

# Stanford SOCIAL INNOVATION<sup>Review</sup>

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*Canada Supplement*  
**Building a Canadian Social Finance Fund**  
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# Building a Canadian Social Finance Fund

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 In a hope-filled day in September 2015, Canadian Prime Minister Justin Trudeau joined 150 world leaders in New York for the proclamation of the United Nations Sustainable Development Goals—the global action plan to reach a sustainable and equitable future by 2030.

Today, the world is different. Just when we most need concerted action on issues such as climate change, income inequality, and international migration, the sad reality is that populism, cynicism, and insularity have taken over the political agendas of some of our closest allies. Meanwhile, Canada is facing its own challenges, such as the transition to a low-carbon economy, and economic reconciliation between Indigenous and non-Indigenous peoples.

Against this challenging global backdrop, however, Canada still has a unique opportunity to grow and share its capacity for social innovation by advancing its social financing capabilities.

Canadian social innovation and social finance have coevolved over the last decade. For example, from its inception in 2007, the collaborative partnership Social Innovation Generation (SiG) has fostered a culture of continuous social innovation in Canada, including a focus on impact investing. In 2010, the partnership initiated the Canadian Task Force on Social Finance to identify opportunities to mobilize private capital for public good. Among its recommendations: Philanthropic foundations should allocate at least 10 percent of their assets to impact investments by 2020. The Task Force also catalyzed the founding of the MaRS Centre for Impact Investing in Toronto, one of a growing number of intermediaries serving the financing needs of purpose-driven organizations.

Governments at the local, provincial, and federal levels also have taken noteworthy action. Following framework legislation and financial support, the Quebec social economy

has come to represent nearly 10 percent of the province's GDP. The Chantier de l'économie sociale, a civil society organization created by social movements, nonprofits, and cooperative enterprises, was an instrumental partner in this effort with global links.

Reflecting this level of activity, Canada ranked third in the *Economist's* 2016 global Social Innovation Index, after the United States and the United Kingdom. Building on what has been accomplished to date, the federal government is now working with practitioners and experts from across government, the private sector, civil society, and academia to cocreate a bold new social innovation and social finance strategy for Canada.

## DESIGNING A SOCIAL FINANCE SOLUTION

Several countries have recognized that injecting capital into the social finance market is a natural next step for enabling its success. Using unclaimed assets and investments from leading banks, the United Kingdom established Big Society Capital in 2012 to capitalize the world's first social finance wholesaler. Inspired by the British model, Japan will soon launch its own version of a social impact fund. Portugal used European Union Structural Funds to create Portugal Inovação Social, a financing wholesaler that will also support capacity building, match philanthropic and private investments, and support outcomes budgeting. Meanwhile, Impact Investing Australia and key stakeholders are developing Impact Capital Australia to use public funds to leverage capital from retail banks into the social sector.

A July 2017 meeting at the Global Steering Group on Impact Investing conference in Chicago brought together individuals from around the world to discuss plans to set up government-anchored impact funds. Canada is among the countries exploring options for structuring a fund, or funds, to address cross-cutting national challenges on the one hand, and locally determined priorities on the other.

A Canadian version of such a fund could forge multisector partnerships, structure blended

finance instruments, and—in association with existing intermediaries—provide complementary services. It could create impact investment opportunities, collaborate with innovation teams, and deploy tools to fit specific challenges—thematically, regionally, and nationally. It could also structure outcomes funds, incentivizing long-term results over short-term “outputs,” as documented and discussed in the recent book *What Matters: Investing in Results to Build Strong, Vibrant Communities*.<sup>1</sup>

Additionally, a Canadian social innovation grant fund, complemented by an open data strategy and enhanced capacity for outcomes measurement, would complement the work of a social finance fund by increasing deal flow and ensuring that solutions could scale bottom-up, top-down, and horizontally. It could align and expand on the current ecosystem of social purpose organizations, investors, intermediaries, social innovation labs, research institutes, and data centers, among other actors.

Beyond innovative financing, the fund could operate challenge platforms to find open-source solutions to social challenges, as the new Smart Cities Challenge proposes. Additional social infrastructure—social innovation labs, What Works Centres that support evidence-based decision making, research and development, open-source technology platforms, and other complementary capacities—would further contribute to a pipeline of investable solutions with transformative impacts.

## WHY NOW?

A social finance fund in Canada would stimulate innovation in the public service and bring new dynamism to the social sector, renewing the relationship between government, philanthropy, and the private sector at a time when meeting the UN Sustainable Development Goals demands an all-out effort. Transformative change will require not only collaboration within government and across sectors, but also new sources of capital, new approaches to managing risk, and new uses of data.

In Canada and around the world, social finance and social innovation are evolving rapidly and becoming increasingly networked. We have arrived at a threshold moment when we must take the work to another level of scale. Building on Canada's existing strengths, and learning from the experiences of others, affords us an opportunity to transform our challenges into opportunities for inclusive growth. ❌

## NOTE

<sup>1</sup> *What Matters: Investing in Results to Build Strong, Vibrant Communities*, Federal Reserve Bank of San Francisco and Nonprofit Finance Fund, 2017.

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