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An RBC Social Finance White Paper

# Financing Social Good: A Primer on Impact Investing in Canada

This report was prepared by RBC in collaboration with the MaRS Centre for Impact Investing and Purpose Capital.

## About RBC Social Finance

The Royal Bank of Canada (RBC) is Canada's largest bank and one of the largest banks in the world based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, investor services and capital markets products and services on a global basis. We employ approximately 79,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 44 other countries. For more information, please visit rbc.com.

RBC is recognized among the world's financial, social and environmental leaders. In 2012, RBC launched its social finance initiative, which is designed to ignite the growth of social finance in Canada. The initiative finances and nurtures businesses that intentionally seek to make positive contributions to the community, and it demonstrates the opportunity to invest in a manner that delivers social, environmental and financial returns. We hope that our commitment to social finance in Canada will not only spark entrepreneurship and innovation, but also encourage other organizations to make similar investments that generate positive social and environmental change.

## About the MaRS Centre for Impact Investing

The MaRS Centre for Impact Investing (the Centre), part of the MaRS Discovery District, works to increase the use of impact investing by catalyzing new partnerships, mobilizing new capital and stimulating innovation to tackle social and environmental problems in Canada.

The Centre supports the growing, vibrant network of players active in impact investing across Canada, and helps connect Canadian partners to the global impact investing community in developed and emerging markets.

The Centre is active in market and product development, and also develops and delivers programs and services focused on research and policy, impact measurement, education and multi-sector engagement initiatives to mobilize private capital towards public good. The Centre is a member of the Global Impact Investment Network (GIIN) and a partner of GIIRS, IRIS and B Lab.

## About Purpose Capital

Purpose Capital is an impact investment advisory firm that mobilizes all forms of capital – financial, intellectual and social – to accelerate social progress. Purpose Capital works with asset owners and asset managers to build strategies that align their investments with their social and environmental impact objectives. They inform investors and advisors on the key opportunities and issues related to these types of investments, advise them on the design and implementation of impact investment strategies and offer approaches to measure and report on social value creation. Purpose Capital is regularly engaged in the development of research and knowledge products, and provides in-depth, expert analysis to clients on the key trends in, issues of and opportunities for impact investing.

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# Foreword

What if your investment portfolio could play a role in solving some of the world's most vexing problems? What if your RRSP could help fund environmental and social improvements today, and support your retirement goals tomorrow? What if the innovation and enthusiasm of entrepreneurs could be harnessed to address societal issues such as homelessness, unemployment and pollution? To successfully tackle the complex economic, social and environmental challenges we face, we will need new and innovative strategies from stakeholders in all quarters. This means governments, not-for-profits, businesses and investors working together in new ways to build long-term, sustainable solutions.

Enter "impact investing," an area of financial innovation that can provide the funding to implement these innovative strategies. Anyone – from large corporations to young investors just starting to save for retirement – can embrace impact investing to pursue their financial goals while also seeking social or environmental change.

This report is a primer for anyone interested in understanding impact investing and how it is taking shape across Canada. It identifies opportunities for astute first-movers to participate in this growing field, drawing on research from the State of the Nation Report on Impact Investing[1], prepared by the MaRS Centre for Impact Investing and Purpose Capital with support from RBC.

### The Canadian Task Force on Social Finance

In 2010, The Canadian Task Force on Social Finance issued a report called "***Mobilizing Private Capital for Public Good***," which made seven recommendations on how to build a Canadian impact investing marketplace to address three challenges:

- **Capital mobilization:** How to unlock new sources of capital (e.g. foundation endowments, pension funds, first-loss capital from the government) for public good.
- **Enabling tax and regulatory environment:** How to make it easier for charities and non-profits to start enterprises to generate revenue.
- **Investment pipeline:** How to provide social entrepreneurs and enterprising non-profits with needed business training.

The seven recommendations, which are summarized in Appendix 1, provide a national framework for advancing social finance in Canada.

# 1.0 Introduction to Impact Investing

The term "impact investing" was first coined in 2007, but the most widely cited definition comes from a 2010 report by J.P. Morgan, the Global Impact Investing Network (GIIN) and the Rockefeller Foundation, which described impact investments as "investments intended to create positive impact beyond financial returns."[2]

### Impact investing differs from traditional investing in three important ways:

- **Investor intention:** Investors seek to allocate capital (debt, equity or hybrids) to investments where they expect to receive both a financial return (ranging from return of principal to market-beating returns) and a defined societal impact.
- **Investee intention:** Business models for investees (whether they are for-profit or non-profit enterprises, funds or other financial vehicles) are intentionally constructed to deliver financial and social value.
- **Impact measurement:** Investors and investees are able to demonstrate how their intentions translate into measureable social impact.

Impact investing is part of a range of investment approaches that incorporate varying degrees of social and environmental considerations. At one end of the spectrum is traditional investing, where investors place financial capital into a for-profit company to generate risk-adjusted, competitive financial returns. At the other end of the spectrum is venture philanthropy, which combines grant-making and the investment of human and financial resources in social-purpose organizations to foster social impact. The figure below illustrates where impact investing is situated across a continuum of investment approaches.

While "responsible investments" and "socially responsible investments" (or "SRIs") are very important to publicly traded securities markets, they are not typically considered impact investments. These investments are made with environmental and social risks in mind, but the investors and investees are usually not intentionally seeking a specific measurable social or environmental impact from the investment or business.

### Continuum of Investment Approaches

| | | | IMPACT INVESTMENT | | |
|---|---|---|---|---|---|
| **Traditional** | **Responsible Investing (RI)** | **Socially Responsible Investing (SRI)** | **Thematic** | **Impact-first** | **Venture Philanthropy** |
| Competitive Returns | | | | | |
| | ESG Risk Management | | | | |
| | | | High Impact Solutions | | |
| Investments made with the motive of attaining a financial return with limited or no focus on Environmental, Social or Governance (ESG) factors. | Investing in a manner that screens out certain sectors (e.g., tobacco, weapons) as a component of financial risk management. | An approach that involves comprehensive negative and positive screening of ESG risks as a part of the investment analysis process. | An approach that focuses on one or more issue areas where social or environmental needs have created a commercial growth opportunity for market-rate returns. | Investments made in issue areas where achieving measurable social or environmental impact may require some financial trade-off. | Social enterprise funding in a variety of forms, with a range of return possibilities. Investor involvement/ support is common. |

*Source: Adapted from Bridges Venture Research (2012). "Sustainable & Impact Investment – How we define the market." Retrieved from www.bridgesventures.com/links-research.*

## 1.1 Impact Investing in Canada

Impact investing is rooted in a rich history of social investment in Canada, from the birth of the credit union movement in the early 1900s to the growth of community loan funds and the creation of socially responsible investment (SRI) funds in the early part of the 21st century. Impact investing builds on this rich history as an approach to create tangible and long-lasting social change through investment practices.

Impact investing has been gaining attention and popularity in recent years. Some of the factors driving this recent interest include the following:

- Complex issues require new solutions. There is growing recognition that global problems like poverty and ecological degradation cannot be solved by increasingly stretched government and philanthropic resources; they also require business expertise and private capital.
- Sustainability is becoming synonymous with good business practice and responsible citizenry. Businesses are increasingly seeking to be recognized for their sustainability efforts, as demonstrated by the rise in certifications such as B Corps and Fair Trade labels. Sustainability-focused private companies often look to impact investors to help finance business growth and expansion.
- Not-for-profits and charities are developing new business models to expand their revenue sources beyond grants and philanthropic contributions.
- A growing class of investors is looking to align their personal values with their investment principles. Investors are seeking new ways to unlock solutions that blend a financial return with social outcomes. "According to a June 2012 report by US SIF, a group that promotes sustainable and responsible investing, more than $3.74 trillion is now 'responsibly' managed in the US, up from $639 billion in 1995."[3]

Activity in the Canadian impact investing marketplace has been concentrated on mobilizing and deploying capital. This capital has been able to access a growing range of impact investing products available across a number of different asset classes, sectors and regions. New intermediaries are forming to facilitate transactions between the supply and demand sides of the market, and enhance tools to measure and demonstrate impact.

## 1.2 Impact Investing Market Elements

Like traditional financial markets, the impact investing marketplace includes those who supply capital, those who demand capital, and intermediaries and enablers. Impact investors supply the capital that funds projects, programs and businesses that deliver solutions to social and environmental problems. Impact investors can include governments, individuals, foundations, banks and pension funds. The demand side of the market includes companies in myriad sectors, non-profits and charities, cooperatives, and projects that need capital to open, operate or expand activities. Meanwhile, intermediaries and enablers support the placement of investments and the development of financial products, and can also play a role in helping entrepreneurs and organizations become investment-ready.

## 2.0 The Supply Side: Impact Investors

Anyone can be an impact investor. Early adopters have been primarily investors with a strong personal interest in achieving social and environmental returns and the financial flexibility to experiment. As impact investing moves into the mainstream, it should become more accessible to all investors.

There are several types of investors that are seeking to deploy their capital through impact investing. Impact investors who seek a market rate of return are typically called “finance first” investors, while those who seek investments primarily for their social or environmental impact are often called “impact first” investors. Many investors hold portfolios that combine investments that are finance first, impact first and all things in between.

An industry survey in 2013 determined that the supply of capital for impact investing in Canada grew by 20% between 2010 and 2012, reaching $5.3 billion in 2012.[4] What follows is a description of the supply of impact investing capital in Canada or, in other words, a closer look at the types of impact investors.

### 2.1 High Net Worth Individuals and Angel Investors

#### Putting personal wealth towards greater good

Wealth amongst Canada’s **high net worth individuals (HNWI)** – those with over US$1 million in investable assets – grew to a record $897 billion in 2012.[5] Canada ranks seventh in the world with 298,000 HNWI, a number that is growing by 6.5% annually.[6] Furthermore, Canada’s population of ultra high net worth individuals (UHWNI), with more than $30 million in investable assets, is growing at about 11% annually.[7] Several HNWI serve as pioneers of impact investing, providing high-risk capital to early or growth-stage social businesses, particularly in areas where these individuals have a personal interest or sectoral expertise. HNWI and UHNWI often act as “angel investors,” providing financing to very early-stage companies before venture capitalists get involved. There is an opportunity for a greater number of HNWI to align their investment portfolios and philanthropic activities with their impact goals. To achieve this potential, financial advisors will need to be equipped to advise HNWI and angel investors of the compelling financial and social opportunities in the market.

### 2.2 Foundations

#### Aligning investments with a mission

Community and private foundations are instrumental in the growth of impact investing in Canada as they increasingly seek to align their investment philosophy with their public benefit purpose through **mission-related investing (MRI)**. MRI is using foundation capital to invest in businesses, non-profit organizations, charities and funds that generate positive social or environmental impact as well as financial returns.

In 2013, Canadian foundations managed $287 million in impact investments.[8] In a recent survey of 63 Canadian foundations, only 16% had policies on impact investing,[9] and 29% had assets allocated to mission-related investments.[10] Twenty percent of foundations are impact investors through **program-related investing (PRI)** – investing using a foundation’s programmatic funds to generate positive social or environmental impact as well as financial returns.[11] Across Canadian foundations, approximately $207.5 million is currently being invested in mission-related investments and $80.3 million in program-related investments.[12]

**PROFILE: Edmonton Community Foundation**

*The Edmonton Community Foundation is a pioneer of impact investing. Shortly after CEO Martin Garber-Conrad arrived at the Foundation, colleagues at the City of Edmonton approached him about an idea to boost community economic development. "These folks had done some research on impact investing but their report sat on the shelf for a few years. When I joined the Foundation, they saw an opportunity to act." Together, they invited City Council to put up $3 million, money that was subsequently matched by the Foundation, to start the Social Enterprise Fund in 2008. Today, the Fund has $12 million in assets under management and provides loans to new and growing social enterprises and real-estate-backed loans for affordable housing and community facilities projects. In October 2013, the Foundation announced the launch of the Alberta Social Enterprise Venture Fund to extend the impact of the original Social Enterprise Fund.*

**Learn more at http://socialenterprisefund.ca.**

## 2.3 Community Finance Organizations

### Community finance organizations bring deep expertise and experience

In Canada, community finance organizations, such as **community loan funds** and **Aboriginal financial institutions**, provide access to capital to customers who may be unable to borrow from traditional financial institutions due to a lack of credit history or collateral.

### *Aboriginal Financial Institutions (AFIs)*

AFIs provide the majority of financing to Aboriginal businesses – $1.8 billion since the 1980s.[13]
In 2012, AFIs lent $122 million and managed over $491 million in assets.[14]

### *Community Loan Funds*

Currently, there are at least 14 community loan funds, managing over $45 million in assets in communities across Canada.[15] While each fund has a unique history, all originated with the goal to invest for a social or environmental purpose. Investors are diverse and range from faith-based groups to individuals. Community loan funds provide debt financing ranging from $5,000 microloans to $1.5 million scaling loans to companies, non-profit groups and co-operatives that specialize in everything from social enterprise, to sustainable agriculture, to affordable housing.[16]

## 2.4 Financial Institutions

### Credit unions: Impact investing is part of their mission

Impact investing is a natural fit for credit unions, whose principles of social responsibility, financial inclusion and community commitment are reflected in their missions, strategies and product offerings. The SIO estimates that credit unions manage $1.35 billion in impact investing assets.[17] Credit unions surveyed in 2013 projected a 60% increase in the value of their impact investing products by 2018.[18]

### Chartered banks recognizing opportunities

Co-operatives and credit unions have largely led the way in impact investing among Canadian financial institutions. However, chartered banks in Canada are beginning to play a more significant role in bringing impact investing into the mainstream. The most visible social finance activity undertaken by chartered banks to date is offering socially responsible investment (SRI) funds. Philanthropic and impact investment advisory services are available at most financial institutions, particularly to private banking clients. Institutional clients may also have access to services or products that integrate impact dimensions, though these are often not available off the shelf.

Greater demand from retail and institutional clients will solidify the case for enhanced product availability, advisor education and corporate engagement in impact investing at chartered banks.

**PROFILE: The RBC Social Finance Initiative**

*Launched in 2012, the RBC Social Finance Initiative is designed to help ignite the growth of social and environmental change in Canada and help foster the development of a more dynamic impact investing marketplace.*

*The initiative comprises:*

- *RBC Generator, a $10 million pool of RBC's capital for investing in enterprises that aim to generate a financial, social and environmental return;*
- *A commitment to invest at least $10 million of the RBC Foundation endowment assets in SRIs through the PH&N Community Values Funds;*
- *Additional financial support for research, development of knowledge networks and thought leadership to catalyze the growth of social and environmental entrepreneurship in Canada;*
- *Exploring additional business opportunities for RBC in social finance.*

**Learn more at rbc.com/socialfinance.**

## 2.5 Pension Funds

### Canadian pension funds have not yet embraced impact investing

Despite growing impact investment activity by pension funds in Europe and the US, Canadian pension funds have displayed relatively little interest in impact investing. According to the Social Investment Organization (SIO)'s[19] 2012 survey, pension funds hold $532.7 billion in SRIs, representing 89% of all the SRIs in Canada.[20] This figure has grown steadily since earlier SIO surveys. However, with the exception of Quebec's worker funds, this $532.7 billion invested in SRIs includes virtually no impact investments. Pension funds have historically steered away from impact investing because investment managers fear this approach may not meet the principles of fiduciary responsibility.

Many large public pensions have adopted responsible investment policies and practices, with some as signatories to the United Nations-backed **Principles for Responsible Investment (UNPRI)**. This may drive future growth in socially responsible and impact investing.

## 2.6 Governments

### Governments align their capital with policy objectives

Federal, provincial and municipal governments are showing growing interest and activity in impact investing. By their nature, governments invest for public benefit. In addition to traditional grants and contribution programs, some of these investments also target financial returns and involve the measurement of social outcomes. Through direct financing, loans, loan guarantees and economic development programs, governments across the country are actively increasing the supply of capital in the impact investing market.

Impact investing gives governments the ability to achieve public policy goals through a wider range of financial strategies. Indeed, provincial governments supply more external finance to social enterprises than any other level of government.[21] However, impact investments still constitute a relatively small portion of their overall expenditures.

## 2.7 Other Sources of Impact Investment

In addition to the impact investors described above, there are a number of other institutions whose broad range of activities include some impact investing. These institutions include community futures development corporations and community economic development investment funds.

### Community futures development corporations (CFDCs)

CFDCs are government-funded programs that provide local entrepreneurs with debt-financing and business-development services to stimulate local economies. In 2012, the Community Futures Program managed $911.21 million in assets and disbursed $177 million.[22,23]

### Community economic development investment funds (CEDIFs)

Largely successful in Nova Scotia, but also available in Quebec, Manitoba and PEI, the CEDIF program is an innovative financing model that provides local residents with tax incentives to invest in their community. As of 2012, Nova Scotia's CEDIF program had disbursed $58 million in equity capital to 61 CEDIFs.[24]

## 3.0 Products for Impact Investors

The Canadian impact investment product landscape is highly fragmented. While impact products are available for institutional investors, regulations governing fiduciary responsibility prohibit institutional investors from making certain impact investments. Furthermore, the regulatory environment makes it difficult and costly to structure impact products for retail investors; and consequently, there are relatively few retail products available.

Impact investment products are offered across a wide spectrum of asset classes, and offer a range of risk and return profiles. Here is a brief description of some of the more prominent asset classes, with Canadian examples.

### 3.1 Cash and Cash Equivalents

Cash investments refer to short-term obligations, typically 90 days or less, that provide a return in the form of interest payments. There are currently no cash and cash equivalent impact products as liquidity in impact investing is scarce. The closest example to a cash and cash equivalent impact product is a term deposit with a term of 12 months or less.

### 3.2 Fixed Income

#### Term deposits

Term deposits are deposits held at a financial institution for a fixed term ranging anywhere from a month to a few years. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days of notice. The Vancity Resilient Capital Program is an example of a deposit-based product that provides depositors a way to fund high-impact social enterprises with minimal risk. The program, which launched in 2011, provides "patient" or long-term capital for qualifying social enterprises to help build resilient communities. As of July 2013, the program raised $13.5 million[25] from investors.

#### Private debt

Private debt products provide private and institutional impact investors with a low-to-moderate-risk, low-return investment opportunity. Private debt is generally considered riskier than public debt. In Canada, most private debt impact products are offered in the form of privately structured bonds and community loan funds. **The Solarshare Bond**, offered through the Toronto Renewable Energy Cooperative, is an example of a private debt product that offers investors a fixed 5% return over a five-year term.

#### Microfinance

Microfinance is likely the most commonly known form of impact investing. It involves providing financial products to small businesses run by people in disadvantaged groups, giving them the opportunity to become financially self-sufficient. Rise Asset Development, a Canadian microfinance project, provides small loans and mentorship to those with mental illness and/or addictions who are interested in pursuing self-employment. Another example is the Sarona Frontier Markets, a fund of funds that places capital into funds that in turn invest in small and medium enterprises in emerging markets. The fund offers institutional and private investors an opportunity to earn an above average rate of return.

**PROFILE: FIRA (Fonds d'investissement pour la relève agricole)**

*In 2010, the Investment Fund for Farmers (FIRA), a $75 million private fund to support the sustainability of agriculture and encourage the next generation of farmers in Quebec, was established. The loan program provides **patient capital** of up to $500,000 in equity, up to $250,000 in **subordinated debt** or 15-year lease agreements of farmland.*

*Investors: FONDS de solidarité FTQ, Government of Quebec, Desjardins Capital*

**Learn more: www.lefira.ca.**

### Public debt

Public debt products, issued by private or government (municipal, provincial or federal level) entities, are exchange-traded fixed-income securities that provide the market with a low risk, low return and relatively liquid investment opportunity. In Canada, there are currently very few public debt impact investment products available. However, in 2012, **Toronto Community Housing (TCH)** offered a two-tranche, $450 million bond issuance with an average 5% rate of return.[26]

### Green Bonds

Green Bonds are capital-raising instruments specifically for projects with positive environmental benefits. Proceeds from Green Bonds are typically used for projects designed to reduce greenhouse gas emissions, adapt to climate change, increase energy efficiency, or expand the use of renewable energy. The market for Green Bonds is growing in Canada. The Province of Ontario recently indicated a goal to become the first province to issue Green Bonds as a way to finance environmentally friendly projects, such as public transit infrastructure.

## 3.3 Equity

### Public equity

Public equity impact products provide investors with high liquidity and a potentially higher rate of return over a longer period of time. In Canada, there are no public equity impact investment products. The only available public equity social investment products are SRI mutual funds. Currently in Canada, there are 61 SRI funds available to retail and institutional investors through financial institutions, asset management firms and credit unions.

### Private equity

Private equity impact products in Canada provide accredited and institutional investors with opportunities to invest indirectly (via funds) or directly in high-growth, privately held companies that have a demonstrated positive social or environmental track record. They offer investors with a high risk tolerance the potential for high rates of return in exchange for tying up their capital for an extended period of time (5 to 10 years). Although there are only a few products available in Canada, there was over $240 million in assets under management within private equity impact products in 2012.

### Venture capital

Venture capital impact investing is a type of private equity investment where accredited and institutional investors invest in early-stage private companies that integrate social or environmental objectives into their strategy. In Canada, the majority of venture capital products for impact investors are concentrated in a few sectors: cleantech, renewable energy and the environment. For example, the $30 million **ArcTern Ventures (formerly MaRS Cleantech Fund LP)** invests in early-stage clean technology companies in the MaRS Cleantech Practice that are focused in such areas as energy efficiency, smart grid, clean water and renewable energy.[28]

**PROFILE: Renewal3**

*Renewal Partners was formed by Carol Newall and Joel Solomon in 1994 to make debt and equity investments in triple-bottom-line companies. Renewal Funds invests social venture capital in early-growth-stage companies in North America and is designed to deliver above-market returns at a lower risk profile than traditional venture capital funds. Sectors include organic and natural food, green products and environmental innovation.*

*Renewal3, the third fund developed by Renewal, established a trust structure that enables Canadian foundations to invest. Canadian regulations currently do not allow foundations to invest in limited partnerships. Renewal3 has 16 Canadian foundations providing mission investments, alongside other individual and institutional investors.*

**Learn more at www.renewalfunds.com.**

## 3.4 Real Estate

Impact investments in real estate range from passive ownership through real estate funds to direct investments in properties. The goal is to earn a financial return while promoting environmental or social objectives such as affordable housing, energy efficiency, brownfield redevelopment, and even urban agriculture and organic farming. A good example is The Toronto Atmospheric Fund, which has developed a number of green real estate financing mechanisms, such as the Green Condo Loan and Solar Utility Loans, to facilitate increased energy efficiency in Toronto buildings.

**PROFILE: Toronto Community Housing (TCH)**

*In 2007 and 2010, TCH issued a two-tranche, $450-million bond with a 40-year term and an average 5% rate of return. The proceeds are being used to finance the revitalization of Toronto's Regent Park neighbourhood, an affordable housing community in Toronto. The revitalization project will replace 2,083 affordable housing units and construct 700 new units.[29] The bond was given an AA senior unsecured debt rating by Standard & Poor's and was underwritten by TD Securities, Scotia Capital, RBC Capital Markets and National Bank Financial.*

**Learn more at www.torontohousing.ca.**

### 3.5 Social Impact Bonds

Social Impact Bonds (SIBs) are emerging as a way to align the interests of public, non-profit and private-sector stakeholders to achieve positive social outcomes in our communities. SIBs – which are more accurately characterized as "social innovation financing" or "pay for success"– offer governments a risk-free way to fund social programs for prevention and early intervention. The public sector pays only if the program is successful.

A SIB begins with a government entity determining that it would like to see an improvement in a particular social outcome for a particular population. The government enters into a contract with an intermediary who is responsible for hiring and managing the service providers who will tackle the social problem, and for raising capital from independent investors (including banks, foundations and individuals) to fund the service providers. If the program is successful in achieving its stated objectives – which falls mainly to the non-profit service provider – the government must repay the investors. The funds for repayment come from the cost savings realized by the government as a result of the program's success.

A SIB is not a bond, per se, since repayment and return on investment depend on achieving the desired social outcomes. If the objectives are not achieved, investors may receive nothing. A neutral evaluator is an important participant to measure the social outcomes and resolve any disputes.[30,31]

SIBs have emerged in the UK and the US over the past two to three years. The first Canadian SIB was recently issued in Saskatchewan, and a number of other provinces are exploring opportunities with this innovative structure.

# 4.0 Demand for Impact Investments

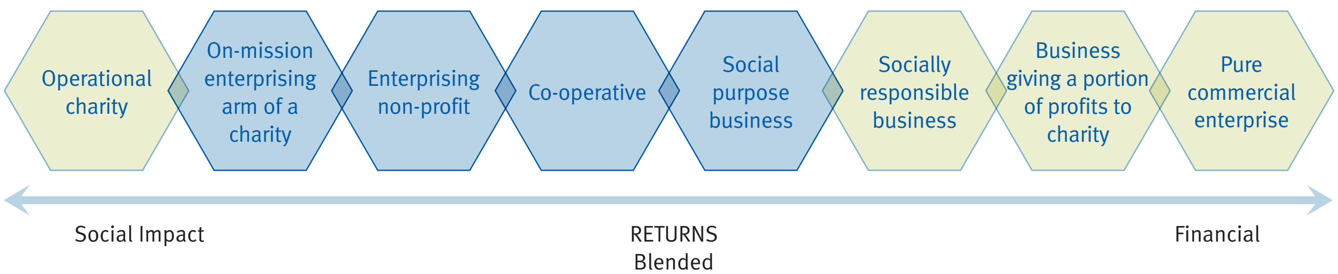
The range of impact investment opportunities is as wide as the array of investors. This section provides highlights of the sector-based analysis from the State of the Nation Report[32] profiling trends, opportunities and examples within key sectors in the Canadian economy. Sectors such as the environment and water, energy, Aboriginal business, non-profits and social enterprise, and agriculture have blossomed in recent years, given strong opportunities for creative solutions and favourable conditions for investors. Other sectors, such as affordable housing, financial services, health and education, have been slower to develop, yet present promising opportunities given their track records in other jurisdictions.

## 4.1 Social Ventures

Social ventures are organizations that employ commercial strategies to accomplish a social or environmental mission rather than focusing on maximizing profits for shareholders. They are structured to seek social or environmental value as their primary goal.

Like conventional enterprises, social ventures can provide goods or services, or both, and can operate in a number of sectors. They also take a variety of forms: a for-profit or not-for-profit organization, a co-operative, a mutual organization or a social business.

### The Spectrum of Organizations: From Charities to Traditional Businesses




*Source: Adapted from Charities Aid Foundation (CAF) Venturesome (2010). "Financing Big Society: Why social investment matters." Retrieved from: https//www.cafonline.org/research/publications/2010-publications/financing-the-big-society.aspx.*

Social ventures have significant capital needs – a 2010 survey estimated $170 million in Ontario alone.[33] Across Canada, loans are the most common form of financing offered to social ventures. Mortgages, lines of credit and working capital are most commonly offered to non-profits and charities.[34]

As a whole, Canada's non-profit sector is large and vibrant with an estimated 175,000 to 200,000 non-profits, including 78,000 with charitable status.[35] These organizations collectively generate revenues of more than $90 billion a year.[36] In spite of the robustness of this sector, access to capital remains a major challenge.[37]

## 4.2 Environment and Water

The environmental sector has a well-developed selection of investment opportunities and products designed to finance sustainability enhancements, including green infrastructure, energy efficiency and renewable energy, environmentally preferable consumer products, water quality and efficiency markets, air quality markets, and biodiversity and habitat markets. For example, in 2010, Equilibrium Capital Markets estimated that the global water market was worth approximately $500 billion,[38] and Global Water Intelligence estimated Canada's water market was worth US$4.66 billion.[39]

### 4.3 Health

Health is a primary sector of focus for impact investors in many parts of the world. While Canada's government-funded health system has reduced the need for private capital to address access to basic health services, impact investing could help address some of the key concerns in the healthcare sector including preventative care, improved outcomes for marginalized populations, the need for a stable and adequate healthcare workforce, and biomedical, health and psychosocial research.[40]

Healthcare spending in Canada continues to rise, reaching $200.1 billion in 2011.[41] Investment in the health sector faces challenges of modest margins, long timescales and the high-risk profiles of investment opportunities. Venture capital is the investment of choice in this sector including companies such as Biodiaspora, which mobilizes global disease data to protect global health, offering financial and social returns to investors.

### 4.4 Education

In many jurisdictions around the world, the education[42] sector has provided winning investment opportunities that deliver compelling financial and social returns. While Canada's K-12 education system is recognized as one of the best in the world, it faces challenges in ensuring that all students achieve their greatest potential, and there are a number of pressing needs that would benefit from the application of impact investing. In an analysis of the educational systems of 16 peer countries, the Conference Board of Canada identified the following opportunities[43] for improvement:

- Strengthening the links between high school and post-secondary school;
- Improving workplace skills training and lifelong education; and
- Enhancing adult literacy skills and high-level skill attainment.

There are a number of factors driving the growth of private investment in education, including tightening public funds and the rapid proliferation of education technology and online education. This has created an opportunity for ventures that offer low-cost, high-quality solutions to education challenges.

**PROFILE: PlayLab**

*Toronto-based PlayLab offers educational enrichment programs based on the core values of fun, play and teamwork for children. Since 2010, PlayLab has delivered design-thinking workshops to over 2,500 children, enabling them to become more effective in solving real-world challenges. PlayLab has also trained over 100 teachers with its project-based/design-thinking training. At the company's inception, Mark Chamberlain made an angel investment of $200,000 in the form of convertible debentures. Since that investment, PlayLab has reached hundreds of teachers and students, shifted its business model to focus on product delivery and made modest revenue in the process.*

**Learn more at www.playlab.ca.**

### 4.5 Aboriginal Business

As of 2011, there were more than 37,000[44] businesses owned by First Nations, Métis and Inuit people in Canada, earning $974 million annually.[45] Aboriginal businesses span a variety of sectors and have a demonstrated track record of profitability.[46] The capital gap faced by the Aboriginal economy has been estimated at $43.3 billion.[47] There are strong opportunities for investing in Aboriginal small and medium enterprises (SMEs) in the coming years, particularly in the higher risk zone between commercial and incubation social finance.[48] For example, CAPE Fund is a $50 million fund established in 2009 to focus on mid-market opportunities with a strong degree of Aboriginal involvement and connection to Aboriginal communities throughout Canada.

**PROFILE: Indigena Solutions**

*Indigena Solutions exemplifies how First Nations-driven businesses can attract investors to create impact. Based in Vancouver, British Columbia, Indigena Solutions is a partnership between the Tsawwassen First Nation, Accenture and CAPE Fund LP. Indigena opened its first delivery centre in July 2012, delivering IT and business support services at competitive prices. Indigena's service offerings include application software maintenance, QA testing, a contact centre, an IT service desk/help desk and back-office business-process support. Indigena's services and workforce model align with its belief in community transformation through jobs that allow people to live and work on or close to First Nations communities, while leveraging technology to enable First Nations socioeconomic development.*

**Learn more at www.indigenasolutions.com.**

### 4.6 Financial Services

The financial services sector has used innovative tools such as microfinance to provide access to financial services for those who might not otherwise qualify. Community-based organizations, such as RISE Asset Development and ACCESS Community Capital Fund, seek investments and grants to provide microloans and alternative financial products to populations that have difficulty qualifying for traditional banking services. Additionally, most credit unions have microloan programs for their members and often deliberately target underserved populations or regions.

### 4.7 Affordable Housing

Within Canada, there is a huge need for affordable housing.[49] Currently, 1.5 million people are in need of core housing,[50] and the aggregate number of housing units (affordable and supportive) needed in Canada is 1.04 million.[51] With the average capital cost to build a unit of affordable housing at $200,000,[52] over $200 billion would be needed to satisfy Canada's affordable housing needs for new units. In 2012, provincial and federal governments spent $3.4 billion on affordable housing, leaving a significant funding gap.[53]

Debt financing is the primary form of impact investment in affordable housing, often provided by community finance organizations and credit unions. Few housing providers have the cash flow or balance sheets necessary to secure conventional debt financing,[54] so the majority of transactions to date have been based on a **blended financing model** that combines both public and private capital investment, with impact investors co-financing the projects.

### 4.8 Sustainable Food and Agriculture

Canada is the fourth-largest exporter of agricultural and agri-food products in the world. In 2011, the Canadian agricultural market was valued at $17.7 billion,[55] while the organic food market was estimated at $3.7 billion. In 2012, 58% of Canadians reported buying organic groceries on a weekly basis.[56]

Consumer trends within the green/organic food industry suggest a growing desire for sustainable agricultural products. Sustainable agriculture encompasses agricultural businesses and activities that address issues such as the degradation of soil, water, land and animal ecosystems. In addition, sustainable agriculture supports local economic development through improving access to farmland and local food processing. Further down the value chain, food manufacturers and retailers who sell local, organic products also fall within the sector.

Impact funds such as Investeco and Renewal2 are investing in organic- and health-branded retailers with a mixture of debt and equity financing. Government loan programs and community finance organizations also provide debt financing to community farm initiatives and local producers. Provincial governments have supported development through funds such as the British Columbia Agri-Food Futures Fund and Quebec's La Financière Agricole, which have invested in local and organic community farming in their respective regions.

#### PROFILE: Investeco Sustainable Food Fund

*Investeco, Canada's first environmental investment management company, manages four private equity funds, including the $11 million Sustainable Food Fund. Investeco's Sustainable Food Fund invests in high-growth private food and agriculture companies that have a strategic advantage in the market by virtue of their brand, distribution channels, unique supply chain, unique processing capabilities or proprietary technologies. The Fund invests in companies that supply locally produced or natural/organic foods, technologies that increase the efficiency and sustainability of the agricultural sector and that utilize agricultural wastes for the sustainable development of products like biofuels and biomaterials.*

*Past investments include Organic Meadow, Canada's leading organic dairy brand; Rowe Farms, Ontario's leading producer and independent retailer of locally grown, all natural meats; and Woodland Biofuels, a leading producer of cellulosic ethanol from plant wastes.*

**Learn more at www.investeco.com.**

### 4.9 Energy

Canada has the third-largest renewable energy capacity in the world, with 17% of its total energy supply and over 60% of total electricity generated by renewable resources.[57] The federal government has established a target of 90% of Canada's electricity to come from zero-emitting sources by 2020.[58] Energy conservation and energy efficiency are also increasingly important to Canadians, with more than half taking some measures to conserve.[59]

Impact investing in energy has focused on electricity generated by renewable energy sources such as biomass (waste), solar, wind or hydro as well as energy conservation and efficiency. Impact investing within the sector occurs as equity and debt investments. Private equity, impact funds and governments have invested in research and development (R&D) and proof of concept stage technologies as well as companies going from growth to scale stages. **Community power projects** have received investments from CEDIFs, community loan funds, Community Futures Development Corporations and retail investors.

#### PROFILE: ArcTern Ventures Investment in Woodland Biofuels

*ArcTern Ventures (formerly MaRS Cleantech Fund) is a privately backed $30 million fund that provides early-stage funding, from $1 million to $3 million, to companies in the cleantech sector. In December 2012, the Fund announced a $2 million investment in Woodland Biofuels Inc., a Mississauga, Ontario, biomass company. The company produces cellulosic ethanol from biomass, converting forestry and agricultural waste into fuel using a proprietary gasification and three-step catalytic conversion process. The zero-carbon-emitting process exploits a large need in the market for low cost ethanol, as the company expects to produce ethanol at half the current cost of production of gasoline.*[60]

**Learn more at www.arcternventures.com.**

# 5.0 Connecting the Market: Intermediaries and Enablers

Although social enterprise has grown, a more robust pipeline of investible opportunities is needed before the impact investing market can experience sustained growth. Investors need the assistance of intermediaries and enablers to navigate the impact investing landscape with ease. Social enterprises need much of the same support needed by any new business, such as incubator and accelerator programs, mentorship from industry leaders and targeted government support.

The supply side, demand side, financial intermediaries and market enablers each play a critical role in building the capacity of entrepreneurs, developing financial products, brokering financial transactions and matching capital. The functions of intermediaries are summarized in the table below.

### What an Intermediary Does

| Type of Intermediary | Function | Responsibilities |
|---|---|---|
| **Supply Side: Support for Investors** | Educates | Educates investors and advisors about the range of investment opportunities |
| | Pools and mobilizes capital | Coordinates co-investments for multiple investors to reduce risk and transaction costs |
| | Tailors products | Understands the risk, return and impact expectations of investors to reduce risk and transaction costs |
| **Financial Intermediation** | Facilitates transactions | Introduces investors to ventures and coordinates the placement of capital |
| | Structures products | Designs, develops, structures and monitors financial products |
| **Demand Side: Support for Social Ventures** | Creates development and investment readiness | Works with social ventures to develop internal capacity and prepare for investment |
| **Market Enabling** | Measures and evaluates | Helps investors and ventures measure the social impact of a venture or investment |
| | Supports culture shifts | Helps coordinate the players on both demand and supply sides to understand new approaches to financial and social issues |
| | Creates and develops the market | Raises awareness, education; and creates infrastructure |
| | Researches and produces market data | Generates market data to help investors make informed investment decisions |

*Adapted from Burkett, I. (2013). Reaching Underserved Markets: The Role of Specialist Financial Intermediaries in Australia. Foresters Community Finance, Social Traders. Retrieved from http://www.foresters.org.au/images/stories/publications/ 2013-03-04_intreport_web.pdf.*

### 5.1 Intermediaries

**Supply-side intermediaries** advise and support investors in placing capital, and include financial advisors/ planners and impact investing consultancies. Financial advisors and planners play critical roles in helping to connect retail investors to impact investments. Despite being an experienced sample group, most advisors and planners surveyed for the 2014 State of the Nation Report had limited understanding of or comfort with impact investing. However, those who were familiar with it felt it offered an opportunity to grow or differentiate their practice, and they would be more motivated to recommend impact investing products if more investment vehicles were available. As impact investing gains momentum, and as more retail investors ask for these products, advisors are well-positioned to play an important role in growing the market.

**Demand-side intermediaries** provide advisory services to social ventures to help them attract capital from investors. However, the market cost of advisory services is often a barrier to social ventures that are trying to raise capital. For this reason, many demand-side intermediary services are offered by non-profit organizations, or financed by supply-side institutions that want to help build a more robust investment pipeline for their own portfolios or clients.

Start-up incubators and accelerators are an example of demand-side intermediaries. Incubators are organizations geared toward speeding up the growth and success of start-up and early-stage companies by providing them with mentorship, networking and coaching. Many occupy an actual physical space meant to foster networking among entrepreneurs and their coaches, but some are virtual. Like incubators, accelerators provide early-stage companies with a combination of services including mentorship, funding, networking, training and office space, to name a few. Most accelerator programs run cohorts for a finite period of several months, and they often take equity in exchange for providing their services. Incubators and accelerators are often a good path for early-stage social ventures to attract capital from angel investors, governments, economic-development coalitions and other investors.[61]

**Financial intermediaries** serve a critical role in the placement of capital into social ventures, sometimes working to attract capital themselves. Highly active players in this market include social lenders, such as credit unions and community loan funds. Online platforms for capital placement and matching, including crowd-funding platforms for investors, are in the early stages of development.

### PROFILE: The Social Venture Connexion (SVX )

*SVX is a private investment platform built to connect impact ventures, funds and investors in order to catalyze new debt and equity investment capital for ventures that have demonstrable social and/or environmental impact and the potential for financial return. SVX has been designed to increase access to capital for impact ventures by reducing the cost of raising capital, conducting basic due diligence for investors and creating a coordinated network for ventures and investors to meet and interact. SVX was developed under the leadership of MaRS Discovery District and the MaRS Centre for Impact Investing in collaboration with TMX Group. It is supported by the Government of Ontario, Torys LLP, KPMG, The J.W. McConnell Family Foundation, Royal Bank of Canada and Hamilton Community Foundation. SVX is the first platform of its kind in North America.*

**Learn more at www.svx.ca.**

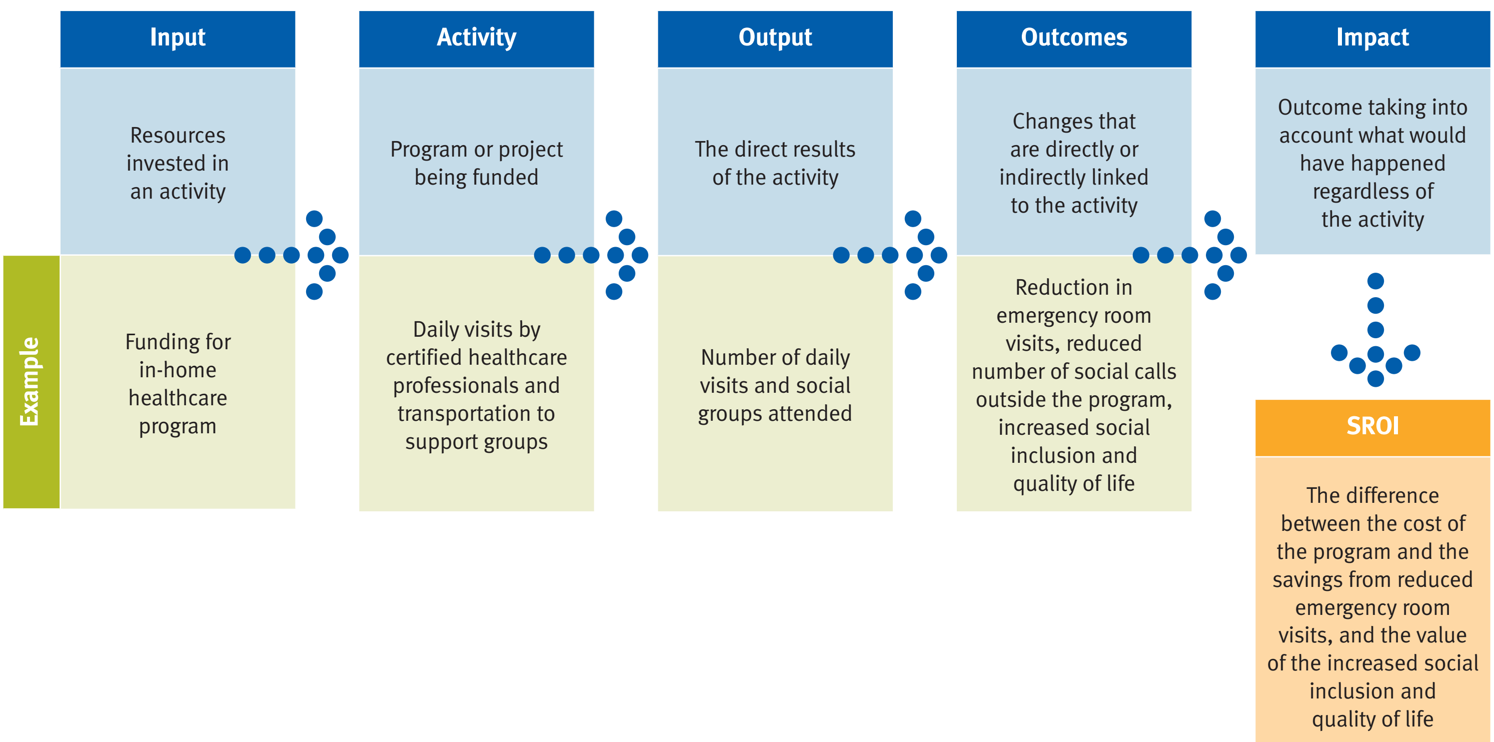
**Market enablers** are organizations and individuals who work with entrepreneurs, investors and policymakers to help ramp up impact investing in Canada through education and research, market development, talent building, and convening. Some examples of institutions that currently support marketplace building activities include The Centre for Entrepreneurship Education and Development in Halifax, the MaRS Centre for Impact Investing in Toronto and the Chantier de l'économie sociale in Montreal.

## 6.0 Impact Measurement

Does impact investment really lead to impact, and if impact is being achieved, can it be measured? In Canada, evidence of the growing interest in answering these questions is seen in the advent of outcome measurement groups such as the Canadian Evaluation Society, the recent launch of the Social Impact Assessment Association (SIAA) and the rapid growth of interest in the Social Return on Investment (SROI) Canada network and SROI methodology.[62]

In the public sector, there is a growing interest in measuring and reporting on both the social impact of a community service and the dollar value of that impact. Within the private sector, corporations are seeking to report on the changes occurring as a result of community investment programming, and the value of those investments where possible. Non-profit organizations are seeking to demonstrate the value of their work. This includes measuring impact and then taking an extra step to report on the financial value of the impact, in terms of lower social costs.

There are fundamental challenges facing the measurement agenda. One of the key challenges is confusion caused by poorly defined terms that are often used mistakenly and interchangeably. For example, it is important to differentiate among inputs, outputs, outcomes and impacts. The figure below illustrates the meanings of the terms and examples of how each can be used to describe the results of a home healthcare organization or program.



In order to evaluate and compare investment opportunities, impact investors need standardized metrics that are not too time-consuming, complex or overly costly to obtain. Some of the measurement frameworks that are commonly used to report on outputs, outcomes and impacts are ESG (Environment, Social and Governance) metrics, IRIS (Impact Reporting and Investment Standards) and the SROI (Social Return on Investment) methodology.

### 6.1 ESG Metrics

ESG metrics are used by socially responsible investors to screen investments. Environmental criteria include measures of a company's environmental footprint, its supply chain and the impact of its products and services. Social criteria illustrate how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance criteria cover a company's leadership, executive pay, audits and internal controls, and shareholder rights. Investors who want to purchase securities that have been screened for ESG criteria usually purchase SRI mutual funds and exchange-traded funds.[63]

### 6.2 Impact Reporting and Investment Standards (IRIS)

Managed by the Global Impact Investing Network (GIIN), IRIS creates a common language for reporting social and environmental performance. IRIS is a library of over 400 social and environmental metrics that social enterprises and investors can use to track performance and evaluate the potential impact of deals. By standardizing the way that social enterprises report, IRIS enables easier performance benchmarking and comparison, which is important to the impact investing community.[64]

**The Global Impact Investing Network (GIIN)** is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. GIIN promotes impact measurement as an essential part of impact investing, and offers IRIS as a free public good to support transparency, credibility and accountability in impact measurement.[65]

### 6.3 Social Return on Investment (SROI)

SROI is a methodology used to monetize the social value created by social or environmental initiatives. When a change resulting from an investment has been determined, the SROI methodology enables the investor to place a value on it. SROI includes case studies as well as qualitative and quantitative financial information.

SROI offers the investor a view of their role in creating social and environmental value in financial terms. This valuation is presented as an investment/return ratio. For example, a ratio of 3:1 indicates that an investment of $1 delivers $3 of social value.[66]

Historically, there has been confusion over the many variations of SROI analysis; however, the SROI Network, an international network of impact measurement professionals, provides training and convening functions, allowing professionals to stay up-to-date on best practices. The Network started in the UK and has expanded to 24 countries including Canada.

### 6.4 Global Impact Investing Ratings System (GIIRS)

GIIRS is a system for assessing the social and environmental impact of companies and funds using a rating and analytics approach similar to the conventional investment rating service provided by Morningstar. GIIRS is focused on the impact performance of private companies, using a cross-industry and cross-geographic methodology. GIIRS analytics allow investors, advisors and fund managers to search, aggregate and benchmark social and performance data and ratings for all companies and funds that are part of the GIIRS universe.[67]

As impact investing becomes more mainstream, there is an increasing need to standardize impact measurement metrics. The hope is that as more social organizations use these metrics to communicate results to investors, investors will trust the information and consider the metrics as standard for the industry. With a higher adoption rate of industry metrics as well as increased awareness and understanding, the credibility of impact investing will be strengthened.

#### PROFILE: Certified B Corps

*Certified B Corporations meet comprehensive and transparent social and environmental performance standards. B Lab, a non-profit organization, certifies B Corporations, the same way TransFair certifies Fair Trade coffee or USGBC certifies LEED buildings.*

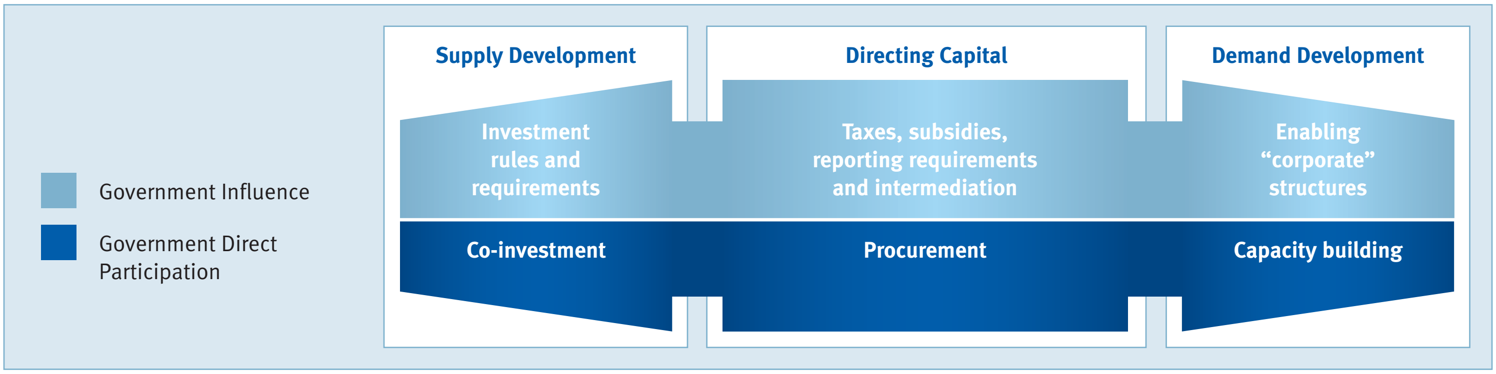
*There are over 935 certified B Corporations in 29 countries across 60 different industries. Nationwide, Canada now boasts more than 104 B Corps in 6 provinces with the new additions of Nova Scotia and Quebec. B Corporations are a diverse community with one unifying goal: to redefine success in business.*

**Learn more at www.bcorporation.net.**

# 7.0 A Role for Public Policy

Public policy is essential to regulate the impact investment marketplace so that capital can flow efficiently and securely to where it is needed. Government has traditionally been, and continues to be, an important contributor to the development of the impact investing sector. The intervening role governments play can be broken down into supply development, directing capital and demand development.[68]

### Impact Investing Policy Collaborative (IIPC) Policy Framework




## 7.1 Supply Development

Governments can nurture impact investment by creating rules and regulations that facilitate a greater flow of capital into the impact investing marketplace, or through direct co-investment of government funds in impact investments.[69] Supply development activities affect how the marketplace performs by attracting capital, mitigating risk or reducing the cost of financial transactions.

One important area that Canadian governments could explore is the ability of private foundations to invest in private equity and venture capital funds. Current regulations under the Income Tax Act prevent private foundations from investing in limited partnerships that are outside their direct operation and control. This curtails their ability to support the kind of emerging social investment funds and other ventures designed to provide blended financial and social returns, which often take the form of limited partnerships.[70] An amendment to the applicable regulations would enable a private foundation to diversify its investments in an asset class that can deliver high impact community benefits in addition to the benefits provided by the foundation's charitable grants.

## 7.2 Directing Capital

Governments direct capital through tax programs, subsidies and reporting requirements that can shift where investments take place, and may help facilitate impact investing. Furthermore, government procurement policies can increase social outcomes by procuring goods and services from companies that intentionally create a positive social impact. This serves to stimulate growth of social enterprises and may make them more attractive to both mainstream and impact investors.

One example of a tax credit and incentive program is the Nova Scotia Equity Tax Credit, which led to the creation of the Community Economic Development Investment Funds (CEDIFs). These funds enable investors to create pools of capital for investment in local businesses and cooperatives. "The CEDIF program simplifies the offering process, allowing businesses and communities to raise equity capital through local investment funds rather than undertaking the onerous prospectus documentation process typically required."[71] There are 61 CEDIFs in Nova Scotia that manage close to $58 million in assets for local business initiatives.[72]

### 7.3 Demand Development

Government policies that build demand for impact investments include those that enable corporate structures that recognize the unique features of businesses with a social purpose and capacity building programs that support the development of social enterprises. There has been a high degree of interest in this area following the introduction of B Corporations (B Corps) in the US and Canada and Community Interest Company (CIC) legislation in the UK.

In Canada, two new hybrid corporate models were recently formed: The Community Contribution Company (CCC) in British Columbia (2012) and the Community Interest Company in Nova Scotia.[73,74] In both cases, companies seeking CCC or CIC designation must have a community purpose. They can be for-profit or not-for-profit. The effectiveness of these new hybrid models in stimulating social enterprise and improving the availability of investment capital is yet to be determined.

In addition to enabling new corporate structures, governments in Canada are supporting a variety of capacity-building programs that help social ventures prepare for investment. These include programs run by the Business Development Bank of Canada, Futurpreneur Canada (formerly the Canadian Youth Business Foundation), MaRS Discovery District and Enterprising Non-Profits.

#### PROFILE: Governments Showing Support for Impact Investing

*In 2011, the UK government created **Big Society Capital,** allocating £400 million of capital to develop the social investment market in the UK. Big Society Capital aims to improve access to finance for social purpose organizations, and to raise awareness of investment opportunities that provide a social as well as financial return. Four of the UK's largest banks have committed an additional £200 million to support the development of new investment products.*

*The US Small Business Administration launched the **Small Business Investment Company** (SBIC) Program's Impact Investment Initiative in 2011, pledging $1 billion over five years to support domestic businesses operating in underserved communities. This initiative matches capital raised by private investment funds through a public-private partnership.*

*In October 2013, the Ontario government announced plans to issue **Green Bonds** as a new way to fund transit projects across the province. Originally pioneered by the World Bank in 2008, the "Green Bond" began as an innovation to coordinate private and public sector activity in the fight against climate change. More generally, the term is used to describe a bond where the use of proceeds is tied to specific environmental outcomes.*

## 8.0 Conclusion

Impact investing is one tool that can be used to provide funding for organizations, businesses and collaborative projects that address Canada's pressing social and environmental challenges, from poverty alleviation to climate change mitigation.

While impact investing in Canada is growing in profile, activity and sophistication, it remains a relatively small niche practice. Recent activity has been encouraging in terms of increased transaction and structuring activity, public policy and regulation efforts, enhanced marketplace coordination, and greater mainstream profile and awareness.

Across Canada, leaders within the public, private, academic and philanthropic sectors are working to catalyze the growth of impact investing by:

- Testing and adapting new financial products and services and business practices to improve the flow of capital into organizations that deliver social and environmental impact;
- Advocating policy change to facilitate the flow of capital; and
- Strengthening the pipeline of investment-ready social ventures and impact initiatives.

Looking forward, we expect the supply-side, demand-side and intermediary actors to work more closely together to demonstrate results in terms of successful transactions, tangible impact and demonstrated capacity enhancement. Hard work and leadership from each sector and region across Canada is required if impact investing is going to reach the scale and depth of its potential.

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[73] The Community Contribution Company (CCC) was created in BC's Bill 23 Finance Statutes Act, 2012. In July 2013, B.C. launched Canada's first hybrid corporation, Accelerating Social Impact CCC Ltd.
[74] CIC: Received Royal Assent on December 6 2012. Nova Scotia Legislative Assembly passed the Community Interest Companies Act but the Legislation is not yet in force.

# Appendix 1:
# Recommendations from the Canadian Task Force on Social Finance

### Recommendation #1

To maximize their impact in fulfilling their mission, Canada's public and private foundations should invest at least 10% of their capital through mission-related investing (MRI) strategies by 2020 and report annually to the public on their activity. ***Endorsed by the boards of the Community Foundations of Canada, Imagine Canada, Philanthropic Foundations of Canada.***

### Recommendation #2

The federal government should partner with private, institutional and philanthropic investors to establish the Canada Impact Investment Fund.

### Recommendation #3

To channel private capital into effective social and environmental interventions, investors, intermediaries, and social enterprises and policymakers should work together to develop new bond and bond-like instruments.

### Recommendation #4

Canada's federal and provincial governments are encouraged to mandate pension funds to disclose responsible investing practices, clarify fiduciary duty in this respect and provide incentives to mitigate perceived investment risk.

### Recommendation #5

To ensure charities and non-profits are positioned to undertake revenue-generating activities in support of their missions, regulators and policymakers need to modernize their frameworks. Policymakers should also explore the need for new hybrid corporate forms of social enterprises.

### Recommendation #6

To encourage private investors to provide lower-cost and patient capital that social enterprises need to maximize their social and environmental impact, a Tax Working Group should be established. This federal-provincial, private-public Working Group should develop and adapt proven tax-incentive models.

### Recommendation #7

To strengthen the business capabilities of charities, non-profits and other forms of social enterprises, the eligibility criteria of government-sponsored business-development programs targeting small and medium enterprises should be expanded to explicitly include the range of social enterprises.

# Appendix 2: Suggested Reading

- An Overview of Impact Investing
- Big Society Capital
- Impact Investing Knowledge Hub
- World Economic Forum
- Social Impact Bonds
- SocialFinance.ca
- MaRS Center for Impact Investing
- RBC Social Finance
- Chantier de l'economie sociale
- Global Impact Investing Network (GIIN)

# Appendix 3: Acronyms

| | |
|---|---|
| AFI | Aboriginal Financial Institution |
| AUM | Assets Under Management |
| CAPE | Capital for Aboriginal Prosperity and Entrepreneurship |
| CBDC | Community Business Development Corporations |
| CEDIF | Community Economic Development Investment Fund |
| ESG | Environmental, Social and Governance |
| FIRA | The Investment Fund for Farmers |
| GIIN | Global Impact Investing Network |
| GIIRS | Global Impact Investing Ratings System |
| HNWI | High Net Worth Individual |
| IIPC | Impact Investing Policy Collaborative |
| IRIS | Impact Reporting and Investment Standards |
| MRI | Mission-Related Investing |
| RBC | Royal Bank of Canada |
| RIA | Responsible Investment Association (formerly SIO) |
| SBIC | Small Business Investment Company |
| SiG | Social Innovation Generation |
| SRI | Socially Responsible Investment |
| SROI | Social Return on Investment |
| SVX | Social Venture Connexion |
| UNPRI | United Nations Principles of Responsible Investing |

# Appendix 4: Glossary of Terms

**Accredited investor:** An investor who is financially sophisticated and has a reduced need for the protection provided by certain government filings. Accredited investors include individuals, banks, insurance companies, employee benefit plans and trusts.

**Angel investor:** A high net worth individual who provides capital for a business start-up in the form of debt or equity.

**B Corp:** A certified business that meets certain standards of social and environmental performance, accountability and transparency.

**Blended financing model:** Transactions that combine both public and private capital investment.

**Bond:** A debt instrument an investor uses to loan money to an entity for a defined period of time.

**Cash and cash equivalents:** An item on the balance sheet that reports the value of a company's assets that are cash or can be converted into cash immediately.

**Chartered bank:** A financial institution whose primary role is to accept and safeguard monetary deposits from individuals and organizations, and to lend money out. The details vary from country to country, but usually a chartered bank in operation has obtained government permission on some level to do business in the banking sector.

**Community futures:** Consist of Community Futures Development Corporations and Community Business Development Corporations that are part of a community-based economic renewal initiative established by the federal government in 1985. Their main objective is to help rural Canadians start or expand a business, and to help sustain and improve communities and their local economies.

**Community loan fund:** Non-profit organizations dedicated to supporting organizations and individuals in gaining access to loans that they may not otherwise be able to attain through traditional financial institutions.

**Community power:** Renewable energy projects developed, owned and controlled by local residents.

**Environmental, Social and Corporate Governance (ESG):** A set of standards for a company's operations that socially conscious investors use to screen investments.

**Equity investment:** A share of a company.

**Feed-in-Tariff Program:** A policy mechanism within the Green Energy and Green Economy Act (2009) designed to accelerate investment in renewable energy projects in Ontario by offering long-term contracts to energy producers.

**Financial institution:** Generally, a provider of financial services.

**Fixed income:** A financial product purchased with the expectation of earning a fixed-interest return.

**Foundation:** A registered charity. There are three types of charities in Canada identified in the Income Tax Act: private foundations, public foundations and charitable organizations.

**Global Impact Investing Network (GIIN):** A not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing.

**Global Impact Investing Rating System (GIIRS):** GIIRS Ratings & Analytics measures social and environmental impact; provides comparable, independent and verified metrics and ratings; and creates customized reporting and analytics solutions.

**High net worth individuals (HNWI):** A financial services classification used to denote an individual or a family with high net worth. High net worth is generally quoted in terms of liquidable assets over $1 million. The exact amount differs by financial institution and region.

**Impact investing:** Investing in companies, organizations and funds with the intention of generating measurable social and environmental impact alongside a financial return.

**Impact Report and Investment Standards (IRIS):** The catalogue of generally accepted performance metrics that leading impact investors use to measure social, environmental and financial success, evaluate deals and grow the credibility of the impact investing industry.

**Intermediaries:** People or entities that support the placement of investments and the development of financial products.

**Limited partner (LP):** Similar to a general partnership (GP), a limited partner has limited liability. LPs have no management authority and are only liable for debts incurred by the venture or firm to the extent of their registered investment. The GP will pay the LPs a return on their investment (similar to a dividend).

**Market enablers:** Organizations and individuals who work with entrepreneurs, investors and policymakers to help ramp up impact investing in Canada. Some of the key functions of market enablers are education and research, market development, talent building, and convening.

**Microfinance:** Includes small loans, savings facilities with no (or a very low) minimum deposit, other financial services like insurance, money transfers or bill payments designed for people with low incomes.

**Mission-related investment (MRI):** An investment of assets from the endowment of a foundation that seeks to create social impact as well as typically market-rate, risk-adjusted financial returns.

**Not-for-profit organization (or non-profit):** A type of organization that does not earn profits for its owners. All of the money earned by or donated to a non-profit is used to pursue the organization's objectives. Typically non-profits are charities or other types of public service organizations.

**Patient capital:** Another name for long-term capital. With patient capital, the investor is willing to make a financial investment in a business with no expectation of turning a quick profit. Instead, the investor is willing to forgo an immediate return in anticipation of more substantial returns down the road.

**Pension fund:** A fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

**Private equity:** An asset class that consists of equity securities that are not publically traded on a stock exchange. Private equity investments are made by a private equity firm, a venture capital firm or an angel investor, providing working capital to a venture.

**Program-related investment (PRI):** An investment (as opposed to a grant) made from a foundation's endowment funds to a qualified donee. The funds are distributed for the primary purpose of furthering the foundation's charitable purposes, not generating income. This type of investment can apply to the foundation's disbursement quota.

**Retail investor:** An individual investor who buys and sells securities for his or her personal account, and not for another company or organization.

**Shared value:** Policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities where it operates.

**Social enterprise:** Commonly defined as a revenue-generating social and/or environmental enterprise (whether run as a project or an incorporated entity) that is owned and operated by a non-profit or charity. Since there are no shareholders in a non-profit organization, earned revenue is reinvested in the work of the organization to advance its mission.

**Social entrepreneur:** An entrepreneur who pursues a double- or triple-bottom-line business model, either alone (as a social sector business) or as part of a mixed revenue stream that includes charitable contributions and public-sector subsidies.

**Social finance:** An approach to finance that includes investment strategies such as responsible investing (RI), socially responsible investing (SRI), community investing, microfinance, social enterprise lending, venture philanthropy and impact investing.

**Social venture:** An organization with a prioritized social mission and earned income. In practice, this can include organizations incorporated across the spectrum, including quasi-governmental organizations, non-profits and charities, cooperatives, and for-profit businesses.

**Socially responsible investing (SRI):** Involves the formal integration of social values into the traditional investment process, providing a way for individuals to act on their concerns. Canadian assets in SRI mandates now represent $1 out of every $5 of assets under management.

**Subordinated debt:** A debt that is ranked after other debts owed if a venture fails and becomes liquid or bankrupt. It is “subordinate” to other senior lenders and therefore higher risk.

**United Nations Principles for Responsible Investment (UNPRI):** An international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

**Venture capital:** Financial capital provided to early-stage ventures at a start-up or early-growth stage of business development. The venture capital fund buys equity in the venture it invests in. Venture capital is a subset of private equity. Venture capitalists usually have significant control over the decisions and worth of the venture.

**Venture philanthropy:** Applies the concepts of venture capital finance and business management to philanthropic investments.

### Sources of Definitions

http://investments.ca/investments-types
www.jpmorganassetmanagement.lu/ENG/Glossary
www.jpmorganchase.com/corporate/socialfinance/glossary.htm
www.investopedia.com
www.unpri.org/about-pri/about-pri/

## Contributors

Karim Harji, Hilary Best, Mathu Jeyaloganathan and Kelly Gauthier of Purpose Capital

Joanna Reynolds, Ellen Martin and Muska Ulhaq of the MaRS Centre for Impact Investing

Sandra Odendahl, Jonathan Hera and Lexi Rose of RBC Corporate Sustainability and Social Finance

Alison Sinclair Burns and Jason Milne of RBC Global Asset Management (Phillips, Hager & North)



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