

A note on Vartana's fundraising strategy

Vartana's fundraising goal was based on the capital needs of the financial institution, as well as the start up costs involved in actually building the institution. Vartana's initial business plan contemplated raising \$50 million in Tier 1 capital, and \$40 million in Tier 2 capital. A further \$10 million plus would be needed for the build cost. The business plan and total raise were predicated on a business plan that allowed the best chance for success, as well as presented an institution that would be seen as robust by charitable sector organizations, as well as could deliver the kind of value that was promised across the country very quickly.

A large donation burden: Tier 1 capital + Build costs

Vartana was put in a difficult position from the outset due to the unique nature of its Tier 1 capital. For all other banks this would be investment capital. But Vartana was subject to unique restrictions which meant that any value that might arise in the form of dividends, or in an increase in the value of the shares, could only accrue to charities. This precluded the possibility of any for-profit institution, namely supportive banks, from investing in the capital of the bank to any meaningful extent. The country's limited foundation sector meant that there would only ever be a limited market for the shares, meaning that foundations would likely have to hold on to the shares for an indeterminate period of time. This and foundation's then relative inexperience with program related investments made this a very difficult road to follow. Essentially this meant the great majority of the Tier 1 capital would have to come in the form of a donation. This and the build cost meant a total fundraising total of approximately \$60+ million. Vartana developed a business plan that might have been operational at \$30, \$40 and \$50 million in Tier 1 capital. But that meant at the low end the fundraising goal was still \$40+ million.

Tier 2 capital

Tier 2 capital was effectively debt capital. This could pay out a rate of interest, and given its nature would be much easier to raise. Preliminary conversations with banks and early conversations with foundations evidenced capability to invest in this capital. Critically, this was not a key consideration for the Office of the Superintendent of Financial Institutions ('OSFI') and so not meaningful.

Fundraising strategy

Canada's foundation sector is extremely limited and an analysis showed that at the very most a total of about \$5 million could be raised from the sector. And this only if everything worked out. While Vartana had been fortunate to receive a \$1 million commitment from the J.W. McConnell foundation, bringing Muttart to the table in a similar manner proved extremely difficult despite many efforts from Vartana's board members. To Muttart's credit, when approached early on they had shown incredible willingness to take on significant risk at an early stage by offering a

\$537,000 grant. Nonetheless, the total pool was limited. Grant offers from at least 2 of the Big 5 banks gave substance to a belief that at least another \$5 million could be raised from the Big 5 in the form of grants. And potentially more could be raised in the form of marketing funding through a branch partnership with one of the Big 5, though an initial meeting on this was not at all promising. This left a fundraising total of about \$35 (low end business plan) to 55 (high end business plan) to raise. Fundraising from individuals was examined but it was felt, strongly, that again given Canada's limited philanthropist pool that there simply was not enough funding out there to make a meaningful dent in the needed total. The only real possibilities that were left were the federal and provincial governments. Both had significant reasons for being involved given the huge shares of funding that they are responsible for in this sector. The federal government had just finished funding the Voluntary Sector Initiative ('VSI') and, with the sector itself, was looking for follow on programming. As well there was the emergence of the social economy program that also increased interest on the part of the federal government. The provincial government, however, was closer to the ground in terms of funding much more of the voluntary sector.

What actually happened and learnings

Vartana's engagement started with the federal government, and that seemed to proceed well. It was only after Vartana's first budget process that an approach was made to provincial governments, and there received a very positive response. Yet because of limited resources, this was not really pushed. This was a mistake, and might have helped with what – because of sponsorship scandal & minority government issues – eventually became a difficult government engagement process. It might also have made it possible to use the funding that several times was offered by the federal government. This was a fundamental strategic misstep made by Vartana. Effectively the organization banked too heavily on the federal government process, and did not engage provincial governments sufficiently to bring them to the table. And as well, further financial institution engagement also waited till late in the game. In many ways, the Federal Government engagement process was very successful, but should have been balanced out by having other stakeholders at the table. The initial approach to just the federal government – a fully dependent strategy – was driven by a request from the Martin team to have this be a key part of their program, and one that they wanted to 'own' entirely. Initially this made sense, but as time passed, and the government became distracted in 2004 this should have been questioned. This could well have been one of the keys to receiving the kind of balanced funding package that Vartana might well have accepted and with which the bank would have proceeded.

Another learning was that foundations need to be able to play a role where they can be the large scale investors that are needed by the sector for big projects. In Canada, it remains the case that big investment means the government's participation. This needs to change, and should mean – as Muttart has already done – that endowments of foundations get used differently. Using capital, or making program related

investments ('PRI') where appropriate. Recent years have shown outstanding progress on this front with a small number of Canada's leading foundations (such as the McConnell foundation) now having made innovative and significant PRIs.