

# Canadian Ukrainian Social Impact Reconstruction Trust Fund



**Alison Lawton & Lauren Casey**

DISCUSSION PAPER

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### About the Authors

**Alison Lawton** holds an MA in Applied Sciences from Simon Fraser University. She has a keen interest in researching various aspects related to mass media stakes and financial consumerism, the dimensions of leadership in global governance, the role of non-state actors in global politics, and the relationship between investment and social impact.

Lawton's work involves managing both for-profit and non-profit funds. She is the founder of Mindset Venture Group, a boutique investment firm, and Mindset Social Innovation Foundation. As an early supporter of the Acumen Fund and a board member of Canada's first health-related Social Impact Bond, 'Activate,' Lawton has been actively involved in promoting social impact through investment. She also played a key role in establishing MARS Catalyst Fund (Amplified Fund).

Lawton's expertise lies in the intersection of for-profit and non-profit investment, with a particular emphasis on social impact. She has served on several boards and advisory positions, including UNICEF, Virgin Unite Canada, BC Advisory Council for Social Entrepreneurship, and UBC Senior Fellow of the Centre for Sustainability and Social Innovation at the Sauder School of Business, UBC.

**Lauren Casey** is an independent investment consultant with significant experience in the field of Impact Investing. She currently works with angel investors, entrepreneurs, and financial institutions, drawing on a diverse background to assist clients with investment decision making and business growth. Previously Ms. Casey worked as an Investment Manager at Grand Challenges Canada (a non-profit organization that funds innovation in global healthcare), and in various governance roles in British Columbia's natural resource sector. Ms. Casey's background also includes bio tech, venture capital, and event planning.

Ms. Casey has a BA from Simon Fraser University, a BJus from Royal Roads University, and an LLB from the University of London (England). Ms. Casey has worked for law firms in London, UK and in Vancouver, Canada. She has served on the boards of various corporate organizations, including the Museum of Vancouver and social enterprises in the developing world.

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### World Refugee & Migration Council

800-123, rue Slater Street  
Ottawa, ON, K1P 5H2  
wrmcouncil.org

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## Abstract

According to international law, Russia must provide full reparations and compensation to Ukraine for the harm inflicted during an undeclared war. In response, Canada has enacted legislation allowing for the seizure and confiscation of Russian assets that can be utilized to provide reparations for Ukraine and assist its citizens. This paper suggests the establishment of a charitable social impact fund as a trust (the “CU Trust”) to utilize these assets and aid reparation and compensation to Ukrainians (the capital funds, once realized and held within the CU Trust, are referred to as the “Asset Pool Fund”).

A specific focus will be on supporting the most vulnerable members of Ukrainian society, such as women, children, LGBTQ2 people, persons with disabilities, and veterans (i.e., seriously wounded veterans). Such a disbursement would be consistent with the longstanding human security tenet of Canada’s foreign policy, which, under Prime Minister Trudeau, aspires for Canada “to be a global leader in championing the rights of women and girls in all their diversity, LGBTQ2 people and other marginalized communities.”<sup>1</sup> The CU Trust will have a reconstruction mandate and a social impact<sup>2</sup> focus. It will support longer-term projects and initiatives that aim to create positive social and economic impact through several different financial mechanisms (“Social Impact Grants” or “Grants”, as well as more traditional “Investments”). These Grants and Investments would be offered to entities and organizations that work on issues such as education, healthcare, poverty alleviation, and environmental sustainability. The aim is to support projects and initiatives with lasting reparations for communities and address systemic reconstruction issues.

Through an operating mechanism, the CU Trust would distribute Social Impact Grants or Investments, out of the Asset Pool Fund in Canada and Ukraine, as direct and progressive investments in the reconstruction of Ukraine. The Grants will focus on humanitarian projects to support peacebuilding, stability and community development,<sup>3</sup> further supporting Canada’s emphasis on Human Security<sup>4</sup>.

While the possibility of establishing a Global Fund is being explored, Canada has the option to develop a national fund proactively and set a global precedent until

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<sup>1</sup> [https://pm.gc.ca/en/mandate-letters/2021/12/16/minister-foreign-affairs-mandate-letter?TSPD\\_101\\_R0=0829fbd9ceab2000ae1448df01fd43435acf430d1a018fcfd002bece99db76c0f4e4f05cd4bd39b00807f837c81430007af9c7d498c9e968cb54457086da4e74a47811f60057a8521c7682ad28584a6bc826e58d79bb095cdd84dcdb27acc369](https://pm.gc.ca/en/mandate-letters/2021/12/16/minister-foreign-affairs-mandate-letter?TSPD_101_R0=0829fbd9ceab2000ae1448df01fd43435acf430d1a018fcfd002bece99db76c0f4e4f05cd4bd39b00807f837c81430007af9c7d498c9e968cb54457086da4e74a47811f60057a8521c7682ad28584a6bc826e58d79bb095cdd84dcdb27acc369)

<sup>2</sup> Social impact investing involves making investments that generate both social and financial returns, allowing investors to generate a positive return on their investments while also achieving positive social outcomes.

<sup>3</sup> [https://www.international.gc.ca/world-monde/issues\\_developpement-enjeux\\_developpement/peace\\_security-paix\\_securite/index.aspx?lang=eng](https://www.international.gc.ca/world-monde/issues_developpement-enjeux_developpement/peace_security-paix_securite/index.aspx?lang=eng)

<sup>4</sup> *United Nations resolution 66/290, “human security is an approach to assist Member States in identifying and addressing widespread and cross-cutting challenges to the survival, livelihood and dignity of their people.” It calls for “people-centred, comprehensive, context-specific and prevention-oriented responses that strengthen the protection and empowerment of all people.”*

the creation of any such worldwide fund is finalized. These initiatives are not viewed as conflicting alternatives but rather as complementary.

## Key Points

- ▶ Establish a registered trust, possibly called the Canadian Ukrainian Social Impact Reconstruction Trust Fund, to manage the Asset Pool of Funds from the disposition of Russian assets.
- ▶ Overseen by independent, notable, experienced investment and social impact fund management, with an emphasis on hiring Ukrainians.
- ▶ The CU Trust will provide funds to make both simple Grants (approx. 50% of the Asset Pool Fund) and to make larger ‘investment-type’ grants (some requiring multiple rounds or ‘follow-on’ investments) to organizations in Canada and Ukraine to support the most vulnerable of Ukraine in the areas of education, healthcare, poverty alleviation, and environmental sustainability and support economic stability and to support victims of Russian aggression, including wounded or disabled veterans.
- ▶ Backing Ukrainian entrepreneurs and charities whose enterprises and endeavours promote the rebuilding of society and economy, as well as promoting peace and Human Security. Social impact investments have a powerful multiplying effect, particularly when compared to development aid, among other forms of assistance.
- ▶ Because of the dual impact mandate and associated expertise, the CU Trust will have two divisions in its associated management company: one conducting Social Impact Grants and processing a wide range of applications in an expeditious and limited fashion and the second making larger Grants or investments in medium or long-term reconstruction projects or socio-commercial endeavours that support Human Security and provide a sound financial basis for economic stability.

## Preamble

In the aftermath of Russia's invasion of Ukraine in 2022, numerous assets associated with Russia have been frozen worldwide, including in Canada. As per international law, Ukraine is entitled to complete reparations from Russia for the destruction it caused<sup>5</sup>. However, given Russia's flagrant disregard for international law, it seems unlikely to fulfill these obligations<sup>6</sup>. In response, Canada has enacted legislation that allows for the seizure and forfeiture of these assets<sup>7</sup>.

<sup>5</sup> <https://wrmcouncil.org/publications/frozen-russian-assets-and-the-reconstruction-of-ukraine-legal-options/>

<sup>6</sup> <https://wrmcouncil.org/publications/multilateral-action-model-on-reparations/>

<sup>7</sup> [https://laws-lois.justice.gc.ca/eng/annualstatutes/2022\\_10/](https://laws-lois.justice.gc.ca/eng/annualstatutes/2022_10/)

Approximately C\$123 million worth of assets has been frozen in Canada as of April 2023<sup>8</sup>. It is appropriate to contemplate how these assets could be utilized to support the reconstruction of Ukraine, especially the most vulnerable Ukrainians. This working paper serves as a preliminary starting point for a more comprehensive conversation and a proposal to the World Refugee & Migration Council regarding a mechanism that can be established to hold, administer, and allocate the proceeds generated from the sale of frozen assets.

The Document is broken into five sections:

1. Mandate
2. Governance
3. Considerations and Questions
4. Example Structures
5. Recommendations based on simple assumptions.

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<sup>8</sup> The RCMP has stated approximately C\$123 million of assets are frozen within Canada. <https://www.rcmp-grc.gc.ca/en/news/2022/update-the-reporting-frozen-assets-the-special-economic-measures-act-russia-regulations-0>

## 1. Mandate

The Canadian Ukrainian Social Impact Reconstruction Trust Fund would be mandated to provide humanitarian assistance by investing directly and indirectly in medium and longer-term projects and initiatives that aim to create positive social and environmental impact. These Grants and Investments would be given to entities and organizations that work on issues such as education, healthcare, poverty alleviation, and environmental sustainability. The aim is to support projects and initiatives that will impact communities, address systemic issues, and focus on the most vulnerable, including women, children, LGBTQ2 people and veterans.

## 2. Governance

It is crucial to segregate the actualized assets from the operational entity accountable for executing the chosen structure. This would ensure tangible safeguards for the funds against potential corruption and mismanagement and shield the operating entity from any legal action aimed at reclaiming the funds. Although there will be some overlap in governance (trustees, certain directors, etc.) initially, it is recommended to place these assets in a structure that is entirely transparent and supervised by reputable, seasoned fund managers focusing on hiring Ukrainians. This pool of capital is referred to as the Asset Pool Fund and is embodied within the CU Trust.

The CU Trust overseeing the Asset Pool Fund will provide an elevated level of protection and confidence that the funds are managed and distributed under a well-defined mandate and mission or purpose. There should be a focus on involving Ukrainians (residing in Canada and Ukraine) to ensure that the funds and their allocation are utilized solely for the benefit of Ukrainians, with input from Ukrainians, but most importantly, by individuals experienced in acting in a fiduciary fund management capacity.

Apart from the CU Trust, it is presumed that a separate operating entity ("OpCo") will be entrusted with the disbursement of these Social Impact Grants (or Investments, as applicable).

## 3. Considerations and Questions

### 3.1. Considerations

- a. As aforesaid, the assumption is that there will be at least two components to the ultimate fund entity: the CU Trust with its Asset Pool Fund and the OpCo. The OpCo should have senior leaders with extensive experience in fund management, impact and or venture investing, property assessment and reconstruction, social and

environmental impact assessment and investment, and Ukrainian language competencies;

- b. Contributions to the Asset Pool Fund will solely be from proceeds of dispersal of the frozen or seized assets, and in this case, those from within Canada;
- c. While C\$123 million has been frozen to date, it is unknown the basis for the C\$123 million figure (cost, estimate or fair market value) and consequently, it is unclear what the actual realized value of the Asset Pool Fund might be;
- d. The Asset Pool Fund and OpCo will remain domiciled within Canada, in part because the assets which have been frozen are within the jurisdiction of Canada and in part because Canada, unlike almost all international countries, has developed legislation allowing for the confiscation and use of such frozen assets;
- e. No funds will flow to the Asset Pool Fund from other sources, although it may be possible to arrange for an entity to receive contributions from sympathetic contributors to be utilized in parallel;
- f. This should not be a Canadian government entity, and government involvement should be minimized in any governance form to reduce conflicts of interest and to eliminate the 'too many cooks in the kitchen syndrome';
- g. There must be significant but not sole involvement by Ukrainian nationals or persons of Ukrainian origin;
- h. The entity should be structured in the most tax-effective manner;
- i. The overall plan is not to create a for-profit entity, but depending on the structure, there may be components that have transient profitability;
- j. It is not clear at present whether the Asset Pool Fund is intended to be evergreen (where the capital would generate sufficient funds to perpetuate itself) or be paid out, eliminated or invested over a specified period; however, it is to be expected that follow-on investments may be required and thus a life of at least ten years should be mandated ;



- k. The Asset Pool Fund should initially be considered an independent fund without accounting for reconstruction financial support from other international institutions, agencies, development banks or governments who may also contribute to the reconstruction of Ukraine.
- l. The mandate must have language that allows flexibility to consider the potential shift in donors providing financial support for the reconstruction of Ukraine from multiple countries and sources for reconstruction.
- m. While the aim is to support projects and initiatives that will have a lasting impact on communities, address systemic issues, and focus on the most vulnerable, objectives need to be clarified as to whether the available funds are to be used for and/or accept additional funding support from other countries, agencies and development organizations:
  - 1. providing funds to displaced Ukrainians (either within Ukraine, in Canada, or internationally) as cash or as assistance in relocation,
  - 2. assistance in funding new businesses or corporate enterprises in Ukraine (or in Canada for Ukrainians);
  - 3. reconstruction of Ukrainian infrastructure and real estate (public or private?); or
  - 4. assistance in the creation of something like a Ukrainian version of a reconstruction bank<sup>9</sup> (although, as the rehabilitation of a post-war Ukraine is going to require substantially more assets than are contemplated herein, such reconstruction bank, if any, will probably be an international state-sponsored entity and beyond the scope of this discussion).
- n. The possible forgoing objectives are not exhaustive, but even these, being quite distinct in objectives and operation, may require more than one implementation entity or OpCo, or separate departments within such an entity; thus, the structure may be duplicated with specific mandates;

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<sup>9</sup> something like [Kredit Anstalt](#), a state-owned investment and development bank in Germany that was a considerable reconstruction force and implementer of Marshal Fund funds

- o. It is practically impossible to address the harm caused to every citizen of Ukraine impacted by the Russian aggression, but the Asset Pool Fund will endeavour to support initiatives which affect the most significant number of people within its scope;
- p. At this time, the CU Trust has not been designed as being an entity containing funds available for a 'class action lawsuit' style of fund distribution (wherein a claims administrator works with the courts to determine a fair and equitable lump sum payout per claimant, or else has different categories of claimants eligible for varying levels of compensation);
- q. In any of the proposed structures, some form of assessment and/or due diligence process will be required – as a fiduciary duty to the governance of the Asset Pool Fund and perhaps others. Care must be taken to ensure this process, and the reporting thereon are not too time-consuming and bureaucratic.
- r. It will be essential to provide an operating and corporate environment to attract and competitively compensate OpCo staff and management on terms that may differ depending on the nature of the mandate and entity function. For example, sourcing, creating and helping build businesses will require different skills and experience to provide financial and social assistance to individuals or assess long-term property or infrastructure reconstruction.

### 3.2. Questions

In addition to addressing, refining, or refuting the points raised in the above section, several other questions must be answered. These responses could assist in determining the most suitable structure for the Asset Pool Fund.

- a. Is the CU Trust and its Asset Pool Fund the only one of its kind, or are other countries adopting this model?
  - a. If yes, how does one create an overarching mission/purpose for the equitable and effective distribution of all funds from all countries?
- b. How does the “average” Ukrainian benefit from these funds? Is it targeted at impacting specific numbers of individuals, or would the mission/ goal be more open-ended?
- c. Are the Asset Pool Fund assets to be accessible in any form to the Ukrainian government?

- a. If yes, under what conditions?
- d. Is it appropriate to have one or more advisory boards to assist in defining and managing the prioritization? (That is, different advisers for social/personal assistance to those for property/infrastructure development and others for businesses (wherever located)).
  - a. If so, how does one ensure no conflicts or corruption in the recommendation?
- e. Is it intended to function like the claims administration process of a class action lawsuit, wherein individuals apply, and a claims administrator reviews each claimant and apportions a share of the overall assets on a case-by-case basis?
- f. Can funds be distributed to Ukrainians in Canada, Ukraine, or both countries? Would such disbursement be a one-off or delivered over a period of years?
- g. If promoting business reconstruction, is there a preference to encourage Ukrainians to return to Ukraine or compensate those who stayed?
- h. How does one distribute the funds - annually or quarterly, as applications and considerations are reviewed and approved?
- i. How would 'deal flow' and needs/opportunities be prioritized?
- j. Assuming at least a ten-year life, is the Asset Pool Fund open or closed? What sort of other (i.e., from sources other than seized assets) contributions would be accepted if available?
- k. How would 'success' be determined for this Fund?
- l. What are the regulatory considerations?
- m. What should the reporting requirements be, and to whom?

## 4. Structure Examples

When considering options for how to structure the Canadian Ukrainian Social Impact Reconstruction Trust Fund, there are four example structures to consider, including:

- A. a registered Trust with a separate dedicated OpCo linked with an affiliated charity,
- B. a not-for-profit organization,
- C. a partnership fund, and
- D. a collaborative charity.

Please note that the structures suggested are for illustrative purposes, and detailed legal and tax advice will be needed to implement whichever is chosen. A recommendation is made in section 5, built from these structures.

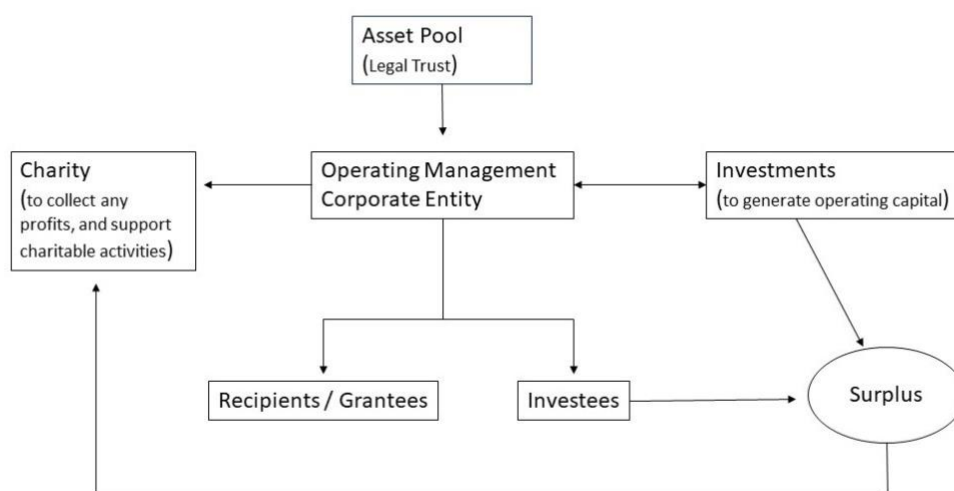
### **A. Trust with separate dedicated OpCo and affiliated registered Charity (e.g., Discovery Group of Companies)**

All assets would be settled into a formal legal Trust entity with a specified life and a board of trustees with a majority of Ukrainians. The Trust would be registered in Canada. To provide continuous working capital for its functioning, a separate OpCo will be established as a for-profit entity with a board of experienced directors, some of whom will also be trustees of the Asset Pool Fund Trust. Trust funds will flow through the OpCo. OpCo will employ professional managers who will be compensated based on the funds managed and returns (if any) achieved. Operating cost fee structures may be similar to, or lower, than those outlined for the Partnership Fund structure (section below). OpCo will invest, from time to time, a portion of the Trust capital in Canadian securities or well-managed money market funds and utilize the interest and dividends thereon for its operating expenses. Dependent on the mandate, it will disburse the bulk of the Trust funds over time, either by business investment or grant.

Any surplus from such activities will accrue back to OpCo and, in the event of taxable amounts arising, be donated to a registered Charity closely linked (but with a majority independent board of directors). Said charity will itself have a mandate to further the enterprise's aims by, for example, providing training and or other approved systems.

This model could easily house 'impact investment' style financing, wherein a social or environmental mission guides any funding alongside the hope for a financial return (the net of which would flow initially to OpCo charity). Social Impact Grants are focused on supporting longer-term projects and initiatives that aim to create positive social and environmental impact. These grants are often given to

organizations that work on education, healthcare, poverty alleviation, and environmental sustainability issues. The aim is to support projects and initiatives that will have a lasting impact on communities and address systemic issues. This option requires care in its structuring but is very flexible, which could be well suited to this initiative. OpCo management would be compensated for a fixed percentage of assets under management and a different percentage of any net surplus generated.



An example of this structure is the successful British Columbian corporate group of Discovery Foundation (“Foundation”)<sup>10</sup>, Discovery Parks<sup>11</sup>, and Nimbus Synergies (“Nimbus”)<sup>12</sup>, which has been operating for approximately 40 years. This multi-beneficial group is structured with Discovery Parks as the capital pool, disbursing its assets into non-profit/charitable routes (via the Foundation) and for-profit investments (via Nimbus).

Discovery Parks was established by the British Columbian government in 1979 to support the technology industry of BC. The Province endowed Discovery Parks with 80 acres of land in Burnaby, ultimately amounting to over C\$60 million in value. This land has been used primarily for real estate, providing homes to over 250 companies, housed in 16 buildings, and developed in 9 locations. Discovery Parks also runs its GENERATOR program supporting tech startups. As a for-profit entity, Discovery Parks has a separate board and governance structure from the Discovery Foundation charity.

<sup>10</sup> <https://www.discoveryfoundation.ca/about>

<sup>11</sup> <https://www.discoveryparks.com/about>

<sup>12</sup> <https://www.nimbusinc.vc/>

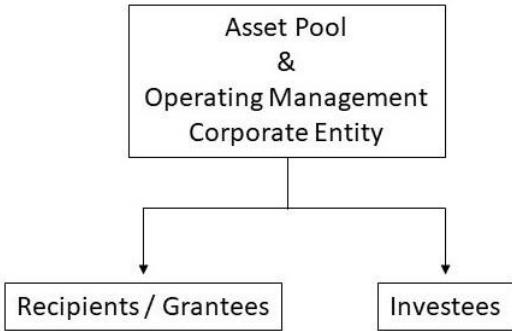
Like Discovery Parks, the Foundation was established in 1979 to promote and support technological development within the Province. Government involvement ceased in 1991, and the registered charity is governed by its board of directors. The mandate of the Discovery Foundation is to promote and facilitate innovation and development of BC's science and technology sector. Much of this mandate is achieved through providing services to and training for entrepreneurs with an added emphasis on women and disadvantaged minorities, including indigenous people. The Foundation received all funding through the independent and self-sufficient organization Discovery Parks and now from Nimbus.

The third cog in the Discovery Group of companies is the more recently created Nimbus Synergies, which leads early-stage financings in innovative and complementary health technology companies. It invests Discovery Parks' assets and profits into the tech industry and donates profits to Discovery Foundation. Management of Nimbus is compensated according to a modified Partnership Fund model (see section C below).

**B. Not for Profit Disbursement Entity (e.g., Grand Challenges Canada)**

A Not-for-Profit entity is a specific corporate structure funded to allocate capital according to a designated charter that restricts its activities and prohibits the generation of profits or surpluses. It relies on additional capital contributions as it cannot generate operating surpluses to achieve growth. These entities are theoretically evergreen but practically limited.

In this case, a similar approach could be established with the Asset Pool Fund combined with the OpCo, with restrictions placed on the activities and accountability of the OpCo. Disbursements would be limited to grants or similar non-profit activities. A non-profit can invest in recipients and channel any profit into its operating expenses. Still, for simplicity, it is assumed that all the costs of the operating company, in this instance, would be generated from the capital of the Asset Pool Fund. This model can also accommodate impact investing and socially responsible investment funding models.



Grand Challenges Canada (“GCC”) is an example of this structure. GCC is a non-profit organization primarily funded by the Government of Canada, and it was created to support and fund innovative solutions to global health challenges. The organization operates under the legal and governance structure of the Grand Challenges Canada Development Corporation, a federally incorporated, not-for-profit corporation.

The Board of Directors is responsible for the overall governance of GCC. It comprises a Chair and up to ten other directors. The Board oversees the organization's strategic direction, approves budgets and financial statements, and appoints the CEO. The CEO (or currently Co-CEO) are responsible for the organization's day-to-day operations and implementing the strategic plan approved by the Board of Directors. They are supported by a team of staff members who work to identify and fund innovative health solutions worldwide. GCC's legal and governance structure is designed to ensure transparency, accountability, and effective management of the organization's resources to achieve its mission of improving global health through innovation.

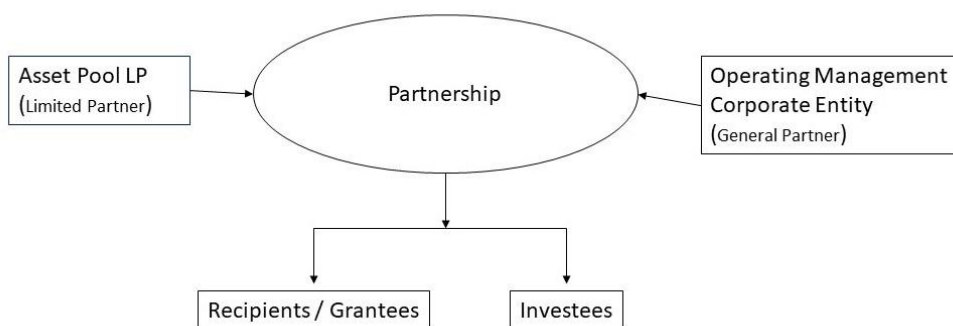
GCC once operated under a Results-Based Management and Accountability Framework (RMAF), which sets out the organization's strategic objectives, performance indicators, and targets. This framework monitors and evaluates the impact of the organizations' activities. A simplified version of the RMAF could be helpful in the OpCo to maintain any specified mission or goal; any fund recipients are required to provide regular reports on their activities via the RMAF model, which helps with metrics and reporting.

A hurdle for GCC and any entity significantly supported by the Government is the perception of it being an arm of the government in terms of implementing political agendas from time to time, as well as suffering bureaucratic delays. This makes any government-connected organization far less flexible than ideal for this Asset Pool Fund. Further, another inherent problem is that the ability to attract and competitively compensate sufficient experienced professional staff can be restricted as the entity does not generate returns or anything resembling profit; GCC is limited to a low percentage of assets under management per annum budget.

### **C. Partnership Fund (e.g., Lumira Ventures LP):**

This variation of the traditional and almost ubiquitous General Partner/Limited Partner investment fund structure is also often used for real estate. In this case, the Asset Pool Fund, in some form, would probably be the sole Limited Partner providing capital into a (for example) ten-year Ukrainian fund. The General Partner would be an independently owned for-profit OpCo. Such an OpCo management company would charge conventional management fees (typically 2% of assets under management) and an ultimate returns-based success fee (normally about

15% to 20% of any net profits, after a 'hurdle' rate of about 6-8%). The OpCo/General Partner would draw funds from the Asset Pool Fund on an ad-hoc basis. The Asset Pool Fund would have independent governance (i.e., trustees or directors). Any remaining capital would be disbursed at the end of the fund life according to a predetermined formula.



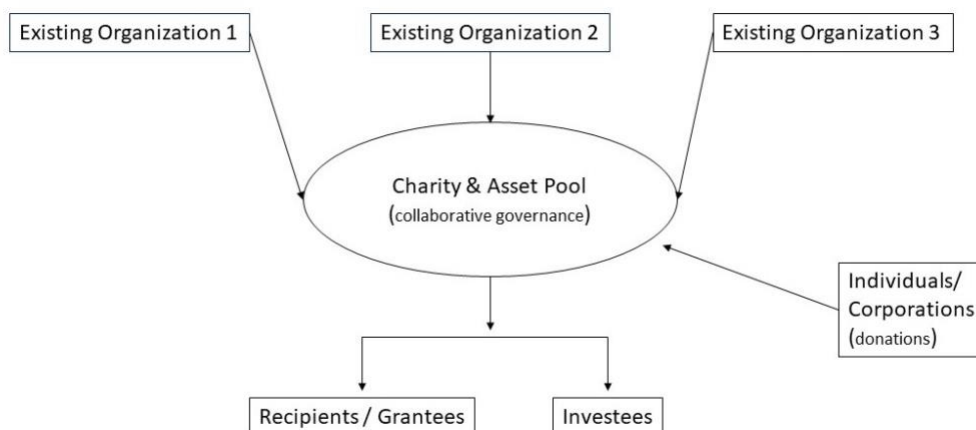
Several examples of large ventures and other funds are created with this structure. A typical Canadian one is Lumira Ventures<sup>13</sup>, which has a centralized management company that employs staff and 'venture partners' and makes an ad hoc new management company general partner subsidiaries each time it raises a new fund with a new group of limited partners.

#### D. Collaborative Charity (e.g., The Equality Fund)

In light of the various interested parties concerned with the governance of the Asset Pool Fund, a Collaborative Charity model may be tenable. In this model, multiple organizations collaborate on the governance and decision-making of an independent registered charitable entity that would distribute the Asset Pool Fund. Registered charities are subject to specific regulations and reporting requirements of the Canada Revenue Agency, which would impact how OpCo operates. A benefit to this structure is that the charity would be eligible to receive tax-deductible donations from individuals and corporations, which could extend the life span of the entity, should the Asset Pool Fund be drawn down before any specified goals are achieved. The central pool would need a structure to employ and retain the specialized staff, and appropriate fee percentages related to managing and disbursing/realizing assets will have to be established.

<sup>13</sup> <https://www.lumiraventures.com/about-us/>





The Equality Fund<sup>14</sup> collaborates with several Canadian organizations, including the Canadian Women’s Foundation, Oxfam Canada, and the MATCH International Women’s Fund. The legal and governance structure of the Equality Fund is designed to reflect this collaborative approach: the Fund is governed by a board of directors that includes representatives from each of the partner organizations. The board is responsible for setting the Fund’s strategic direction and overseeing its operations, including fundraising, grant-making, and other activities. In addition to the board of directors, the Equality Fund has several advisory committees and working groups that provide guidance and support on specific issues, such as grant-making and investment strategies. Overall, the legal and governance structure of the Equality Fund reflects its collaborative and mission-driven approach, with multiple organizations working together to promote gender equality and social justice.

### Financial/ Operating Costs and Considerations

As it is still being determined how large the Asset Pool Fund is (or what will be its functional mandate, affecting staffing and operational overhead), it is not feasible to break down a budget for each of the above examples. However, some fundamental financial or operating costs and considerations apply regardless of the structure used.

The Asset Pool Fund size impacts the accounting requirements, the number of deals, investments or disbursements possible, the size of these disbursements, and factors such as how much the budget is to pay for managers/staff/team to manage the Asset Pool Fund and OpCo. For example, if the Asset Pool Fund were only C\$10 million, approximately C\$200,000 would be needed annually to cover

<sup>14</sup> <https://equalityfund.ca/who-we-are/>

operating expenses (using a 2% of assets under management per year management fee structure<sup>15</sup>). When considering standard operating costs (employee compensation, benefits packages, rent, bills & utilities, accounting / legal fees, travel costs, program management costs, etc.), it is important to ensure that the Asset Pool Fund is large enough to fund its expenses. Once a fund is established, the surplus generated from investments can contribute significantly to the operating costs.

Experience has shown that capital pools of assets under management less than C\$50 million generally cannot generate enough management fees to cover typical overheads.

As another general example, it is understood that Nimbus (from the Discovery Group of Companies, in section 4 (a)), a private company, now has a roughly C\$50 million capital pool to work with. These funds are invested in the financial markets and specific underlying investments. Nimbus is believed to operate on a notional 2% assets under management fee, sufficient to cover overhead costs of around C\$1 million. In recent times total income from the invested capital is believed to have yielded approximately C\$1.2 to C\$1.3 million<sup>16</sup>. The resulting surplus is provided to the Foundation (which is a registered charity). Nimbus employs less than the theoretical VC norm number of staff: it has a CEO, senior VP, two analysts, and two office staff<sup>17</sup>. A more typical C\$50 million fund would have one to two additional professional employees. This staffing level presupposes that the average investment size would approach C\$2 million per deal and a relatively low number of deals per year (compared to non-profits, discussed below).

At larger fund sizes, it becomes easier to cover overhead and typically, efficiencies occur as the average deal size increases. However, overheads remain a constant problem, as profit share from underlying investments can never be relied on.

Not-for-profits have a relatively fixed overhead, which they attempt to compare against their annual budget to demonstrate an 'efficiency ratio' (e.g., operating expenses as a percentage of the total yearly expenses). As Not-for-profits do not have any returns on investments, there are no mechanisms to cover these expenses. For presentation purposes, some not-for-profits divide the operating costs into two categories: Operations & Administration, which covers traditional operations costs as described above, and Programs, which contains all the costs associated with running the programs (including staff).

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<sup>15</sup> *Assets under management include capital provided and the net underlying value of investments.*  
<https://www.grandchallenges.ca/wp-content/uploads/2022/11/Annual-report-2021-2022.pdf>

<sup>16</sup> *Nimbus is a privately held company and does not publically publish results. This information has been yielded from community resources.*

<sup>17</sup> <https://www.nimbusinc.vc/team>

In the example of GCC above, their operating costs fluctuated yearly, but their goal is 10% of the total annual budget<sup>18</sup>. To continue the differentiation between a small Nimbus-type fund and a GCC-style not-for-profit, GCC attempts to distribute a large sum of funds each year (e.g., C\$60 to C\$100 million) in many small \$100K grants. This necessitates a much larger staff and related operating expenses (per their most recent financial statements<sup>19</sup>, 86 staff members cost approximately C\$10 million) and minimal or no investigation, deal-management or related continuing costs. This approach may be appropriate for the Asset Pool Fund if these funds aim only to make many disbursements to individuals or organizations.

If the goal is to make larger, more strategic business-type disbursements, then the simple disbursement/ grant approach will not work. A more focused Fund-type approach may be required and, in such cases, involving corporate, strategic or property-type investments, deals will require more detailed investigation, taking from 6 to 9 months per transaction and the creation of governance structures with continued thorough involvement by the Fund (and usually a follow-on investment) in the underlying investment entity until 'exit', which typically only occurs five or more years later.

As a result, the intention and purpose of the Asset Pool Fund significantly impact the budget and structure.

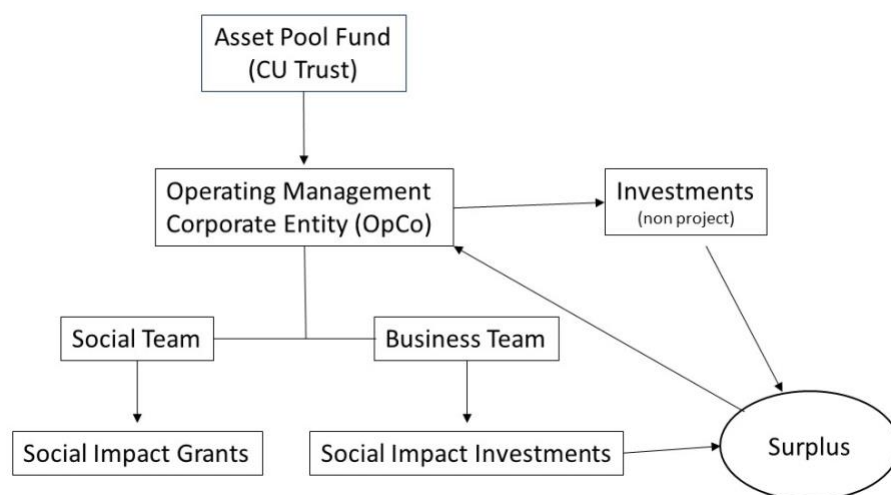
## 5. Recommendation

A Canadian Ukrainian Social Impact Reconstruction Trust Fund, structured as a (charitable) trust for governance purposes, is the recommended vehicle to make investments and Grants focused on supporting longer-term projects and initiatives that aim to create positive social and environmental impact for Ukrainians. These Grants or investments given to organizations that work on issues such as education, healthcare, poverty alleviation, human security, and environmental sustainability have the opportunity to provide the required investment in the reconstruction of Ukrainian through investment in core redevelopment issues. The aim is to support projects and initiatives that will impact communities, support the most vulnerable populations (e.g., women, children, and veterans), and address systemic issues.

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<sup>18</sup> Capital provided annually.

<sup>19</sup> <https://www.grandchallenges.ca/wp-content/uploads/2022/08/Financial-Statement-2021-2022.pdf>



To distill these thoughts into some preliminary recommendations, the set of assumptions below are based on what may be the most practical and likely structure and given the considerations and questions above:

- a) The CU Trust and the operating entity/entities will be domiciled in Canada. The capital held with the CU Trust is the Asset Pool Fund.
- b) The OpCo will be a Canadian-owned and managed company to be formed and charged with the execution of the CU Trust mandate.
- c) The board of directors of OpCo will be made up of notable, experienced fund management individuals, including some Ukrainians. There will be some overlap with the board of directors or trustees of the CU Trust.
- d) The initial Asset Pool Fund size will be a notional C\$100 million (as the value of the frozen funds is yet to be determined), and all funds will be available to the Asset Pool Fund on closing,
- e) The OpCo will receive capital on an established schedule (i.e., one-third per annum of the Asset Pool Fund over three years);
- f) As previously commented, the Structure proposed is a hybrid of Structures A and B above in that:
  - I. The C\$100 million will be initially provided to a CU Trust (or perhaps a registered Charity – legal input needed).
  - II. CU Trust will invest these funds in approved securities.
  - III. CU Trust will provide working capital on a scheduled draw-down basis as set out in e).

- IV. CU Trust will pay OpCo a 2.5% management fee of total Asset Pool Fund funds under management annually. This is slightly larger than average due to the hybrid model proposed, with half of the funds being applied in the small disbursements, which increases both programming and back-office expenses.
  - V. OpCo will utilize the management fee to cover its operating costs.
  - VI. OpCo management may be incented additionally from any surpluses arising from underlying investments (if any) when realized.
  - VII. Any net OpCo annual surpluses, after payment of overheads and management incentives, will either be returned to the Asset Pool Fund or donated to a registered charity with a compatible mandate (tax advice needed).
- g) It will make both simple Grants and more sophisticated Investments to organizations and entities within Canada, in Ukraine and perhaps in other countries for Ukrainians.
- h) To facilitate this (g), OpCo will have two divisions:
- a. "Social Team" – focused on Social Impact Grants and processing a wide range of applications in an expeditious and limited fashion and making smaller individual Grants to social entrepreneurs working on issues such as education, healthcare, poverty alleviation, human security, and environmental sustainability;
  - b. "Business Team" – focused on making large Grants or Investments business-like to established charities and initiatives. These investments would be more sophisticated and expected to support projects and initiatives that will have a lasting impact on communities, addressing systemic issues.
- i) Personnel recruited for each operating team will have appropriate training and experience and be compensated in keeping with the nature of their respective activities.
- j) It is assumed that each team will account for (50%) of the fund activity.
- k) Based on the Asset Pool Fund size assumed (C\$100 million) and the draw-down and disbursement schedule as proposed (i.e., one-third per annum of the Asset Pool Fund over three years),

- a. The Social Team will have C\$16 million to disburse in Grants assumed to be each C\$100,000 per annum. This will be about 160 files and require about five or six persons and a supervisor, assuming each person can process about 26 transactions per annum (utilizing standard form documents/standardized agreements etc.).
- b. The Business Team will invest C\$17 million, with an estimated C\$3 million deal size, for about six investment deals annually. Each agreement requires four months to complete due diligence, contract negotiations, and investment management — thus requiring about three venture-type investors and a supervisor. This means approx. 11 full-time disbursement-focused staff.
- l) The total complement staff must also include accounting, legal and typical back-office personnel, assumed to be another 12-18 individuals. Overall, the OpCo would employ at least 23-28 individuals.
- m) OpCo's annual overhead should be between C\$2.5 million to C\$3.0 million.

Suppose a consensus can be reached on this approach<sup>20</sup>. In that case, additional details can then be included in this recommendation, such as a comprehensive description of the Asset Pool Fund, an analysis of the reconstruction investment market (GAP analysis), a strategy for allocating funds, board structures for both entities, personnel, job descriptions, and a soft budget (i.e., business plan).

Supporting Ukrainian entrepreneurs and charities whose businesses and initiatives promote the reconstruction of society and economy aligns with the principles of social impact investing. It may be an effective strategy for fostering sustainable economic and social development in Ukraine. While exploring the possibility of establishing a Global Fund, Canada can take proactive measures to create a national fund and set a global precedent until a worldwide fund is established. These initiatives should be considered complementary rather than mutually exclusive and an opportunity for Canada to lead in this precedent-setting, post-war reconstruction approach.

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<sup>20</sup> A blend of the proposed structures A and B, with elements of C, from section 4, above.

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**[info@wrmcouncil.org](mailto:info@wrmcouncil.org)**

