ability to repay. This is assessed through the business plan, cash flow projections, security and equity.
- character and history of the borrower.
- management capacity.
- governance and strength of the board of directors.
- reputation risk to the lender.
- social benefit or return produced by the enterprise.

The funds

Assiniboine Credit Union

- a cumulative total of about $5 million since 1998 in Western Diversification backed "micro" loans funds: $1.5 million of that is current.
- approximately $2.5 million in loans has been back or levered by the Jubilee Fund since 2000.
- total "community loan portfolio" is approximately $40 million. This social enterprise, housing projects, supported living, non-profits, co-ops, small and micro business.

Affinity Credit Union

- Micro Loan Pool of $1.5 Million
- Community Loan Pool $1.92 Million
- Energy Retrofit $100,000

BUSINESS DEVELOPMENT BANK OF CANADA

Area served

National. 94 branches across Canada.

Website

www.bdc.ca

Financial services

The Business Development Bank of Canada is a Crown Corporation that operates like a bank, but with some differences from traditional banks:

- longer term loans generally 6-7 years, up to 20 years.
- startup and other financing can be done in partnership with Community Futures.
- Business Development Bank of Canada takes more risk than banks.
- offers subordinate financing/quasi equity – a mix of traditional equity and debt financing.
- flexible terms, including capital postponement.

Non financial services

- account managers are trained as business specialists to provide support.
- additional consulting and business support services such as strategic planning, marketing and feasibility studies and e-business consulting are available on a fee for service basis.

Eligibility

- organizations must have a profit orientation and must provide goods and services on a profitable basis.
- co-ops are eligible and non governmental organizations (NGOs) may also be eligible.
- agencies with most revenues coming form governmental grants are usually not eligible.

Assessment criteria

Risk assessment is based on:

- financial viability.
- managerial experience and capabilities: entrepreneurial approach and understand how to run a business properly.
- financial literacy: need to know how to manage cash flow.
- market sustainability.
- flexible equity requirements. Some monetary investment is required, but the requirement varies from one project to the next. Borrower must demonstrate commitment.

The Business Development Bank of Canada does lend to social enterprises, but makes no distinction between social enterprise and normal for-profit enterprises. The blended values of a social enterprise are not part of the assessment criteria, but loans officers are sympathetic to social enterprise objectives.

Financing

$2.6 billion of financing was authorized to small and medium sized enterprises across Canada during 2006/07.
Business Development Bank of Canada has 27,000 clients in its portfolio.

7.3.COMMUNITY BASED AND PRIVATE FUNDS

COMMUNITY FIRST DEVELOPMENT FUND OF SASKATOON

Area served

Saskatoon, Warman, and Martensville Saskatchewan.

Website

http://www.communityfirstsaskatoon.ca/

Financial services

Targets poverty-reduction projects that cannot get adequate financing directly from banks, credit unions, and other conventional lenders. Services include:

- direct loans to projects.
- guarantees on loans provided by a credit union or bank.
- taking an equity position (part ownership) in the project.
- accessing or leveraging financing from other sources.

Non financial services

- business consulting and mentoring services that link clients with community individuals who have expertise in product development, marketing, or finance.
- expert assistance in cooperative development.

Eligibility

- affordable housing projects.
- worker and consumer co-operatives.
- small-business starts and expansions.
- social-purpose enterprises and community services (e.g. day-care, peer counseling, recreational and advocacy programs).

Assessment criteria

The business plan must demonstrate financial viability and community benefit.

The fund

The fund is financed through a local ethical investment fund.

COMMUNITY OWNERSHIP SOLUTIONS

Area served

Winnipeg

Website

http://www.communityownershipsolutions.com/

Financial services

Provides services exclusively to social enterprises that it has developed.

JUBILEE FUND

Area served

Winnipeg

Website

www.jubileefund.ca

Financial Services

Financing in the forms of flexible solutions, patient capital, development, support and growth:

- loans generally at prime +2%, however, there is flexibility in the rates and principal repayment terms, including principal deferment in some cases.
- loan guarantees.
- lines of credit.
- mortgages

The loans and loan guarantees are administered by the Jubilee Fund or in partnership with Assiniboine Credit Union (ACU). Where projects do not meet the ACU credit requirements, Jubilee Fund can indemnify (secure) the loan or take it on as the front line financier to provide enough equity to allow the credit union to participate.

Eligibility

- individuals and organizations within the City of Winnipeg who cannot qualify for traditional financing. No restrictions on legal ownership structure of applicants.
- includes viable social enterprise business projects, including startups, affordable housing and community projects (day care, employment etc.)
- good ideas that our communities need to see happen.

Assessment Criteria

Each application is assessed on its social goals *and* its financial viability. Applicants must demonstrate the skills needed to carry out the day-to-day operation and management of the project they are proposing. The fund goal is to ensure that projects are financially viable and contribute to social goals in the local community.

The Fund

Community-based loan fund with several pools of capital working in community projects, supportive housing, and business projects.

SOCIAL CAPITAL PARTNERS

Area served

National reach, based in Toronto.

Website

http://www.socialcapitalpartners.ca/

Financial services

- terms are evaluated on a deal by deal basis.
- some Social Capital Partners investments are unsecured and/or subordinated debt: 3 to 5 year term loans of $75,000 to $150,000 at prime plus 2% to 3%.
- a single enterprise may receive more than one loan if they on track with payment schedules and capacity for repayment is clear.
- occasionally take equity positions in the enterprise.

Non financial services

- management and strategic support.
- governance role.
- social return on investment reporting (SROI).
- Human resource support.

Eligibility

Must be a social enterprise with a blended mission with financial and social goals:

- social mission: the fund supports enterprises that employ at least 50% of its staff as people with barriers to employment.
- financial mission: enterprises will achieve business viability within 3 years (break even or better) with ability to scale up and create additional employment opportunities for barriered populations.

Assessment criteria

- the "fit" between the dual social and financial missions of the venture and the Social Capital Partners fund objectives.
- capacity to repay the loan. Healthy balance sheet, good cash flow and self generated revenue operations.
- geographic location. If the applicant is located outside of Ontario, may seek out a local co-investor who can work directly with the enterprise.
- management capabilities, especially financial management.
- equity: Some owner equity required from for-profit businesses. Charitable and/or non-profit portfolio investments do not require owner equity.
- other co-investors are desirable.

The fund

Private fund, maintains a small, tightly focused portfolio of 6 to 8 active social investments at any given time.

CANADIAN WORKER CO-OPERATIVE FEDERATION: TENACITY FUND

This is a dedicated fund for worker or multi-stakeholder co-operatives that include worker shareholders. Often these are collective buyouts of conventional corporations. The co-op may not have a primary social character, but must be consistent with the principals of financial viability, environmental impact, HR policies, and commitment to co-op community.

Area served:

National

Website

http://www.canadianworker.coop/english/3/index_e32.html

Financial services

Term loans: $25,000 to $50,000 loans available as subordinated debt.

- 5 years at prime plus 3% interest.
- preferred loans: no principal payments are required for 5 years, then they convert to term loans.
- grants are occasionally made for technical assistance, through the Cooperative Development Initiative.

The Tenacity Fund can provide up to 35% of the capital requirements of a project. Member-owners must contribute 15% equity. Conventional funds would make up the remainder of the project financing.

If applicants do not have sufficient conventional equity, the fund managers will help look for ways to make up the equity gap, such as through payroll deductions, or other programs that help them build equity. Sweat equity may be recognized, providing there is a real contribution to the enterprise.

Donations may be considered in favour of an application, but it depends on the context – who is providing the subsidy and whether the grants or donations are sustainable and sufficient to ensure long term viability of the enterprise.

Non financial services

They monitor the loans as a financier, and set up linkages for other services.

Eligibility

- worker or multi-stakeholder co-operatives that include worker shareholders.
- clients can be in any sector of the economy. Most are considered as social enterprises.

Assessment criteria

The business plan must demonstrate a good opportunity for success. It must provide a detailed breakdown of: financial projections, marketing plans, the type of enterprise, the quality of the long term jobs that and environmental and social outcomes.

The makeup of the group is also critical, particularly the personal skills of group members, their investment, management skill, experience with co-ops and the values and history of the group.

"When applications are declined, it is due to viability concerns."

The fund

The fund has about $150,000 on hand. It receives 5 to 10 inquiries/year from potential clients, and funds 2 to 4 enterprises each year. Fund investments are normally leveraged 4:1.

7.4 NON REPAYABLE CONTRIBUTIONS

ABORIGINAL BUSINESS CANADA

Aboriginal Business Canada operates an "equity gap" program to assist Aboriginal owned businesses (usually status Indians and Métis), by supplementing the owner equity contributions, which allows the enterprise owners to qualify for financing through commercial lending agencies.

Area served

National

Website

http://strategis.ic.gc.ca/epic/site/abc-eac.nsf/en/ab00462e.html#1

Financial services

Non repayable contributions up to $75,000 for individual businesses, up to $500,000 for First Nations organizations.
Aboriginal Business Canada will fund up to 75% of business support services and up to 60% of marketing costs.

Non financial services

N/A

Eligibility

Enterprises owned by Aboriginal people and First Nations organizations. Supports businesses that:

- have a positive community benefit. (i.e. will not support VLT or gambling ventures).
- create employment.
- provide a decent living to the owners/employees.

Assessment criteria

Applicants must:

- contribute at least 15% owners equity, in cash or liquid form.
- demonstrate credit worthiness and financial responsibility.
- demonstrate personal ability to acquire financing from commercial lenders.
- demonstrate that they can't do the project without ABC support.

The fund

ABC has a yearly contribution pool of $3.3 million for Manitoba and Northwestern Ontario, $32 million for all of Canada. Over the past 2 years (2005 and 2006) $6.6 million has been contributed to about 277 projects in about 140 enterprises in Manitoba and northwestern Ontario. These contributions have been further levered to generate a total of $22.7 million in financing.

WINNIPEG PARTNERSHIP AGREEMENT

Area served

Winnipeg Inner City

Website

http://www.winnipegpartnership.mb.ca/

Financial services

Non repayable project based funding support for projects that will develop, expand or strengthen social enterprises, increase the number, image or strength of social enterprises. Funding is available for the period April 2004 to March 2010.

Non financial services

Winnipeg Partnership Agreement can provide path-finding assistance to link enterprises to other funding resources.

Eligibility

Not for-profit organizations, cooperatives, business/industry associations.

Assessment criteria

Projects must demonstrate how they will contribute to the desired outcomes of the Winnipeg Partnership Agreement.
See http://www.winnipegpartnership.mb.ca/pdf/comp2.pdf

The fund

$75 million provided by the federal, provincial and city governments to be distributed over a 5 year period.

APPENDIX 1

"Financing Social Enterprise"
Survey Questionnaire

Interview Participant (name):

Phone:

Email:

Organization:

Position:

Date/Time of completion:

Introduction:

This survey is part of a Scan of Financing Providers to social enterprises in Manitoba, Saskatchewan, and northwestern Ontario. This is the first phase of a 2 phase study aimed at enhancing the capacity of social enterprises by improving their access to an expanded range of appropriate financing options.

Our purpose today is to identify and describe the providers and types of financing instruments available to social enterprises in the study region. From this work we hope to gain a better understanding of the types of financing that are available to social enterprises that are located in Manitoba and Saskatchewan and Northwestern Ontario.

Q 1- What is your understanding of the term social enterprise?

(Please read the definition below, AFTER question 1 is answered.)

For the purposes of this survey, a social enterprise is broadly defined as a for-profit enterprise that places a strong emphasis on both social and financial goals. The enterprise will also have a clear plan for the application of profits (surpluses) towards a social good.

Under this definition, "ownership" and legal status - share capital corporation, non-share capital corporation (commonly called "non-profit") cooperative, partnership, or sole proprietorship - are not the defining criteria. Many (but not all) social enterprises just break even or make very small profits.

Q 2. Does your institution distinguish between social enterprises and other businesses when considering their applications for financing?

Q 3. How frequently are you approached by social enterprises for financial services?

____ Daily
____ Weekly
____ Monthly
____Annually
____ Never

Comments:

Q 4. What types or organizational structures do you see among your social enterprise applicants?

___ incorporated with share capital
___ incorporated without share capital (not for-profit)
___ cooperative
___ micro enterprise
___ small business partnership
___ other

Comments:

Q 5. How frequently is your institution able to meet the needs of social enterprise applicants?

Q 6. What kinds of services does your institution provide to social enterprise (for-profit and non-profit social economy organizations)?

a) Non financial - Yes/No
Describe

b) Financial -Yes/No
Describe

i. Term loans Yes/No
Describe. Other debt financing Yes/No
Describe

iii. Operating lines of credit

iv. Other Yes/No
Describe

Q 7. What major criteria do you use in assessing loan applications for credit financing from social enterprises?
(i.e.. collateral, funding commitments, deferred revenue, investor or member liability, guarantors, etc.)

a) Are these criteria different that you would apply to normal for-profit business enterprises?

b) What are the specific differences?

Comments:

Q 8. Does your organization have any polices relating to the way that lending officers should handle applications from social enterprises that do not have standard equity available?

Q9 . Does your organization recognize or account for alternative forms of equity? (e.g. contributed equity v. shareholder equity, or subordinated debt v. clear equity)

a) What form can alternate equity investment take for these organizations?

Q 10. When assessing loan or credit applications for social enterprise organizations, what weight (if any) is given to:

a) the social economic character of these organizations? Describe (e.g. social objectives, staff commitment etc)

b) the donations revenue that these organizations may rely on to repay loans from your institution?

c) the government grant revenue that these organizations may rely on to repay loans from your institution?

Q 11. Given the wide variation in revenue streams, equity and organizational objectives for social economy organizations, what are the challenges that your institution faces in assessing their financial needs and your ability to meet them.

examples:

- Sources of profit
- Ability to sustain a profitable status
- Differing types of equity
- Start up phase
- Other debt load
- No guarantor on board or staff
- other

Comments:

Q 12. How do your institution's policies support handling the financing needs of social enterprises?

Q13. What type of commitment is made to provide after-care services given that this is an important part of the success of these organizations?

Q 14. What types of changes in the way that Social Enterprises operate would assist your organization in better serving their financial needs?

Q15. What is the size of your loan pool?

Q16. How much credit is available to any single social enterprise applicant?

Q17. How many loans do you issue in an average year?

Q18. How many loans have you issued in total?

Additional comments?

APPENDIX 2

Participating agencies.

Survey Respondents

- Aboriginal Business Canada
- Assiniboine Credit Union: Community lending division
- Business Development Bank of Canada
- Canadian Worker Co-operative Federation: Tenacity Fund
- Community Futures Manitoba
- Community Ownership Solutions
- Affinity Credit Union
- Jubilee Fund (Community Loan Fund)
- Manitoba Women's Enterprise Centre
- North Central Community Futures Development Corporation
- Social Capital Partners
- Western Diversification
- Winnipeg Partnership Agreement

Information provided (no survey completed)

- Neighbourhoods Alive!
- Community Works Loan Program - Rural Economic Development Initiatives
- Seed Winnipeg
- Urban Aboriginal Strategy

Key informants

Martin Chicilo, Credit Union
Cindy Coker, SEED Winnipeg
Marty Donkervoort, Community Ownership Solutions
Russ Rothney, Assiniboine Credit Union
Wanda Wuttunee, University of Manitoba

Regional Partner Organizations

UNIVERSITY OF SASKATCHEWAN

Centre for the Study
of Co-operatives

Community-University Institute
for Social Research

ALGOMA UNIVERSITY COLLEGE

www.auc.ca

Community Economic and Social Development Unit
Algoma University College

Winnipeg Inner-City Research Alliance

Project Funding

Social Sciences and Humanities
Research Council of Canada

Conseil de recherches en
sciences humaines du Canada