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Building a cooperative foundation for long-term impact

In conversation with the Canadian Alternative Investment Foundation, February 2017

The Canadian Alternative Investment Foundation (CAIF) is a Canadian charity launched in 2012 that builds on 30 years of social lending by the Canadian Alternative Investment Cooperative (CAIC). The foundation's mission: provide low-cost capital to the charitable sector with the ultimate goal of strengthening communities. CAIF has become an active partner in many charitable organizations' development through loans, mortgages and small capacity building grants. We spoke with Beth Coates, the foundation's Financial Manager, about this history and what they've learned to guide their future.

"We are often part of a puzzle… Working patiently with charities putting together that financial package has been very typical of CAIC's work."

KEY STEPS:

- *Start small, and learn by doing*
- *Think about where your capital can make the most difference in the community and build capacity patiently*
- *Recognize the need to invest in your own capacity or work with an intermediary*

What motivated the Alternative Investment Cooperative to Form?

Our approach to investing comes from our institutional members' understanding of their role in living the gospel. It is deeply rooted in a Christian understanding that we are expected to go out and create good with everything that we own. Our members saw that Canadian financial institutions were investing in countries where there were extremely repressive regimes. This was really offensive to the original co-op members. They said, "Listen, we've got to take some of our resources and invest directly in people we know, our neighbors, our communities around us." They wanted to have an impact. We were doing impact investing before it had a name.

How did the foundation emerge from the Canadian Alternative Investment Cooperative?

All cooperatives need members to function. Ours has been in existence for 33 years. About eight years ago, we started to realize that the member base of our cooperative was undergoing change. Our members were primarily in Roman Catholic Religious communities. As our members aged, they had started to wrap up their affairs and consolidate; this is a worldwide phenomenon. We decided to launch the foundation, converting the members' investment into an endowment.

Our work as social finance lenders is very similar, except that our lending lives on as part of a perpetual endowment. The one big difference: because the foundation is a registered charity making low-cost loans, it can only invest in other registered charities, whereas the cooperative was a for-profit entity. Its constraint was its bylaws; the founders set a very wide parameter investing in everything from for-profits to other cooperatives working to achieve social justice objectives. The foundation can only invest in the charitable sector. However, our 30-year track record and experience continues to inform our investments.

What does Impact Investing at the foundation look like?

We invest directly in charitable organizations such as food banks, shelters and housing. We provide mortgages and other secured and unsecured financing to charities at concessionary rates that meet our financial and impact criteria. We're investing directly without any intermediaries. It's absolutely safety-net-free investing, and it's very personal. Usually we connect with a primary driver who really makes it happen. Take the example of Innovation Works in London, which is very typical of CAIC's work. We were the second investor in that project. One of the great things we bring to the impact investing market is the capacity to come in and do a second mortgage in a risk-reward space where others are not willing to take that kind of risk for that kind of reward. That, to me, is what CAIC has always brought to the impact investing community.

We provided financing at an interest rate that would not be available in the commercial market. We are often a key part of the financing puzzle, allowing organizations to continue or expand their program offerings. Innovation Works was also able to secure additional financial support through community bonds and donations. With these pieces in place they were able to secure first mortgage financing from a conventional credit union. Working patiently with organizations to put together these types of financial packages has been very typical of CAIC's work. Most projects are financed through a full continuum of instruments from loans right through to grants. We have been investing for more than 30 years. We see a lot of projects where they might have, for example, a million dollars from grants, which is then leveraged to secure a million dollars of conventional debt. The cooperative, and now the foundation, is often in the centre pulling all these resources together.

Our mission is to ensure that financial resources flow to groups that may have been marginalized or excluded due to geography, culture, economic status or gender. Our goal has also been to infuse some economic vitality into communities that may be struggling, while also ensuring financial rigour and sustainability in their operations. We've made many loans in Atlantic Canada, for example, which has traditionally struggled to get new investment. We want to make sure that we are in places that have a harder time attracting capital.

What kind of capacity building is required in the charitable sector to take on social finance?

There are a lot of 'deals' that are not feasible from a lending perspective. What organizations really need are grants. Most of the charitable sector's revenue comes from grants and donations. The idea of taking on debt and having the necessary tools to demonstrate to a lender that the risk-reward balance is in place — that you have adequate security and an exit strategy — does not come naturally. This is a large part of what CAIC and CAIF have brought to the sector. If you look at my time, a lot of it is spent helping clients frame their case to be acceptable for our lending. Our investors and donors have been willing to put resources (i.e. staff salaries) into the ecosystem to help these groups get to where they need to be. That's part of the value proposition of the foundation: we're not just providing lower interest rates, we're also helping groups get debt-ready.

Another way that we have helped organizations in the charitable sector is by providing open-ended term sheets or offers. These offers have conditions, but are still quite valuable to organizations when trying to leverage other grants or loans. The offer from CAIC or CAIF demonstrates to other lenders, grantors and donors that this is a viable project that can support debt because the borrower has now done their homework. They did their modeling and developed a business case that showed they could support debt and that the project is fundamentally sound. Many times projects will come back to us and say they do not require our financing because they were able to secure additional grants. The CAIC/CAIF offer was an important tool in this process, as it bought more time to get grants and made a more compelling argument to grantors that a project has a high probability of success.

What has having a committed social lender like the foundation meant to your borrowers?

Once a loan has been made CAIC/CAIF continues to bring unique value to the charitable sector. CAIC/CAIF are lenders who believe in the missions of our borrowers and want them to succeed. For-profit organizations have financial difficulties and so do those in the not-for-profit sector. Occasionally, despite the best planning, borrowers run into trouble. CAIC/CAIF works with to borrowers to restructure loans, bring in new investment or modify the terms to make loan payments more manageable. As a social investor, we benefit from our ability to take a very long-term view. When we were a cooperative, many of our members had been investors for more than 30 years. While their capital wasn't donated, members understood that their investments were being made for the long term, providing ventures with essential stability and predictability. Our long-term perspective enabled us to restructure problem loans and not worry about scrambling around to repay investors with short time horizons. Extending the term or providing a principal holiday gave organizations the breathing room to reorganize their operations, often resulting in a stronger borrower. It is important to note that throughout our history we have also enjoyed a very low default rate.

How have you built your own internal capacity to manage this work?

The foundation has had the advantage of being small and being able to focus on only this work. When we went out to hire staff, they were people who could engage in social finance, full stop. It wasn't staff who were also administering grants and doing all sorts of other programs. This is our mission. We've always had a certified professional accountant in my role. When I was hired, CAIC was specifically looking for someone with a financial analyst background. Unless an impact investor is willing to access this kind of capacity, it's going to be difficult to make the type of hands-on, direct investments that can make a difference in the charitable sector.

In essence CAIC/CAIF are intermediaries on behalf of our members, donors and potential borrowers. To some extent the membership of the original investment cooperative said, "We'd like to do this. The only way to make this happen is to set up a cooperative and do it in a serious, focused and professional way." This allowed them to have centrally located staff, capacity and knowledge that grew over time. If potential borrowers approached our members individually, they directed them to us.

What's the value of creating a targeted vehicle like the foundation to lead this work?

Having a focused institution in place puts rigour and capacity around the process. This is so important. For example, we have had access to consistent legal resources, which ensures that our documents are written up in a standard way. Our loans and mortgages are managed with the same rigour as banks. We perform annual compliance reviews for up-to-date insurance coverage, property tax payment and financial statement reporting, et cetera. We have created a set of institutional procedures — the value of which you can't underestimate. This is important at the beginning of the process when the investment is being considered, and it's important through the continued relationship with the borrower. This investment cooperative, and now the foundation, has been able to manage social investments from cradle to grave, ensuring at each stage of the loan that our members' and donors' assets are being protected and put to best use.

What would you encourage for foundations looking to enter and strengthen this work?

It must start with mission. What is the investor trying to achieve though social impact investing? I would suggest starting small by taking a portion of their endowment to designate as risk capital and get out there and do it. We've certainly learned by doing; I'm not sure that there is an alternative to that.