

Measurement, Decision-Making and the Pursuit of Social Innovation in
Canadian Social Finance

by

Sean Geobey

A thesis
presented to the University of Waterloo
in fulfillment of the thesis
requirement for the degree of
Doctor of Philosophy
in
Environment and Resource Studies

Waterloo, Ontario, Canada, 2014

© Sean Geobey 2014

AUTHOR'S DECLARATION

This thesis consists of material all of which I authored or co-authored: see Statement of Contributions included in the thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

STATEMENT OF CONTRIBUTIONS

I am the sole author of Chapter 1 and Chapter 6 of this dissertation. Chapters 2-5 are based on papers that were co-authored with other contributors. The paper that was the basis of Chapter 2 was co-authored with Olaf Weber, with Dr. Weber as the first author. Chapter 3 and Chapter 5 were both co-authored with Olaf Weber and I was the lead author in the papers these two chapters were based on. Chapter 4 was based on a paper co-authored with both Frances Westley and Olaf Weber, and I was the first author on this paper. Bibliographic citations for the papers the co-authored chapters were based on are below.

Chapter 2 – Social Financiers in Canada: Structure and Risk-Perceptions

Weber, O., & Geobey, S. (2012). *Social Finance and Nonprofits: the Contribution of Social Finance to the Sustainability of Nonprofit Organizations and Social Enterprises*. Calgary, AB: Mount Royal University Institute for Nonprofit Studies.

Chapter 3 – Measuring the Impact of Social Finance

Geobey, S., & Weber, O. (2014, May). Measuring the Social and Environmental Impact of Finance: Lessons from Environmental and Health Impact Assessment. Paper presented at Administrative Sciences Association of Canada 2014 Conference, Muskoka, Ontario, 10-13 May.

Chapter 4 – Enabling Social Innovation Through Developmental Impact Investing

Geobey, S., Westley, F. R., & Weber, O. (2012). Enabling Social Innovation through Developmental Social Finance. *Journal of Social Entrepreneurship*, 3(2), 151-165.

Chapter 5 – Lessons in Operationalizing Social Finance: the Case of Vancouver City Savings Credit Union

Geobey, S., & Weber, O. (2013). Lessons in operationalizing social finance: the case of Vancouver City Savings Credit Union. *Journal of Sustainable Finance & Investment*, 3(2), 124-137.

ABSTRACT

This dissertation explores the use of social financing as a strategy to generate social innovation in Canada. Social financing is a strategy intended on positively changing social-ecological systems through investments that also seek to generate a financial return. The constantly evolving nature of complex social-ecological systems implies that the social investment strategies social financiers take should co-evolve with the systems they are seeking to impact and if this is the case then the role that measurement plays in social finance decision-making should be critical. This dissertation explores the role of the intermediaries that connect the suppliers of social financing, the organizations that use social financing and the social-ecological systems both sides are seeking to impact. A survey of current social financiers explores the tools they use in making their investment decisions to establish current Canadian practices and how they assess risk. Current practices in the measurement of social finance impact is compared to the evolution of impact assessments in the well-established fields of public health planning, environmental impact assessment and sustainability impact assessment to draw lessons relevant to the relatively new methods being used to assess the impact of social financing. Integrating the process of assessing social-ecological impact with the process of creating a portfolio of investments this dissertation proposes an approach called ‘developmental impact investing’ that sees a potential synergy between learning about a complex social-ecological system and managing investment risk. A case study of the Vancouver City Savings Credit Union is also developed as part of this dissertation to illustrate the challenges and opportunities inherent in operationalizing social financing at a large enough scale to have a substantial impact on a community. Ultimately the unique role that credit unions play in Canada’s social finance ecosystem presents a number of lessons for the sector’s financial sustainability, effective governance and its potential to trigger large-scale social innovation.

ACKNOWLEDGEMENTS

I would like to thank his dissertation committee, Frances Westley, Daniel McCarthy, Stephen Quilley and Olaf Weber for their thoughtful feedback throughout the writing of this dissertation, as well as Mark Weber for their support as academic and personal mentors throughout my doctoral studies. I would also like to thank Jay Harrison, Josh Hissa and Gillian Lopes for their help in editing various drafts of this dissertation as it has evolved. I also would like to thank the McConnell Foundation, Mount Royal's Nonprofit Institute, Export Development Canada and Employment and Social Development Canada for their support in various aspects of this dissertation's research as well as SiG@Waterloo; SiG@MaRS; the University of Waterloo's School of Environment, Enterprise and Development; the Centre for Impact Investing; Purpose Capital; and SocialFinance.ca for their assistance in disseminating the findings of this research in practitioner circles. I would also like to thank the Waterloo Institute for Social Innovation and Resilience, the University of Waterloo's Environment and Resource Studies Department and the University of Waterloo's School of Environment, Enterprise and Development for providing a supportive learning and research environment for this work. Finally, I would like to thank my partner Jay Harrison for her ongoing intellectual and emotional support throughout my doctoral research and her patience throughout the ups and downs of what is often a harrowing process.

I am greatly appreciative of the many people who have helped in the completion of this dissertation however I must also clarify that all errors and omissions are my own.

TABLE OF CONTENTS

Author’s Declaration	-----	ii
Statement of Contributions	-----	iii
Abstract	-----	iv
Acknowledgements	-----	v
List of Figures	-----	vii
List of Tables	-----	viii
List of Abbreviations and Acronyms	-----	ix
Chapter 1 – Introduction	-----	1
Chapter 2 – Social Financiers in Canada: Structure and Risk-Perceptions	-----	44
Chapter 3 – Measuring the Impact of Social Finance	-----	76
Chapter 4 – Enabling Social Innovation Through Developmental Impact Investing	-----	105
Chapter 5 – Lessons in Operationalizing Social Finance: the Case of Vancouver City Savings Credit Union	-----	133
Chapter 6 – Conclusion	-----	162
Bibliography	-----	175
Appendix A: Redefining Returns	-----	198
Appendix B: List of Contacted Organizations	-----	238
Appendix C: Electronic Survey	-----	241

LIST OF FIGURES

Fig 1.1 Model of Social Finance System with Intermediation	33
Fig 1.2 Model of Social Finance System with Intermediation: Chapter 2 Research Focus	40
Fig 1.3 Model of Social Finance System with Intermediation: Chapter 3 Research Focus	41
Fig 1.4 Model of Social Finance System with Intermediation: Chapter 4 Research Focus	42
Fig 1.5 Model of Social Finance System with Intermediation: Chapter 5 Research Focus	42
Fig 2.1 Types of organizations responding to the survey	55
Fig 2.2 Portfolio allocation of for-profits, social enterprises, non-profits and public sector organizations	56
Fig 2.3 Products and services used by for-profits, social enterprises, non-profits and public organizations	60
Fig 2.4 The use of models, instruments and tools to track financial investments	65
Fig 2.5 Model of Social Finance System with Intermediation: Chapter 2 Research Focus	73
Fig 3.1 Model of Social Finance System with Intermediation: Chapter 3 Research Focus	103
Fig 4.1 The developmental impact investing cycle	128
Fig 4.2 Model of Social Finance System with Intermediation: Chapter 4 Research Focus	131
Fig 5.1 Compounded annual growth in selected financial figures of Vancity and TD	150
Fig 5.2 Model of Social Finance System with Intermediation: Chapter 5 Research Focus	150

LIST OF TABLES

Table 2.1 Impact investment assets and amount of assets	-----	51
Table 2.2 Number of products and services used for different types of organizations	-----	57
Table 2.3 Percentage of product use for financing different types of organizations	-----	58
Table 2.4 Frequency, expected frequencies and Chi ² contribution of products and services; products and services with highest Chi ² contribution are printed in bold	-----	59
Table 2.5 Use of different products and services by Community Development Corporations and other social finance investors including significance tests (t-tests)	-----	61
Table 2.6 Average portfolio allocation of different company sizes in for-profit, social enterprise, non-profit and public sector organizational investments	-----	62
Table 2.7 Sources of risk in for-profit, social enterprise, non-profit and public sector investments. Risk categories with significant differences between types of organizations are printed in bold, df=3	-----	63
Table 5.1 Vancity's number of members, employees and branches from 2000 to 2010	-----	150
Table 5.2 Vancity's loans per assets and loans per deposits and equity shares	-----	150
Table 5.3 Vancity's net earnings, returns on assets and equity and capital ratio	-----	151

LIST OF ABBREVIATIONS AND ACRONYMS

Analysis of variance	ANOVA
Centre for Social Innovation	CSI
Community contribution company	C3
Community investment corporations	CIC
Corporate social responsibility	CSR
Environmental impact assessment	EIA
Environmental, social and governance	ESG
Equator principles	EP
Equator principles financial institution	EPFI
<i>Gemeinschaftsbank fuer Leihen und Schenken</i>	GLS
Generally accepted accounting principles	GAAP
Global Alliance for Banking on Values	GABV
Global Impact Investing Network	GIIN
Global Impact Investing Rating Systems	GIIRS
Impact Reporting and Investment Standards	IRIS
International finance corporation	IFC
National Endowment for Science, Technology and Arts	NESTA
New institutional economics	NIE
Principles for Responsible Investment	PRI
Program budgeting and marginal analysis	PBMA
Quality adjusted life year	QALY
Registered Retirement Savings Plan	RRSP
Social development needs analysis	SDNA
Social finance institution	SFI
Social impact assessment	SIA
Social return on investment	SROI
Staffing, communications, alliance building, lobbying, earnings generation, replication and stimulating market forces	SCALERS
Toronto Dominion Bank Group	TD
Vancouver City Savings Credit Union	Vancity
Vancity Investment Management	VCIM

Chapter 1 - Introduction

In 2009 Toronto's Centre for Social Innovation (CSI) was growing quickly and was grappling with a new problem. Only five years old, this facility that provides shared space, networking opportunities and support for small mission-driven organizations, had more than quadrupled in size since its founding. What was originally 5,000 sq ft of rental office space in a refurbished old midrise downtown commercial building took over two entire floors and still had a long waiting list of organizations seeking to rent space. Having already established a viable business model, the CSI decided to expand its facilities with a \$6.8 million purchase and refurbishment of an entire four-story building which would become the new CSI Annex. However, rather than seeking a traditional mortgage from a bank or a major philanthropic capital campaign, the CSI developed a financial security, promising both a financial return and a positive social impact, drawing on the opportunity presented by the network of hundreds of current and future CSI and CSI Annex tenants (Centre for Social Innovation, 2013).

CSI sought to raise \$2 million from its extended community of stakeholders by issuing community bonds to supplement traditional bank financing. After securing a loan guarantee of three-quarters of the finished building's estimated value from the City of Toronto, the CSI issued community bonds to the general public in \$5,000 and \$10,000 denominations. These bonds were offered through, and administered by, Alterna Savings & Credit Union Ltd., an Ontarian credit union primarily serving Toronto and Ottawa. The purchasers of the community bonds received direct financial benefits in the form of Registered Retirement Savings Plan (RRSP)-eligible market returns and generated indirect community benefits by building the capacity of Toronto's social sector. The lower operating costs and improved outreach capacity for the charities, social enterprises and cooperatives housed in the CSI

Annex were a unique social benefit offered through the CSI Annex community bonds. The process of developing the community bonds is also illustrative of many of the themes seen throughout the Canadian social financing sector, including constrained social sector capacity, multi-sector collaboration, the leveraging of social capital, a key infrastructure role for credit unions and the ambiguous nature of social returns.

Overview

This dissertation will explore the emerging Canadian social finance sector and the complexity of the rapidly increasing social, ecological and economic challenges we face, at the same time that the capacity of the state to respond has been undermined over the course of the late-20th and early 21st centuries. Alongside the introduction of market forces into areas that had been under public mandate when welfare state institutions had broad-based support, has come an increased reliance on social sector organizations for the delivery of public goods. However, social sector organizations are limited in their capacity to address these large-scale, complex systemic challenges. Social financing, which is the “active investment of capital in businesses and funds that generate positive social and/or environmental impacts, as well as financial returns to the investor,” is touted as an approach that can increase the social benefits from market activity, reduce the barriers faced by social sector organizations or address both of these issues simultaneously (Canadian Task Force on Social Finance, 2010, p. 5). However, despite an apparently large untapped supply of potential social investment dollars and a large demand for social financing, the overall size of the sector is tiny when compared to either mainstream finance or mainstream philanthropy. Taking this as a starting point this dissertation poses a central research question: is social finance a social innovation?

This dissertation used Westley and Antadze's definition of social innovation as a focus and this, in turn, raises key issues tied to bounding the scope of potential social innovation. Westley and Antadze define social innovation as "a complex process of introducing new products, processes or programs that profoundly change the basic routines, resource and authority flows, or beliefs of the social system in which the innovation occurs. Such successful social innovations have durability and broad impact" (2010, p. 2). If social finance does represent a social innovation the bounds within which it operates are those of our current neoliberal economic order. Unlike some proto-social finance predecessors that were tied to broader movements such as socialism, mutualism, social credit and the Keynesian welfare state project, the current social finance movement overwhelmingly works within the bounds of a market-dominated social and economic order rather than seeking to provide an alternative. Where there are likely to be profound changes in basic routines, resource and authority flows or beliefs they are likely to be constrained within certain subsystems of the existing neoliberal order, in particular the nonprofit sector, investment finance and the provision of public services. The restructuring of capitalism to lessen its negative social and ecological impact is not in itself anti-capitalist. Indeed, as social financing inherently places decision-making power for the selection of public goods into the hands of a subset of people with both social interests and access to financial capital, if social investments come at the expense of public investments then the impact of social financing on the neoliberal economic order would be to entrench it rather than construct an alternative. This is the landscape level within which the social finance operates.

This chapter will explore the basic structure of the emerging social finance industry and the challenges inherent in researching it. The broad historical trends that have brought about the emergence of modern social finance have shaped the nature of the current social finance discourse both in Canada and internationally, and these frame the challenges that have been

identified by researchers, practitioners and policymakers. Central to addressing these challenges is the role of intermediation between investors, investees and the social-ecological systems they attempt to impact. To shed light on the role of intermediation concepts are taken from new institutional economics and applied to the analysis of intermediary institutions. Additionally, not only is impacting a complex system a difficult challenge, a social financier's measurement of impact is also a complex challenge. To navigate this research, the concept of a complex "research journey" is employed. Ultimately, the question of whether or not social finance is a social innovation depends on whether or not the transaction costs of intermediation will be low enough to incentivize a positive feedback loop between investors, investees and the social-ecological system strong enough to alter resource and authority flows. Currently social financing is a marginal part of both the Canadian financial system and the social sector. Furthermore, the results of this research suggest that on its current trajectory, social financing is likely to remain a niche activity. There is significant ideological power behind the interlinked concepts of social finance, social entrepreneurship and social innovation that could be leveraged to change social financing from a niche to a mainstream activity. Indeed, the successes of the credit unions in many parts of Canada suggest that there are precedents that have been set at the provincial level in Quebec, British Columbia and in pockets elsewhere in the country. However, it is important to note that the deep history of the credit union movement included calls for radical economic restructuring far beyond the bounds of the current social finance conversation in Canada.

This chapter will address these myriad issues and lay a context by examining the following topics:

- The challenge of increased complexity and social innovation;
- The reduced role of government and barriers within the social sector;

- The potential and reality of social finance;
- Social finance history, policy and industry;
- Social finance challenges and identifying impact;
- New institutional economic tools applied to social financing;
- An idealized social finance ecosystem;
- Exploring the research journey, and;
- An outline of the dissertation.

Complexity and Social Innovation

The complex social-ecological challenges we face in the modern world, from the seemingly personal, such as chronic homelessness to the seemingly global, such as climate change, all involve multiple factors working at many different scales. These ‘wicked problems’ are not truly solvable, only manageable, and valuable interventions into these problems inevitably generate new ‘wicked problems’ (Rittel & Webber, 1973). These constantly evolving challenges place tremendous pressure on our institutions to generate the innovations we need to adapt. Moreover, the sluggishness with which our institutions respond has created, what Homer-Dixon calls, an *ingenuity gap*, and an inability to close this gap can lead to disastrous consequences (2000). It is the potential for generating new, adaptive solutions at multiple levels that makes social finance so compelling, and the need to better understand it so urgent.

A barrier to the development of new approaches to respond to these complex challenges is the role of expert-driven thought processes. Saul argues that the overly-rigid application of ‘rational’ expertise has saddled Western societies with unworkable private and public sector bureaucracies that fail to meet the challenges presented by complex problems while setting the state for faux populist backlashes against reason (1992). Taleb makes a similar

argument about the preference of financial experts for Platonic ideal models over messy real-world skeptical empiricism which, as a consequence, leads experts to assume that 'Black Swan' events are far rarer than they occur in practice, leaving them exposed to far greater risk because instead of seeking to be "approximately right across a broad set of eventualities" their preferences is for seeking to be "perfectly right in a narrow model, under precise assumptions" (2007, p. 294). Into the pessimism of expertise Holling, Gunderson and Ludwig present two paradoxes: first, that although new policies usually are promising at first, they become increasingly rigid over time and fall into crises of legitimacy, yet somehow we have still managed to muddle through; second, when we observe past crises we see that the natural and social systems that caused them could be explained with only a few variables and processes, while the expert advice that can identify them contributes to causing crises (2002, p. 6-7). Recognizing the humility that complex systems impose on the experts who seek to manage them is a critical starting point in seeking to better understand them.

Changing complex systems is a challenging but worthy task as the generation of social innovations is critical to closing the ingenuity gap. In addition to the Westley and Andatze definition of social innovation used as the focus of this dissertation a number of competing definitions of social innovation exist (Mulgan, Ali, Halkett & Sanders, 2007, p. 9; Mumford, 2002, p. 253) that place the generation of new ideas at their core, though valuable ideas alone are insufficient as there must be effective demand and the capacity to grow for these ideas to reach scale (Mulgan 2007, p. 24). However, these approaches do not capture the importance of disruptive innovation that is central to Christensen, Baumann, Ruggles and Sadtler's (2006, p. 96) approach and their implicit view of scaling impact is a matter of diffusion rather than radical change. The use of the Westley and Andatze approach sets a higher bar for identifying social innovation because it suggests a more radical departure

from prior patterns of behavior rather than just an improvement on an existing social-ecological model. For the central research question this means that simply documenting that social financing improves social-ecological outcomes would be insufficient if it does not also identify major shifts in how economic, social or ecological resources flow and interact and real changes in authority structures.

The multilevel sociotechnical perspective provides a model for looking at the scale of systemic change. This approach uses insights from the evolutionary economic theory of Nelson and Winter (1982) to argue that incumbents will tend to ignore radical innovations because existing routines appear sufficient to meet their needs (Geels, 2010). These processes occur at the sociotechnical regime level but are constrained from above by an exogenous sociotechnical landscape while incorporating or ignoring niche-level innovations from below. When change does occur it can be a gradual *regular change*, *hyperturbulence* on one dimension, a rapid high-intensity *specific shock*, high-intensity *disruptive change* on one dimension, or an *avalanche of change* of high intensity and speed in multiple dimensions (Geels & Schot, 2007). A consequence of this variety of patterns is that there are time lags in adopting sustainable practices and lock-ins with unsustainable incentive structures.

However, social and technical innovations, when coupled with institutional resources, can shift a system away from an unsustainable trajectory (Westley, Olsson, Folke, Homer-Dixon, Vredenburg, Loorbach, Thompson, Nilsson, Lambin, Sendzimir, Banerjee, Galaz and van der Leeuw, 2011).

The institutional systems that constrain action at the landscape level are usually slow to change but are important enablers of and constraints to human action. North defines institutions as “the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)”

(1991, p. 97). The role of language in the creation of institutions is significant. Ferraro, Pfeffer and Sutton (2005) look to the language of economic theory not only for its analytical power in social science but also to its role in shaping institutions, using the development of the Chicago Board Options Exchange and its close connection to the Black-Scholes-Merton developments in options pricing theory as an example of when theory and practice reinforced each other to create a new reality. Powerful ideas that arise during the right window of opportunity can be powerful new attractors that can shift resource and authority flows in complex systems. Navigating the tension between intentionality and complexity is critical in triggering systems change (Westley, Zimmerman & Patton, 2007)

We are concerned about the potential negative impact that 'impact investment' may have on the SRI industry as a whole. It is possible that 'impact investment' may take away some of SRI's steam (resources) to push some of the largest corporations towards enhanced social and environmental performance. For example, are the social and environmental benefits of a small organic juice company more 'impactful' than moving Coca-Cola towards enhanced CSR practices?

- Investment Fund, British Columbia (interview)

Economic perspectives that incorporate complexity have different properties from standard neoclassical models. Waldrop distinguishes 'old economics' from 'new economics' primarily according to the former's basis in 19th century models of equilibrium-driven physics and the latter's borrowing of tools from modern biology (1992, p. 37-38). Following along these lines, Beinhocker distinguishes complexity economics from traditional economics through five big ideas: nonlinear dynamics, individual heterogeneous agents, networks, emergence and evolutionary processes (2007, p. 97). In the context of complexity the identification of appropriate pathways to achieving our objectives is not a straightforward process. Instead, Kay argues for oblique approaches that he describes as "a process of experiment and

discovery. Success and failures and the expansion of knowledge lead to reassessment of our objectives and goals and the actions that result” (2010, p. 70).

In responding to the increasing complexity of our complex social-ecological challenges, it is important to consider the variety of responses that can be generated to respond to them. As the complexity of disruptive challenges increases to maintain stability within a social-ecological system the variety of responses needed to these challenges must also increase. Indeed, this harkens to Ashby’s Law of Requisite Variety: “only variety in RESPONSE and force down the variety due to DISTURBANCE; only variety can destroy variety” (1961, p. 207). In contrast to top-down command-and-control systems, Kelly argues that swarm systems are adaptable, evolvable, resilient, boundless and generate novelty at the expense of being non-optimal, non-controllable, non-predictable, non-understandable and non-immediate. He argues that the advantages of swarms outweigh the disadvantages when the key requirement of a set of responses is adaptability (1994, p. 22-24). In the design of swarm systems that work, Miller suggests that key enablers of effective swarm activity are a reliance on local information, rules of thumb in decision-making, repeated interaction among group members, minimum decision-making population thresholds and some randomness in individual behaviour (2011, p. 267). These align with Page’s case for diversity of perspectives, interpretations, heuristics and predictive models in the creation of better decisions (2007, p. 7) and Surowiecki’s argument that to be ‘wise’ crowds require a diversity of opinion, independence of opinions, decentralization and the existence of an aggregation mechanism for a collective decision (2004).

Reduced Role of Government and Social Sector Barriers

The argument for increasing the variety of responses to possible systemic shocks has coevolved alongside the growth of the deregulatory neoliberal policy agenda. Since the

1970s, there has been a push in the public policy arena to reverse the growth of the welfare state and replace it with increased market activity. The 'new right' advanced an agenda that advocated increasing privatization of public services, countered by a 'new left' community-based approach, and ultimately synthesizing in a third-way consensus led by center-left parties during the 1990s (Ridley-Duff & Bull, 2011, p. 39). However, as Weisbrod observed early in the rollback of the welfare state, "[public] goods have private substitutes; police protection has guard dogs, pollution has air filters, etc., but they are not perfect substitutes" (1975, p. 179), meaning that the market is unable to completely fill in the gap left by a receding state. Thus, while on its surface, the scaling back of the market appears to be increasing the variety of approaches available to managing complex systems, in practice that has led to a privatization of risk onto people and ecosystems that may not have the tools to manage these risks. The collapse of state socialism in Eastern Europe, the repeated crises produced by the deregulated market and the rigidity of the welfare state over the past 40 years has highlighted the weaknesses in all three approaches to state involvement in the economy and brought renewed interest in the social sector as a provider of services (Salamon, 1994).

The assault on state social service provision has embedded the logic of risk-management deeply into the psyche of public institutions. Power, Scheytt, Soin and Sablin contend that the logic of risk management has migrated from its origins in technical analysis to being a cornerstone of what is broadly considered good governance and, when tied to the importance of reputation management, has shifted to a strongly defensive approach to asset management (2009). This frame of risk management manifests in four different dimensions: the tension between uncertainty and management, the tension between risk as technique and governing philosophy, the tension between risk as loss and opportunity, and the catalytic role of ideas in changing our perspectives on risk (Power, 2007, p. 6). In

particular, this new framing of risk focuses on the political mismatch between the severely negative electoral consequences of a political risk that does not pan out well and the limited political opportunities from supporting a successful policy, which incentivize a pathological degree of risk-aversion in elected governments.

There is a possibility that the withdrawal of state provision of social services can release resources for experimentation and enable more adaptive approach than a centralized welfare state model. Wainwright argues that the Hayekian view of the importance of tacit knowledge has been critical in undermining the role of the centralized state; its dogmatic individualism misses the importance of knowledge that is socially-constructed by subgroups in society and which has been expressed through a variety of new social movements (1994, p. 4-7). Restakis pushes the need for cooperative institutions to realize the possibilities of a more humanistic approach to organizing economic activity and argues, “authoritarian power in economics ultimately trumps democratic power in politics” (2010, p. 21). Whether the shift away from the welfare state towards the provision of social services by social sector organizations truncates or expands the power of citizens to set collective priorities remains an open question.

Charitable Deductions and Direct Democracy

SocialFinance.ca

September 28, 2010

Authored by Sean Geobey

Many charities have been able to demonstrate more creativity and client-focus than their equivalent government programs. There is a competitive dynamic in this sector stemming from the ease with which donors will withdraw their support from ineffective organizations, and this allows the sector as a whole to adapt, innovate and experiment far more effectively than governments. That is important to note, but beside the point in a government vs. charitable sector debate.

Governments are not generally experimental, and they probably shouldn't be. What makes them rigid, inflexible and bland also keeps them accountable. Where the interplay between the public and charitable is fruitful it is because the charities can perform the experiments which provide the evidence governments need when adopting new programs and

reforming old ones. In that sense, the charitable sector is where the public sector innovates. That reason alone is enough to justify government support of the sector, including indirectly through charitable tax deductions. Many of those deductions are, in effect, social research and development expenditures. Even if the federal government does later fund promising programs itself, provincial and local governments will often support them. However, as a tool for “direct democracy,” charitable tax deductions fall short. These deductions deprive governments of revenue. For net public spending, this is the equivalent of spending that money directly. So the \$250 rebate you get from your charitable donation is, in effect, a \$250 public expenditure on your charity of choice.

The difficulty with this it is that it is a dollar-driven way of making social choices. Democratic decision-making is based on a pretty simple notion: “one person, one vote”. Yet a donor-centered model is based on a “one-dollar = one-vote”. The subsidization of the charitable sector through tax deductions is, in effect, taking resources from the “one person = one vote” structure we all pay into and giving it to the “one dollar = one-vote” structure that only some pay into.

More worryingly, because of the progressive nature of our income tax structure, the amount of a rebate someone earning \$100,000 per year receives is greater than the amount of a rebate someone earning \$20,000 per year receives despite making the same size donation. Thus while we are encouraging people to contribute to charity, we are encouraging the wealthy more than we are the poor. This is not simply “one dollar = one vote” this is “one dollar = one vote; two dollars = three votes”.

The simplest alternative here would be the elimination of charitable tax deductions – even charitable status altogether – and only provide social services through direct government spending or fee-for-service government contracts with nonprofits. Some people would still donate to nonprofits, but it would reduce the size of the sector.

The key flaw there is government failure. In a small, homogenous country like Sweden it is relatively easy to build a broad social consensus around public spending. However, the geographic and ethnic diversity of Canada greatly increases the consensus-building challenge. Here there is a greater need for successful experiments to demonstrate value to a population bringing a wide variety of perspectives to the table.

A better solution would keep the dynamism of the sector but set it in an egalitarian framework. One possibility would be replacing the charitable tax deduction with a charitable donation voucher. This voucher, maybe about \$200 in value, could be given to any registered charity to be redeemed by that charity from the federal government. At the end of the year any unclaimed vouchers would simply go towards servicing the public debt. That is just one idea, but there may be other policy approaches that could achieve this. Do you have any ideas? Is it even a problem?

The shift of the social sector towards the center of public policymaking has triggered profound changes in the sector. Research in the social sector has moved from being peripheral to highly contested and although there have been significant improvements in

basic data on the sector it is still limited as is our theoretical understanding of these institutions (Anheier & Salamon 2006, p. 89). In Canada the size of the charitable and nonprofit sector is substantial, with over 161,000 charitable and nonprofit organizations employing over 1.5 million full-time equivalent positions, 12.5 million volunteers, and generating \$100.7 billion in economic activity or 7% of Canadian gross domestic product in 2007 (Imagine Canada, 2010). Yet this growth has not been costless. Salamon argues that there are systemic failures in social sector activity that he identifies as philanthropic particularism, philanthropic paternalism, philanthropic insufficiency and philanthropic amateurism (1987). Stern, in examining the US charitable sector, finds ample evidence of all of these failures and questions the efficacy of organizations operating in the sector despite the sector seeing a 115-fold growth since 1940 (2013, p. 65). He notes that GiveWell, which produced over 500 investment grade reports on charitable organizations, only found eight charities that could demonstrate effective impact and the material use of funds (Ibid, p. 13). Furthermore, Stern notes that compared to the private sector, the charitable sector shows remarkable stagnation in its turnover as the largest donative nonprofits of today are nearly identical to the largest donative nonprofits forty years ago (Ibid, p. 36).

Charities, in particular, are highly restricted in the range of activities they can undertake. Regulatory requirements only permit charities to generate revenue in activities that are directly related to their charitable purpose, restricting the range of available activities (Phillips, Hager, & North Investment Management, 2010). This further restricts activity by making future streams of revenue unpredictable, effectively making existing physical capital unavailable as collateral for use in debt financing, which coupled with the illegality of selling equity in nonprofit organizations, makes capital accumulation challenging (Yetman, 2007). Of course, the desire for new revenue streams is not without its own costs, as the fear of

mission drift can not only undermine the legitimacy of a charitable organization, but also public trust in the entire sector (Weisbrod, 1998).

The risk of mission drift has not reduced the appeal of alternate sources of revenue for many social sector organizations. Given the risks arising from instability in donations and grants as well as the difficulty in raising capital that can be dedicated towards productivity-enhancing real investments, many social sector organizations are seeking to diversify their revenue streams (James & Young, 2007; Weisbrod, 1998). Businesses have more predictable revenue streams than grant or donation-reliant organizations, which means that charities rely on larger liquid cash reserves than similarly-sized businesses since they also are restricted in their access to debt (Zeitlow, Hankin & Seidner, 2007). These cash reserves represent both a missed opportunity for real investment or impact-generation as well as a troubling target for fraud. In response to this set of challenges and opportunities, many organizations have taken to engaging in social enterprise activities which Ridley-Duff and Bull classify according to a typology of four broad models: a non-profit model, a corporate social responsibility model, a more-than-profit model, and a multi-stakeholder model (2011, p. 75).

Why would they [charities] even want to ask for somebody's capital that they have to repay, when they can just go to the same old donor base that has been loyal for so long and ask for it for free? That is a structural problem, and has more to do with the charities than the providers of capital.

- Venture Capital, Ontario (interview)

Social Finance – Potential and Reality

Globally, social finance is still in an early phase of development that is characterized by uncoordinated innovation with a few tentative steps into market-building. Therefore, setting the bounds around what is or is not social finance is difficult (Freireich & Fulton,

2009), particularly in the context of social innovation. Indeed, many writers have suggested that the lack of consistent language for describing, and common tools to measure impact investing, prevents greater coordination from occurring within this sector (Emerson, 2003; Olsen & Galimidi, 2008; Tuan, 2008). When employing a social innovation lens there is tension in the literature between focusing on social innovations that can arise from the expanded capacity of organizations being able to access social financing and the social innovations that can proceed from the changed relationships between stakeholders that come from the unique characteristics originating from the use of social financing tools. Practitioner-focused writing on social financing leans heavily on the side of social innovation from the funded organizations rather than the funding process, so for the most part this dissertation will do the same. This speaks less to the potential for social innovation by organizations funded by social financiers and more to the power providers of social finance have to allocate resources without facing direct public scrutiny, with publicly- and co-operatively-owned social financiers as notable exceptions. The private sources of social financing, including philanthropic foundations, high net worth individuals and to a lesser extent private for-profit corporations, operate with few legal obligations to report their social financing activities. However, as the details of operationalizing social finance have surfaced, the role of social financing in changing stakeholder relationships of those involved in the financing has become more apparent. For example, the CSI Annex community bonds highlighted in the opening to this chapter blur the lines between a group of investors and a community of donors.

Combining social and economic goals and realizing synergies between them is central to generating gains new to social financing. Berger, Cunningham and Drumwright examine a range of company-nonprofit collaboration structures and identify six challenges that can arise from such relationships: misunderstandings, misallocation of costs and benefits,

mismatches of power, mismatched partners, misfortunes of time and mistrust (2004).

Austin and Seitanidi look to the degree of integration in business nonprofit partnerships and their potential for changing large-scale systems. They propose four stages of partnerships, in increasing order of integration: philanthropic, transactional, integrative and transformational, with synergistic value, innovation and potential for external systems change (2012). Taking integration as their starting point, Porter and Kramer argue that combining social and economic progress as a core strategic function for businesses can generate 'shared value', which can serve as a platform for sustained strategic growth by reconfiguring products and markets, changing value chain productivity and enabling the development of local productive clusters (2011). From the side of social sector organizations, Emerson argues that integrating social and financial returns increases an organization's social impact by attracting real productive investment (2003).

Some have argued that the case for joint social-economic returns need only be framed as a profit-maximization over a long-term time horizon. Alternatively, Mackey, writing from his experience as CEO and Founder of Whole Foods, argues that businesses operate within complex social-ecological systems and that the interdependent set of stakeholders that a company relies upon are better served by, and more supportive of, companies that attend to the social-ecological systems they impact (2007). Similarly, Altman and Berman argue that using a corporate social responsibility or shared value lens may not be the appropriate mindset for achieving social and economic impact. Instead, they suggest that long-term investments with long-run positive returns imply the incorporation of social and environmental externalities and the achievement of both sustained social and economic returns (2011). While these arguments apply to the strategies of individual firms it is less clear if they are capable of triggering greater social-ecological resilience beyond these firms, their immediate customers and their supply chains.

We cannot sacrifice society and the environment while collecting good financial returns in the long run. It's only a matter of time before we realize that.

- Pension Fund Analyst, Quebec (interview)

Sustainability, as a long-term investment strategy, has been at the core of socially responsible investing for decades. In the 1970s, the anti-apartheid movement started the development of socially responsible investment (SRI) funds that avoided investments in South Africa, but quickly expanded into withdrawal of funds from a broader set of human rights abusing countries and firms with poor environmental impact reputations and the avoidance of entire industries such as armaments, alcohol, tobacco and fossil fuels. Krosinsky's analysis of SRI funds found that the SRI funds that had the lowest turnover in their portfolio tended to perform best (2008) while Lucas-Leclin and Nahal found that companies with better Environmental, Social and Governance (ESG) performance tended to see lower volatility in their stock performance (2008). Furthermore, there is increasing interest from investors who are looking for social returns in addition to financial returns (O'Donohoe, Leijonhufvud, Saltuk, Bugg-Levine & Brandenburg, 2010) and investment portfolios with new options for investment diversification (Palandjian, 2010). Globally, estimates of the potential size of the social finance market vary, though J.P. Morgan and the Global Impact Investing Network (GIIN) estimated a potential market of \$400 billion to \$1 trillion in invested capital (O'Donohoe, et al., 2010), and the Monitor Institute estimated that the industry could grow to \$500 billion representing 1% of global assets under management by 2019 (Freireich & Fulton, 2009). Grabenwarter and Liechtenstein compare the profitability of impact investments with the degree of intentional social impact targeting used in their investment strategies and find that the greater the focus on joint social-

financial returns in an investment strategy, the higher the correlation between social impact and financial returns (2012).

Beyond risk-mitigation and improved financial performance, social financiers may be attracted to the potential for their investments to spark a radical systems' change. As noted earlier, Austin and Seitanidi find that the transformative relationships between companies and nonprofits are the most likely to trigger external systems change (2012). In these cases learning by nonprofits and companies is shared and the partnership is formed around social objectives important to both, but the beneficiaries take a more active role in the transformation process. From this changes in broader social or political systems can be triggered, but this in turn requires substantial internal changes within the partner companies and nonprofits. Similarly, Bloom and Chatterji argue that seven organizational capabilities—staffing, communications, alliance building, lobbying, earnings generation, replication and stimulating market forces—which they collectively give the acronym SCALERS, can trigger a large-scale systems change. While they argue that when an organization has access to substantial start-up capital so its success at bringing change at scale will be driven by efforts other than earnings generation (2010), it is likely that if start-up capital is committed to future earnings-generation then the earnings-generation process itself could more easily contribute to other scaling efforts.

While the potential for impact through social financing is intriguing, the current reality is that the sector is marginal in Canada. The generous accounting by the Social Investment Organization suggests that there are over \$4.5 billion in Canadian social finance investments (Bragg, 2010). While substantive and quickly growing, this is still marginal compared to the \$3 trillion in total Canadian assets under management (Canadian Task Force on Social Finance, 2010). Furthermore, the total assets under management of the Canadian credit union and *Caisses Populaires* sector is far greater than current social

financing assets at \$304 billion (Central 1, 2011; Desjardins, 2012). Indeed, Canadian credit unions are behind only the United States in assets under management (World Council of Credit Unions, 2013). Furthermore, the Canada Revenue Agency reports that in 2013 the total assets of all Canadian charitable foundations were \$22.5 billion in private foundations and \$19.9 billion in public foundations. While there is potential for foundations to achieve results at a scale that philanthropy alone cannot achieve (Freireich & Fulton, 2009)—and a few Canadian foundations have been exploring this approach (Strandberg, 2010)—foundation investments in social finance are still rare.

Most interesting, in 2011 total donations made by Canadians to registered charities exceeded \$10.6 billion (Turcotte, 2012), meaning that the amount of money intending on generating a positive social impact in one year without the promise of any financial return more than doubles the total amount of money ever invested in social financing vehicles intending on delivering both social and environmental returns. Meanwhile, the Social Finance Census found that over 70% of social ventures in Ontario viewed lack of access to capital as a barrier to success and that over the following two years the total capital needs of survey respondents would be approximately \$170 million (Malhotra, Laird & Spence, 2010). This presents an interesting challenge to the emerging social finance sector: if the potential in this space is so promising, why has all the funding it has attracted been so small?

Social Finance History, Policy and Industry

The starting point for evaluating the evolution of Canadian social finance is to examine its place both historically and in an international context. Many Canadian social financiers have been working in the field long before the terminology had been developed, and the lack of consistent language means that the social finance terminology is not well known or

understood by most investors (Harji & Hebb, 2009). Nicholls argues that there are three possible outcomes from social finance innovation: institutional absorption, parallel institutionalization and institutional transformation (2010a). Institutional absorption occurs when mainstream financial institutions adopt a social financing practice, as has occurred with major financial institutions offering products such as SRI funds. Parallel institutionalization is the process by which social financing creates its own alternative financial system. In Canada, this has been a common outcome as the credit union system has become a robust alternative to mainstream banking in many parts of Western and Atlantic Canada, while the related system of cooperative *Caisses Populaires* in Quebec dominates that province's financial system. Nicholls' final possibility, institutional transformation, occurs when the social financing system radically changes the shape of the overall financial system, as may be the case with the role micro-financing through the Grameen Bank profoundly transformed banking for and the lives of impoverished people in Bangladesh, eventually leading to founder Mohammed Yunus winning the 2006 Nobel Peace Prize (Yunus, 2006).

The role of the parallel social financing system in Quebec has played an important role in the development of the Canadian financial sector and displays many elements of institutional transformation. Alphonse Desjardin's development of Quebec's *Caisse Populaire* credit union system in 1901 served as a model for credit union development throughout North America. It has also served as the backbone of the largest concentration of cooperatives, unions and crown corporations in Canada, if not North America, and alongside this the *Chantier d'économie sociale* and the *Conseil de la coopération du Québec* have served as the cornerstone of the province's robust social economy (Elson, Gouldsbrough, & Jones, 2009). Provincial programs, funding pools and enabling regulations have further aided the development of the social financing sector in Quebec

(Mendell & Nogales, 2009; Strandberg, 2007). Outside Quebec, the development of Canadian social financing has a strong cooperative element with non-financial Canadian cooperatives hold over \$160 billion in assets and generate over \$29.5 billion in annual revenues (Cooperatives Secretariat, 2004).

Nationally, the growth of the social financing sector has varied across the provinces. The multi-sector British Columbia Social Innovation Council was established in 2011 under the Ministry of Social Development and released its recommendations in 2012, which had five key recommendations of: supporting social enterprise, legislative enablement, the establishment of social innovation labs, community engagement and increased learning and research (BC Social Innovation Council, 2012). The same year the Ontario Ministry of Economic Development, Trade and Employment established the Office for Social Enterprise which released its social enterprise strategy in 2013, with a specific pillar being “Creating a vibrant social finance marketplace” (Ministry of Economic Development, Trade and Employment 2013, p. 4). Other provinces have established funds or programs focused on local economic development such as the Manitoba Community Economic Development Tax Credit, the Nova Scotia Community Economic Development Investment Funds and the Nova Scotia Equity Tax Credit (Phillips Hager & North Investment Management, 2010).

Nationally, in late 2012, Employment and Social Development Canada solicited a National Call for Concepts for Social Finance. This resulted in the summary document, *Harnessing the Power of Social Finance: Canadians Respond to the National Call for Concepts for Social Finance* (Human Resources and Skills Development Canada, 2013) but there has been little tangible action from the part of the Federal government with most of the substantive developments in this field focused on the development of social impact bonds, which are primarily a type of pay-for-performance contract. It is also important to note that equivalent developments in Quebec started with the *Conference on the Social and Economic Future of*

Quebec, more than a decade earlier in 1996 and developments in their social finance sector are still ongoing.

While some of these developments may hold promise that the current regulatory environment is a messy one, most securities regulation in Canada is at the provincial level as is the regulation of most of the credit union system. However, the federal government is responsible for banking regulation and in 2010 also introduced changes to the Bank Act that allowed for the creation of federally incorporated credit unions, creating the overall picture of an inadequate and often contradictory regulatory environment (Bridge & Corriveau, 2009, p. 3). Furthermore, the Canada Revenue Agency interprets charity and foundation legislation conservatively and discourages the use of innovative financial instruments by foundations (Strandberg, 2008; Phillips Hager & North Investment Management, 2010). The perspective of the mainstream Canadian financial sector towards social financing is still one of general wariness. The series of surveys, focus groups and key informant interviews of Canadian financial sector attitudes towards social financing identified the following key issues and challenges (Harji, Kjørven, Geobey & Weisz, 2012, p. 5):

- There is generally, a low level of awareness around social finance across the financial sector, apart from niches such as credit unions and those involved in the 'green economy'.
- There is a higher level of awareness of associated terms such as 'socially responsible investing' or 'corporate social responsibility'. In a similar vein, there is an increased appreciation of the importance of non-financial considerations.
- There is confusion on the language and terminology used to describe social finance and associated terms, even among those who were somewhat familiar with these issues. Compounding this issue, information on social finance is

usually accessed via mainstream media, which is often fragmented or lacks depth.

- Many impact investment opportunities are currently not accessible or suitable for mainstream investors and often there is not enough product variety needed to create a balanced portfolio for retail or institutional clients. As well, social finance investments are generally perceived to be high risk.
- There remains a gap in social finance knowledge among financial advisors and wealth managers, with few channels to educate clients about their investment options.

If the Federal government does not allow [social finance products] to be TFSA or RRSP eligible, that would reduce the legitimacy of these products and reduce the amount of investors who would participate. We need to think about Canadians investing in Canada.

- Credit Union Manager, Alberta (interview)

Social Finance Challenges and Identifying Impact

Although there are structural trends that are pushing the emergence of social financing, the marketplace is still emerging and faces numerous barriers. Bugg-Levine argues that there is impatience with traditional philanthropy, a growing importance in private capital and a new generation of wealthy entrepreneurs who take an investment-oriented approach to giving (2009). However, he also suggests that our “language, analytical tools, capital markets and legal system” are stuck in a philanthropy-profit maximization binary (2009, p. 18). In a survey of impact investors that made over US\$8 billion from their investments in 2012 and had committed to US\$9 billion of impact investments in 2013, Saltuk, Bouri, Mudair and Pease found that four out of five fund managers perceive strong impact measurement as being important to raising capital (2013, p. 20) and 98% of respondents

viewing standardization of metrics as at least somewhat important for the development of the industry (Ibid, p. 16). The surveyed investment managers argued that more technical assistance is needed so that promising ideas can become investment-ready opportunities (Ibid, p. 11) and that business model execution and management risk are the sources of risk in their portfolios (Ibid, p. 15). Consistent with this view, the Monitor Institute argues that the current challenges to building the social finance marketplace are a “lack of efficient intermediaries, lack of enabling infrastructure [and] lack of sufficient absorptive capacity for capital” (Freireich & Fulton 2009, p. 15). A report by the Acumen Fund on investing in social entrepreneurs, notes that early investors are building the market as they invest or, according to their words: “Investible companies are not knocking down the door, so think long-term— you’re building the pipeline of future investments” (Trelstad & Katz, 2011, p. 6).

Tied to the difficulty in finding investees is the challenge of risk and return valuations. Standards of determining and valuing social impact have not yet been widely adopted, leading to impact reporting that relies heavily on anecdotal evidence (O’Donohoe, et al, 2010) that then makes apples-to-apples comparisons between investment opportunities difficult (Bugg-Levine & Goldstein, 2009). Godeke, Pomares, Bruno, Guerra, Kleissner and Shefrin argue that the absence of standards has impacts across the investment cycle by making it difficult for potential investees to communicate their impact, intermediaries to screen worthwhile investments and for investors to compare the performance of funds and investees (2009, p. 121). However, practitioners are not unanimous in their advocacy of standardization. Grabenwarter and Liechtenstein note that angel-type investors who were more directly involved with investment and saw tangible results on the ground were more relaxed about formal metrics and that, ultimately, it is the existence of pre-determined

measurable objectives that is of primary importance, not the process of measuring the impacts themselves (2012, p. 42).

Social financing has the characteristics of a young industry and Bouri sees a key role for investor leadership in developing standards in the social finance industry, in particular pushing for the adoption of the Impact Reporting and Investment Standards (IRIS) set of indicators (2011). However, Cooper and Smith observe that although entrants into young industries are often start-ups and established firms from other new industries that require new technical resources and skills, meaning that established competitive strengths may not provide a long-term advantage (1992). It is unclear if investor-led standards, in particular IRIS and the related Global Impact Investing Rating System (GIIRS) which are being pushed by the foundation-led Global Impact Investing Network (GIIN), have the right mixture of technical strengths to eventually become the industry standard. There are still gaps in the theory of social finance, including valuation and portfolio selection, and the skills and techniques this emerging industry needs will likely remain undeveloped until these gaps are addressed. As a historical analogue, the opening of the Chicago Board Options Exchange in 1973 and the emergence of the derivatives market as a dominant force in international economics would have been unlikely were it not for the emergence of the Black-Scholes-Merton options pricing formula in the same year (MacKenzie & Millo, 2003). Yet despite substantial grey literature in the field of social finance, academic analysis and research has been limited (Nicholls, 2010a).

The Limits of Metrics for Social Finance

SocialFinance.ca

July 6, 2011

Authored by Sean Geobey

Can we compare apples and oranges? This question is central to understanding the limits of – and opportunities in – developing standardized impact measurement systems. Often when making a difficult choice, someone will toss out the old trope that two projects are

too different to compare, that, “It’s like comparing apples and oranges.” Of course, we compare apples and oranges all the time when we go to the grocery store and see apples are \$2/lb and oranges are \$3/lb. That is what a *unit of account* is: a single measure that lets us compare unrelated items, and it is one of the most basic functions of money.

The problem impact metrics don’t solve is that non-financial impacts don’t have a single unit of account. Sure, we can compare apples with oranges, but how about an acre of wetlands and a social housing unit? The prices of apples and oranges take care of this, and if non-financial returns were similarly priced, this wouldn’t be a problem. Then again, if non-financial returns were priced, they would just be financial returns. The whole rationale behind impact investment is to put resources to yield more than simply financial returns.

Measurement cannot tell us how to value non-financial returns, but applying a relative valuation to non-financial returns is a necessity. Indeed, any time a social investor picks one project over another or a social entrepreneur decides to create an enterprise around protecting endangered species rather than providing a favela in Brazil with fresh water, they are making these choices. We all have different social values and these rightly lead to different social valuations of impact investments.

However, those divergent valuations limit our ability to pool resources. When a profit-only investment fund manager approaches potential investors, they can show what projects the fund will be putting their money into and can demonstrate the expected return on investment. Importantly, each potential investor can get the same prospectus with the same return on investment measured in the same unit of account – a dollar.

For a social investment fund manager this is a greater challenge since every investor will perceive a different return on investment for the same fund. If the projects a fund looks at are mostly focused on poverty-reduction, a social investor primarily interested in social justice will place a different valuation on it than a social investor primarily interested in environmental protection. These different valuations inherently limit the potential for pooled investments to bring together investors with fairly similar social values. Consistent metrics can make this process easier, but it doesn’t resolve the different valuations we place on various social and environmental impacts.

The uncritical use of consistent metrics can also have negative effects on social entrepreneurs. To be sure, measuring impact is vital, and thinking about measurement is key to developing any well-thought out social change strategy. Social entrepreneurs need to be aware of the trade-offs they face in making their plans and need to know when they aren’t meeting their goals.

However, being tied to a single set of metrics can kill social innovation. As good as a social change plan may be, the reality of seeing what works on the ground and what doesn’t, changes a social entrepreneurs’ perspective. Supposed opportunities can turn into dead ends while new paths may appear that weren’t apparent at the outset. Profit-only entrepreneurs can easily refocus and take advantage of these paths.

For a social entrepreneur, if their financiers specify an exact set of metrics with no flexibility, they can’t make a similar switch. By only basing effectiveness on a prearranged set of metrics, the most innovative social entrepreneurs will be forced to abandon

promising opportunities in order to perform well at those metrics.

What gets measured still matters, but measurement isn't a panacea. If social finance is going to push a new wave of social innovation, we have to think less about getting the apples and oranges we expect, and more about the liveliness of a good fruit salad.

The role of identifying social impact and integrating it into social finance decision-making is likely the critical theoretical piece needed to enable market development. Nichols argues that performance measurement has value in control, planning and accountability for social enterprises (2010b). Jackson argues that the use of evaluations in this industry can improve learning in the marketplace by encouraging target outcome negotiations, enabling the co-production of new knowledge, adding transparency in an ethical and culturally-informed way, moderation of power asymmetries and aiding the development of communities of practice (2012, p. 12). Yet the challenges of impact measurement in social finance are more complex than in standard finance because not only is the nature of risk and return more complex, but there are also a myriad of blurred boundaries such as those between consumption and investment (Nicholls 2010a). Indeed, Mulgan argues that one of the main reasons the measurement of social returns fails to influence decision makers is that they are often collected and used in a way that confuses three distinct objectives: accountability to external stakeholders, management of internal operations and the assessment of social impact (2010). Porter, Hills, Pfitzer, Patscheke and Hawkins in examining the challenges of measuring shared value suggest six major issues (2013, p. 15-160):

- Challenge 1: A wide range of social issues could be addressed and measured.
- Challenge 2: Measuring social outcomes for large populations.
- Challenge 3: Business value accrues on a different timeline than social value.
- Challenge 4: Measuring business value for cluster investments.

- Challenge 5: Determining a company's attribution when strategies and activities require the efforts of many partners.
- Challenge 6: Management desires an aggregation of social impact data.

We have a mandate to do a triple-bottom line evaluation of impact, but it has been difficult for us to develop the protocols and procedures for determining social benefit because we're one step or two steps removed from that end recipient.

- Public Foundation, British Columbia (interview)

The development of impact measurement approaches that meet the needs of the social-ecological systems that are impacted by social financing is challenging. Best and Harji suggest four best practices for social impact measurement: working closely with ventures, participatory framework design, incentivizing measurement and values-based investing (2013). These practices, taken together, reduce the distance between the investor, supported ventures and the social-ecological systems they impact. Similarly, Reed, Fraser and Dougill argue for the development and application of sustainability indicators in collaboration with communities (2006). However, they also acknowledge the tension between top-down measurement objectives and the bottom-up development of community-based indicators and the additional cost and time attached to working through participatory processes (Fraser, Dougill, Mabee, Reed, & McAlpine, 2006).

New Institutional Economics applied to Social Financing

Comparing different types of organizations and their relative efficacy is the primary concern of the New Institutional Economics (NIE) research agenda; competition between different institutional forms allows evolutionary forces to operate in expanding or removing different institutional structures (Vromen, 1995). A central question in the NIE has always been

whether centralized organizations or decentralized markets are best suited for managing complex tasks (Coase, 1937; Williamson, 1996), yet this is really just a subset of broader issues tied to comparative economic organization and alternative approaches to organizing activity (Williamson, 1994). The NIE lens provides a set of tools for comparing the relative merits of different types of institutional responses to social-ecological change. In particular the failures of centralized preference aggregation (Arrow, 1950; Arrow, 1974), information failures (Akerlof, 1970) and the failures of voluntary collective action (Hansmann, 1980; Olsen, 1965; Salamon, 1987; Weisbrod, 1977) are all particularly relevant to the discussion of social financing.

Of particular importance there is the work in Hansmann's *The Ownership of Enterprise* that explores the role of different *patrons*, who he defines as "all [individuals or firms] who transact with a firm as suppliers of labour or other factors of production." (1996, p. 12) He then compares the relative efficacy of different patrons owning an organization such as investor-owned firms, producer-owner firms, consumer-owned firms, publicly owned firms and nonprofit firms without owners, and explores the question of which forms are best suited to which market conditions. The structure of the market is not necessarily exogenous, as regulatory or technological change can lead to a change in firm composition. For example, Hansmann argues that prior to public regulation of retail banking following the First World War the investor-owned for-profit banks were much more willing to speculate with their depositors' money than mutually-owned banks. This led to high failures rates among investor-owned banks. The higher survival rates of mutually owned banks led to their domination of the retail-banking sector until government regulations protected investor-owned banks from their own worst speculative excesses (1996, Chapter 13). Central to the comparative approach to institutions in NIE is the role of transaction costs. Coase identified three types of transaction costs: search and information, bargaining and

enforcement. He then posited that economic organization will tend towards the institutions that offer the lowest transaction costs, which tended to mean markets for simple transactions and firms when transactions became more complex and interactions had longer-term consequences between agents (1937). Tied to this, Coase also argued that in the absence of transaction costs not only could all positive or negative externalities be incorporated into economic activity and effectively eliminated, but that the particular form of economic organization needed to accomplish this would be irrelevant (1960). A key consequence of this is that the existence of positive or negative externalities in any economic interaction is not, in itself, an argument for government intervention. Indeed, Ostrom's work demonstrates the variety of responses that have been undertaken to manage the challenges of working within complex social-economic systems and the need for experimentation and variety in the management of these systems (2005, p. 271).

The role of experimentation speaks to the challenge of the boundedness of both rationality and knowledge. The "boundedness" of complex systems means that they are never fully knowable and that learning about them is costly, as it takes time and resources to measure and monitor what occurs in a complex social-ecological system (Weinberg, 1975). Bounded rationality means that human decisions can be rational, but they are only rational within the bounds of what people know (Simon, 1976). In response to bounded rationality in complex systems, inductive experimentation is often the most effective method of developing an understanding of how that complex system works (Arthur, 1994). Yet this comes into tension with the desire to standardize impact measurement, since this implies comparability between elements in different systems.

Hearts in the Right Places

SocialFinance.ca

September 15, 2010

Authored by Sean Geobey

Social finance is growing on the fringes of the Canadian financial sector. I, like most contributors to SocialFinance.ca, see an opportunity for transformational change here. However, I do think it's important to highlight a few of the fundamental differences between social finance and profit-only finance because we're still building these institutions. Get this wrong and we will put too many resources into building institutions that don't really "fit" the sector, and too few resources into the institutions that do.

Let's start with an example of a typical profit-only investment decision. Two projects are on the table, each of which will cost a million dollars. One is a restaurant franchise and the expected return-on-investment is about 10% per year. The other is a real estate development with an expected return-on-investment of 12% per year. The investment decision here is pretty clear: all else being equal, go for the 12% annual return over the 10% annual return. Even if they were both 10% per year, the risk is probably easy enough to estimate in making a decision.

Now consider a social investment decision. Again, two projects are on the table, each of which will cost a million dollars. One is a co-operative housing development with an expected return-on-investment of about 10% per year and will also create five low-income housing units. The other is an energy efficient retrofitting program with an expected return-on-investment of 12% per year that will also reduce annual greenhouse gas emissions for a group of businesses by about 1,000 tons per year.

Here the investment decision is far trickier. How much do you value low-income housing? How much do you value lowering carbon emissions? Both of these are part of your social return-on-investment, and social investors have to implicitly or explicitly decide which social goods they value most, and by how much.

For a solo investor this is easy enough, but when more than one investor is trying to pool their resources, it gets challenging.

If you put your money in a bank, stock, or mutual fund your investments combine with those of hundreds of other investors by the time they reach the borrower. That is a pretty straight-forward process, since financial markets are pretty good at mixing-and-matching investors to products with the returns on investment and desired risk profiles appropriately. However, that only occurs because a dollar's profit from a restaurant franchise is the same as a dollar's profit from a real estate development. Tie one of those dollars to low-income housing and another one to carbon reductions, and they instantly become far harder to compare. Each investor may have their heart in the right place, but those are different hearts in the right (but different) places.

This is challenge for the development of the sector, because it means that capital is unlikely to flow into a single large, well-connected market. Without that, it is difficult for social investors to diversify their portfolios and for borrowers to tap a variety of social investors to bring their concepts to scale. Because of the difficulties in pooling capital, the social finance market may never be able to reach the same scale, transparency and flexibility of for-profit only capital markets.

Are there vehicles which give social investors the flexibility they want in expressing their

different values? Is building that capacity too costly for what is still a relatively small sector in Canada? Am I way off on my analysis here? What do you think?

The opportunity in standardized measurement is that they are the key to reducing transaction costs and building viability in markets. In particular, they allow for effective policing and enforcement of social transactions, a prerequisite for rewarding output based on merit (Allen, 2012). Agreed upon units of analysis are also prerequisites for making any comparisons between projects and without the capacity to make informed comparisons, there is little opportunity to strategically invest resources. They also greatly ease the development of positive or negative reputations of actors who can then create social pressures for people to follow through on their agreements. Indeed, the now ubiquitous tool of double-entry bookkeeping was a key social innovation developed in 13th century Italy that was needed to usher in large-scale capitalist economic development.

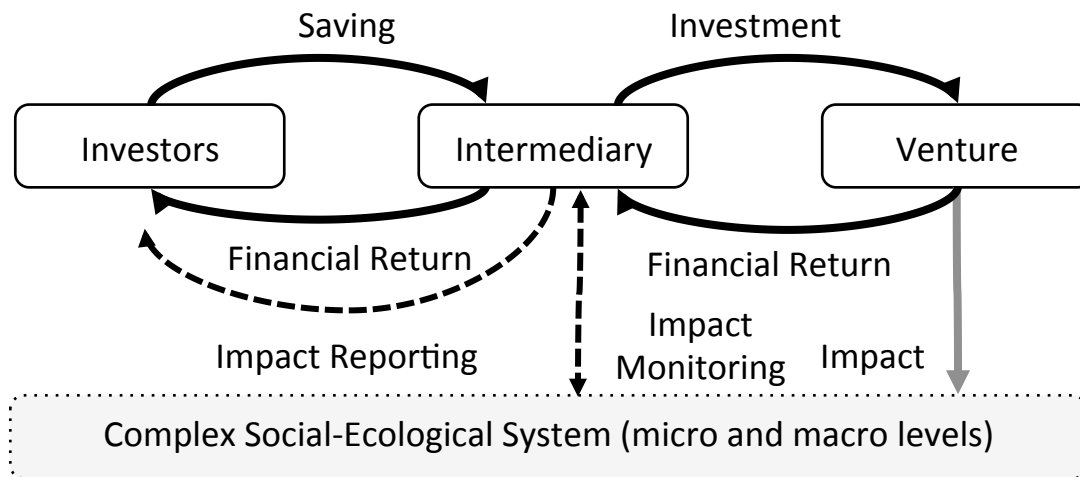
An Idealized Social Finance Ecosystem

To apply a NIE perspective to the social finance industry that is coupled with a complexity lens, a simple model is developed to outline the primary flows in the system. For a standard financing model, investors save their money in some financial intermediary who then invests that money in a set of ventures on behalf of the investor. Then in some future time period, the venture will repay the intermediary the original investment and the intermediary will return money back to the investor with a financial return.

To build out this model as a social financing system there is a need to add intended and unintended social impact. Now in addition to providing a financial return the venture also generates some impact on a complex social-ecological system. The dynamics of this system usually operate on a different time scale than the investment cycle, so these impacts may be felt at a higher macro-level in the social-ecological system, a lower micro-level in the social

ecological system or both. Institutionally, the intermediary structure has two additional tasks. First, the intermediaries monitor impact; second, the intermediaries report this impact back to investors in a meaningful way (see Fig 1.1).

Fig 1.1 Model of Social Finance System with Intermediation



Impact monitoring and impact reporting play a number of roles here that are tied to the restrictions placed on ventures. Hansmann’s argument about restrictions on organizational form suggest that in the absence of reliable impact measurement, a restrictive organizational form such as a nonprofit ownership structure would limit the downside risk of the venture shirking its responsibility to create an impact (1980). As a consequence, improved impact measurement would reduce the need for such restrictions, potentially opening up new investment possibilities and range of financial returns that could be offered. Adding to this, Allen’s view of measurement (2012) would suggest that improved impact measurement would make it easier for investors and intermediaries to select ventures based on their impact potential, raising the possibility of using impact measurement to reward success, not just punish shirking. Taken together, meaningful impact measurement can incentivize ventures to innovate and reduce impact shirking.

If a pension plan believes supporting a particular social cause was a worthwhile thing to do...then they might very well have a dual mandate. But unless someone provides me with a dual mandate I'm not interested in it and, in fact, it would be irresponsible of me to pursue a dual mandate.

- Venture Capital Manager, Ontario (interview)

What is central to this model is the role of intermediation in the social finance system.

Without intermediation, impact investors cannot appropriately calibrate risk for a variety of investors (Harji, 2009; Harji & Hebb, 2009), channel capital to promising ventures (Malhotra, et al., 2010) or bring depth to the market and align the supply of and demand for social financing (Mendell & Nogales, 2009). It is still unclear as to what the appropriate intermediary structure is for reducing transaction costs and enabling growth in the market, though it is clear that it will be a complex multi-sectoral one. The UK has a number of substantial state-led initiatives to develop a strong social financing sector and has highlighted a number of future opportunities (Joy, de Las Casas, & Rickey, 2011), though it is unclear whether the realities of decentralized federal government in Canada will allow this country to evolve along a similar path. Moreover intermediary development inherently formalizes the relationships between stakeholders in the social investment process, which is not always desirable and can have many unintended consequences. Not only is formal measurement and decision-making processes costly, it can also undermine the complex social objectives of a social investor. Indeed, part of the reason this dissertation devotes Chapter 5 to an exploration of the credit union led Vancity model is that when compared to the US and the UK, Canada's current social finance infrastructure has a uniquely prominent role for the credit union sector (Harji et al., 2012), and credit unions have traditionally been more reliant on relational interactions than mainstream banking institutions.

Reflections on the Social Innovation and Social Finance 2011 Tour of British Columbia

SocialFinance.ca

January 20, 2011

Authored by Sean Geobey

Four days ago I took a plane from the cold, snowy Waterloo Regional airport to visit warm Vancouver for the Social Innovation and Social Finance 2011 Tour. One day after the conference, I awoke to the sight of snow on the ground in BC. Since I seem to have taken some of our weather out here, I am wondering if we can take some of this province's social ecology back to Ontario.

For three days SiG, Causeway, Ashoka Canada and PLAN hosted a group of social entrepreneurs, social financiers, public servants, and academics. Participants explained their role in the development of a system of social financing and entrepreneurship on Vancouver Island and the Lower Mainland that is unique in English Canada. The ongoing shift of the Vancity Credit Union's \$17.5 billion in assets under management towards impact investments, in particular, stood out as an enabler of social innovation both inside and beyond the credit union.

As a graduate student and a McConnell fellow with SiG@Waterloo, I am going to be further exploring the social finance ecology in BC over the next two weeks with the objective of developing a case study about the work being done here. A deep, complex ecology of mutual support is not just about a handful of people who have decided they will direct their money toward a social purpose. It is also about how the assets of enabling institutions – public, private, non-profit and hybrid – have allowed this to occur in a relatively efficient and effective way. While it will be impossible to fully put together all the pieces of the puzzle, a snapshot of a few key elements and relationships will help clarify what is happening in BC.

For Canadians looking to strengthen the social finance movement, there is a lot to learn from BC. For social innovators from Calgary, St. Johns, Windsor, Iqaluit and all points in-between, the replication of some key elements, for example a strong and engaged credit union modeled on Vancity, will be important. For those looking to scale up the model of social financing developed here, the Social Finance Task Force is pushing a set of recommendations which can enable the impact seen here across Canada.

The immediate working hypothesis is that the reason the social financing sector seems so small is not due to a low supply of funds or a low demand for funds, but instead is due to a weak network of intermediaries bringing the two together. If true, it would suggest the existence of an 'invisible market' that could be activated if sufficient intermediary organizations were to develop. Furthermore, the activation of this 'invisible market' would dramatically change the routines, resource and authority flows that characterize a variety of

relationships between social sector organizations, financiers, governments and the broader social-ecological systems they touch. Should this activation occur and it generate the positive feedback loops needed to give this market durability and broad impact then social finance would qualify as a social innovation (Westley & Antadze, 2010, p. 2). However, the transaction costs needed to trigger the development of this ‘invisible market’ may exceed the size of the market itself or require the development and implementation of governance mechanisms that might otherwise be unattractive. For example, the Vancity model relies on a co-operative governance structure whose fundamental egalitarianism may be unattractive to high net worth individuals who would like their influence over the social objectives being sought to be more directly proportionate to the size of their investment than a credit union would provide.

This makes the role of intermediation all the more important; since the social finance sector is currently small and there may be an inactivated invisible market for it, the focus of the analysis undertaken in this dissertation is on understanding the intermediaries between the supply of and demand for capital in the social financing sector. Over the course of this dissertation different pieces of this model will be explored in greater detail.

Exploring the Research Journey

The study of social finance presents three key methodological challenges that add to its complexity. First, the field is new and as a consequence terminology has not been settled, little comparable data has been collected and analytical frameworks are largely under-theorized. Second, research in the field has largely been practitioner-driven, with much of that conducted by organizations seeking financial gain. While this does not imply analytical weakness, the distinction between research and marketing in grey literature is often blurry, which in turn emphasizes the differences rather than synthesis. This often infuses the

research with an evangelistic attitude towards market-building counter to critical analyses. Finally, the goals of social financing are inherently embedded in producing desired changes in complex social-ecological systems. Because of this there is a degree of complexity inherent in the social goal of social financing that cannot be removed from the analysis of social financing.

Given the complexity of the field, at least as it is currently structured, a simple disciplinary approach to understanding the Canadian social finance sector would not paint a sufficiently rich picture to make a theoretical contribution. Instead, a multidisciplinary approach that uses a variety of analytical methods is needed to understand this type of complex problem, moving from normal science into a post-normal scientific mindset (Funtowicz & Ravetz, 1990). The interplay between theoretical development, empirical research and knowledge co-creation between researcher and practitioner has been an intricate journey throughout the process of developing this dissertation. Indeed, using McGowan's concept of a research journey in which the researcher navigates through two pivotal tensions. First, there is a tension between the use of research as a tool to unpack specific phenomena versus its role in seeking to understand general themes. Second, there is a tension between the use of information by experts to explain phenomena versus the co-creation of information by all participants, practitioner and researcher, alike (manuscript submitted for publication). To embrace these tensions means adopting multiple research methods and adapting the perspective taken in conducting research in response to both findings and interactions with actors in the context.

Given the complexity of the topic and the emergent nature of social financing, it is important to ground this work in my personal experience prior to undertaking it. In writing my master's thesis, *A Model of the Voluntary Sector: An Analysis of the Structure and Functions of Voluntary Organizations and the Voluntary Sector*, the difficulty in accessing capital faced by

social sector organizations struck me as a particularly compelling and under-theorized research area (Geobey, 2005). This became all the more apparent when I worked as the Coordinator for the Laurier Students' Public Interest Research Group from 2006-2007, as the organization was mostly focused on capacity-building efforts with students and their long-term connection to the social sector. Following this, I worked for a year as a Health Economist in the Health Systems Planning Division of the British Columbia Ministry of Health Services and a large part of my role there involved the strategic management of information and leveraging to improve health outcomes. What quickly became clear to me while in that role was how limited the capacity of government was in solving social problems, clarifying the importance of non-governmental actors in both the private and social sectors. Taken together, the research gap, social sector capital constraints and the political and informational constraints on public sector action made social financing stand out as a potentially transformative lever for social change that merited further exploration. What this research interest needed was a starting point. From existing literature, both academic and grey, it appeared that BC likely had Anglophone Canada's most advanced social finance ecology. This, coupled with my experience working in the BC public service, made a set of exploratory interviews with key stakeholders in this ecology a natural fit. Between October 2009 and February 2010, I conducted 13 exploratory interviews with leaders in the BC social financing sector. The primary goal of these interviews was to establish vital challenges that could then be developed into a core set of research questions. As an initial large-scale data-collection project a survey of self-identified social finance providers was conducted with the support of Mount Royal's Nonprofit Institute. For this, Dr. Olaf Weber and I developed an online survey that was directly provided to 54 potential respondents engaged in social financing and indirectly forwarded to the national Community Development Corporations network. From this we received 27 valid survey

respondents from our direct outreach and an additional 24 valid respondents from Community Development Corporation network members. Many of the questions used in the survey were developed in response to potential research questions flagged during previous exploratory interviews and a review of existing grey literature. The results of this survey are included in Chapter 2 in this dissertation.

While the exploratory interviews and the Nonprofit Institute survey provided insight into current practices, details on the emerging movement to bring social financing into the mainstream from the perspective of the mainstream finance community were not part of either of these studies. However, Human Resources and Skills Development Canada commissioned a report by the Toronto-based social enterprise and social financing consultancy Venture Deli under whose umbrella the report included in full as an appendix to this dissertation (*Appendix A Redefining Returns: Social Finance Awareness and Opportunities in the Canadian Financial Sector*). For this project I played a primary role in developing the online survey and interview guide, as well as a supporting role in conducting a small number of interviews and in drafting the final report. This report contains the findings from 47 stakeholder interviews, 317 survey respondents and 21 focus group attendees from across Canada representing a variety of stakeholders in the mainstream Canadian financial community. Quotations from this report are interspersed throughout this chapter to reflect the variety of perspectives stakeholders in the social and mainstream financial systems have on key issues.

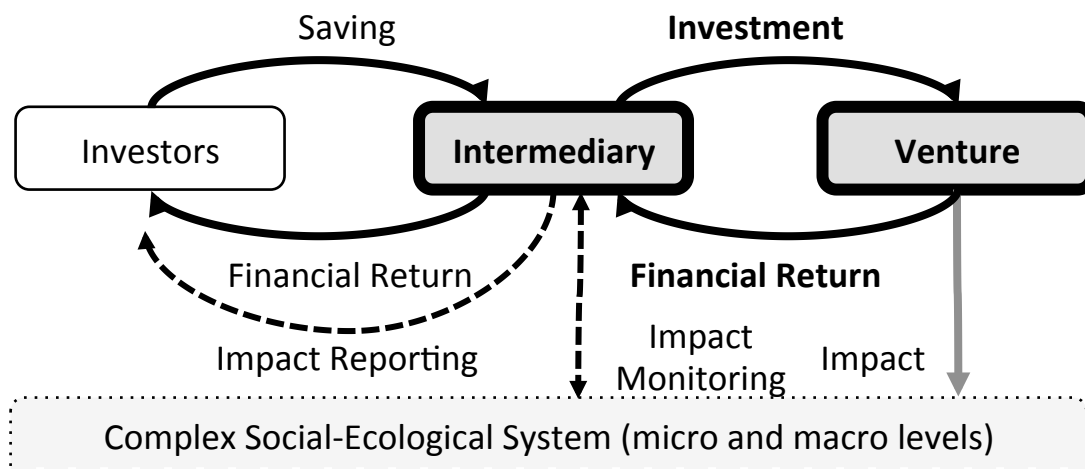
Furthermore, alongside the academic research at the core of this dissertation was the development of ideas relevant to practitioners. The dissemination of these ideas also provided for immediate practitioner feedback to check the validity of this research while it was ongoing. Much of this dissemination occurred through presentations and workshops however, a particularly important channel for dissemination has been the website

SocialFinance.ca. SocialFinance.ca is the leading online resource for the Canadian social finance community and maintains a blog that policymakers, practitioners and academics regularly contribute to. A number of blog posts that I wrote to contribute to the overall discussion of social financing and to disseminate academic research have been included in this dissertation to illustrate the ongoing conversation with practitioners that developed alongside this research.

Dissertation Structure

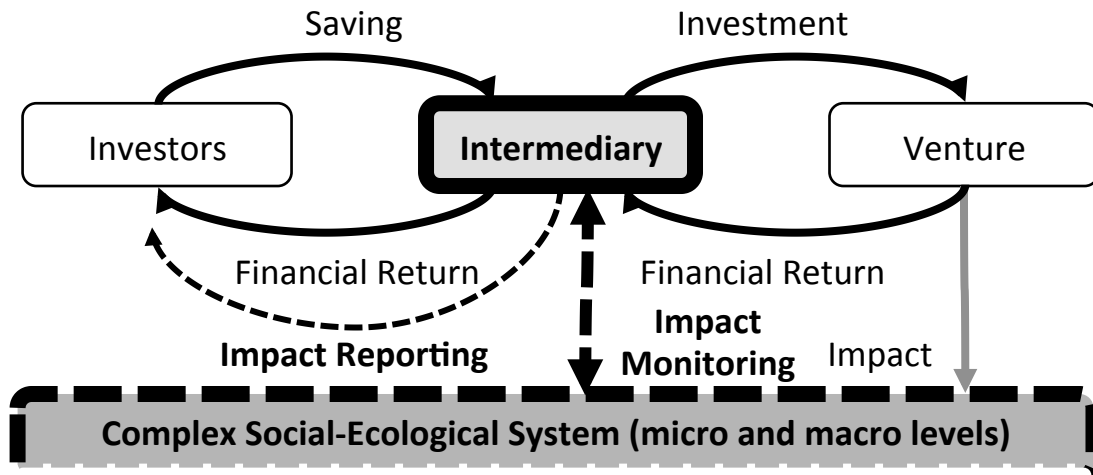
This section provides a broad overview of the structure of this dissertation and which part of the general social finance ecosystem each chapter is focused on exploring. Chapter 2 reports the result of a survey of Canadian social financiers. This survey asks social finance providers about their perception of risk, the tools they use to provide social financing and their role in measuring social impact. This work focuses primarily on the intermediary-venture relationship in the Canadian social finance ecosystem (see Figure 1.2).

Fig 1.2 Model of Social Finance System with Intermediation: Chapter 2 Research Focus



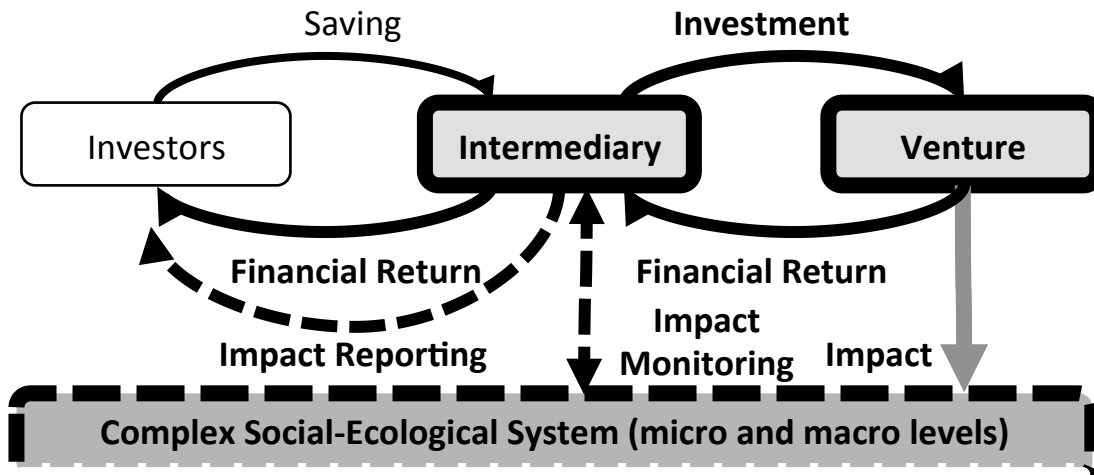
Chapter 3 examines the impact measurement systems used by social financiers (see Figure 1.3). It looks at both current practice and explores the evolution of other impact measurement systems that are more deeply developed including health, environmental and sustainability impact assessment. In many ways the evolution of impact measurement in social finance mirrors impact assessment elsewhere in gradually moving towards increased community participation in measurement.

Fig 1.3 Model of Social Finance System with Intermediation: Chapter 3 Research Focus



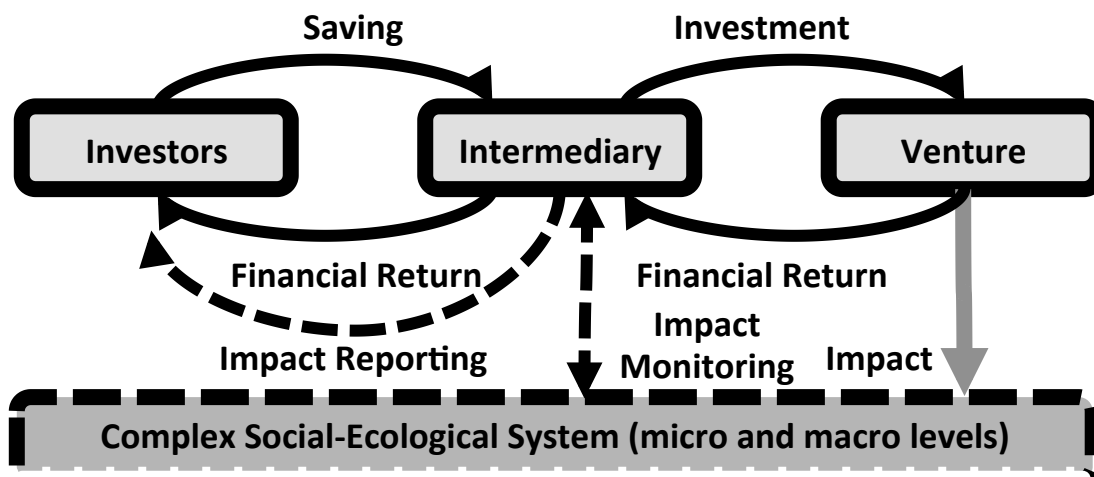
Chapter 4 builds the concept of *developmental impact investing*, which applies a portfolio approach to both the management of financial risk and the exploration of complex social-ecological systems. This chapter investigates the interplay between intermediaries, ventures and social impact to build a positive feedback loop between these actors (see Figure 1.4).

Fig 1.4 Model of Social Finance System with Intermediation: Chapter 4 Research Focus



Chapter 5 brings the entire model together by examining the interactions between all elements in the social finance system. Through a case study of the Vancity credit union the challenges of operationalizing social financing on a large scale will be explored (see Figure 1.5). Vancity seems to have developed a viable model of social financing that has made a real social-ecological impact, but how replicable this model is remains uncertain.

Fig 1.5 Model of Social Finance System with Intermediation: Chapter 5 Research Focus



Finally, Chapter 6 will summarize the research findings, explore its policy implications and suggest future directions for research within the field of social finance and for social innovation studies more generally. Returning to the definition of social innovation provided by Westley and Antadze (2010), if social finance presents a real social innovation than we would have seen the feedback loops that could dramatically change resource and authority flows that trigger a major system change or show a trajectory where this could occur. So far, the evidence of these large-scale shifts is weak and the current trajectory of social finance is unlikely to present a major challenge to mainstream financing. However, social financing can continue to grow as a shadow system in which alternatives to mainstream finance can continue to develop. Moreover, this study of the Canadian social finance system will suggest a number of pivotal areas where changes in policy or strategy could change the trajectory of this system and increase its viability as an attractive challenger to mainstream finance.

Chapter 2 – Social Financiers in Canada: Structure and Risk-Perceptions

A reasonable starting point for the examination of Canadian social finance is the relationship between social financiers and their investees. While understanding the structure of social finance investments is vital to developing a well-rounded picture of the emerging social finance marketplace, developing an idea of its role in fostering social innovation demands an examination of the resource and authority flows embedded in these investments. Williamson (1996, p. 81) argues that financial instruments are not simply means of providing capital but are also governance mechanisms. While his focus was on the governance features of debt, equity and hybrid instruments between the two, Hansmann's treatment of donations and earnings from the sale of goods and services as key determinants underpinning the survival of various legal forms (1990; 1996) implies that these can also be viewed as financial instruments with governance features. This is important because the durable transformation of resource and authority flows that result from a social innovation will manifest itself, in part, through a change in governance structures.

To start the exploration of social financing's governance features we must ascertain what organizations' financiers currently fund. Hansmann argues that organizational structures, largely represented by their legal form, tend to follow from functions that reduce overall risk by best aligning the interests of one set or another of a firm's main "patrons" (1996). To further this exploration it is also important to identify where social financiers see the greatest risks to their investments are most likely to arise.

Furthermore, we can also try to identify whether or not social financiers are actually achieving their desired social and ecological goals. This is a more challenging task and is one that will only be touched upon in this chapter. However, it will lead us into the Chapter 3

discussion of impact measurement. Here, the fundamental connection is measuring an organization's social impact and being able to reward that organization with grants, donations or access to capital beyond what would otherwise be available in the market. These would be rational responses along pay-for-performance lines for an investor seeking a social return. When there is an absence of clear measurement, trust may be a partial substitute, especially when a nonprofit legal form restricts management's ability to take excessive profits (Hansmann, 2003). Allen takes this concept one step further to argue that "hostage capital" can be used to back trust in the absence of measurement (2012). For organizations and the individuals that operate them, their reputations could provide some measure of hostage capital to support their activities in the absence of clear impact measures.

The manuscript portion of this chapter has been adapted from the report *Social Finance and Nonprofits: the Contribution of Social Finance to the Sustainability of Nonprofit Organizations and Social Enterprises* (Weber & Geobey, 2012) and it received funding support from the Mount Royal University Institute for Nonprofit Studies for the funding of the project. The bibliographic citation for the original report is

Weber, O., & Geobey, S. (2012). *Social Finance and Nonprofits: the Contribution of Social Finance to the Sustainability of Nonprofit Organizations and Social Enterprises*. Calgary, AB: Mount Royal University Institute for Nonprofit Studies.

MANUSCRIPT BEGINS

Introduction

This report for the project 'Social Finance and Nonprofits: the Contribution of Social Finance to the Sustainability of non-profit Organizations and Social Enterprises' provides an overview of the background, methodology, sampling approach and results from this survey of social finance providers, with the goal of improving the sustainability of non-profit organizations and social enterprises. To develop this survey an extensive literature review was conducted, presented in the 'Literature Review' section, followed by the development of an electronic survey to answer the following research questions:

1. What types of social finance institutions are involved in financing social enterprises and non-profits?
2. How are the portfolios of these institutions allocated to social enterprises and non-profits?
3. What products and services are used to finance social enterprises and non-profits and are they different to financing for-profits and public organizations?
4. How big are financed social enterprises and non-profits in comparison with for-profits and public organizations?
5. What are the main risks of financing social enterprises and non-profits in comparison with for-profits and public organizations?

The questionnaire was sent to 58 social finance institutions in Canada, listed in Appendix B, with the online questionnaire presented in Appendix C. This report presents the methods, the sample, the results and the conclusions drawn from the project.

Background

Borzaga, Depedri and Tortia (2011, p. 30) state "that the satisfaction of collective and social

needs has always been crucial in the creation and growth of not-for-profit organizations and cooperatives". However, in order to satisfy these social needs non-profits and social enterprises have to stand on a sustainable financial base. This is an increasingly important issue because we find declining charitable revenues to Canada's non-profit sector coupled with a greater need for this sector's services due to tightening governmental budgets for social and environmental services (Canadian Task Force on Social Finance, 2010).

A study on Canadian non-profits recently showed mediocre financial management performance (Wood, Holoday & Veldhuis, 2010, p. 15). However, the availability of debt (Abraham, 2006) and equity financing (Brown, 2006) to support the mission of non-profits and social enterprises is crucial to ensuring their sustainability (Edery, 2006). Social enterprises are for profit companies with social missions, although this definition is rather ambiguous given that there are few Canadian jurisdictions in which organizations can be legally incorporated as social enterprises. Knowledge is needed about the management of financial issues of non-profits and social enterprises and in the measurement of their financial performance (Bagnoli & Megali, 2011).

Given that "social enterprises face difficulties in securing long-term funding with increased competition for resources" (Bull & Crompton, 2006, p. 44) and a shift from primarily governmental and philanthropic grants to accessing loans and investment capital, it is crucial to identify financing institutions for non-profits and social enterprises. This is even more important as there are signs that that socially responsible investment (Sandberg, 2010a), ethical finance (Weber & Remer, 2011) and impact investing (Freireich & Fulton, 2009) are gaining momentum. This could lead to financing opportunities for non-profits and social enterprises. Furthermore, in Canada many in the credit union and *Caisses Populaire* movement has long sought to integrate corporate social responsibility into their business practices by directly investing in non-profits and social enterprises in addition to

supporting them through more traditional philanthropic funding (www.cucentral.ca; www.desjardins.com; Strandberg, 2010b).

Therefore, this project strives to analyze how social finance organizations provide financing for non-profits and social enterprises. The results may be used to improve the capacity of these organizations to access loans and 'quasi-equity' instruments.

Literature Review

Social finance is an emerging field as both an industry and as a field of study. In different regions the sector is at different stages in its evolution and overall the United States and the United Kingdom both have regulatory environments which take into account social enterprises and social finance more than the Canadian social finance sector. Consequently, much of the research we draw on comes from the United States or the United Kingdom, although following the release of the Canadian Task Force on Social Finance's report *Mobilizing Private Capital for Public Good* (2010) there has been a marked increase in Canadian research in this area. This follows on research in the United States, much of it led by the Rockefeller Foundation's "Harnessing the Power of Impact Investing" initiative launched in 2008. This research and development program has included development of the Global Impact Investment Ratings System (GIIRS) and the Impact Ratings and Investment Standards (IRIS) (Bugg-Levine, 2009). In the United Kingdom, research and development has been led more directly by public and quasi-public institutions, specifically the National Endowment for Science, Technology, and Arts (NESTA) created in 1998 and more recently the Big Society Bank, created in 2010.

Demand for social finance comes from the non-profit and charitable sector, social enterprises and cooperatives, with much of that driven by the legal and regulatory requirements of each form. Non-profits are barred from raising capital through the issuing

of equity, and ones that are highly dependent on donations may face challenges in acquiring and holding onto debt (Yetman, 2007). Additionally, revenue instability means that nonprofits may face higher liquidity demands (Zeitlow, Hankin, & Seidner, 2007; Bowman, 2007). Diversification of income streams can reduce this instability (Young, 2007a), consequently reducing the need for high cash holdings and increasing access to debt financing. This largely explains the rationale behind non-profits seeking to develop new revenue-generation streams from pricing existing services, new commercial ventures, or corporate partnerships (James & Young, 2007).

Social enterprises may be incorporated as non-profits, for-profits or cooperatives in Canada, although there is not a clear way of distinguishing a social enterprise from any other organization in most of Canada. Unlike community investment corporations (CIC) in the United Kingdom and benefit corporations in the United States, there are no specific legal forms for social enterprises in Canada other than British Columbia's Community Contribution Company (C3) that only came into effect in May 2012, Nova Scotia's Community Interest Company only came into effect in December 2012, and the voluntary B Corp status available elsewhere. This can make the classification of social enterprises challenging. That being noted, there is a further conceptual challenge that in Europe—including the United Kingdom—social entrepreneurship is generally considered to be only an element of the solidarity-based social economy, whereas in the United States social entrepreneurship is conceived of as an individual-led response that can emerge from any sector (Ridley-Duff & Bull, 2011). In effect, the American perspective is more limited in its objectives while the European approach takes social entrepreneurship as part of a broader strategy for harnessing market forces for social purposes, working alongside a broader set of 'Third Way' style policy initiatives. Canadian research tends to draw from both approaches, and there is no clear consensus in Canada as to which conceptualization should

be used. This is further confused by the widespread use of cooperatives in Canada, which may be considered social enterprises inherently although their existence predates the development of social enterprise terminology.

Estimates of overall demand for social finance in Canada largely come from the Social Finance Census, focused on Ontario (Malhotra, Laird, & Spence, 2010). This was a survey of non-profit organizations and social purpose businesses in which over 70% of the 244 respondents identified lack of access to capital as a major barrier. They also found that 67% of social purpose businesses were dissatisfied with their available debt sources and make little use of them, with 26% using lines of credit, 19% using bank loans, and 2% using community bonds; with the rates for non-profit usage of these tools being even smaller. The low usage rates being noted as 48% of non-profits with social enterprises and 49% of non-profits without social enterprises that would be willing to take on debt and 59% of social purpose businesses that would be willing to issue equity.

Potential suppliers of social finance include foundations, credit unions, quasi-public agencies, social banks and mainstream financial institutions. In the United States the total size of the potential market has been estimated at \$500 billion (Freireich & Fulton, 2009). Similarly, the Canadian Task Force on Social Finance estimates that the size of the Canadian market could reach a size of \$30 billion (2010). Elliot's study for the Big Society Bank in the United Kingdom looked at the potential of bringing the "mass affluent" of investors with £50 thousand to £1 million in assets and identified as the three main motivations for those actively interested in social finance to be the potential for engagement with social enterprises and charities, being perceived as an early adopter and the potential to recycle social investments once the investments have been repaid (2011).

Within Canada there have been recent studies attempting to identify the current supply of social finance in Canada. The Social Investment Organization has identified \$4.45 billion in

impact investment assets in Canada, which is more than three times the amount they identified in 2008, although this is largely because they were able to include suppliers who they had previously missed, in particular a large number of the Quebec-based funds. Their breakdown of impact assets are presented in Table 2.1:

Table 2.1 Impact investment assets and amount of assets (Bragg, 2011)

Impact investments assets by category	Assets (\$ million)
Aboriginal Funds	285.7
Community Futures Development Corporations	910.6
Community Loan Funds and Social Venture Capital	348.8
Credit Unions	951.5
Foundations	32.0
International Impact Investments	5.6
Quebec – Development Capital	1,049.1
Quebec – Solidarity Finance	850.5
Total	4,447.8

Strandberg narrows her study to nine foundations in Canada engaged in impact investing. Collectively Canadian community and private foundations control \$40 billion in assets, although a very small portion of this is engaged in impact investment. Her findings are that few foundations have formal policies on mission-related investments, although some have set caps including one that prohibits more than \$1 million in assets going to mission-related investment and other that limit total assets that can be committed to impact investing ranging from 5-40%. Of the foundations she studied, altogether there were 50 mission-related investments with the majority under \$100,000 and few over \$1 million, though overall those made up a substantial component of the mission-related investment portfolio as these included a \$1 million, a \$2 million and a \$10 million investment. About half of the investment products the foundations used were loans or mortgages at market rates, followed by below market rate loans and equity at about 10% each (Strandberg, 2010).

One element that does come through clearly in the research is that although there are both a substantial supply of and demand for social financing, a major barrier is the lack of well-developed social finance intermediaries. Godeke, Pomares, Bruno, Guerra, Kleissner and Shefrin (2009) identify two types of models financial advisors follow in their relationship with impact investment providers: one in which the financial advisor is also the impact investor, and another in which a specialist provides the impact analysis which must then be coordinated with the models used by more traditional financial advisors. They also suggest a few specific barriers to the efficient delivery of impact investment advisory services: the necessity of having active ownership although there are often multiple layers of intermediaries, a disconnect between long-term impact investment objectives and the short-term time horizon of specialist consultants, a lack of consensus on how to define and measure social impact, advisors' tendency to focus on a select asset class rather than providing services across asset classes, lack of research and due diligence infrastructure, and challenges in having investors and advisors reach a consensus on an impact model (2009).

The Big Society Bank in the United Kingdom has explored the need for intermediary development and have identified six key findings: the needed investment for intermediary development is relatively low, in the hundreds of millions of pounds rather than billions, demand is primarily for soft capital—patient capital, semi-commercial capital and grants),. Soft capital can be used in disciplined ways; market-building is needed to enable transaction follows, the Big Society Bank may need to face a trade-off between market-building and capital maintenance, and that there is little appetite for the development or entrance of new intermediaries (Joy, de Las Casas & Rickey, 2011). On the side of social finance demand, in Canada 48% of social purpose businesses identified a lack of intermediaries as a barrier to capital flow, 45% found proving social or environmental

impact a barrier, and 45% of non-profits found a lack of business development support a barrier (Malhotra, Laird & Spence, 2010).

Methods

The electronic questionnaire consisted of closed and open questions. The closed questions were provided on a five point Likert scale. The use of this type of scale facilitated the use of statistical methods to analyze and to compare the responses of the participants.

Additionally, we used open questions to gather additional aspects of financial social enterprises and non-profits. The questionnaire can be found in Annex II.

To analyze the results, we used descriptive statistical analyses, analyses of variance (ANOVA), Chi² tests and qualitative data analyses.

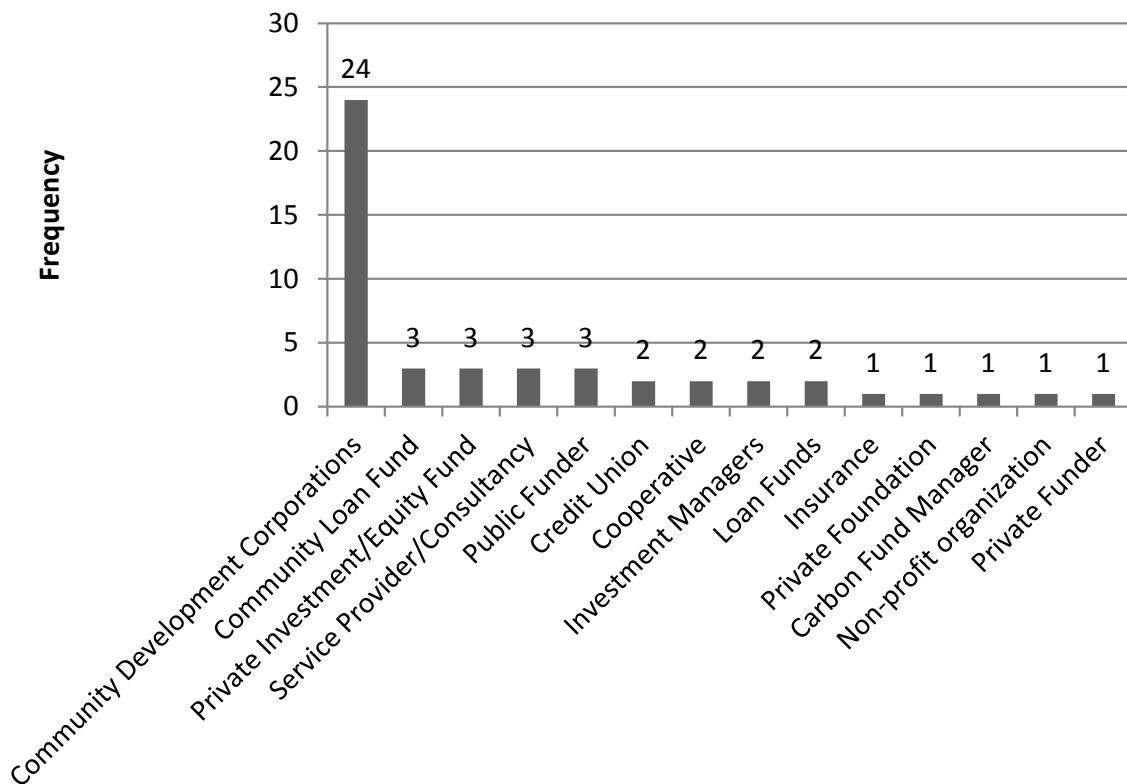
Sample

According to the project plan the sample should consist of 50 social finance institutions. From the start of survey collection on November 1, 2011 until March 29, 2012 we received 51 completed questionnaires that could be included. We contacted 54 potential survey-takers by phone and email plus an additional four by e-mail alone, of which 27 responded for a total response rate of 47% from our direct respondents. In addition, an invitation was sent over the Community Development Corporations Network, where we received an additional 24 indirect respondents. Credit Unions were contacted through the Credit Union Central of Canada that provided us with two contact addresses of credit unions. Contacting credit unions directly probably would have increased the number of credit unions in the sample.

Quantitative Results of the Survey

We will present descriptive statistics and significance tests (analyses of variance (ANOVA) and Chi² tests) to analyze the data, followed by the analysis of the qualitative responses. The type of organization that responded the questionnaire was diverse. Twenty-four of them were Community Futures Development Corporations or Community Business Development Corporations. In this report, we will call this group Community Development Organizations (CDC). Three of them were community loan funds, private investment funds, service providers or consultancies and public funders respectively. Furthermore, two credit unions, two cooperatives, two investment managers and two loan funds participated. In addition, one insurance cooperative, one private foundation, one carbon fund manager, one non-profit organization and one private funder responded to the survey (see Figure 2.1).

Fig 2.1 Types of organizations responding to the survey

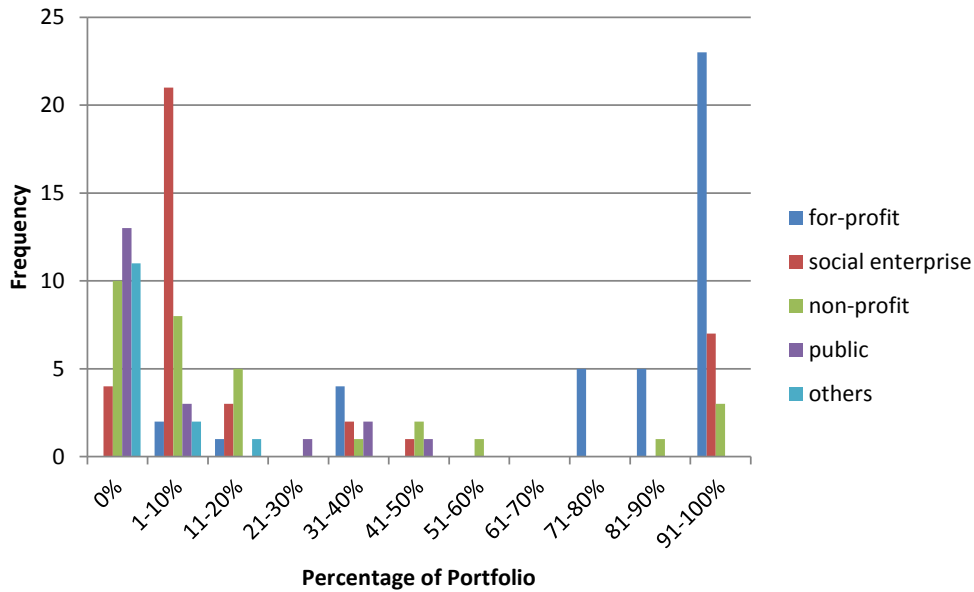


Thus, it seems that the group of non-profit and social enterprise financiers are very

heterogeneous.

What percentage of the respective portfolio is allocated to for-profit organizations, social enterprises, non-profit and charitable organizations, and public sector organizations? The portfolio allocation is presented in Figure 2.2.

Fig 2.2 Portfolio allocation of for-profits, social enterprises, non-profits and public sector organizations



We tested the influence of the investees and CDCs versus other investors with respect to the portfolio distribution using an ANOVA. Overall the ANOVA was significant $p < .00001$, $df = 9$, $F = 19.6$). The r^2 of the model was .57. There was a significant difference between CDCs and other investors ($p = .0157$, $df = 1$, $F = 6.0$) and between the investee groups ($P < .0001$, $DF = 4$, $f = 32.7$). Furthermore, we found a significant interaction between CDCs versus other investee groups ($p < .0001$, $df = 4$, $F = 6.5$). There is a significant interaction suggesting that CDCs have a different portfolio allocation than other social finance investors ($p < .00001$, $df = 4$, $F = 74.24$). CDCs have significantly more investments in for-profit organizations, and fewer investments in social enterprises and non-profits than other social investors.

Which financial products are used for which type or organization? We present the results for this question in Table 2.2.

Table 2.2: Number of products and services used for different types of organizations

Product / Service	For profit	Social Enterprise	Non-profit / charitable	Public	Others	Total
Loans (General)	25	20	9	3	3	60
Loans (secured)	25	18	11	1	1	56
Mortgages	16	12	11	3	0	42
Loans (unsecured)	17	12	9	1	0	39
Working capital	16	6	6	2	0	30
Guarantees	15	7	6	2	0	30
Loans (subordinate)	15	8	4	0	0	27
Grants	3	9	12	3	0	27
Line of credit	9	6	7	2	0	24
Equity	17	4	2	1	0	24
Loans (below market interest)	3	6	7	1	0	17
Leases	5	1	3	1	0	10
Donations	0	4	3	0	0	7
Bonds	3	0	1	0	0	4

Table 2.2 shows that the most used products are loans, mortgages, working capital and guarantees. In order to analyze which types of products are used to finance different types of organizations, we calculated the percentage of the product use per organization type financed (see Table 2.3).

Table 2.3: Percentage of product use for financing different types of organizations

Product / Service	For profit	Social Enterprise	Non-profit / charitable	Total
Loans (General)	14.79%	17.70%	9.89%	15.11%
Loans (secured)	14.79%	15.93%	12.09%	14.11%
Mortgages	9.47%	10.62%	12.09%	10.58%
Loans (unsecured)	10.06%	10.62%	9.89%	9.82%
Working capital	9.47%	5.31%	6.59%	7.56%
Guarantees	8.88%	6.19%	6.59%	7.56%
Loans (subordinate)	8.88%	7.08%	4.40%	6.80%
Grants	1.78%	7.96%	13.19%	6.80%
Line of credit	5.33%	5.31%	7.69%	6.05%
Equity	10.06%	3.54%	2.20%	6.05%
Loans (below market interest)	1.78%	5.31%	7.69%	4.28%
Leases	2.96%	0.88%	3.30%	2.52%
Donations	0.00%	3.54%	3.30%	1.76%
Bonds	1.78%	0.00%	1.10%	1.01%

We analyzed the use of products and services on the basis of Table 2.3. If we have a look on those products and services that are used in more than 10% of financing, loans and mortgages are the most used financing services. For financing for-profit organizations general and secured loans are most often used before unsecured loans and equity. For social enterprises again general, secured and unsecured loans and mortgages are the most used products. As expected, grants are the most used product for non-profits in addition to secured loans and mortgages. Because financing public organizations and others only occurred a few times we do not analyze these organizations in detail. The results of a Chi² test for the products and services and financing for-profits, social enterprises and non-profits suggest that the products and services are used significantly differently dependent

on the type of organization that is financed ($N = 395$, $\chi^2 = 44.99$, $p = 0.012$). The frequency, expected frequency and χ^2 contribution are presented in Table 2.4.

Table 2.4: Frequency, expected frequencies and χ^2 contribution of products and services; products and services with the highest χ^2 contribution are printed in bold

Service		For-profit	Social Enterprise	Non-profit
Loans (general)	frequency	25	20	9
	expected frequency	24.3	16.5	13.1
	χ^2 contr.	0	0.7	1.3
Loans (secured)	frequency	27	20	12
	expected frequency	26.6	18.1	14.3
	χ^2 contr.	0	0.2	0.4
Loans (unsecured)	frequency	17	12	9
	expected frequency	17.1	11.6	9.2
	χ^2 contr.	0	0	0
Loans (subordinate)	frequency	15	8	4
	expected frequency	12.2	8.3	6.6
	χ^2 contr.	0.7	0	1
Loans (below market interest)	frequency	3	8	7
	expected frequency	8.1	5.5	4.4
	χ^2 contr.	3.2	1.1	1.6
Mortgages	frequency	16	12	11
	expected frequency	17.6	11.9	9.5
	χ^2 contr.	0.1	0	0.2
Line of credit	frequency	10	6	7
	expected frequency	10.4	7	5.6
	χ^2 contr.	0	0.2	0.4
Working capital	frequency	20	8	8
	expected frequency	16.2	11	8.7
	χ^2 contr.	0.9	0.8	0.1
Leases	frequency	7	2	4
	expected frequency	5.9	4	3.2
	χ^2 contr.	0.2	1	0.2
Equity	frequency	17	4	2
	expected frequency	10.4	7	5.6
	χ^2 contr.	4.2	1.3	2.3
Guarantees	frequency	15	7	6
	expected frequency	12.6	8.6	6.8
	χ^2 contr.	0.4	0.3	0.1
Bonds	frequency	3	0	1
	expected frequency	1.8	1.2	1
	χ^2 contr.	0.8	1.2	0
Grants	frequency	3	9	12
	expected frequency	10.8	7.4	5.8
	χ^2 contr.	5.6	0.4	6.5
Donations	frequency	0	5	4
	expected frequency	4.1	2.8	2.2
	χ^2 contr.	4.1	1.8	1.5

The results of the χ^2 test suggest that loans with interests below market are used less for

financing for-profits. Equity is used less for both for-profits and non-profits, though the fact that any respondents used equity to invest in non-profits or charities is an odd anomaly. Grants are used more often to finance non-profits and less for financing for-profits. Donations are not used for financing for-profits as expected. Generally, all types of organizations use standard financing tools, including those organizations identified as social enterprises. Additionally, donations are used to finance both social enterprises and non-profits.

The frequency of products and services used for financing different types of organizations are presented in Figure 2.3 as well. Again, it shows the frequent use of loans for all types of organizations and the use of grants for non-profits.

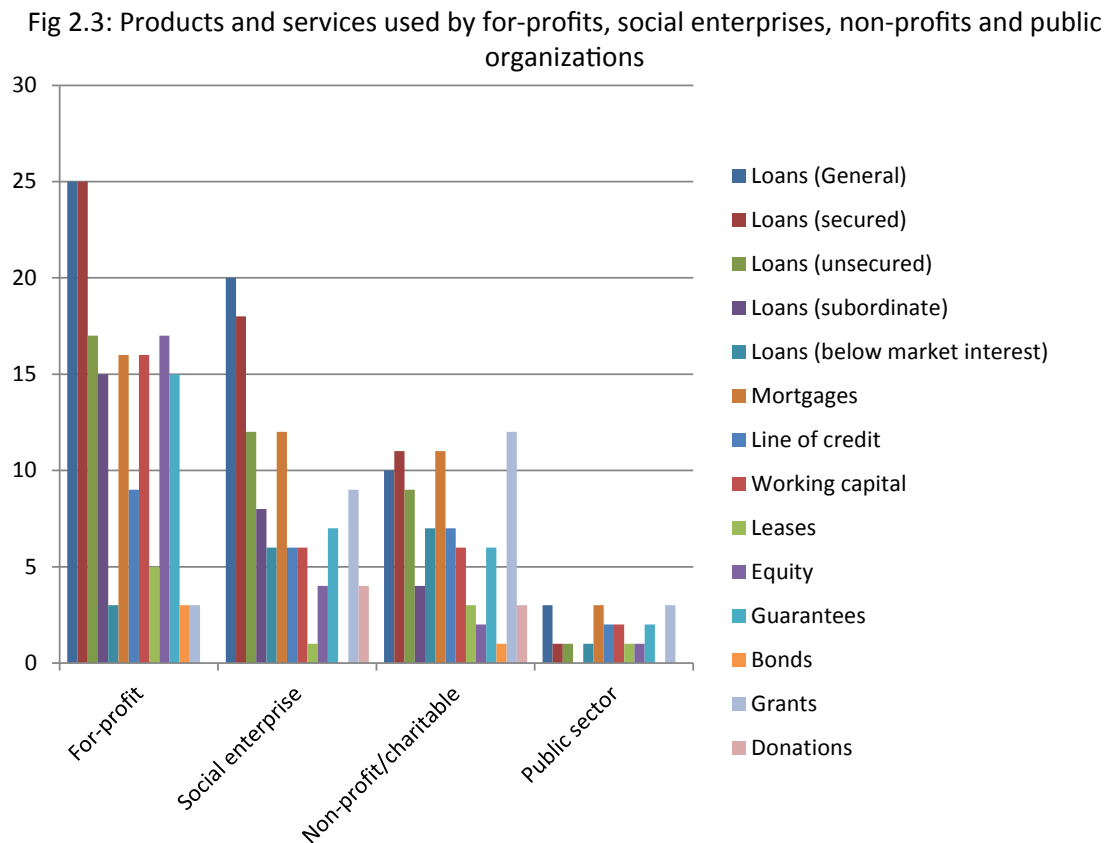


Fig 2.3: Products and services used by for-profits, social enterprises, non-profits and public organizations

Again, we tested for differences between CDCs and other social investors using t-tests. The

results represented in Table 2.5 shows the average use of the products by CDCs and other social investors and the level of significance.

Table 2.5: Use of different products and services by Community Development Corporations and other social finance investors including significance tests (t-tests)

Product	Others	CDCs	Significance
General loans	25.0%	35.8%	.099
Secured loans	17.3%	46.2%	< .00001
Unsecured loans	17.3%	22.8%	.336
Subordinated loans	10.6%	17.4%	.169
Loans below market interest	5.7%	14.1%	.049
Mortgages	19.2%	23.9%	.428
Working capital	18.3%	20.7%	.676
Leases	5.8%	8.7%	.430
Equity	10.6%	14.1%	.451
Guarantees	14.4%	17.4%	.572
Bonds	2.9%	1.1%	.377
Grants	10.6%	17.4%	.169
Donations	8.7%	0.0%	.004

We only found significant differences in the secured loans, loans below market interests and donations. While secured loans and loans below market interests are more often used by CDCs than other social investors, donations are used by other social investors but not by CDCs.

To identify the types of organizations our respondents funded we analyzed the percentages of the portfolio for for-profits, social enterprises, non-profits and public organizations regarding the allocation to:

- Start-up and spin-offs

- Micro-organizations (<4 employees)
- Small organizations (5-49) employees
- Medium organizations (50-499 employees)
- Large organizations (>500 employees)
- Others

The result is presented in Table 2.6 that shows the average percentage for the different sizes of organizations in the portfolios.

Table 2.6: Average portfolio allocation of different company sizes in for-profit, social enterprise, non-profit and public sector organizational investments

Financed organization	Start-ups	Micro	Small	Medium	Large	Others
For-profit	21-40%	21-40%	21-40%	1-20%	1-20%	1-20%
Social enterprise	21-40%	21-40%	21-40%	1-20%	1-20%	0%
Non-profit	1-20%	1-20%	21-40%	1-20%	0%	0%
Public	0%	1-20%	1-20%	0%	1-20%	0%
Total	21-40%	21-40%	21-40%	1-20%	1-20%	1-20%

Generally, the financing institutions financed mainly start-ups, micro and small enterprises.

We could not find significant differences in the size of the organizations between the types of financed organizations. With respect to CDCs versus other investors, we found differences for investments in start-ups and microenterprises. CDCs invest a higher amount in start-ups ($p = .0063$, $t = -2.8270$) and micro-enterprises ($p = .034$, $t = -2.1691$) than other investors do.

Let us analyze the financial risks that are connected with financing different types of organizations. The participants rated for-profits, social enterprises, non-profits and public sector organizations with respect to their risk and returns. The rating was done on a 5-point scale with the following values:

1: very low

2:low

3: moderate

4: high

5: very high

For all of the risks included in the survey a higher mean corresponded to higher evaluation of potential risk. The results of these risk comparisons are presented in Table 2.7.

Table 2.7: Sources of risk in for-profit, social enterprise, non-profit and public sector investments. Risk categories with significant differences between types of organizations are printed in bold, df = 3.

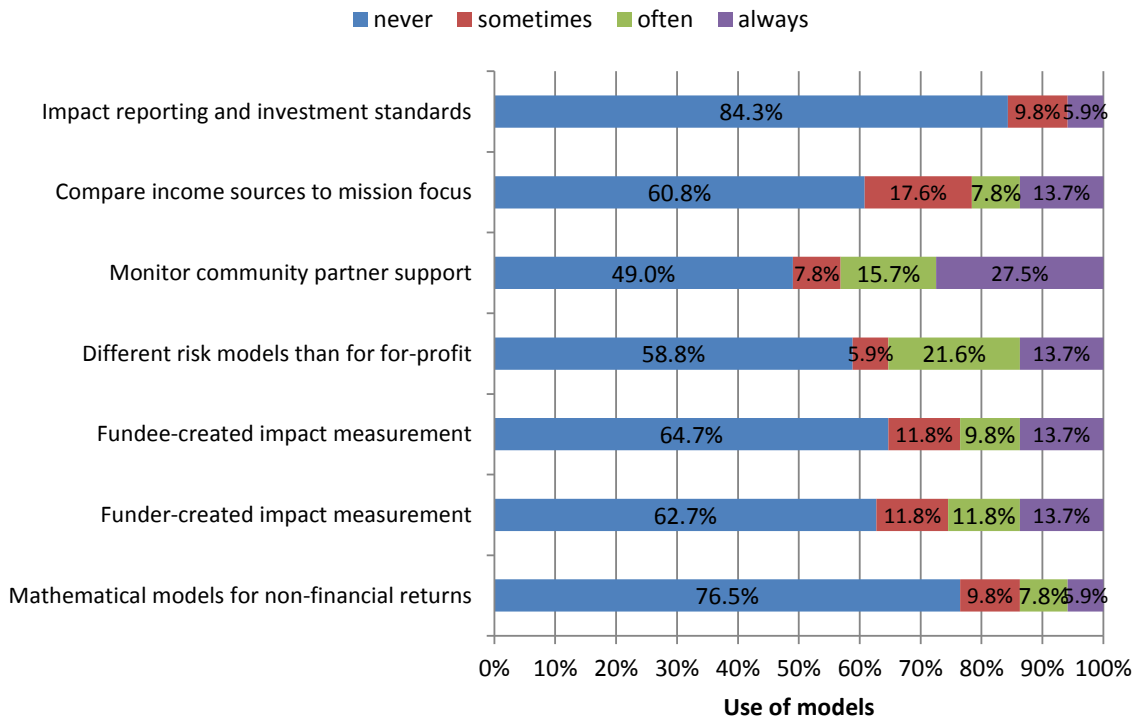
Type of Risk	For profit	Social Enterprise	Non-profit	Public	F	p
Financial Risk	3.16	3.59	3.57	3.73	1.11	.347
Financial Returns	3.29	2.5	2.41	3.5	4.32	.0064
Management Risk	3.55	3.71	3.84	4.05	1.04	.377
Public Relations Risk	2.94	3.30	3.7	4.26	6.58	.0004
Ethical Risk	3.16	3.15	3.53	3.91	1.96	.125
Inefficiency	3.16	3.59	3.83	4.29	4.08	.0087
Fidelity to Mission	3.07	3.2	3.46	3.89	1.31	.2739
Cost Structures	3.25	3.4	2.93	2.36	3.68	.0149
Governance	3.14	3.52	3.89	3.9	2.56	.0590
Access to Capital	3.52	4	4.10	3.82	1.41	.2447
Access to Securities	4	4.43	4.76	4	.76	.5203
Revenue Uncertainty	3.62	4.07	4.18	4	1.16	.3284
Accountability	3.79	3.37	3.69	4.35	2.00	.1192
Liquidity	3.5	3.90	4.19	3.84	1.38	.2519
Size	2.87	3.13	3.34	3.5	.99	.4010
Tax Regulation	3.36	3.3	3.5	3.94	.73	.5393
Financial Regulation	3.15	3.23	3.5	3.74	1.00	.3945
Regulatory Burdens	3.21	3.31	3.64	3.9	1.62	.1891
Academic Expertise	2.55	2.86	3.08	3.42	1.32	.2711
Community Sophistication	2.79	3.45	3.68	3.67	2.59	.0573
Community Networks	2.90	3.63	3.88	3.89	3.49	.0186
Credit Management Expertise	3.32	3.77	3.68	3.83	1.00	.3949
Investment Advisors	2.8	3.41	3.64	3.72	2.76	.0457
Public Sector Funding	2.27	3.74	4.39	4.4	21.81	<.00001
Tax Incentives	2.79	2.82	3.46	4.67	7.82	<.00001
Founder/leader Domination	3.43	3.79	3.66	4.19	1.21	.3098

We conducted analyses of variance to find out whether different types of organizations were evaluated significantly different by the participants. We found significant risk differences for the following factors based on two group post hoc Scheffe tests following the ANOVA:

- Lower Financial returns for non-profits and social enterprises;
- Higher public relation risk of public institutions compared with social enterprises and non-profits;
- Lower inefficiency of for-profits compared to public organizations;
- Higher dependency on the public sector funding of social enterprises, non-profits and public organizations compared to for-profit organizations.
- Higher dependency on the public sector tax incentives than for for-profits and social enterprises. The results suggest that the participants identified some risks that are especially applicable to non-profits and social enterprises. Programs to mitigate these risks should be developed to increase the financing opportunities for these organizations.

What instruments are used to track the social finance investments? Is the use of instruments that evaluate both financial returns and societal impacts widely spread? In Figure 2.4 we present the distribution for the use of the different instruments and tools. Generally the results suggest that models that track social finance investments are not often used. Furthermore the results of a Hotelling test demonstrate that the models are used differently ($F = 4.36$, $T = 29.2$, $p = .0015$). The highest frequency for tracking social finance investments has *monitoring community partner support. Impact reporting and investment standards* are least used together with *mathematical models for non-financial returns*. Though 41.2% of respondents stated that they use different risk models than for-profit investments, it seems that specific models for non-profits and social enterprises are not common yet. Furthermore, we could not find any significant differences in the use of the models between CDCs and other organizations.

Fig 2.4: The use of models, instruments and tools to track financial investments



Qualitative Results of the Survey

The qualitative responses identified little consensus on the measurement tools social providers' use. Although we have only received six responses, from the two providers used, the Global Impact Investment Reporting System (GIIRS), and one of these also used the Impact Reporting Investment Standards (IRIS) and B Corp. Of the remainder, two respondents mentioned that measurement tools were not applicable; one used the Community Development Financial Institution Rating System, while another used a proprietary model. Keep in mind that as a majority (57.1%) of our respondents use different risk assessment models for social finance investments than the ones they use with for-profits, our preliminary results show little standardization in the field.

There is far more consensus on the education and training of social finance portfolio managers. Nearly all respondents (96.8%) indicated that their portfolio management team

included people with business-related qualifications such as a Masters in Business Administration, Certified Accountancy or a Certified Financial Analyst. Few indicated public sector-related education such as a Masters in Public Administration (6.5%), or social service related education such as a Masters in Social Work (9.7%). However, two of our respondents indicated that they did not have anyone with a graduate-level education on their portfolio management team and there seems to be more of an emphasis towards work experience rather than formal education with one respondent stating, “We’re a small organization, so the same person manages the social and for-profit portfolios...no university degrees, but 23 years on the ground with clients in commercial banking...give me that over an MBA any day.”

This carries through in our finding that although the formal education of a social finance portfolio management teams is primarily business-related, work experience is far more varied. Although private sector work experience is still best represented (91.4%), almost half of teams include people with non-profit sector experience (48.6%). In addition, many teams include public sector (31.4%), foundation (28.6%) and social enterprise (28.6%) experience as well. Although we did not specifically ask, respondents also indicated experience in the cooperative sector and with for-profit crown corporations. Overall, the picture painted here is that social finance portfolio teams tend to be multi-sectoral though all have solid grounding in the for-profit sector.

These findings suggest that the social finance sector is an emerging market still in the process of identifying and building its core competencies and best practices. This is consistent with other current research in the field (Freireich & Fulton, 2009). In our open-ended questions asking for the current barriers to providing social finance investments, the most common barriers are directly related to the scale of the market and its relative underdevelopment. Some respondents directly refer to the size of the market and the cost

of carrying out transactions with quotes such as:

“Costs associated with fund administration. Inability to build scale easily and quickly.” “Often too small an investment for the amount of research and due diligence required.” “Not enough money to give” and “Lack of scale.”

While others speak to the lack of awareness on the side of potential investors and other supporters:

“Awareness/ Risk & yield demystification”

and

“Investee side...finding large investors for the fund who value the social finance attributes of the investments when the exact same investments are available in the private sector with higher and safer returns.”

A few respondents noted sector-specific deficiencies on the side of potential investors:

“Government needs to be shown and then accept there is return on investment” and

“[Over-reliance on public sector funding is particularly severe] in rural Canada...because private sector funders would much rather invest in East Timor than rural Canada.”

This lack of development on the side of capital provision extends into available investment vehicles:

“The only available instrument for a cross-border, outside investor model that is accessible to foundation investors is a trust,”

“Lack of product (e.g. mutual funds, closed end funds) to easily incorporate into overall portfolios,”

and:

“Lack of retail and institutional products,” and adding a regulatory dimension:

“Financial Services Commission of Ontario regulations and lack of openness to

investigate new funding models”

Additional gaps have been identified on the demand side for capital. Partly this comes from the cultural barriers within social enterprise and non-profit organizations, such as:

“Lack of awareness and appreciate of cost of capital; asset/liability management, lack of understanding of risk management by social enterprises and non-profits seeking capital,”

“Many non-profits, social enterprises and small co-ops are challenged in finding strong management to lead their organizations,”

and

“There are more efficiencies that could be found if non-profits and social enterprises, formed alliances/partnerships to share basic services.”

However more frequently cited were the regulatory challenges:

“If limited Partnerships (a standard corporate form where investors do not control investments) or a cooperative share model were possible, or if the equivalent of a community development financial institution existed, things would be different/ Right now, aside from ‘donations’, investments can be problematic,”

“Regulatory and tax environment with both the provinces and the federal government,”

and:

“Limitations on what is considered ‘non-taxable’ and charitable.”

With these barriers noted, social financiers expressed what they saw as opportunities that come from investing in social enterprises, non-profit organizations and cooperatives. Of particular importance, they are broadly seen as being more accountable to local community stakeholders:

“More accountability to public and community by social enterprise and non-profit

organizations,”

and

“Accountability is a variable that in my mind rests on the lender/grantor and the organization coming to an agreement on expectations. I find in our relationships that our recipients are more than willing to be accountable.”

Furthermore, although the sector is often characterized by having a large number of small organizations and being in need of greater consolidation, one of our respondents specifically pushed back on this idea:

“There are many niche non-profits and social enterprises and small does not necessarily equate with ineffective”.

The view of the state of current research amongst social finance practitioners is mixed and may point to a need for wider dissemination of works that has already been conducted:

“Little solid research to inform social enterprise and non-profit organization development,”

and:

“There has been much more work from academics in the impact investing space over the last few years. Not underserved.”

Conclusions

With this survey we wanted to answer the following research questions:

1. What types of social finance institutions are involved in financing social enterprises and non-profits?
2. How are the portfolios of these institutions allocated to social enterprises and non-profits?
3. What products and services are used to finance social enterprises and non-profits and are

- they different to financing for-profits and public organizations?
4. How big are financed social enterprises and non-profits in comparison with for-profits and public organizations?
 5. What are the main risks of financing social enterprises and non-profits in comparison with for-profits and public organizations?
 6. Which instruments are used to track the social investments?

The results of this study delivered valuable responses on these questions.

The type of social finance organizations cannot be easily specified. It seems that this group is very heterogeneous. Community Development Corporations seem to play an important role in the field. It would be interesting to conduct an analysis that concentrates on the role of credit unions and *Caisses Populaires*. Because of the sampling method we only have a small number of these institutions in this survey.

In addition, we found the whole spectrum of portfolio allocation to social enterprises and non-profits. There are organizations that invest all or the most part of their portfolio in social enterprises and non-profits, but others only invest parts of their portfolio in these enterprises. Furthermore, these portfolios are invested in a variety of subsectors and many respondents suggest that there are difficulties in providing general statements on social finance overall, as some of these subsectors are better developed than others.

Regarding products and services used for financing loans, mortgages, lines of credit and working capital are the most often used products and services for financing. However, these products and services are used for financing for-profits, social enterprises, non-profits and public organizations in the same amount.

As expected, social enterprises and non-profits financed by the participants of the survey are rather small. Again, there are no differences with respect to the size between for-profits,

social enterprises, non-profits and public organizations.

The main risks in financing non-profits and social enterprises are financial risks and returns, access to capital and securities, revenue uncertainty, size of enterprises, financial community sophistication and networks, and the reliance on public sector funding. Hence, guaranteeing securities, providing capital and programs to increase the networking with the financial community could be measures to mitigate the risks of financing social enterprises and non-profits.

To track the social finance investment all kind of models and tools are used. However, it seems that there are not many tools that are especially useful to track social investments. Impact reporting and investment standards (IRIS) that are created to fulfill this task are not routinely used as other instruments. The lack of tools in addition to regulative issues regarding social investment products and services, and unclear definitions of social enterprises in contrast to for-profits seem to be challenges for a stronger growth of the social finance sector.

Next Steps

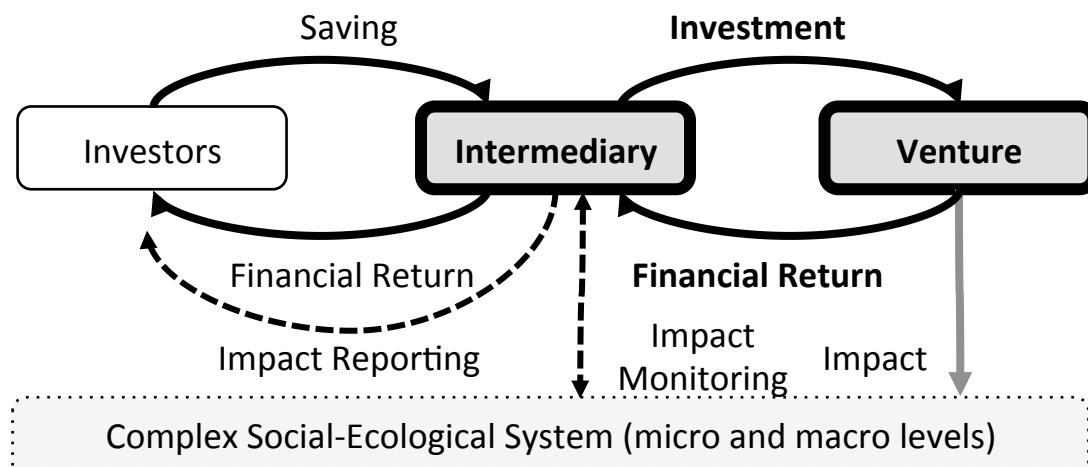
As mentioned above, the next steps of the project will concentrate on broadening the database and on developing products for the dissemination of results. The steps following the drafting of this report were:

- We planned and conducted a webinar about the results in co-operation with SiG@Mars and its new Centre for Impact Investing on June 29, 2012.
- Writing academic papers and preparing conference contributions based on the project results.
- Developing a training program for professionals in non-profit organizations, social enterprises, and social finance institutions on financial sustainability.

MANUSCRIPT ENDS

This survey focused on the relationship between Canadian social financiers and the ventures they support. These relationships are the primary means by which social financiers create their impact as the ventures they support seek to impact the social-ecological systems they work within. The implicit theory of change behind social financing on a large scale is that the more resources this sector can access the more they can channel to ventures that create a positive social ecological impact. However, this naïve theory of change misses the ever-evolving nature of complex problems. Supporting a venture that seeks to improve the availability of housing for low-income people will likely have unintended consequences – positive and negative – on local health, education, economic and ecological systems. By changing the nature of the intervention social financing also changes the nature of the complex system that social financiers seek to change. The types of tools that social financiers use change the ways the ventures they support can act as the new resources they contribute come with new obligations. (see Fig 2.5).

Fig 2.5 Model of Social Finance System with Intermediation: Chapter 2 Research Focus



The survey findings suggest that there is an underlying tension between the role of the social financier as a patron providing capital and as a patron providing contributions a collective or public good. Overall, social financiers are using standard market-rate financing tools, primarily debt instruments, to support their investees. Not only are these the primary tools, they are used most often by for-profit enterprises and social enterprises than others. That is, organizations whose legal forms least restrict their access to revenue are most likely to use standard financial instruments. This makes sense as access to revenue clearly reduces the risk of default on debt and increases the likelihood of an equity investment being profitable. However, some social financiers also provided contribution-like capital through grants, donations and hybrid below-market interest loans. These tools are relied upon most heavily by non-profit and charitable organizations, though they are also accessed by social enterprises. What remains unclear, is to what extent each of these objectives dominates social financiers' investment strategies since the survey went into limited detail as to the actual composition of investment portfolios. However, even amongst the for-profit firms investments tended to be in start-ups, microenterprises and small businesses, all of which tend to have low access to traditional sources of capital and, with the exception of research-intensive and export-oriented enterprises, also tend to be low-productivity and low-profitability firms (Jung, 2012). That being noted, it is also unclear as to what extent the non-profit firms receiving investments are primarily "commercial" rather than "donative" according to Hansmann's terminology (1990).

The preponderance of small organizations also speaks to the likelihood that the social finance marketplace is characterized by relatively high transaction costs. There is a minimum cost to conducting due diligence on an investment, regardless of the investment size. This suggests that investment portfolios which are characterized by a large number of small investments, will devote more resources to due diligence checks overall than those

investment portfolios with a smaller number of large investments. Furthermore, there is a perception that a lack of awareness on the side of investors and investment managers presents a barrier to raising capital, a finding further supported by a survey of mainstream Canadian financiers (see Appendix A). This barrier is further heightened by a lack of retail-level investment products. While the barriers here are primarily regulatory, it is unclear whether social financiers would be in a position to offer retail investments even if these barriers were removed. High transaction costs extend beyond the deal-making process to include the challenges of reporting social and ecological impacts of social finance investments. In the mainstream social financing sector, standards are ubiquitous and allow easy comparisons between investible projects and funds.

Our survey results found little evidence of standardized social impact measurements, further suggesting that the formal market is relatively underdeveloped. Few organizations selected social targets from a set of standardized, commonly agreed upon metrics such as those provided by IRIS. However, the survey also found that the most common method of gauging social impact among social financiers is through engagement with community stakeholders. This may suggest an alternative though not necessarily contradictory explanation that the complexity of social impacts may make straightforward standardized measurement difficult without engaging with the communities being impacted.

Furthermore, investing in social enterprises and non-profits were associated with higher risks tied to community networks than for-profits. While this may appear to be negative at first glance, this assumption of risk by social financiers may also be incentivize for greater investment in monitoring and strengthening these community networks. Chapter 3 will explore these issues further by placing social finance impact measurement in context by comparing it with older, well-established impact assessment tools operating in complex domains such as health impact assessments and environmental impact assessments.

Chapter 3 – Measuring the Impact of Social Finance

Measuring the social impact of financial products and services is a pivotal piece in evaluating the effectiveness of a social financier's investments and in rebalancing those investments to improve impact. However, measurement is necessarily constrained by bounded rationality, one consequence of which is that measurement is necessarily both costly and incomplete (Simon, 1982). Indeed, in a complex system there are no true distinctions between the system being measured and the value-laden measurer (Ahl & Allen, 1996), which then suggests a necessarily constructivist tilt to impact measurement. However, the challenges of measurement do not imply that it should be abandoned since measurement is a precursor to the development of rational resource allocation and reward systems and, in the absence of measurement the incentive structures that may have undesirable consequences like elitism and nepotism (Allen, 2012). With the view that impact measurement in social finance is still early in its development this chapter will evaluate existing financial impact measurement tools and compare them to the evolution of impact assessment in health, environment and sustainability. These fields all involve interventions in complex systems, suggesting that there may be lessons that can be learned by social financiers.

The role of impact metrics in social financing has been the subject of much debate as the sector has evolved. Best and Harji have looked at the use of different metrics by Canadian social financiers and noted that their users are aware of the challenges in their incomparability, lack of standardization and overall cumbersomeness. Yet these impact investors do see value in metrics, though over the course of their investment cycle these metrics are used for a variety of purposes: value definition, due diligence, monitoring, reporting and finally ongoing measurement once an investment has closed (2013). Mulgan

argues that many impact metrics have failed in achieving their goals because they often assume that social value is objective when it is actually subjective, a problem further compounded when the varied goals of measurement, external accountability, managing internal operations and assessing social impact are conflated (2010). For the most part impact measurement focuses on external accountability, as this is seen as critical to market-building. Standardization of metrics is of primary importance in market-building since it would aid the comparability of social investments, yet there is a tension between the top-down imposition of standards and the bottom-up construction of impact measures based on on-the-ground experience. Sandberg, Juravle, Hedesstrom, and Hamilton argue that it is unlikely that standardization can occur without their top-down imposition. However, they also suggest that while standardization may appear desirable if the goal is mainstreaming socially responsible investment, they doubt whether it is actually a necessary precondition (2009).

By examining the evolution of impact assessment fields that have already matured this chapter will wrestle with the tension between a top-down imposition of standards and bottom-up practices of stakeholder engagement. By surveying current approaches to social finance impact measurement, this chapter shows that the current social finance tools in the field are primarily related to impact measurement. There are some processes for impact valuation, such as social return on investment, and impact identification is mostly ad hoc. However, it can be anticipated that these other approaches are going to rise in importance as the social financing market grows and social financiers compare their potential investments based on their highest social impact per dollar invested. As the market develops, the maturation of impact assessment in social financing will likely involve greater incorporation of participatory processes in identifying and prioritizing financial and social impacts.

Note that this chapter is adapted from the paper Measuring the Social and Environmental Impact of Finance: Lessons from Environmental and Health Impact Assessment (Geobey & Weber, 2014). The paper it is adapted from is

Geobey, S., & Weber, O. (2014, May). Measuring the Social and Environmental Impact of Finance: Lessons from Environmental and Health Impact Assessment. Paper presented at Administrative Sciences Association of Canada 2014 Conference, Muskoka, Ontario, 10-13 May.

MANUSCRIPT BEGINS

Abstract

Impact investing is the intentional use of investment as a tool for achieving a social or environmental return in addition to a financial one. However, a lack of performance measurement tools is a powerful barrier holding back the growth of the impact investment industry. This article presents an overview of current measurement practices and assesses whether they are effective in capturing the real social, ecological and financial impact of impact investments. We draw upon experiences taken from other complex policy assessment fields that face similar measurement, reporting and decision-making challenges. By examining the role of measurement in public health planning, environmental impact assessment and sustainability impact assessment we can identify lessons that can be incorporated into impact investment measurement.

Background

How does the financial sector shape sustainable development? Do new financial approaches such as socially responsible investment and impact finance positively influence sustainable development and, if so, how can their contribution be measured? Though the influence of the financial sector on society has been discussed intensively in connection with the recent global financial crisis, the measurement of economic, social and environmental impact of the sector is rare. Furthermore, what is used is rarely comparable with financial accounting tools or established impact analysis systems used in areas such as environmental impact assessment and health planning. Yet, developing social analogues to standard financial tools would remove a key barrier to the development of the social finance and impact investing sector, allowing impact investors to better assess and compare the impact of their investments. In addition, it would be helpful to assess the societal impact of conventional

financial products and services such as loans, investments and project finance as well. This is in-line with Cooch and Kramer (2006) who note three key changes needed to allow the further maturation and growth of the impact investment sector:

1. Greater understanding of and proficiency in mission investing among mission staff and boards;
2. A more robust marketplace for mission investments, including direct investment opportunities, mission investment intermediaries, and suitably qualified consultants;
3. Improved mission investment performance measurement, record keeping, and information sharing (Cooch & Kramer, 2006, p. 6).

Non-financial indicators are also important for investors whose only interest is in financial returns. Investors who ignore legal, economic and technological risks within the organizations they have a financial stake and instead exclusively rely on standard financial metrics fail in performing their necessary due diligence (Watchman, 2005). Similarly, while social and environmental metrics may be ambiguous, they can tell a story about the context an organization works within and its long-term value contributions and risks. A combination of financial and social impact measurement can capture more long-term value creation potential and guide strategy better than either financial or social impact alone. In the following section we will describe the current practices of measuring impacts of the financial sector on the environment, society and sustainable development covering both the conventional and the impact finance sector. As a next step we will introduce impact measurement from other fields such as health care, and environmental, social and sustainability impact assessment. On this background we draw conclusions about what the financial sector may learn from impact measurement in other fields.

Current practices of measuring the environmental, social and sustainability impact of finance

This section covers ideas drawn from corporate social responsibility (CSR) practices applied to finance such as the Global Reporting Initiative's Financial Sector Supplement (2011), the Principles for Responsible Investing (PRI) for institutional investors (Principles for Responsible Investing, 2012), and the Equator Principles (The Equator Principles, 2011) for project finance. We also introduce impact investment and related measurement approaches such as Impact Reporting and Investment Standards (IRIS) (Global Impact Investing Network, 2012), the Global Alliance for Banking on Values (GABV) (Global Alliance for Banking on Values, 2012), Social Return on Investment (SROI) (Lingane & Olsen, 2004; Millar & Hall, 2012; Nicholls, Lawlor, Neitzert, & Goodspeed, 2009) , and Outreach Measurement in Microfinance (Cull, Demirgüç-Kunt, & Morduch, 2007; Hermes, Lensink, & Meesters, 2011).

GRI Financial Sector Supplement

The newest version of the Sustainability Reporting Guidelines & Financial Services Sector Supplement of the Global Reporting Initiative (2011) contains a section on the impact of products and services. It comprises 12 out of 82 indicators of the supplement. Of these 12 indicators, three focus on the impact of products and services. However, there is not indicator that measures the impact of the entire portfolio. Instead apply a portfolio approach to the measurement of outreach (Hermes, et al., 2011) is applied. The underlying assumption is that a positive impact is achieved through specific products and services, and that the higher the financial value of these products and services the greater the impact. Furthermore, the impact of the conventional portfolio is not reported at all, making it

impossible to identify the total impact of a financial institution's products and services.

Overall, it seems that the GRI Financial Sector Supplement does not deliver indicators that are able to measure the sustainability impact of a financial institution.

Principles for Responsible Investment

The Principles for Responsible Investment (PRI) were launched in 2006 and are guidelines for institutional investors trying to fulfill their fiduciary duty in-line with integrating ESG issues into investment decisions. As of May 2012, 251 asset owners, 627 asset managers and 176 professional services partners were PRI signatories and agreed to take ESG issues into consideration in their investment processes. The six UNPRI principles are (see unpri.org):

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Though the PRI website also lists proposals for possible action, they are not binding and there is no information about consequences of the use of the principles, though the signatories have pledged to evaluate their effectiveness. While the current report states that

the PRI benefits the environment and society as a whole they only plan to analyze the impact that macro ESG and systemic issues have on the performance of investment portfolios. Analyzing the impact on the society and the environment is not in the focus though the current annual report presents some case studies about the engagement of signatories (Principles for Responsible Investing, 2012). Thus, similar to the GRI Financial Sector supplement, PRI does not address the impact of responsible investment on the society, the environment and sustainable development.

The Equator Principles

Over the past decade, societies have become increasingly conscious of the environment and social issues due to increasing awareness and the rise of NGOs (Hadfield-Hill, 2007). Some of the leading global banks being active in project finance started to voluntarily self-regulate by developing and adopting the Equator Principles (EPs). They are a list of principles about the management of social and environmental risks that financiers voluntarily commit to follow in their project financing activities (The Equator Principles, 2011). They are a case of worldwide industrial self-regulation and have quickly become the most visible and concrete financial services initiative encouraging sustainable development (Amalric, 2005) though they only apply to project finance, usually a relatively small part of an overall banking business (Conley & Williams, 2011). As a result the ultimate impact of these principles is limited even when adopted.

The EPs are based on the project assessment guidelines of the International Finance Corporation (International Finance Corporation, 1998; 2011). They, in turn, grew out of knowledge generated through Environmental Impact Assessment processes (Morgan, 2012). The EPs rely on self-enforcement by financial institutions using their own regulations or processes to make sure project requirements are met (Conley & Williams,

2011). Projects have to be classified into one of three groups, A, B and C. Category A projects are those with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Category B projects have limited adverse social or environmental impacts that are few in number, are generally site-specific, largely reversible and readily addressed through mitigation measures. Category C projects have minimal or no social or environmental impacts (Amalric, 2005).

The requirements are summarized in ten principles (The Equator Principles, 2011):

- Principle 1: Review and Categorization: A project that is proposed for financing will be categorized based on the magnitude of its potential impacts and risks in accordance with the screening criteria of the International Finance Corporation (IFC).
- Principle 2: Social and Environmental Assessment: For each Category A or Category B project, the borrower has conducted a Social and Environmental Assessment to address the relevant social and environmental impacts and risks including proposals for mitigation and management measures.
- Principle 3: Applicable Social and Environmental Standards: For projects located in non-OECD countries or low-income countries the assessment refers to the applicable IFC Performance Standards and the applicable Industry Specific EHS Guidelines (“EHS Guidelines”) and will assess the project's overall compliance with the respective Performance Standards and EHS Guidelines.
- Principle 4: Action Plan and Management System: The borrower has to prepare an action plan addressing the relevant findings. The plan should describe the actions needed to implement mitigation measures, corrective actions and monitoring measures.

- Principle 5: Consultation and Disclosure: Affected communities should be consulted in a structured and culturally appropriate manner and free, prior and informed consultation should be guaranteed.
- Principle 6: Grievance Mechanism: The borrower has to establish a grievance mechanism as part of the management system in order to receive and facilitate resolution of concerns and grievances about the project's social and environmental performance raised by individuals or groups from among project-affected communities.
- Principle 7: Independent Review: An independent social or environmental expert should review the assessment, action plan and consultation process documentation.
- Principle 8: Covenants: The borrower has to comply with all relevant host country social and environmental laws, regulations and with the action plan during the construction and operation of the project in all material respects and with his actions plan, and provides periodic reports that document compliance.
- Principle 9: Independent Monitoring and Reporting: The appointment of an independent environmental and/or social expert to verify information is required.
- Principle 10: Equator Principles Financial Institution (EPFI) Reporting: Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

The main purported advantage of the EPs are, that they may be used to analyze environmental and social risks material for credit risk assessment. Though there is no evidence for the EPs so far, the positive impact of the integration of environmental and social indicators into the credit risk management process on the quality of credit risk predictions could be demonstrated (Goss & Roberts, 2011; Weber, Scholz, & Michalik,

2010). In addition, some scholars argue that being an EP signatory has a positive impact on a financial institution's reputation (Wright & Rwabizambuga, 2006). However, the true impact on both social and environmental performance and the risk management of project financiers is unclear and the reporting of impact is often not transparent (Missbach, 2004), in large part because their use and the outcomes are not independently audited by a third party (Amalric, 2005).

A critical look at the EPs suggests their effectiveness is at best ambiguous. First, the principles do not specify who does the project assessment. Therefore, the independence of the impact assessment is not guaranteed, potentially undermining the transparency of the process (Hadfield-Hill, 2007). Second, the principles often rely on local standards and regulations, meaning that different criteria and thresholds are applied in different countries (Lawrence & Thomas, 2004). Third, the actual impact of using the EPs is still unclear.

Because the EPs are voluntary guidelines, participation is not necessarily high cost but does provide reputational benefits (Wright & Rwabizambuga, 2006) without negative consequences for signatories (Richardson, 2005).

While on the one hand the EPs help financial institutions to manage project risks and positively influence their reputation, on the other hand, they provide guidelines that should just ensure assessment of negative project impacts and do not include any consequences for low performance. Furthermore, their lack of transparency means that it is unclear whether the implementation of the EPs has had any positive impacts on environmental, social or sustainable development performance. Consequently, beyond lightly streamlining the process of voluntarily reporting investment impact it is unclear what EPs are offering beyond an improved public image.

Impact Reporting and Investment Standards

The Impact Reporting and Investment Standards (IRIS) are a set of indicators developed to fill a similar role to the generally accepted accounting principles (GAAP). They are developed by the Global Impact Investing Network (GIIN) and includes a set of indicators for the financial services sector (Bugg-Levine & Emerson, 2011). The set has been designed to capture both the financial and social performance of organizations that provide financial services to underserved populations and is therefore primarily used by organizations that focus on underserved clients, such as microfinance institutions or community development institutions (Global Impact Investing Network, 2012). For the financial sector the indicators are grouped into operational impact and product impact. The operational impact is categorized in social policies, employees, wages, and training and assessment. The product impact is structured in quantity and reach, quality and performance, and client information. In contrast to the GRI Financial Sector Supplement, the IRIS indicators not only report on percentages of the portfolio but also on impact. However, they concentrate on new jobs that were created through their investments generally and in low-income areas particularly. Other impacts, such as renewable energy, health and education, are not covered by IRIS indicators. Furthermore, the indicators only cover positive impacts of financial products and services.

Global Alliance for Banking on Values

The Global Alliance for Banking on Values (GABV) defines itself as “an independent network of banks using finance to deliver sustainable development for unserved people, communities and the environment” (2012). For the members of the network a genuine commitment to social or environmental change is required and must be embedded in their

core business. At the end of 2012 the network consisted of 20 social banking institutions with a total of \$27.65 billion of assets under management. Its members are dedicated to social finance and impact investment, and reporting about its impact. Furthermore, at the end of 2012 they developed a business case for sustainable banking (Korslund, 2012). On their website, the network publishes the missions of their members, their market focus, products and services, key financial figures for five consecutive years, and case studies intended to demonstrate impact. Many of these indicators are also found in annual reports of conventional institutions. However, they generally do not provide information on social impact. The GABV claims that social impact can be demonstrated through the use of case studies. These are short qualitative reports about a project or specific strategy that the social banking institution conducts and give the reader insight into specific issues of the respective organizations but cannot compare impact measures.

The GABV's 2012 report on the business case for sustainable banking (Korslund, 2012) compares social banking institutions with so-called system relevant banks with respect to loans and deposits by assets, equity by assets and tier 1 ratio (Bank for International Settlements, 2005), return on assets and standard deviation as a measurement of risk. Furthermore, it analyzed the compound annual growth of their loans, deposits, assets, equity and total income. Based on the comparisons to conventional banks before, during and after the last financial crisis the author comes to the following conclusions:

- Sustainable banks had a significantly greater proportion of exposure to customers in both deposits and loans;
- Sustainable banks had relatively higher and better quality capital;
- Sustainable banks had better returns on assets and equal returns on equity with lower volatility of returns and that,
- Sustainable banks had significantly higher levels of growth.

Aside from some methodological issues of this report, it does not report about the impact on the society or the environment but uses a kind of outreach approach. This approach assumes that the more financially successful social banking institutions are the more of a positive impact they make. While this may be true in some cases, it is not necessarily so. Furthermore, this does not provide systematic insights into the impact of the financial sector on the society or the environment.

Social Return on Investment

Social Return on Investment (SROI) uses a set of practices and indicators intended to measure the impact of a business such as a social venture (Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010) or an activity such as voluntary work (Pace & Basso, 2009). It is not focused on the financial sector but is a methodology that aims to measure both positive and negative social, and economic costs and benefits (Nicholls et al., 2009). In contrast to the systems presented above, it provides a ratio of impact achieved per dollar spent. The development of SROI indicators consists of collecting social performance data, prioritizing the data with respect to their importance, incorporating the data in decision-making processes, and reporting and valuing the amount of social values that are created or destroyed (Lingane & Olsen, 2004). Based on SROI decisions activities or capital may be channeled. The challenge arising from SROI is in comparing different projects since indicators are usually tailor-made (Ryan & Lyne, 2008). Instead, it is more useful to consider SROI a guideline for developing indicators rather than a set of them (Lingane & Olsen, 2004). Nonetheless, the financial sector could use the following SROI guidelines to develop indicators (Lingane & Olsen, 2004):

- Including positive and negative impacts;
- Considering all impacts;

- Including only attributable impacts;
- Avoiding double counting and reflect full costs and benefits;
- Avoiding counting what would have happened anyway;
- Analyzing cause effect relations;
- Benchmarking;
- Addressing risk factors;
- Analyzing key factors.

These guidelines are similar to concepts of social impact investing as discussed below (Vanclay & Bronstein, 1995) in using a more systematic approach on analyzing the impact of activities rather than activity metrics themselves. Instead of following money flows, the effects of these flows are evaluated (Rotheroe & Richards, 2007) and therefore it could capture a real measure of financial product and service impact.

Outreach Measurement

Outreach measurement is a standard method to evaluate the efficiency and the impact of microfinance (Cull et al., 2007; Hermes & Lensink, 2011; Hermes et al., 2011; Quayes, 2012). Many outreach studies question whether claims that micro-financing that is financially sustainable and not dependent on donations changes micro-financing outreach. Often the studies compare the number and the size of loans and the group of borrowers. If smaller loans are provided to borrowers at the base of the pyramid, greater outreach is assumed. This measurement does not take the actual impact into account but rather the intended impact of microfinance because the relationship between loan sizes, the number of loans and their impact is not always direct, as Robinson (1996) or Khandker (1998) demonstrate. Furthermore, outreach measures are often incomparable (Hermes & Lensink, 2007). Different institutions may focus on different types of impacts that may not be comparable. A

solution for this problem could be the use of multi-criteria measurements that include both financial and social criteria (Bartual Sanfeliu, Cervello Royo, & Moya Clemente, 2013). Possible criteria could include a housing index, monthly household income per capita, caste, geographical and sectorial distribution of loans, or quality and scope of outreach (Aubert, de Janvry, & Sadoulet, 2009). However, assessing this impact requires microfinance institutions to collect individual data on borrowers before they provide loans, and at certain times after the loans have been provided. This method could measure the real impact of microfinance, though possibly at a prohibitively high cost. However, outreach measurement alone does not deliver a valid and reliable impact measurement in the financial sector.

What can we learn about impact measurement from other fields

After having introduced and discussed a number of concepts and indicators that try and measure the impact of the financial sector, we want to learn from impact measurement in other fields. Specifically, we examine health needs assessments and environmental, social, and sustainability assessments. Both fields have long traditions and may provide some lessons for financial impact assessment.

Health Planning

There are many possible definitions of a needs assessments in health care, though they all share many similarities. The definition coming from the European Centre for Health Policy is that a health impact assessment is “A combination of procedures, methods and tools by which a policy, program or project may be judged as to its potential effects on the health of a population, and the distribution of those effects within the population”(European Centre for Health Policy, 1999, p. 4). There are a number of approaches towards the use of evidence in health planning. In the United Kingdom the National Health Service uses five main

approaches: health needs assessment, health impact assessment, integrated impact assessment, health equity audits and race equality impact assessment (Quigley, 2004). The logic underpinning a health impact assessment is one that sees health outcomes at any point in time as being determined by a complex set of circumstances that include but are not limited to clinical medical interventions. Joffe and Mindell (2002) present a model suggesting the underlying causes of the determinants of health, such as socioeconomic factors that lead to the determinants of health, which are risk factors such as diet, that in turn alter a person's health status, such as the presence or absence of a disease like diabetes. Broadly speaking, interventions are of three types: clinical, targeted and universal. Clinical interventions occur when an individual or family perceives a disorder and seeks help, targeted interventions are those aimed at an individual or family not seeking help but possessing high risk factors for a disorder, and universal interventions are those that cover an entire population in a geographic area. From the perspective of impact measurement, each of these types of intervention presents its own challenges. It is easiest to demonstrate impact with a clinical intervention, though the interventions tend to be expensive and do not ensure equitable access and outcomes. Targeted interventions can often address problems earlier than clinical ones and prevent the onset of disorders, however the predictive power of risk factors is often weak and the demonstration of impact difficult. Finally, universal interventions are often able to operate on a broader, systemic level when compared to the targeted interventions, yet identifying effectiveness of these interventions and ensuring equitable outcomes can be difficult (Offard, Kraemer, Kazdin, Jensen & Harrington, 1998).

While initially, the approach came from the idea of anticipating the need for clinical care, the focus quickly shifted towards preventative measures and towards the conceptualization of 'determinants of health' and how these contribute towards determining health status. By

examining the environmental, social and economic factors that determine what illnesses someone is likely to experience and therefore to anticipate the treatment that will be needed, a health needs assessment can suggest opportunities for early, low-cost interventions that can be substituted for later, high-cost interventions (World Health Organization, 2012). Offord, et al. (1998) note that there is a latency in many of these impacts at the determinants of health level, so the time lag of an intervention and its scale at a population level implies that interventions at the determinant level looks less like clinical treatments and more like vaccinations.

Ultimately, setting how different types of health status are valued and treatments selected is a social decision. The starting point for health impact assessment had been positivist, with the United Kingdom's National Health Service developing the quality adjusted life year (QALY) as a positivist model. The QALY tries to capture both a person's longevity and the quality of life in a single statistic. For example, a study might conclude that a person living with severe chronic pain has a quality of life that is half as good as a healthy person.

Consequently, the QALY of someone living in chronic pain would be .5 per year rather than 1.0 for someone in perfect health. With this in mind, two interventions could be compared based on the number of QALYs they add. In this case, an intervention that adds a year of life in perfect health is preferable to one that adds less than two years of life in chronic pain (Weinstein, Torrance, & McGuire, 2009) .

Over time, public health planning has moved away from the positivist model. Because of the social construction inherent in needs assessments, there has been a shift away from expert-driven 'top-down' approaches towards population- and stakeholder-driven 'bottom-up' approaches to health planning and a move away from positivism towards more social constructionist approaches (Calnan, 2004). The move towards greater social inclusion is seen as one means of addressing the 'democratic deficit' that is often perceived in health

planning, although in practice the quality of consultation varies widely (Jordan, Dowswell, Harrison, Lilford, & Mort, 1998). More broadly, Stevens and Gillam (1998) suggest that there are nine different approaches to health needs assessments that vary as to whether their scope is at the individual or population level, if resource scarcity is made clear in the process, if it is exploratory or makes final allocation decisions, and if it is expert-driven or participatory. A common tool that has been used in health prioritization is program budgeting and marginal analysis (PBMA). This is an increasingly common practice in setting priorities in health decision-making (Ruta, Mitton, Bate, & Donaldson, 2005). PBMA has two components: program budgets and marginal analysis. The program budgeting approach means that the investments in a total set of programs can be separated into distinct program streams. Each of these program streams can have more or less money allocated to it, and money can be reallocated from one program stream to another. The marginal analysis component is based on a constrained optimization model taken from microeconomic theory and provides a valuable efficiency improving heuristic. Where this becomes marginal analysis is in comparing spending between specific program budgets. If an additional dollar is made available for the budget and there are two projects, Project A and Project B, if Project A will provide more benefit from that additional spending than Project B, the new dollar should go to Project A. If a dollar is going to be cut from total spending, this consideration is done in reverse. If the loss of a dollar from Project B produces less of a loss in total benefit than the loss of a dollar from Project A then the dollar should be removed from the program budget of Project B. This process allows programing to be compared according to multiple attributes without distilling them into a single metric, such as a QALY.

Environmental, Social and Sustainability Impact Assessment

Environmental (EIA), Social (SIA) and Sustainability Impact Assessments are established methods of measuring impact on the environment, society and sustainable development caused by projects, businesses or other economic activities. Because this paper tries to answer the question of impact measurement in investing and social finance, we use these methods to draw lessons for impact measurement in social finance.

Of these three methods EIA has the best-established impact assessment approach. Morgan (2012) defines EIA as following:

“Assessing proposed actions (from policies to projects) for their likely implications for all aspects of the environment, from social through to biophysical, before decisions are made to commit to those actions, and developing appropriate responses to the issues identified in that assessment” (Morgan, 2012, p. 5).

Bond and Pope (2012, p. 4) add to this definition that EIA should demonstrate tangible benefits for a diverse set of stakeholders. Based on these initial insights, we can conclude that EIA should assess proposed actions for their implications on all aspects of the environment and not only focus on certain or even intended elements. Furthermore, the EIA should benefit multiple stakeholders.

These conclusions were already integrated into project finance, a separate field from impact investing and social banking. The Equator Principles (EP), outlined previously are built on EIA knowledge (Morgan, 2012) to assess the environmental impact of projects. Project financing institutions that signed the EPs have to assure that an appropriate impact assessment and project appraisal is conducted.

A challenge for an EIA, similar to social finance and impact investment measurement, is ensuring the approach effectively assesses proposals, products and services. Specifically, it must capture both intended and unintended effects. This may only be achieved through a

theoretical grounding of the purpose of the assessment, the definition of good quality in impact assessment and by guaranteeing an effective process (Retief, 2010). There are a variety of EIA models, with Retief (2010) listing six EIA models. In fields like project finance or credit risk management, social finance and impact investing, a political economy model (Retief, 2010) can be used to mitigate financial risks and increase financial opportunities. However, other models of EIA could also be used in the investment context. First, impact assessment could be used as a decision support model. In this case, the assessment has to be done before certain products or services are brought to market. The results of the assessment support decision makers in developing the adequate product or service to achieve the intended impact and to reduce unintended impacts. Second, an organizational politics model could be applied to the financial sector. This model creates changes in the organization which impacts are assessed. For instance, a project financing institution could change its willingness to finance projects in certain industries if EIAs in these industries indicated high negative impacts. Third, a pluralist politics model that opens opportunities for negotiation and compromise may be used in assessments related to financing. This model integrates different views on impacts and tries to modify projects with regard to meeting the different expectations.

Conclusions: Lessons from Health Planning and Environmental, Social and Sustainability Impact Assessment

Health planning provides us with a number of impact measurement lessons relevant to the development of impact investing metrics, some of which are immediately relevant to impact measurement and some of which anticipate the evolution of the impact investment sector. First, not all social impacts will be expressed. That is, just because people gain from a social investment does not mean that they will express their gain by immediately using it, though

they may benefit from the option of being able to access it in the future (Weisbrod, 1964). Second, just because a service is accessed and intends on creating a social good does not mean that this occurs, as would be the case of a patient with influenza—a viral infection—being prescribed an antibiotic (Wright, Williams and Wilkinson, 1998). Third, different types of impact require measurement over different time and spatial scales. For example, while the benefits from clinical interventions can be easily calculated case-by-case, the full benefit from a vaccination program can only be captured at the population level (Offard et al., 1998). Beyond the immediate challenges for measurement, a fifth lesson is that the experience of public health planning suggests that over time there is a natural push towards greater public participation in priority-setting and measurement design. Although participatory processes do not tend to be used in highly technical areas, in the case of broad priority-setting they have become increasingly common over time (Stevens & Gillam, 1998). Finally, comparing projects whether that is done by experts or through participatory methods, it does not necessarily require the use of a single impact metric. Judgment, and tools that can be used to assist it like PBMA (Ruta, Mitton, Bate and Donaldson, 2005) can still be used to set priorities when single-impact metrics like QALYs fail.

After discussing theoretical issues of EIA and the consequences of measuring impact in the financial industry, we would like to discuss some practical issues such as screening, the scope of the assessment, impact prediction, significance and monitoring (Morgan, 2012). The first aspect is screening. What methods may be used to screen impacts? To measure positive impacts often outreach measurement is used (Cul et al., 2007; Hermes et al., 2011). This method analyses the amount of financial capital that is invested in certain fields or provided for certain clients groups, i.e. micro-entrepreneurs in developing countries. However, it does not screen the positive or the negative ones. Similarly, for lenders it is not easy to screen the impacts they have on thousands or millions of clients.

The scope of impact measurement is one of the most critical questions in impact measurement in the financial sector. As the impact of financing is usually indirect, it is important to define the scope of the assessment in order to allocate the impact to the financier, to the financed projects or to other stakeholders. Generally no difference in the assessment should be made for the assessment of negative or positive impacts. For instance, organizations that do both conventional and impact assessment should measure both with the same scope and using the same indicators. However, a theoretical grounding that measures impacts of social finance and impact investing is missing. There are no concepts for allocating impacts to investors and investees, to measure the impact of different types of financial products and for measuring the impact of financial organization by taking all products and services they offer into account.

Impact prediction, especially for indirect impacts such as those that are originating from financing is a practical issue that is hard to conduct. This is valid for the prediction of cause-and-effect relations as well. However, measurement systems such as Social Return on Investment (SROI) claim that only attributable impacts should be involved in the assessment (Lingane & Olsen, 2004). Because impact measurement in the financial sector does not have a long history predicting and attributing impacts in a valid way needs much more background knowledge about indirect impacts. So far, impact measurement in social finance and impact investing is usually conducted after having made the impact investment and therefore is rate a measure to demonstrate impacts than predicting them.

With respect to negative impacts significance is certainly given. Project finance and corporate loans have a significant impact on the environment and should be assessed to mitigate them. In contrast, social finance and impact investment are still miniscule with respect to their impact and the allocation of impacts to specific investments without counting what had happened without the investment is hard to manage (Lingane & Olsen,

2004). This is valid especially if the assessment of negative and positive impacts is still conducted in different ways as it is today.

With regard to monitoring and follow-up, the long-term effects of financing have to be taken into account. Given the long-term duration of project finance and corporate lending, monitoring plays an important role in impact assessment. Therefore, impacts occurring after a loan contract, or after an investment has been made, also have to be taken into account.

To sum up, an important lesson to be learned from EIA is to link impact assessment with critical decisions in financing institutions with respect to managing both negative and positive impacts and not only to use it to measure impacts after all financial decisions have been made.

In contrast to EIA, sustainability impact assessment integrates economic and social issues into the assessment in addition to environmental issues. It assesses whether a project, product or service delivers net sustainability gains (Bond, Morrison-Saunders, & Pope, 2012). It should be strategic, comprehensive, and integrative to be useful (Hacking & Guthrie, 2008).

Being strategic refers to the focus of the impact; is it just a specific issue or is there a connection to the broader issue of sustainable development? Measurement of the impact of social finance and impact investing should indicate the strategic importance of investment for sustainable development and the society. This starts already with defining the field in which social finance and impact investment engages. The rationale for investing in certain fields should be disclosed in order to guarantee a strategic approach. Furthermore, important aspects such as impact returns and financial returns should be integrated in the measurement. This is valid for both negative and positive impacts. Assessing conventional products and services purely by using financial indicators while impact assessment

products and services are assessed mainly by using social impact indicators does not lead to a valid and objective impacts assessment. Therefore indicators should be used that are able to measure the impacts of both conventional and impact investing products and services.

This leads us to the criteria of comprehensiveness describing the inclusion of the environmental, social and economic pillars into the impact assessment. Often the integration of all three pillars is conducted in a way that creates a trade-off (Gibson, 2012). Economic factors set a minimum threshold of financial return that investors will not except, such as maintaining invested capital or exceeding a market rate of return. The use of a systems approach can be useful in measuring the impact of social financing, with a particular importance on social-ecological impacts that are often harder to compare than financial returns. This approach looks for the alternative that delivers the highest net sustainability gains instead of focusing on a trade-off (Gibson, 2006). Systems resilience plays a major role in this approach (Wood, Thornley and Grace, 2012). But what are the criteria that could be used for a sustainability assessment of finance? Bond et al. (2011, p. 56) argue that net gains should be assessed. Consequently, the net gains of all products and services of financial institutions have to be taken into account instead of only assessing the positive impacts of social finance and impact investing and neglecting potential negative or additional positive impacts of conventional products and services.

But before we try and use a holistic approach in order to measure net gains or losses, impact investments and social finance have to be analyzed with respect to the positive contributions to sustainability. Especially in CSR and sustainable business discussions often the best available alternative or even an improvement compared to earlier performances is seen as a positive impact on sustainable development (Bond & Morrison-Saunders, 2009). However, the impacts assessment of financial products and services, should measure their contributions to sustainable development given that a specific goal should be met. A way to

do this assessment is the use of an allowance approach (Reichel & Seeberg, 2011). After calculating or setting goals for different industries it can be assessed what organizations, products or services contribute to achieve these goals. The allowance approach works well for sustainability issues with defined thresholds, such as CO₂ emissions. In other fields such as education or other societal need goals and the contributions of organizations, industries, products or services goal setting is rather a matter of negotiations that given by environmental conditions.

Again, much like in the case of conducting an EIA, in a understanding social needs and impacts before conducting projects or, in case of financing, offering products and services is necessary instead of just measuring outcomes after having conducted the investment. This includes forecasting impacts and examining different project, products and service options as well (Esteves, Franks, & Vanclay, 2012). Though we discussed the difficulties in doing so, this approach does not only create costs but it may improve the business case of social and impact finance because it creates a greater certainty for investments and their outcomes and mitigates risks and conflicts through the early identification of risks (Esteves, et al., 2012). Hence, applying SIA methods to social investments can help navigate the potentially contradictory trends of contributing to local communities while reducing dependency on short-term projects (Esteves, et al., 2012).

For social finance and impact investors as well as for philanthropic investors Esteves and Vanclay (2009) developed the Social Development Needs Analysis (SDNA) that bases on SIA and aims to identify the social issues that need to be addressed in order to contribute to a net positive impact in the community in-line with building assets for the business. They structure SDNA into four parts (Esteves & Vanclay, 2009):

1. Understanding the issues and opportunities of the social impact assessment.
2. Predicting positive and negative impacts.

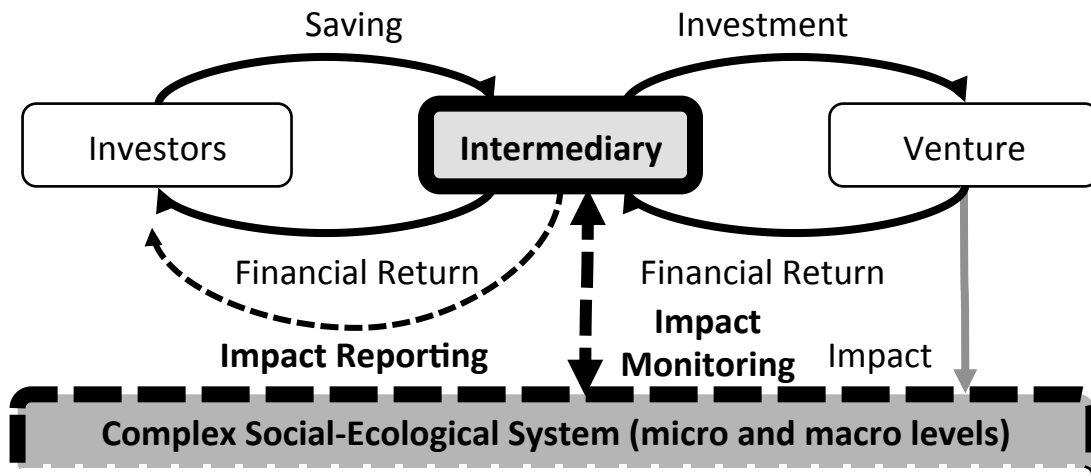
3. Developing strategies for mitigating negative impacts and / or reinforcing positive impacts.
4. Monitoring and adaptation.

Again, it is obvious that impact measurement is more than just the pure measurement as it is currently conducted in social finance and impact investment. It starts with understanding the issues to which social finance and impact investment are directed. Furthermore an estimation of the future impacts is needed. Based on these two steps social finance products and services may be developed that fulfill the requirements of the first two steps. In addition, a monitoring of the effects of the social finance and impact investment activities should be conducted.

MANUSCRIPT ENDS

The role of the social finance intermediary in monitoring impact is critical in determining how effectively it can adapt its investment strategies to the changing nature of the social-ecological systems they seek to change (see Fig 3.1). A top-down social engineering approach to impact monitoring and reporting looks to maximize the impact of social investments seeking to change complex social-ecological systems. However, the rigidity of this approach has its drawbacks when it comes to the changing priorities of social financiers and the co-evolution between social financing objectives and the systems they engage with. The role of the social financing intermediary changes over time and the drift in this sector seems to be towards a more community engaged model that follows a pattern we have seen elsewhere, much like we have seen in the development of HIA, EIA and SIA.

Fig 3.1 Model of Social Finance System with Intermediation: Chapter 3 Research Focus



The shift into the importance of community engagement in impact assessment over time is an important one and speaks to the experiences of the Canadian social financiers surveyed in Chapter 2. Part of the role of this community engagement may be a direct governance tool imposing constraints upon social financiers and their investees, with community

relationships held as 'hostage capital' that incentivizes honest activity (Allen, 2012). However, an additional key role here is in developing a more accurate understanding of the complex system undergoing intervention. Having multiple perspectives on the system can yield a broader picture than relying solely on the perspective of a value-laden expert (Ahl & Allen, 1996). The examination by Reed, Fraser and Dougill of the tensions between top-down and bottom-up processes in the identification of sustainability impact indicators, with top-down approaches generally focused on optimizing allocations while bottom-up approaches tend to be easier to operationalize within impacted communities (2006). Fraser, Dougill, Mabee, Reed and McAlpine continue this line of reasoning to tie together participatory processes with adaptation, suggesting that community empowerment in indicator identification can be a key opportunity for involvement in decision-making that can improve the relevance of impacts (2006). It must be noted that at least in the short-term this comes at a cost, as participatory methods are time-consuming and raise a transaction costs tied to implementing a project. However, information collection is always costly (Simon, 1982) and if thoughtfully structured can be conducted not just through measurement but also through experimentation and investment (Arthur, 1994). Chapter 4 explores this connection between experimentation and learning by suggesting an approach to impact investing that injects intentional learning into the process.

Chapter 4 – Enabling Social Innovation Through Developmental Impact Investing

This chapter explores the possibility that a portfolio of investment experiments can be an effective way to identify new social impacts. Moreover, this approach also has the benefits of portfolio diversification used in mainstream financial investments. In effect, there are synergies between investment diversification and impact identification processes that can be incorporated into a social financier's learning processes. A social financier's knowledge of a complex social-ecological system increases social impact while also providing insight into above-market return investment opportunities through a more robust understanding of risks inherent in the system. Understanding the complex social-ecological system can then be a source of sustained shared value (Porter & Kramer, 2011) or blended value (Emerson, 2003) returns.

While developing an understanding of a complex system is not a straightforward process; Young (2007) argues that the task of researching a complex system necessitates a portfolio of tools, including statistical analysis, case study research and participatory action research. This approach parallels the approach Arthur argues for when he suggests a portfolio of experiments that is needed to understand complexity. Arthur (1994) sees these processes as ubiquitous in markets, particularly those undergoing rapid technological change. The commonality between these approaches suggests that from both the perspective of a researcher with the objective of contributing to the advancement of academic knowledge and the entrepreneur embedded in a complex system of portfolio-style experimentation is necessary in order to build an understanding of a complex system. In the applied space of understanding and engaging with complex social spaces simultaneously, developmental evaluation provides a set of tools that can be used to help in the sense-making process of

moving through complex systems while simultaneously experimenting upon them (Patton 2011).

Dealing with Unknown Unknowns – Developmental Impact Investing (Part 1)

SocialFinance.ca

September 13, 2011

Authored by Sean Geobey

“There are known unknowns. That is to say, there are things that we know we don’t know. But there are also unknown unknowns. These are the things we don’t know we don’t know”

-Donald Rumsfeld

Opening with a quote from the former US Secretary of Defense probably seems like an odd start for a blog post about social finance, but I like its framing of a key problem in social finance: how can you best manage what you don’t understand?

In trying to change social, environmental and economic systems a social investment is dealing in the realms of both the “known unknowns” and the “unknown unknowns”. Part of social finance is similar to traditional investment: money is provided to an organization and converted into a resource (in the form of labor or equipment), which increases the organization’s productivity. Part of this increased productivity used to repay that investment through interest or dividends. The other part of social finance, however, is to make some positive social or environmental impact, the measurement of which may not always be clear.

Managing the risks of that part of social finance that looks like traditional finance is mostly about managing “known unknowns”. There are clear financial models and a whole industry of financial intermediaries who have experience in how to manage those risks. Managing the risks from the part of social finance, oriented towards making social and environmental change, includes some “known unknowns” but is mostly made up of “unknown unknowns”. However, with the right developmental strategy, over time many of these “unknown unknowns” can be converted into “known unknowns”, leading to a better-informed overall social investment strategy.

In a recent Social Innovation Generation at Waterloo (SiG@Waterloo) white paper I co-authored with Frances Westley and Olaf Weber, we propose an approach called Developmental Impact Investing which can be used to help develop this type of strategy. The approach we suggest integrates the measurement of social and economic impact into a social financier’s investment strategy. We suggest that trying to understand the complex social, economic and environmental system can guide social investment decisions. Social investments then generate revenues and create a social or environmental impact, and that impact then needs to be measured to better understand the complex system that the social financier is trying to change. Overall, the purpose is to generate a virtuous cycle of investment and learning.

Suggesting this as a goal is one thing; using it in practice is another. The overall strategy to using a Developmental Impact Investing model is for a social financier to invest in a variety of projects based on the financier’s intended system-changing goal. Central to doing this

well is an understanding that there are two natural synergies between learning and portfolio management.

First, hands-on experimentation is a powerful learning tool. Every project that a social financier invests in is different experiment, and each of those experiments will reveal a different facet of the underlying social, economic and ecological system you are trying to change. The greater the variety of projects supported, the greater the source of new information and understanding.

Second, a wide variety of projects leads to a more diversified investment portfolio which can, in turn, be used to manage risk. The approach to portfolio diversification that you use to ensure you'll still have money in your RRSP when you retire is the same approach that a diversified portfolio provides a social financier who is trying to decide on the level of risk – financial and non-financial – that they are willing to take in their overall strategy.

Challenges Unique to Social Finance – and a Way to Deal with Them (Part 2)

SocialFinance.ca

September 14, 2011

Authored by Sean Geobey

In my first post we looked at some of the challenges involved in developing a social finance portfolio, managing its risks and measuring its returns. Both of these posts are based on the white paper titled “Enabling Social Innovation through Development Impact Investing”, co-authored with Frances Westley and Olaf Weber.

Developing an investment portfolio is a challenge. It involves taking a diverse set of investment opportunities, comparing them to each other, and estimating the potential returns and risks involved in each. Once you've done all this, you then have to decide which you will put your money into, which can be an additional challenge if the entrepreneurs requesting investment need a minimum amount to get their projects off the ground.

Luckily in the mainstream financial market there are resources you can rely on to help take these steps. There are intermediaries such as financial planners, accountants and lawyers who will evaluate investment opportunities and help build a balanced portfolio that meets your growth, income and risk tolerance needs. These intermediaries are, in turn, plugged into a broader financial market that brings together many investors and entrepreneurs so that investment capital can be pooled from a variety of investors and apportioned to a variety of entrepreneurs.

The challenge with social finance is that this market and the intermediaries that support it are not well-developed. This is not simply a matter of social finance being an immature market, although that is also a problem. More fundamentally, there are challenges inherent to social finance that are not faced by traditional mainstream finance – boundary-setting and value heterogeneity.

Boundary-setting arises from the task of trying to measure non-financial impact and amounts to this question: where do you stop? If a factory is looking to reduce its carbon

emissions, do you just look at what comes out of its smokestacks? What about the electricity it uses? How about the exhaust pipes of employee cars? While each is connected to the factory's carbon production, the more you try to measure the more things you can change. However, the more you try to measure the more costly measurement becomes. Value heterogeneity just means that every social investor brings their own different personal values to the table. One investor might be focused on wetland protection, another on poverty elimination, and a third on arts development. While there may be some overlap between those investors in the projects available, finding the projects, finding the social investors and identifying which projects are compatible with which investors is also a costly process. The more social investors and social entrepreneurs you bring in, the more potential capital and projects you have available. However, the more people you bring in the more challenging and therefore costly matching projects to people becomes.

For a social financier, whether the investment is in the form of equity, a loan or a grant, the natural instinct is often to offload all of these costs to the social entrepreneurs. That offloading usually looks like long, time-intensive application and evaluation forms. Such costs can filter out great projects before they make it to your desk, and even when they do, what you are asking for and how you are evaluating the projects might not reveal the true value the social entrepreneur is creating.

We recommend integrating six thoughts to keep in mind that can help you use a Developmental Impact Investing approach:

- **Build standards.** When possible, look to other social financiers to develop common non-financial standards.
- **Compare like with like.** Use the same relative valuation for your impact measures during any given round of portfolio construction.
- **Work together.** Encourage projects with similar non-financial objectives to use the same metrics and, if possible, pool data.
- **Think small.** Small, frequent rounds of financing encourage experimentation and the identification of new impact opportunities.
- **With great power (and funding) comes great responsibility.** The bigger the project, the more affordable the measurement of non-financial impact is to the social entrepreneur.
- **There is power in a good story.** The more experimental a project, the more difficult it is to capture its impact in hard numbers; storytelling can help fill-in the gaps.

In this chapter, a case is made for the use of a framework called Developmental Impact Investing that integrates organizational learning about complex systems with a portfolio investment strategy to combine an inductive method of learning about the social-ecological system with a diversified investment strategy. In effect, the social financier runs a portfolio of experiments that identify opportunities for both social and economic returns. To ground the approach taken here, we use the example of the Vancouver City Savings Credit Union,

commonly known as Vancity, to illustrate how a financial institution can implement many of these tools. Within Canada, the credit union sector has demonstrated a greater commitment to and overall understanding in social finance development than any other component of the financial sector (Harji, Kjørven, Geobey and Weisz, 2012). Within Anglophone Canada, Vancity is the largest credit union and the most sophisticated in its pursuit of a social financing strategy. In effect, this strategy creates a positive feedback loop between the social finance intermediary, investees and the social system they impact.

Note that this chapter is based on the paper Enabling Social Innovation Through Developmental Social Finance (Geobey, Westley, & Weber, 2012) and that further detail on the operationalization of Vancity's social investment strategy will be developed further in Chapter 5. The citation for the paper this chapter is based on is

Geobey, S., Westley, F. R., & Weber, O. (2012). Enabling Social Innovation through Developmental Social Finance. *Journal of Social Entrepreneurship*,3(2), 151-165.

MANUSCRIPT BEGINS

Abstract

This paper explores social finance as a strategy for generating social innovations and at the same time, financial returns. It explores why risk assessment for social finance is so challenging and suggests three sources of difficulty: setting boundaries, integrating heterogeneous values, and responding with sufficient speed and flexibility to support innovation. It suggests there are links between the seemingly distinct challenges of social finance being able to maximize its impact at different stages of the innovation process in a complex socio-ecological system, whilst also acting as a reframing agent in terms of the understanding of the system at other stages. Finally, this paper develops a new concept 'developmental impact investing' as a modified version of a portfolio strategy that uses a range of projects, both to manage risk and to generate new knowledge about the complex systems in which the social finance attempts to create impact and innovation.

Introduction

Social finance is a growing field of practice that often aims to provide resources to support the scaling of social innovation (Pradhan, Roy, Saluia & Venkatrum, 1998). At the same time, such finance may also increase the resilience of complex socio-ecological systems. In mainstream finance, portfolio theory provides the underpinning for most risk management in investment strategies. However, portfolio theory is usually applied in situations where risk and return metrics are easily measurable and comparable. Such consistent metrics are largely absent within the emergent field of social finance and this undermines any attempts to develop social risk portfolios (Wood, Thornley & Grace, 2012). Moreover, this lack of consistent performance data reduces the opportunities for resource providers to learn from the on-the-ground experiences of the social entrepreneurs that they are supporting and

this, in turn, reduces the effectiveness of subsequent capital allocation strategies (this is, of course, also true of all emerging markets: Glaser & Weber, 2007). To some extent this may be a consequence of diminishing returns within a particular social investment context.

However, if the impact of a series of social investments can shape and co-evolve with this broader context these diminishing returns may not be as strict as would otherwise occur were the context taken to be strictly exogenous.

To help fill this gap in theory and practice, this paper examines the limits and opportunities of social finance in terms of supporting social innovation. A review of the current literature on social finance will demonstrate the challenges involved in attempting to capitalize social innovation to resolve complex problems. In particular, the discussion will focus on the need to internalize externalities, and to adopt a modified portfolio approach that enables learning. The adaptive cycle (Gunderson & Holling, 2002) – drawn from resilience theory – will be presented as a conceptual framework for understanding the phases and dynamics of social-ecological innovation. By highlighting the complexity and multi-phased nature of the social innovation process, the adaptive cycle is used to build a rationale for an alternative evaluation model for social finance, referred to as ‘developmental impact investing’. A brief case study of the Vancity credit union is used to demonstrate how a strategy of developmental impact investing has worked in practice. Ultimately, the argument is made for the synergistic value of holding a portfolio of social finance as an integrated risk-management strategy, along with a parallel learning strategy based on developmental evaluation (Patton, 2011).

According to the Canadian Task Force on Social Finance (2010), impact investing is a subset of the wider social finance market characterized as, at least, returning capital to the investor, it is: “[actively] placing capital in businesses and funds that generate social and/or environmental good and (at least) a nominal principal to the investor. Impact investors seek

to harness market mechanisms to create social or environmental impact” (p. 34). By incorporating a range of capital allocation opportunities between not-for-profit and profit-only investment, this concept expands the diversity of opportunities to stimulate social innovation and effect transformative change (Nicholls, 2010a). The recipients of impact investments can range from charities to purely commercial enterprises, given that the primary requirement is only that they provide an intentional blended return of both social impact and financial performance (Emerson, 2003). Investors include the JP Morgan Urban Renaissance Property Fund, which targets market rate returns while developing environmentally friendly affordable housing, and Root Capital, which provides loans to co-operatives that are too large for micro-finance and too risky for traditional corporate finance, while accepting below-market rates of return (Parthenon Group and Bridges Ventures, 2010). For not-for-profits, moving from the purely charitable to a blended return model can encourage projects that are more self-sufficient and capable of growing without undue reliance on donations and grants. However, such revenue-generating operations do present new management challenges for not-for-profits (Weisbrod, 1998; Bugg-Levine & Emerson, 2011). For business or mainstream finance, moving from the purely profit-oriented to a blended return approach means incorporating a greater range of objectives and metrics into investment decision-making.

The Evolving Role of Social Finance

New businesses or companies seeking to expand their operations with debt often turn to banks as a source of financing, and most banks now include a role for corporate social responsibility in their overall strategy (Schuster, 2001). This includes the diverse field of socially responsible investing (SRI) (Sandberg, Jurvale, Hedesström, & Hamilton, 2009). SRI requires integrating positive and negative environmental, social and governance criteria

into investment screening processes (Jayne & Skerratt, 2003), engaging in shareholder advocacy (Monks, Miller, & Cook, 2004), and engaging with companies and donors. Beyond SRI lies impact investing. Socially responsible investing seeks to minimize negative impact, while impact investments are “intended to create positive impact beyond financial return” (O’Donohoe, Leijonhufvud, Saltuk, Bugg-Levine, & Brandenburg, 2010, p. 5). The goal for impact investors is to channel financial capital towards activities that are designed to produce socially and environmentally sustainable impacts (Buttle, 2007; Weber, 2006), but that can also offer some minimum financial returns. Maximizing positive social or environmental impact rather than minimizing negative social or environmental impact presents a different set of decision-making challenges for investors. Impact maximization concentrates on achieving the greatest amount of combined financial and socio-ecological gain. In some measurement systems, such as the Social Return on Investment (SROI: see further below) model, monetary proxies are assigned to non-market goods (Nicholls, Lawlor, Neitzert, & Goodspeed, 2012), although there are limits to how effectively these non-market benefits can be valued in monetary terms (Maree & Mertens, 2012). Implicitly, such an approach requires advancing two or more objectives simultaneously. Indeed, in Porter and Kramer’s (2011) articulation of creating ‘shared value’ to connect societal and economic progress, these concurrent objectives can be a source of competitive advantage in the marketplace.

In contrast, conventional financial risk management implies a strategy of seeking primarily financial returns while operating within a set of structural and systems-level uncertainties and constraints. This may not necessarily be as sharp of a contrast as it first appears; Power (2007) argued that the “logic of opportunity”, pervasive in a neoliberal rhetoric of entrepreneurial value creation, is also pervasive in new ideas of risk management, although it may be limited by management demands for auditability. Furthermore, given the extent of

attention devoted to managing reputational risk, and to framing issues of socio-ecological impacts internally, risk mitigation can develop into an all-pervasive organizational logic permeating decision-making (Power, Scheytt, Soin, & Sahlin, 2009).

Whilst there has yet to be a consensus on the best approach, there has already been a good deal of work done on developing social impact metrics for social finance, particularly within the impact investment sector. The Monitor Institute found that the impact investing community is in a phase of moving from uncoordinated innovation to building a marketplace and thus, centers of activity are starting to develop, although a lack of efficient intermediaries, infrastructure and absorptive capacity present significant barriers (Freireich & Fulton, 2009). J.P. Morgan et al. (O'Donohoe et al.,2010) conducted substantial applied research on impact investors and argued that impact investment is an emerging 'asset class' characterized by a high variance in its expected returns, ranging from competitive with standard market rates to concessionary below market return rates. However, although the financial risks of impact investing are similar to those in high-yield investment spaces such as venture capital, they also include high reputational risks (O'Donohoe et al.,2010). Further work by J.P. Morgan and the Global Impact Investment Network has found that the perception of those in the impact investment industry is that the sector is still in its infancy and growing; the lack of a track record of successful investments is highlighted as a key barrier to growth in the industry (Saltuk, Bouri, & Leung, 2011). The UK's Big Society Finance Fund examined the state of the social finance industry and identified the need to develop intermediaries as a vital piece of infrastructure for the sector (Joy, de Las Casas, & Rickey, 2011).

Nevertheless, capturing and valuing non-financial performance continues to present a challenge. Grabenwarter and Liechtenstein (2010) argued for the inclusion of 'gamma' as a score of the socio-ecological impact, in contrast to the standard 'beta' value indicating the

volatility of an investment's performance, and an 'alpha' value that captures the real underlying performance of an investment, although they do not clarify how a gamma value should be calculated. Elsewhere, SROI is a methodology for calculating the value of social impact that has come to be used extensively in the UK, and is increasingly used elsewhere. SROI is based on seven principles of stakeholder involvement: a clear theory of change; valuation of what matters, materiality; methodological conservatism (i.e. do not over-claim); transparency, and verification. The process itself seeks to attach proxy valuations to non-financial metrics (Nicholls et al, 2012). However, the opportunities to apply SROI to maximize the socio-ecological impact of an investment portfolio remain under-explored, since comparing the SROIs of different projects is difficult due to the use of different sets of metrics and proxy valuations. For social finance intermediaries seeking to support social innovation, there is an increasing need to frame social risk and uncertainty in ways that make capital allocation defensible to a variety of stakeholders. Yet, the landscape of metrics to support such calculations remains inchoate, at best.

Internalizing Externalities

Most economic activities produce benefits or costs that affect a group of people other than those directly involved in the activity. These are called 'positive externalities' when they produce a benefit to these individuals, such as the pleasure a pedestrian feels from seeing a stranger's well-tended garden and 'negative externalities' when they produce pain in others, like smelling the noxious smoke from a factory. One way of viewing social finance is as the '*internalization*' into the investment decision of what would otherwise be social or environmental externalities. Within a neoliberal market context this requires measuring them, which is often a challenge. For example, placing a monetary valuation on non-market outcomes such as improved air quality is difficult or impossible (Maree & Mertens, 2012).

Even so, these measurements are valuable to a social entrepreneur's stakeholders as control, planning and accountability tools (Nicholls, 2010b).

It is valuable here to recognize that the role of externality measurement is deeply embedded in the context of a market-oriented society. Davies argues that a Coasian interpretation of externalities as a problem of inadequate property rights and under-privatization embeds a strong neoliberal interpretation and implicit policy prescription, whereas alternative interpretations suggest a wider range of possibilities (2010). Indeed, Quilley sidesteps the conversation of externalities by suggesting that a Polanyian interpretation can be used to cast social innovation, social entrepreneurship and social finance as a counter movement to the current state of global market modernization (2012). In this context *internalization* becomes a re-embedding of non-market values into the social system, a process that likely would involve drawing away from formal market-based mechanisms for prioritization and control. From this perspective the developmental impact investing strategy suggested in this chapter can be interpreted as a tool used in the process of re-embedding these social values into economic life.

Ebrahim and Rangan (2010) argued that a useful way of uncovering the limitations on measuring social impact comes from looking at the complexity of an organization's theory of change and its operational strategy. The authors suggested that the simpler an organization's theory of change and operational strategy, the easier it is to use specific and well-defined metrics. Mulgan (2010), in turn, maintained that even when there is effective measurement, the findings are rarely used to guide decisions because of the inherent complexity of attempting to capture social value measurements.

If well-defined impact measurement is possible, the question becomes whether or not a difficult trade-off between social and financial returns is inevitable (Schaltegger & Wagner, 2010). After the global financial crisis and the relative resilience of investment

funds driven by strong socially responsible investing standards (Weber, Mansfeld, & Schirrmann, 2011), the advantages of taking a broader range of risks into account when investing are, perhaps, becoming clearer. In this sense, social finance may turn out to be less risky than traditional finance. Taking externalities into consideration in portfolio planning can reduce the exposure to unexpected shocks and offer risk and variance profiles uncorrelated with mainstream markets (as was the case with securitized micro-finance debt products, for example). Indeed, there is evidence that sustainability criteria have power in predicting the financial performance of debtors (Weber, Scholz, & Michalik, 2010). The result is reduced downside exposure to negative externalities, and the possibility of identifying new market opportunities as impact investors and other market actors incorporate socio-ecological externalities into their activities (Porter & Kramer, 2011).

However, it is not always clear where the focal point should be for assessing returns in social finance: investor objectives, investee objectives, or a blend of the two (Nicholls, 2010a). Given this confusion, the most that can be expected from social financiers is what Simon called “bounded rationality” (1982). That is, the attempt to make the greatest possible positive impact in light of the information available. Often, social financiers will be operating in domains that are stable and where they have strong knowledge of what key non-financial impacts need to be measured. Yet when a domain is rapidly changing due to a social innovation process, or there is little agreement on what a ‘good’ outcome looks like, identifying relevant externalities and impacts is difficult. For example, in environmental domains, the science and technology is continually evolving, rendering previous research findings less relevant. In social domains, changing demographics and social values, key contextual variables and institutional structures make it difficult to determine which social changes will be likely to have the most impact and for whom. In both cases, and in particular where the two overlap, ‘success’ and impact are moving targets. Because of this, many of

these complexities can only be surfaced and accounted for after the impact of an initial social investment has been felt.

Building a Portfolio and Learning Together

Effective and continuous learning processes and systems can lead to the optimization of organizational outputs and outcomes. Yet, the process of comparing the risks and returns of different investments that provide different social and environmental returns can be daunting. Nevertheless, investors in social finance need to know how exposed their capital will be to loss before they can be comfortable with higher risk investments.

When there is a great deal of uncertainty, it is reasonable for an investor to be concerned about exposure to loss. Even if this assumption is not accurate, the costs of being wrong in assuming a project is riskier than it actually is are far less than assuming the opposite, a fact that leads reasonable investors to make fewer investments. This highlights the importance of providing measures of impact, yet three key challenges make measuring non-financial impact difficult:

1. Defining the boundaries of what does and does not get measured;
2. Integrating the heterogeneous values of different investors;
3. Managing 1 and 2 without it being so burdensome – or costly – as to discourage innovation.

Boundary setting involves the challenge of establishing a firm line around the benefits, costs and risks that will be included in an assessment of potential impact and those that will be excluded. The broader the definition, the greater complexity there will be in designing effective measurement systems. However, there is a trade-off: measuring impact is costly and can steal valuable time from the social innovation effort itself. Of significance there are

notions of materiality and the identification and ranking of key stakeholder perspectives and impacts.

The inevitable diversity of values held by different investors presents the challenge of reconciling objectives that are sometimes contradictory. While financial returns are, broadly, the same for everyone, social returns are not. What may be important to one investor, such as reducing homelessness or reducing carbon emissions, may not be the social priority of another investor. Moreover, social innovation processes may lead to unanticipated consequences, or problematic 'second-order' effects. For instance, a project that successfully reduces homelessness may achieve this by building housing that dramatically increases carbon emissions. In mainstream investment, financial intermediaries such as banks transform a variety of investments into a set of financial products attractive to investors with heterogeneous risk tolerances, at the same time reducing cost through economies of scale and scope. In the arena of social finance, intermediaries may also play these roles, although strongly held and heterogeneous values on the part of investors may ultimately limit the extent to which investments can be pooled and transaction costs reduced. Even the intermediaries who have been successful in brokering social finance funds to date find themselves having to combine a wider variety of capital sources and portfolio structures than similarly-sized mainstream financial investments (O'Donohoe et al., 2010), which means higher transaction costs than in traditional finance.

Finally, encouraging social innovation involves managing the costs of the two issues described above. If boundaries are set widely, a wide variety of social and environmental impacts can be included. And if stakeholders and social investors are engaged in a deep and thoughtful bargaining process, differing values can be explored and reconciled. Yet both of these are costly processes, and some combination of investors and social entrepreneurs

must cover that cost. Although transaction costs are falling as the social finance market grows, many potential social investees are small companies where the size of most financial transactions is under \$1 million, making due diligence and other transaction costs large relative to the size of the capital allocated (O'Donohoe et al., 2010). These high transaction costs reduce investible capital by making it expensive, and may also impose burdens that screen out projects that are particularly experimental or innovative.

Having comparable financial metrics is the cornerstone of mainstream investment strategy. By holding a variety of investments simultaneously, and looking at their overall return rather than at the return of individual investments, sophisticated investors can better manage their exposure to risk (Markowitz, 1952). The goal of portfolio management is no different in principle in social finance (Ottinger, 2007) and studies show that the integration of social impact criteria into the portfolio management may not influence financial performance negatively (Milevsky, Aziz, Goss, Comeault, & Wheeler, 2006; Koellner, Suh, Weber, Moser, & Scholz, 2007; Weber et al., 2011).

Still, once it is accepted that social and environmental challenges are often complex, it must also be recognized that they can only be partially understood, captured and calculated.

Observers of a complex socio-ecological system, whether they are researchers, social entrepreneurs or impact investors, inevitably become elements of the complex system they are observing and which they reside (Maturana & Varela, 1987). Moreover, systems change over time and at different speeds depending on scale issues with larger socio-ecological systems often changing at a slower pace than those operating at smaller scales (North, 1990; Ulanowicz, 1997). Taken together, this means that the provisional understanding that observer-participants in a system may degrade over time unless knowledge and perception is updated in response to changes in the system itself. This

concept has strong affinities with similar theory in sociology, most notably Giddens' (1990) work on structuration.

When the social and environmental impacts of an investment are measured, much can be learned about the system in which it operates and the degree to which the investment has succeeded or failed. The learning is even greater when a portfolio contains projects of different sizes using different approaches (Arthur, 1994). The portfolio can then be used not just to make an impact, but also to better understand a complex social or environmental system that it aims to have effects on. This is quite unlike the examples of the direct measurement of outcomes in cases where, for example, a service is being optimized and social investors know in advance what outcomes are sought. Such historical measurements provide little insight into what new services might be needed in the future or how the system's change may alter the best leverage points for future interventions.

The Adaptive Cycle

As has already been noted, a key challenge facing social finance is the complexity that social and environmental contexts creates in terms of specifying non-financial impacts and their attendant risk and return metrics. Any social innovation process that emerges within a complex environment will co-evolve with its sources of resources. This fact suggests that best practice in social finance should involve internalizing externalities and iterative learning processes based upon a portfolio approach. However, it is also the case that current research has yet to provide a consensus in terms of the analytical tools to support such approaches. This section will explore the adaptive cycle as one such tool and it suggests that this model may build a better understanding of the dynamic nature of social finance effects in contexts. It is also proposed here that using this theoretical lens leads to

an enhanced understanding of social finance categorized here as ‘developmental impact investing’.

The adaptive cycle (Gunderson & Holling, 2002) is a four-phase model that characterizes the dynamic properties of a complex system. The first two phases, *exploitation* and *conservation*, are the ‘front loop’ of the adaptive cycle. In the *exploitation* phase, the system may start out with few connections among its elements and, thus, low productivity, but as some of these elements acquire resources, interconnectedness and productivity increase. This brings the system to the *conservation* phase, in which the system is both highly productive and strongly interconnected. However, this can lead to system rigidity and the risk of collapse, leading to the ‘back loop’ phases of *release* and *reorganization*. During the *release* phase, connections between system elements dissolve and productivity falls. This is followed by the *reorganization* phase, characterized by ‘sense-making’ in which system elements identify the new characteristics of a post-release system and start to act on this new understanding, leading back to the exploitation phase of the cycle.

Using the adaptive cycle to frame social finance decision-making processes makes the learning challenge clear: many investments are in projects that fall into the easily understood phases of *exploitation* and *conservation*, for example, a wind or a solar farm. However, projects that are directed at entrenched societal problems such as poverty or mental illness often fall into the more potentially turbulent *release* and *reorganization* phases and metrics for these activities present new territory for social finance. Experienced social entrepreneurs have learned to respond by defining any theory of change or observations in these phases as necessarily provisional, all the more so because they are part of the transformation process themselves (Maturana & Varela, 1987). However, such a co-emergent concept is not familiar to conventional

investment thinking. The consequence of this is that much like public policy actors operating in complex spaces (Moore, Westley, Tjornbo, & Hoiroyd, 2012), there are choices to be made within social finance depending on the context for collaborating with social entrepreneurs; it is suggested that such collaborations will deepen as both parties experience projects in all stages of the adaptive cycle.

While most projects seeking investment capital in order to scale up their activities are proposing strategies for managing the fairly stable 'front-loop' of the adaptive cycle, scaling up social innovations requires an understanding of the 'back-loop' strategies of sense-making and reorganization around new ideas and approaches (Moore et al., 2012). For social finance, this means consciously using measurements of non-financial impact to learn about the complex socio-ecological systems in which capital is deployed (Nicholls, 2009). To accomplish this level of adaptability while still minimizing risks requires investors to adopt a *developmental* approach to evaluation and measurement. A developmental approach ensures that feedback from the social innovation process and from the complex socio-ecological systems that these processes are seeking to change is timely. It is also important that learning about real-time impacts is supported within a social finance community, and the capacity to use the knowledge generated about a complex socio-ecological system more effectively in the future is also developed (Patton, 2011).

This paper argues that the difficulty associated with social impact investing evaluation can be managed by combining two models: the portfolio theory approach and a developmental evaluation approach. Taken together, this can be termed developmental impact investing, an approach that seeks to take advantage of the natural complementarity between portfolio theory and inductive learning. Portfolio theory asserts that investors can strategically manage a variety of investments as a risk-management strategy, allowing them to select a risk-reward strategy that best meets their preferences (Markowitz, 1952). Arthur (1994)

suggested that understanding how a complex system works requires trial-and-error experimentation. Developmental impact investing involves holding a portfolio of impact investments as not just a risk management strategy, but also as a series of learning experiments. Each investment-experiment not only makes an impact, but also informs capital allocation decisions in terms of how complex social-environmental systems work, and how social innovation occurs. In turn, this increases the likelihood of successful impacts and outcomes in the next round of investment. By exploiting the natural synergy between the experimental approach of a portfolio strategy and its use in financial risk mitigation, developmental impact investing can both reduce the cost and increase the efficacy of social finance projects.

The overall logic of developmental impact investing can be understood as a cycle that has three components. First, an understanding of the particular complex socio-ecological system is used to guide portfolio selection. Second, the portfolio of social finance projects injects capital into a set of activities that then generate changes in the complex socio-ecological system. Finally, the impact is measured, allowing a better understanding of how the complex socio-ecological system operates. This then allows capital allocators to reformulate their understanding of the system itself and make more informed decisions about their own theories of change and those proposed by their prospective investees.

Vancity Credit Union

As was noted above, there has not yet been any universal adoption of standardized metrics in the social finance community. Indeed, only 31% of impact investors use third party systems at all (Saltuk et al., 2011). However, of these, 65% use metrics aligned with the Impact Reporting and Investment Standards (IRIS) (Saltuk et al., 2011). Most notably, the Global Impact Investing Rating System (GIIRS) that a growing number of social fund

managers are currently using has attracted over \$1.2 billion in social investments and is built on IRIS standards. Similar to a for-profit investment-rating agency, GIIRS evaluates different projects to provide potential investors with an assessment of the likely outcome of an investment in those projects. But unlike a for-profit rating agency, their company and fund impact ratings have built-in relative valuations of different environmental and social impacts. As a result, GIIRS allows the comparison of like-with-like social investments, which should over time, make maximizing impact in a coherent way possible and lower the cost of pooling capital from multiple sources of social finance.

A coherent approach to relative valuation, like that used by GIIRS, means that social financiers can pool their capital more easily, encouraging further growth and flexibility in the sector (Ottinger, 2007). GIIRS can provide benchmarks for the development of particular impact investment niches, but the wide variety of socio-ecological systems in which impact investors may operate will ultimately serve as an upper-bound limit on the number of intermediaries that will be able to use the GIIRS. Indeed, the constant change inherent in complex systems will force a difficult balancing act for all impact ratings systems. On the one hand, there is value in maintaining a core set of metrics to allow comparability of performance over time. On the other, as impact investors and social entrepreneurs learn more about the socio-ecological systems in which they operate, they will push for metrics that more closely meet their operational needs.

GIIRS allows for the comparison of performance between multiple projects, but it remains relatively inflexible in operationalizing metrics.¹ As an alternative, SROI sets standards on how to engage in stakeholder relationships in order to develop operationally meaningful metrics and to find proxies for monetary values that can be applied to these metrics (Nicholls et al., 2012). In this sense, SROI is a powerful tool for the 'bottom-up' generation of meaningful impact performance measures. Although project comparisons may not be of

interest to all impact investors, without the possibility of making meaningful comparisons, the development of an investment portfolio becomes impossible.

One organization that uses many of the developmental impact investing tools discussed here is Vancity Credit Union in Vancouver, Canada. Vancity has an active portfolio of impact investments in a variety of domains, primarily in Vancouver and the surrounding area. It even goes as far as labelling some of its initial investments in new complex socio-ecological domains as ‘proof-of-concepts’ in order to make the learning objectives explicit. As Derek Gent, Executive Director of Vancity Community Foundation, noted:

If we're going to take a deeper dive into local organic food we really need to understand it a bit better. So let's try to make investments into a few different things ... just to see what works, what doesn't and what we've learned in the process.

(Gent, 2010)¹

When Vancity decides to invest in a new domain, it typically chooses a balance of high-risk and low-risk projects. The high-risk projects let Vancity gain a wider perspective on what is not possible, while the low-risk projects allow them to identify what success looks like and how to measure it. Since its initial moves in the early 1980s into what would now be termed impact investing, Vancity has built an organizational culture that uses its social investments as opportunities to learn about the system in which it operates (Hardin, 1996).

Vancity typically makes use of all available types of capital from debt, equity and grants to support its investees, depending on its particular capital needs. It may also blend different types of capital in innovative structured finance deals. Unlike many other social investors, Vancity is a credit union, with a membership based in the community where most of its impact investments are made. As a consequence, the positive externalities generated by many of its investments either directly benefit some of their members, or can be personally observed by the membership. Furthermore, this close alignment of the interests of

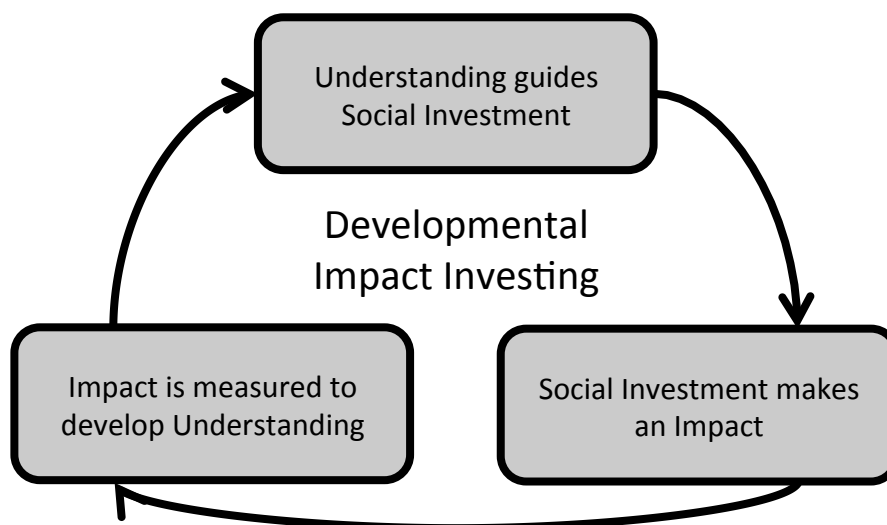
investors, investees, beneficiaries of community services, and Vancity's own member-owners has the advantage of reducing the level of value heterogeneity amongst their stakeholders, something not available to most impact investors. This reduces the demand for a variety of metrics by the capital providers (who are also their member-owners), as they can often directly verify that the impact has occurred. As a consequence, Vancity has been able to adjust its social finance strategy over time to respond to the learning of the social entrepreneurs it supports and its own dynamic relationships with them. Vancity has used this learning to try to improve the effectiveness of both impact investing programs and the development of a variety of new services oriented to their social finance objectives. There can sometimes be a tension between the top-down demands for accountability from social financiers and the bottom-up development of operationally useful metrics, derived from the social entrepreneurs that the finance supports. The demands of risk-management and the attempt to maximize the impact of limited funds create an additional push for accountability and transparency. However, it is those closest to the changes occurring in the socio-ecological system being invested in that are often best placed to engage in the sense-making that can reframe relevant understandings of the system as a whole and reveal further opportunities for radical social innovation. In effect, the relationship between the information demands of social finance and the information needs of the social entrepreneurs they support, mirrors the apparent tensions between the 'front-loop' and 'back-loop' of the adaptive cycle in a complex socio-ecological system.

The appropriate balance between whether an *exploitation-conservation* 'front-loop' strategy or a *release-reorganization* 'back-loop' strategy should be followed depends on the state of the system the social financier is attempting to change. Moreover, the collection and use of information in these complex socio-ecological systems is itself an intervention that may change the system. Furthermore, the bounded rationality of both investors and

entrepreneurs may make it impossible to understand fully where the system is in its adaptive cycle (Arthur, 1994). Finally, the natural movement of a system through the phases of the adaptive cycle may also quickly render out of date any approach that strives to pick a particular balance between *exploiting-conserving* and *release-exploration* strategies in a static way.

Developmental impact investment does not favour one approach or the other; it sees an investment portfolio as a strategy that can contain both purposes. On the one hand, the risk-management aspect of traditional portfolio theory provides the stability that can be used to attract resources for the *exploitation-conservation* phases. On the other hand, the natural experimentation aspect of a portfolio of interventions in a complex socio-ecological system may provide the sense making that is vital to reframing the understanding of the system during its *release-exploration* phase (see Figure 1). The right balance between maintaining stable and standardized metrics for an investment portfolio and allowing for revisions will depend on the state of the system itself when a developmental impact investing approach is initiated.

Fig 4.1 The developmental impact investing cycle



Conclusion

The adaptive cycle framework, and the understanding of complex social-ecological system dynamics that it provides, has been used in this paper to demonstrate the value of a more *developmental* impact investment strategy. It is argued here that developmental impact investing is a process that involves both the use of a provisional understanding of a complex socio-ecological system to guide impact investment strategy and investing in a portfolio of theories of change to impact that system. As a consequence, such a measurement system is of use in reframing a social financier's understanding of the system under scrutiny. This approach places an emphasis on the importance of creating a portfolio of social investments that can be used to manage risk, and at the same time building an understanding of the complex socio-ecological systems they seek to change. In doing so, a developmental impact investor can build the capacity to generate social innovations at various points as a complex system moves through the phases of the adaptive cycle.

This paper is exploratory in approach and has aimed to generate new thinking around social finance, impact measurement and social innovation. Clearly, further research is required in this area to test the key concepts put forward here and to see how best such an approach can be operationalized in practice. There are three significant lines of future research that emerge from this paper. First, the generation of multiple investment-specific metrics with different monetary valuations calls for the development of tools that can allow for easier comparisons between these metrics within a single impact investor's portfolio: this is a prerequisite for including non-financial metrics in a portfolio. Second, the cost of measuring impact has to be borne by one or more parties in a transaction. The decision about how to bear the cost, and how this is divided between investor and investee, can change the composition of an impact investment portfolio. The cost issues of measuring complex theories of change may crowd out some interventions in favour of easier-to-

measure impacts or may alter crucial objectives to meet investor requirements. Finally, there is a need for a greater understanding of metrics as units of reporting, which will give impact investors and social entrepreneurs the tools to self-organize by improving the ease of project and investor comparisons and accountability. Tied to this is the need to explore the tension between metrics as enabling social innovation through the reorganization of complex systems and the role of metrics in standardizing and, perhaps, restricting organizational innovation.

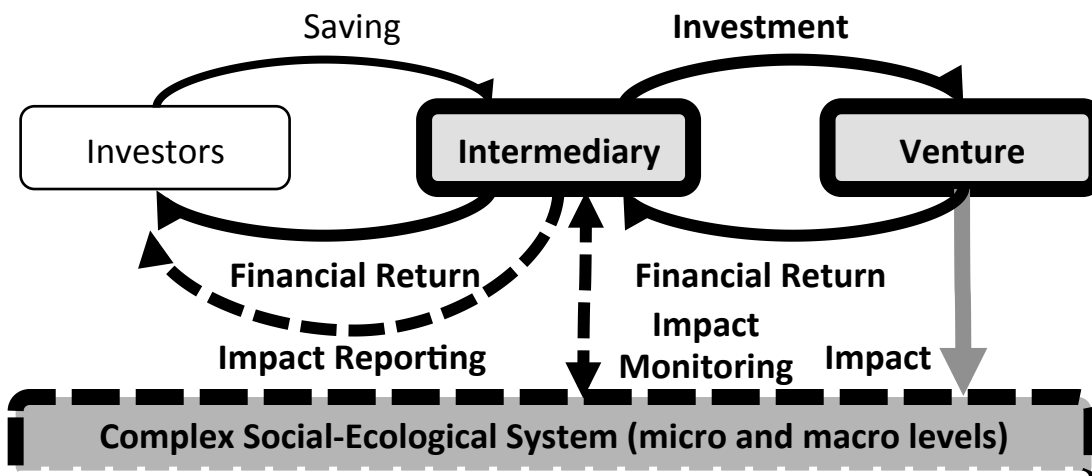
Note

1. Interview with Derek Gent, Executive Director, Vancity Community Foundation, November 2, 2010.

MANUSCRIPT ENDS

The challenges social financiers face in attempting to adapt their portfolios to the changing nature of the complex social-ecological systems they seek to change are themselves complex. They are not just financial portfolio management decisions as the social impact of both individual investments and the portfolio as a whole are a primary objective. However, these decisions are not exclusively based on anticipated social impact either as the long-term capacity building that a social finance intermediary intends on creating can only happen if the ventures they invest in are economically viable (see Fig 4). Otherwise social finance intermediaries will require a continual injection of economic resources from elsewhere in the system in order to maintain the social impact of the ventures they support. Yet this creates an additional challenge as finding these new economic resources will create ripple effects in the social-ecological systems those economic resources are taken from. For example, if a social financier is supporting transformative social enterprises that alleviate poverty in a city at a loss, the financial support for these investments may be drawn from resource-extraction industries imposing heavy environmental costs elsewhere.

Fig 4.2 Model of Social Finance System with Intermediation: Chapter 4 Research Focus



Experimenting with interventions in a complex system can deliver improvements in the performance of a social financier. However, while experimentation as an approach to learning about complex systems could lead to an improvement in investment performance, social impact or both; it does not necessarily mean it will lead to these improvements. Furthermore, improving investment and social performance does not necessarily imply that the social finance intermediary that undertook these activities will show an improved performance as well. Indeed, the rise and decline of mutual banking in the US could be viewed as an example where the demonstration of a viable market in consumer banking by nonprofit mutual banks laid the groundwork for investor-owned banks to enter and, ultimately, dominate the consumer lending market (Hansmann, 1996, Chapter 13). In Chapter 5 the operationalization and impact of Vancity's social finance strategy will be explored in an in-depth case study.

Chapter 5 – Lessons in Operationalizing Social Finance: the Case of Vancouver City Savings Credit Union

The selection of a social impact metric or set of metrics and their integration into an organization's strategy has profound implications for how that organization operates. Both an organization's internal operations and the interactions external stakeholders have with the organization, a social metric that creates a new basin of attraction that rewards activity that changes the metric. Consequently, the selection of impact metrics and their integration into an organization's strategy will necessarily change how resources are allocated. For a social financier the allocation of resources is particularly important because it not only applies to internal operational decisions, but also to the selection of its portfolio of investments. When treated seriously, the social impact of a financial institution will not just be counted as the impact of its corporate social responsibility department, corporate foundation or even a dedicated social finance fund, but its entire investment portfolio. In its long history as a proto-social financier, the Vancity credit union has implicitly included impact considerations in its strategy. However, in the past decade, Vancity has made a more thorough commitment to demonstrable social impact than in the past, and their experience provides a compelling example of the challenges and opportunities inherent in pursuing a strong social financing strategy.

The challenges presented in the operationalization of social financing are critical as there is a theoretical case for seeking joint economic and social returns. Emerson's blended value proposition is that there is a set of investments that can provide greater social benefits than would be achieved by placing funds in the purely philanthropic, grant-led domain while also generating financial returns (2003). The mirror-image of this is presented in Porter and Kramer's shared value proposition which argues that investments in social-ecological

benefit can generate long-term financial benefits (2011). Taken together the blended value and shared value propositions imply that there should be both long-term social and financial benefits from social financing. From a slightly different lens, Mackey's conscious capitalism (2007) and Altman and Berman's single bottom line (2011), both argue that seeking financial performance alone should incentivize positive social and ecological impact as long as the investment covers a long-term time horizon because both risk-mitigation and the creation of new market opportunities depends on socially conscious business practice. In applying these principles to social finance, there is some evidence that can be drawn from the socially responsible investment (SRI) industry. Krosinsky finds that time horizon is indeed critical to socially responsible investment performance, as his study comparing SRI funds found that those with the lowest portfolio turnover tended to perform best (2008). Similarly, Lucas-Leclin and Nahal find that better sustainability performance tends to produce lower stock performance volatility (2008). In the Canadian context, Bragg's comparison of SRI funds to mainstream funds finds slightly better performance by Canadian SRI equity funds to average Canadian equity funds over 1-year, 3-year, 5-year and 10-year time horizons although this performance is not consisted across individual asset classes nor is it consistently true across US, international and global markets (2013). Overall, the evidence of improved financial performance is somewhat weak, though the counter-claim that SRI funds are poor financial performers would be similarly inconclusive. This being noted, the possibility of a strong long-term upside to social financing is still quite compelling. However, if undertaking social finance in a meaningful way imposes transaction costs that are too severe, the overall business case would fall apart, hence the need to better understand the operationalization of social finance.

Vancity presents a particularly compelling case study because it is at the vanguard of social financing best practices in Canada and, consequently, is also the place where many of the

challenges and limitations of social financing are presenting themselves. Despite Vancity's choice to make social financing the central component of its strategy, with the goal of converting its entire \$17.1 billion asset base into social financing investments, this transition is incomplete. Part of the challenge is scale. Vancity is the largest credit union in Anglophone Canada, the largest open bond credit union in the world, and is by far the largest member of the Global Alliance on Banking and Values. Although small by the standards of the mainstream banking industry, it is conducting the largest-scale experiment in private-sector led social financing in the world, with the possible exception of Quebec's Desjardins Group. Consequently, Vancity presents a compelling case for any organization attempting social financing at a large scale.

The lessons that can be drawn from Vancity also bolster the findings from Chapter 3, as the credit union structure inherently builds in a governance structure that requires community outreach in priority-setting and impact identification. As a cooperative institution, Vancity's clients are also its member-owners with a board of directors elected from the membership in democratic one-member, one-vote elections. This provides a political mechanism through which priority-setting, metric identification and accountability for mission fidelity are brought into the system. Additionally, as a market-based institution that competes with other banks and credit unions for member-customers, an accountability check that any financial institution has, but not a check that is present in government-led social financing projects or foundations. The combination between the two pressures potentially makes for a set of governance mechanisms that transmits the identification of social impact opportunities from the member-customers to the executive level of the credit union quickly and, combined with priority-setting validated through board elections, can lead to the relatively quick adoption of promising social finance strategies. Furthermore, Vancity offers a model of social financing that operates at both the level of the investment portfolio and at

a broader system-changing level in British Columbia. That is, through its portfolio of experiments and the learning it generates people connected to Vancity both makes a direct impact and leverages their insights to provoke broader system-level social innovations. These have included public policy changes in Vancouver, British Columbia and at the national levels in Canada and enabling the growth of affordable housing, alternative energy and local food systems in British Columbia. In effect Vancity has become both a place to incubate new ideas for rearranging social-ecological relationships as well as a channel for translating learning to different stakeholders in complex social-ecological systems. Vancity has certainly changed resource and authority flows in British Columbia in a way that has had a lasting impact and durability as a social financing system. Consequently, Vancity can be viewed as a social innovation within the British Columbian context and this makes understanding how they have done so important for social finance practitioners.

Note that this chapter is based on the paper Lessons in operationalizing social finance: The case of Vancouver City Savings Credit Union (Geobey & Weber, 2013) and support for its development came from Export Development Canada, the Social Sciences and Humanities Research Council of Canada, Social Innovation Generation at Waterloo and the J.W.

McConnell Foundation. The citation for the paper this chapter was based on is

Geobey, S., & Weber, O. (2013). Lessons in operationalizing social finance: the case of Vancouver City Savings Credit Union. *Journal of Sustainable Finance & Investment*, 3(2), 124-137.

MANUSCRIPT BEGINS

Abstract

With \$16.2 billion of assets the Vancouver City Savings Credit Union (Vancity) has the largest asset base of any member of the Global Alliance on Banking and Values, a global association of ethical banks, and also has the largest asset base of Canada's credit unions. This article analyzes the social financing Vancity conducts and the disclosure of the social impact of the products and services they offer. The results suggest that they are on the path to realizing a 100% social finance portfolio but that they have not arrived there yet. In particular, their personal retail products and services still offer room for improvement. Furthermore, their reporting lacks an indicator based on comparative figures that would allow stakeholders to compare the impact of Vancity's products and services with those of other financial institutions.

Introduction

We seek to redefine wealth in a way that goes beyond profit alone to include social justice, environmental sustainability and community well-being. Our definition of wealth goes beyond the trade-offs assumed in a triple-bottom-line approach, to one that creates true blended value (VanCity, 2011, p. 19).

With over \$16.1 billion in assets under management and nearly 480,000 members, Vancity has the largest asset base and second-largest membership base of any credit union in Canada (Vancity, 2012a). It is headquartered in Vancouver, British Columbia and the mission of Vancity states explicitly on the idea of social and environmental sustainability. As the member with the largest asset base in the Global Alliance for Banking on Values (GABV), comprising about half of the GABV's total asset base in 2011, the scale of Vancity's operations is of particular interest for the emerging impact investing industry. Vancity's

home territory, the Canadian province of British Columbia, has been host to many of Anglophone Canada's most interesting social finance experiments. Much of this organizational ecology has grown with and around Vancity and their role in seeding this ecology offers replicable lessons for other social finance organizations.

As a credit union, Vancity is cooperatively owned by its member-customers. Social finance institutions (SFIs), such as Vancity, provide financial services to generate social or environmental benefits, in contrast to the purely profit-driven motivations of their commercial counterparts (Da Silva, 2007; Edery, 2006a). Although some SFIs are credit unions and some credit unions provide social finance services, not all SFIs are credit unions, nor are all credit unions SFIs. In British Columbia, Vancity offers products and services such as social enterprise loans, financing of renewable energy projects and social housing. In contrast to the Canadian chartered banks and many other credit unions, Vancity commits a substantial portion of its assets to social finance projects rather than including social investment as part of an ancillary corporate social responsibility (CSR) plan.

Once limited to only serving the Vancouver population, Vancity's operations are still primarily based there but have come to include the surrounding British Columbia Lower Mainland and Victoria. As a credit union, they are primarily regulated by the Province of British Columbia and have few operations in the rest of Canada. While they hold almost a third of the \$49 billion in credit union assets held by British Columbian credit unions, this is small compared with the assets held by Canada's commercial banks (Central 1, 2011). As a comparator, the smallest of Canada's 'Big Five' commercial banks, the Canadian Imperial Bank of Commerce holds \$352 billion in assets (Canadian Imperial Bank of Commerce, 2010).

One of Vancity's founding principles was to work in the service of Vancouver's underserved communities (Vancity, 2012b). In 1946 this meant Vancouver's working class East Side,

although in practice this service meant more than just holding deposits and lending. Indeed, their long-standing policy of distributing 30% of their earnings to members and non-profit organizations has made them a philanthropic pillar in British Columbia. However, it was between 1983 and 1986 when a group of activist members organized to take over the credit union's board of directors that the credit union took a sharp turn in the direction of social financing (Hardin, 1996). This started a process of consciously shifting more of their asset base towards financing social entrepreneurs and non-profits engaged in for-profit ventures. They were the first financial institution in Canada to provide mortgages to women and creating Canada's first socially responsible investment (SRI) mutual fund, the Ethical Growth Fund in 1986.¹ More innovations have followed and today Vancity offers an array of new investment opportunities that integrate social finance with their mission.²

The purpose of the article is to describe social finance and its application. It draws on a case study of Vancity Credit Union and demonstrates how social finance can be implemented in the financial sector in a manner that benefits both the society and business. Furthermore, the article analyses how the social and environmental impact of social financing may be reported in a way that enables comparison between different SFIs and their conventional counterparts.

As an approach, this article starts by analyzing the conceptual background of social finance and how one of the biggest social finance players in the industrialized world applies the concept. In the second section, we will present an overview of how Vancity has used the social finance concept over time and how they integrate it into the core business of the credit union. The third part will focus on disclosure of intended impact. To do this we analyze Vancity's annual reports. Finally, the article draws conclusions from how this credit union operationalizes social finance and how the social reporting affects its business.

Social finance

There are three forms of social finance: microfinance, impact investing and social banking. Social finance can be defined as “the application of tools, instruments and strategies where capital deliberately and intentionally seeks a blended value (economic, social and/or environmental) return” (Harji & Hebb, 2009). Microfinance, in particular, has been receiving a great deal of attention since Muhammad Yunus, one of the founders of microfinance, was awarded the Nobel Peace Prize in 2006. Microfinance has become well known as a market-based financial service used to fight poverty by providing people with access to small loans (Yunus & Weber, 2007). However, micro-financing primarily occurs within developing countries.

Impact investing is defined by the Canadian Task Force on Social Finance (2010) as “the active investment of capital in businesses and funds that generate positive social and/or environmental impacts, as well as financial returns (from principal to above market rate) to the investor.” The contrast between impact investing and socially responsible investing (SRI) is that SRI can screen out investments for social, environmental or governance reasons, whereas impact investing is based on the assumption that investments can create financial returns and address social and environmental challenges (Bugg-Levine & Emerson, 2011). Impact investing tends to be connected with private and institutional investors, often including philanthropic foundations. SFIs engaged primarily in banking activities are called social banks. While Vancity is a credit union, making it a cooperatively owned institution that is regulated differently from a bank, its activities are primarily banking services. Most mainstream financial institutions usually have a CSR strategy (Schuster, 2001). However, for many conventional financial institutions CSR is rather an add-on rather than being implemented in their core business. In contrast, SFIs embed social values into their governance and business operations (Cadman, 2011). Weber and Remer

define social banking as 'banking that aims to have a positive impact on people, the environment, and culture by means of banking, i.e. savings accounts, loans, investments and other banking products and services, including "gift money"' (2011a, p. 2). Although SFIs are still considered a niche phenomenon, they have shown impressive balance-sheet growth, market share and even financial return (Remer, 2011). This is particularly true after the 2008 global financial crisis. In 2010, the total amount of the balance sheet of the members of the biggest social banking association, the GABV, was \$26.2 billion (Weber & Remer, 2011b). On the one hand, this is a substantial asset base. On the other, this is still a small amount relative to what mainstream financial institutions hold and a nearly negligible fraction of the total financial market.

SRI is a heterogeneous field (Sandberg, Jurvale, Hedesström, & Hamilton, 2009) integrating social or environmental criteria into the set of investment indicators (Koellner, Suh, Weber, Moser, & Scholz, 2007) and includes 'social' screening, community investment and shareholder advocacy (O'Rourke, 2003) in the investment process to guarantee higher and more sustainable financial returns. The two main goals of SRI are guaranteeing attractive financial returns by investing in securities while taking long-term sustainability into account (Weber, Mansfeld, & Schirrmann, 2011) and channeling capital towards activities that have a broader social, environmental or sustainability benefit and thus foster sustainable business (Buttle, 2007; Weber, 2006). When viewed over time by integrating social, environmental, and governance evaluation into investment risk-analysis, many SRI representatives argue that this approach actually achieves higher financial returns than conventional investing (Sandberg et al., 2009).

A strict separation between SRI and social finance is difficult, since there is a spectrum that includes different types of social finance and mainstream finance. Chertok, Hamaoui, and Jamison (2008) distinguished between the emphasis on financial returns and the emphasis

on social returns. For them, conventional finance is located on the one end of the scale, while non-profit grant-making is at the other end with the social capital market in the middle (Meehan, Kilmer, & O'Flanagan, 2004). Another way of viewing the spectrum is by looking at what projects people invest in. Investments may range on a scale from for-profit commercial enterprises at one end of the spectrum and operational charities with exclusively social purposes at the other end.

To clarify the role of Vancity as an SFI, it is important to have a clear definition of social finance. Different definitions of social finance come from authors such as Bugg-Levine and Emerson (2011), Emerson (2003), Harji and Hebb (2009), Chertok, Hamaoui, and Jamison (2008), Kaeufer (2010) and Weber and Remer (2011a). However, what are common to all these definitions are two principles:

1. The principle of blended value stating that a positive social impact and a financial return may and should be achieved by social finance products and services.
2. The principle of sustainable financial return that guarantees the financial viability of SFIs.

Social banking

There is a great deal of diversity in the backgrounds of SFIs. In the early 1980s American financial institutions were confronted with environmental risks imposed by the US Comprehensive Environmental Response, Compensation and Liability Act of 1980, which set as a policy that the owner of a contaminated site would be responsible for the clean-up. Some lenders were held liable under this Act because they participated in the management of the businesses contaminating some site (Bacow, 1998). Additionally, in Europe the regulatory situation changed in the 1980s as well to have a similar impact (Scholz, Weber, Stünzi, Ohlenroth, & Reuter, 1995). As a consequence, both environmental and broader

sustainability criteria were used to rate borrowers in the following years. By integrating environmental and social sustainability indicators, the credit risk management of conventional banks and other financial institutions improved (Weber, Scholz, & Michalik, 2010). Although social sustainability indicators were incorporated by conventional banks and financial institutions, these were not brought in as an actual investment objective. While SRI integrates sustainability risks into lending decisions, social banking institutions provide loans for creating a social or environmental benefit (Da Silva, 2007; Edery, 2006b). Their businesses are based on two principles: achieving a positive impact on the society, the environment and sustainable development and achieving a sustainable financial return. Although financial institutions that follow these principles have existed since the Middle Ages, the first modern social banks were founded in the 1970s to use financing as a tool to make a social impact (Milano, 2011). Many of these institutions have a philosophical underpinning, such as that of the anthroposophist German: *Gemeinschaftsbank fuer Leihen und Schenken* (GLS), a social–environmental basis like that of the Swiss Alternative Bank, or a development model such as those used by microfinance institutions (Weber & Duan, 2012). Some social banking institutions are based on community development and the advancement of the institution’s broad membership; this is the focus of the Vancity credit union.

Credit unions were founded at the end of the eighteenth century to provide middle and low-income community members the opportunity to save and borrow, fostering community economic development. The credit and savings union model spread from Europe to North America with the opening of the Philadelphia Savings Fund Society in 1816 (Milano, 2011), with a major expansion and modernization following the founding of the first *Caisse Populaire* in Levis, Quebec in 1900. The main function of local savings banks and credit unions was, and still is, to offer their members the opportunity to save and to better educate

their communities on how to use financial services. Credit unions continue to operate as democratic one-member-one-vote institutions. Serving the under-banked population is one aspect of credit unions. This also applies to commercial clients such as social enterprises and non-profits that are not in the focus of bigger corporate banks.

Methodology

This article asks the following questions: What are the broad lessons that can be drawn from the Vancity experience and how may they be applied to the larger development of social finance markets? Do the indicators that Vancity reports show that the credit union generates a social and environmental impact through its portfolio?

The approach taken here to looking at the social innovations fostered or triggered by Vancity in British Columbia is a multifaceted one. One aspect is to look at Vancity in a historical context within Vancouver and British Columbia. Here we are greatly indebted to Hardin's 1996 history of the credit union commissioned by the Vancity board. Additionally, we draw on a series of a dozen key informant interviews from participants in the British Columbian social finance sector, all but one from outside Vancity itself, to build a picture of Vancity in the broader British Columbian social finance ecosystem.

We also conduct an in-depth analysis of Vancity's annual reports to find out whether they differ in structure and in content from those of conventional financial institutes. This analysis is based on the Annual Reports between 2000 and 2010. We analyzed the business fields of the credit union with respect to indicators and qualitative descriptions of the integration of social finance. Furthermore, we calculated the growth of social finance at Vancity through an analysis of their assets and loans between 2000 and 2010.

Vancity in a broad social finance ecology

As noted earlier, there are three major forms of social finance: social banking, microfinance and impact investing. Primarily, Vancity operates in the social banking sphere. Although they have made some forays into microfinance, for the most part they have remained outside this space. That being noted, their historical role since their founding focused on the extension of banking services to and the creation of banking products for members who were otherwise ignored by main-stream financial institutions. Through a variety of agencies under its writ, Vancity has long been an impact investor in British Columbia. In this section, we situate Vancity in the broader Canadian social finance ecosystem, examine the historical involvement Vancity has had in social finance and, most importantly, the investments they have made in British Columbia's social finance infrastructure.

Canada's Credit Union System, and its cooperative movement, has tended to be strongest in Western Canada and Francophone Quebec. Much of this can be seen as a reaction to the concentration of financial wealth in Toronto and Anglophone Montreal, which deprived the Prairie Provinces and British Columbia of the capital needed for economic development and financially marginalized Quebec's Francophone population. It was in Quebec in 1900 that Alphonse Desjardins founded the first *Caisse Populaire*. This was the starting point for Canada's credit union movement, and within Quebec has evolved into a powerful credit union federation, the Desjardins Group, holding over \$190 billion in assets—more than any financial institution in Quebec (Desjardins Group, 2012). Canadian credit unions outside Quebec have never achieved the same financial dominance. However, the British Columbian Lower Mainland with its dense population is sufficiently large to support an innovative social finance sector.

Unlike commercial Canadian banks, which are regulated and operate nationally, Canadian credit unions largely operate under a provincial regulatory framework. Where credit unions have a presence outside of their home provinces, they usually operate as small wholly

owned subsidiaries. Consequently, the contexts in which credit unions operate are largely provincial, rather than national. The second and third largest credit unions in British Columbia, Coast Capital Savings with \$10.4 billion in assets and First West with \$5 billion in assets, are both headquartered in Vancouver's suburbs. Coast Capital, formed between 1999 and 2001, after a series of mergers between three large suburban credit unions, has a slightly higher membership base than Vancity with over 454,000 members although with a substantially smaller asset base (Credit Union Central of Canada, 2012a). Overall, there are 1.7 million credit union members in British Columbia, or about one-third of the province's population (Central 1, 2011).

Initially, the rationale behind the credit union model was that loans could be provided using character rather than property to provide collateral. Efficiencies came from using trust to lower transaction costs. However, the natural trade-off was that most credit unions were 'common bond', meaning that there had to be some common characteristics shared of members such as an employer, trade union or religious denomination. Vancity was established as an 'open-charter' credit union, meaning that anyone in Vancouver could join. The fear raised by skeptics in the credit union movement was that by opening membership to Vancouver's 350,000 residents it could grow the membership to a size too big to give the loaning committees the insight into borrowers' character they needed to operate. The *Caisse Populaires* of Quebec were similar to open-charter credit unions, although most operated only in a single parish with a single branch. Indeed, the difference between the Desjardins Group and the British Columbian credit unions is that Desjardins is a federation of small credit unions with a strong centralized federated service offering, whereas British Columbia's credit unions such as Vancity or Coast Capital are integrated multi-branch operations, although these are also part of weaker credit union federations at the provincial and the national level.

Provision of financial services to people who the financial system has traditionally discriminated against was vital to Vancity's founding in 1946. This scale was far larger than a Quebec parish and especially once Vancity expanded to multiple branches in 1957.

Vancity grew beyond the point where the perceived benefits of a common bond could be assumed. However, it did offer financial services to people ignored by other financial institutions. At Vancity women were eligible for loans and mortgages in their own name, a first in Canada. Similarly, in Vancouver's working-class East side Vancity offered mortgages while other financial institutions only offered 'agreements for sale', an inferior financial product which made it difficult for the builders of new homes to acquire the capital they needed. In effect, many of these original financial service offerings provided both local economic development and the proofs-of-concept needed to bring other financiers to these groups of potential clients.

The development of these proofs-of-concept in the provision of mainstream financial services has been important to the development of British Columbia's credit union infrastructure, as much of the novel innovations made by Vancity have been adopted by other credit unions. In 1966, Vancity was one of seven British Columbian credit unions that pooled resources to develop a computer system called Central Data Systems that was then used to develop Canada's first daily interest savings account, Plan 24, in 1967. Soon after Vancity offered Plan 24 to other British Columbian credit unions, providing them with a service that commercial banks would not be offering for another 12 years and greatly improving the credit unions' growth prospects. Similarly, in 2001 Vancity along with its subsidiary Citizens' Bank together with Coast Capital and Surrey Metro Savings (acquired by Coast Capital the following year) created a joint venture to develop a stronger online infrastructure for their services.

Vancity's major move into social finance started in the early 1980s when a group of

members called the 'Action Slate', later renamed the 'Action Team', organized a successful takeover of the Vancity board of directors. The Action Team was primarily organized by the former provincial Member of the Legislative Assembly and New Democratic Party (social democratic) cabinet minister Bob Williams for the purpose of using Vancity's substantive assets for social change. Although Bob Williams later left the Action Team and rejoined the Vancity board as an independent member in 2007, the shift starting in the mid-1980s was a powerful one. Prior to this, Vancity had attempted some investments that could be considered precursors to their current social finance projects, albeit without the same overarching philosophical framework.³

By 1986 the Action Slate had taken every seat on the Vancity board and has dominated the board ever since. The Action Slate viewed Vancity as a tool that could be used to leverage broader positive social change in Vancouver and quickly set about creating new programmes to achieve this. In 1986, Vancity created Canada's first SRI fund, the Ethical Growth Fund, which soon proved that there was a market for ethically screened investments in Canada. This was the first of many projects aimed at directing Vancity's assets towards sustainable or local economic development projects. Current arms of the broader Vancity sphere include Vancity Enterprises, the Vancity Community Foundation and the Resilient Capital Fund.

Analysis of Vancity's 2000–2010 annual reports

Social financing involves two concepts: impact and blended value creation. SFIs should demonstrate their social or environmental sustainability impact and also support investments that produce social or environmental returns while also generating financial returns. To determine whether Vancity delivers the financial portion of this blended value we examine the credit union's annual reports from 2000 to 2011. Following this, we

conduct a content analysis of Vancity's 2010 annual report to analyze whether the credit union also provides social or environmental value.

Starting with Vancity's financial performance, Table 5.1 clearly shows strong growth trends for the credit union with respect to the number of members, employees, branches, loans, deposits, equity shares and total assets. After experiencing increasing growth from 2000 to 2007, the 2008 financial crisis saw a leveling off of growth until 2011 when asset increased to more than \$16 billion (Vancity, 2012a).

One important aspect of social banking is how the assets, deposits and savings are channeled into loans, their most important service. Some studies show that SFIs have difficulty channeling their increased savings and deposits towards lending when they experience rapid growth (Weber, 2011). As we see in Table 5.2 the loans per assets as well as the loans per deposits and equity shares percentages are high. Many social banking SFIs have a lower rate and the average of the loans- per-asset percentage of the members of the GABV was 71% between 2007 and 2010, a ratio that Vancity has exceeded. A one-sample t-test that compared the average loan-to-asset ratio of Vancity with that of other members of GABV resulted in a significant difference and suggested a significantly higher loan-to-asset rate for Vancity ($t_{1/4} = 29.75$, $df_{1/4} = 97$, $P = 0.00001$). This demonstrates that Vancity has performed far better than the GABV in making use of its assets to create loans overall. The performance is comparable with a benchmark of Canadian credit unions that had a loan-to-asset ratio of 82.4% at the end of 2011 (Credit Union Central of Canada, 2012a). However, Vancity achieves this benchmark while providing impact loans, which is not the primary objective of the other credit unions in the benchmark.

Table 5.1 Vancity's number of members, employees and branches from 2000 to 2010.

Year	Number of members	Number of employees	Number of branches	Loans (\$ thousands)	Total deposits and equity shares (\$ thousands)	Total assets (\$ thousands)
2000	266,213	1570	43	6,054,379	6,191,577	6,889,509
2001	275,721	1622	41	6,706,487	6,744,487	7,511,889
2002	286,365	1706	41	7,071,926	7,610,695	8,223,830
2003	300,945	1916	43	7,691,599	8,425,665	9,030,061
2004	302,032	2050	44	8,535,816	8,950,835	10,453,765
2005	337,107	1995	50	9,984,474	10,558,155	11,756,319
2006	354,663	2196	50	10,888,592	10,221,195	12,281,087
2007	387,762	2372	60	12,583,832	11,208,389	14,106,527
2008	407,121	2384	61	12,280,667	11,933,346	14,531,675
2009	414,377	2228	59	11,955,802	12,319,752	14,410,528
2010	417,211	2281	59	12,495,790	12,692,651	14,468,165
2011	479,528	2459	59	13,249,105	13,365,800	16,127,117

Tables 5.1 and 5.2 present data on the growth and the use of the capital; however, they do not provide information about the financial sustainability and the financial success of Vancity. Table 5.3 presents figures showing the earnings, returns and capital ratios for the credit union.

Table 5.2 Vancity's loans per assets and loans per deposits and equity shares

Year	Loans per assets (%)	Loans per deposits and equity shares (%)
2000	87.88	97.78
2001	89.28	99.44
2002	85.99	92.92
2003	85.18	91.29
2004	81.65	95.36
2005	84.93	94.57
2006	88.66	106.53
2007	89.21	112.27
2008	84.51	102.91
2009	78.66	92.01
2010	83.78	95.50
2011	82.21	99.13

Table 5.3 suggests that Vancity has been able to maintain its financial performance over the course of the past decade. These years included the global financial crisis of 2008 and the years following, in which Vancity's performance was comparable with that of Canada's commercial banks. These, in turn, outperformed most Organization for Economic Cooperation and Development countries' banks. Similarly, the capital ratio is a proxy for the financial health of financial institutions and for its ability to survive financial crises. Vancity

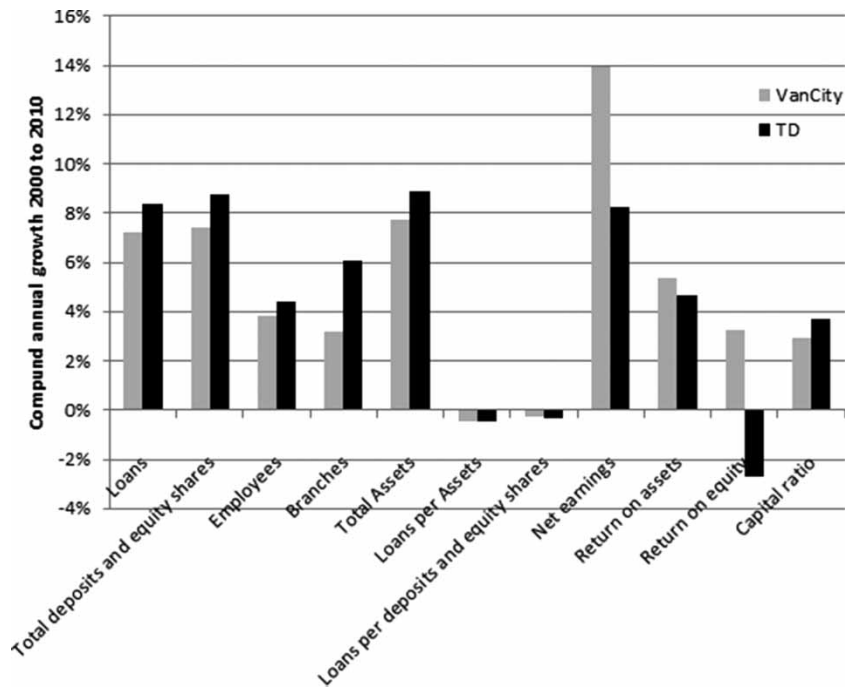
was able to increase its capital ratio over the last 10 years.

Table 5.3 Vancity's net earnings, returns on assets and equity, and capital ratio

Year	Net earnings (\$ thousands)	Return on assets (%)	Return on equity (%)	Capital ratio (%)
2000	21,001	0.32	7.70	10.50
2001	25,927	0.36	9.10	10.40
2002	39,572	0.51	11.70	10.90
2003	44,472	0.54	11.60	11.60
2004	57,200	0.63	13.00	12.10
2005	47,100	0.46	10.10	13.80
2006	54,300	0.38	8.80	13.00
2007	32,800	0.25	5.90	12.17
2008	45,800	0.33	7.60	12.36
2009	53,800	0.38	8.00	13.52
2010	77,414	0.54	10.60	13.98

Although some caution should be taken when comparing Vancity with Canada's commercial banks, such as the Toronto Dominion Bank Group (TD), the most successful bank in Canada in 2010, with more than \$619 billion assets under management, the comparison is still insightful. As Figure 5.1 shows, indicators such as compounded annual growth of Vancity's loans, deposits and equity shares, the number of employees, branches and total assets were not as high as that of TD. However, Vancity was stronger than TD with respect to net earnings, and the return on assets and equity. Both financial institutions managed to increase their capital ratios, something common to the entire Canadian banking sector which emerged from the financial crisis as one of the world's healthiest (Department of Finance Canada, 2010).

Fig 5.1 Compounded annual growth in selected financial figures of Vancity and TD



Analyzing Vancity’s annual reports through the lens, their social and environmental impact involves looking at both the organization’s mission and the services it offers. Vancity’s mission statement explicitly defines wealth as being ‘beyond the trade-offs assumed in a triple-bottom- line approach to one that creates true blended value’ (VanCity, 2011, 19). This mission statement was developed in 2008 and complements their strategy outlining that Vancity will guarantee “their efforts to create community benefits that are financially sustainable, provide adequate reserves to withstand a turbulent economy, and reinvest to build infrastructure for the long term” (VanCity 2011, 19). Unlike most SFIs, Vancity explicitly emphasizes the importance of financial sustain- ability for achieving their social finance goals (Weber & Remer, 2011a). In addition, they have developed a strategy to connect their branch network to community well-being, offering financial services to clients that can deliver blended value and foster community development.

Vancity’s vision and strategy suggest that the credit union is following the main concepts of

social finance, social impact and blended returns. Whether their operations also follow this concept requires further analysis.

One important Vancity product line is their high-impact community investment loans. These loans support the areas of affordable housing, social-purpose real estate, local, natural and organic food, the environment and energy efficiency, and social enterprises and social venture. The product line grew \$300 million from 2009 to 2010. In contrast to that, the Credit Union Central of Canada reports that in 2010, Canada's credit unions contributed more than \$37.5 million to their communities in the form of direct donations, financial services, sponsorships, scholarships and bursaries (Credit Union Central of Canada, 2012b). Compared to grant-based community investments, the level of impact investment that can be provided through a loan portfolio is much higher. Furthermore, Vancity offers start-up finance for mission-based businesses, not-for-profit organizations, cooperatives, social enterprises, labour organizations, First Nations-owned entities and micro-lending (VanCity, 2011, 28). Together, these account for almost 15% of Vancity's business loan and deposit products.

For individual clients Vancity offers social finance products in addition to traditional loans. These include home renovation loans, loans for fuel-efficient vehicles, housing loans for first nations' governments, mortgages for low-income families, loans for members of equity cooperatives to buy shares, deposit accounts to help rebuild credit histories and improved residential mortgages. However, compared with Vancity's total consumer product portfolio their social finance products in this business field are marginal. As a share of personal loan and deposit products their social finance offerings amount to only 0.1% (VanCity 2011, 75). While commercial banks do not identify the percentage of social finance in their personal loan and deposit portfolio for comparison, 0.1% is far from being significant. Another Vancity service that may be categorized as social finance is the Shared Success

program, which guarantees that a minimum of 30% of Vancity's profits will be shared with the community. This corresponds with the strategy of the Credit Union Central of Canada to emphasize community involvement in their CSR strategy (Strandberg, 2012). In contrast to other credit unions presented in Strandberg's report, Vancity sets clear financial goals and reports about the achievements. The credit union distributed \$650,000 in 2009 and 2010 to individuals and non-profit organizations that experience temporary financial hardship to improve their long-term financial viability. In addition, this program offers workshops to strengthen the financial knowledge of non-profit organizations. As part of its credit card services, Vancity created the Enviro Fund, through which a minimum of 5% of annual Visa card profits are donated to environmental initiatives. Through this service in 2010, nearly \$400,000 was distributed to environmental not-for-profit initiatives selected by the credit union's employees and other community experts. Overall, in 2010, \$12.5 million went to community granting programs.

While mainstream financial institutions use environmental, social and governance (ESG) criteria for only a few specialized products, Vancity builds these into nearly all their asset management evaluations. Nearly 90% of all managed and advised assets use ESG criteria in addition to standard financial criteria. Furthermore, Vancity Investment Management (VCIM) actively used its voting shares and proxy votes for companies that are owned within VCIM client portfolios (VanCity, 2011, 32). A project meriting particular attention is the Dockside Green development. This planned green community is a brownfield redevelopment project (van Bellegham & Cole, 2005). It is one of the largest in the world and is a fully owned subsidiary of Vancity. It consists of mixed residential, office, retail and commercial space and combines high environmental and social standards.

The use of Vancity's financial statement demonstrates a striking contrast with conventional banks and other social banking SFIs. Usually such financial statements follow a

standardized format, a format that most SFIs also use. It is rare for any banking institutions, social or not, to connect social finance reporting directly to their financial statements. In addition to issues that are usually reported in the Global Reporting Initiative's supplement for the financial sector (The Global Reporting Initiative 2008), Vancity reports on issues specific to social banking. To do this, Vancity provides data about the economic value they generate as a specific indicator defined as 'the total of operating costs, employee salaries and benefits, payments to providers of capital, payments to government (gross taxes), and donations to the community and to Vancity Community Foundation' (VanCity, 2010, p.14). The goal here is to have an indicator which demonstrates the direct economic impact of Vancity itself. In 2010, 82% of the revenues were distributed to employees, capital providers, governments and the community. Vancity's reporting goes into even greater detail as allocations to their membership and the community are reported by:

- program;
- focus area (environment, climate change, poverty, social economy, others);
- percentage of profits and,
- mission-based grants

Vancity is one of the few organizations that publishes the salaries of their employees compared with the minimum wage and demonstrates that their entry salaries are more than 70% higher than the minimum wages in their province. However, the average hourly wage in the financial sector in Canada was \$25.87 in 2011. This is significantly higher than the entry level of \$18.17 at Vancity. Furthermore, compared with the sector with the lowest wages, accommodation and food services, the financial sector pays more than 180% of the average wages (see [http:// www.livingin-canada.com/work-salaries-wages-canada.html](http://www.livingin-canada.com/work-salaries-wages-canada.html)). In addition to this, they report on the share of their hiring that is local (67%) and compare the salaries they offer for men and women. Because of this they demonstrate that the wages

they offer women are similar to those that they offer men (92–113%). The spread between the gender wages is smaller than the average spread in Canada with 27% (Hausmann, Tyson, & Zahidi, 2012). Although the five big Canadian banks introduced policies on equal payment for female and male employees, they do not publish any figures on differences between payments for male and female employees. Vancity also reports on the location of their suppliers, noting that 80% of all purchases they make are from regional suppliers. Most of the components of Vancity's social finance strategy are reported in the product portfolio section of the financial statement. This is in contrast to other financial reports in the industry that do not report about CSR or social finance issues in their product portfolio sections of their annual reports but instead report these separately. Vancity reports that the amount of assets managed or advised on using a social finance approach is \$47 million or 32% of the total portfolio of their managed or advised assets. In TD's Corporate Responsibility Report, the bank reports that they manage \$23 million in SRI funds (TD Bank Financial Group 2011, 25). This is 0.013% of all their assets under management and in actual dollars is less than the amount of the much smaller Vancity credit union. Beyond their SRI assets, Vancity uses ESG criteria in 87% of all the assets they manage or advise, amounting to \$314 million in value. Corporate engagement is conducted with 14% of all company securities in their portfolio, and in 57 cases ethical policy screenings were conducted that led to the discontinuation of two relationships. This suggests that the credit union does not only use social and environmental indicators to screen lenders or investees without any consequences. Rather it demonstrates that business relationships may be discontinued because of social or environmental reasons. Vancity publishes indicators about their lending business that cannot be found in annual reports of conventional financial institutions. The credit union comprises a community investment portfolio of \$1 billion and their change product portfolio for underserved client groups is 6.4% of its total

portfolio. Examples of these product lines are deposits, investment products and house renovation loans. The 'change products' portfolio constitutes 0.1% of the personal banking portfolio, 14.9% of the business banking portfolio and 29.6% of the wealth management portfolio (VanCity, 2011, p.73). It is important to emphasize that these figures are all published in the credit unions' consolidated finance statements rather than in a special CSR report. Not only is there an integration of social finance products into Vancity's product line, their non-financial impact is reported with the same level of scrutiny and third-party verification that they require for their financial report.

Discussion and conclusion

Generally, the results suggest that Vancity follows both social finance principles identified earlier in that they generate impact and financial returns. This comes through strongly even though Vancity was not explicitly founded on these principles in the same manner as European SFIs or the microfinance organizations in many developing countries (Weber & Remer, 2011a). Vancity's mission integrates community well-being, a positive impact on sustainable development and the concept of blended value. Not only does Vancity follow this in their mission, the analysis here demonstrates that these are well integrated into the operationalization of their strategy as well.

Furthermore, Vancity offers a number of financial products and services with a social impact such as community investment loans, shared success program or the integration of ESG criteria in nearly all their asset management decision-making. The analysis of the annual financial statement demonstrates that social finance products often comprise the greatest share of their product portfolios. Thus, similar to ethical banks, Vancity's business mainly concentrates on social banking, although in some major areas such as personal loans there is room to develop social products and services. This suggests that Vancity is moving

towards the realization of a 100% social finance portfolio although it is not there yet, especially with respect to personal retail products and services.

Vancity reports on the extent of their social finance products transparently and in detail in their annual reports. Importantly, since this is part of their financial statement the information included must be verified by a third-party auditor. That being noted, the measurement of the social or environmental impacts of many products and services is still lacking. Although the amount of capital that is used for social finance gives some insight into Vancity's potential impact, the measurement of the impact itself is still missing. Instead, Vancity is reporting on its outreach rather than its impact. This approach is similar to microfinance institutions that often use outreach measurement to demonstrate their impact (Hermes, Lensink, & Meesters, 2011). It misses a demonstration of the effect that social finance products and services have on the community, society and the environment. This is challenging however, as metrics to measure these impacts are still under development and are rarely used in a systematic way (Rotheroe & Richards, 2007). As Vancity's social finance programmes develop, and as the sector develops as a whole, the reporting of non-financial impacts will increase in importance and reliability.

Similar to financial reporting, impact reporting will likely become more systematic and standardized. Furthermore, both negative and positive impacts will be reported using standardized metrics. Examples of these metrics could include people re-integrated into employment, the reduction of CO₂ emissions by investments in renewable energy projects or the number of children participating in educational programs financed by Vancity. The case-based approach that is often used to demonstrate impact is insufficient for providing comparative information between different financial institutions regarding their social impact, although it is still an effective way to highlight certain parts of the business.

However, as almost any financial institution is able to present case studies about the

positive impacts of parts of their business, more systematic and indicator-based approaches offer a credible demonstration of impact for a variety of stakeholders, including potential new members and clients of social banking institutions.

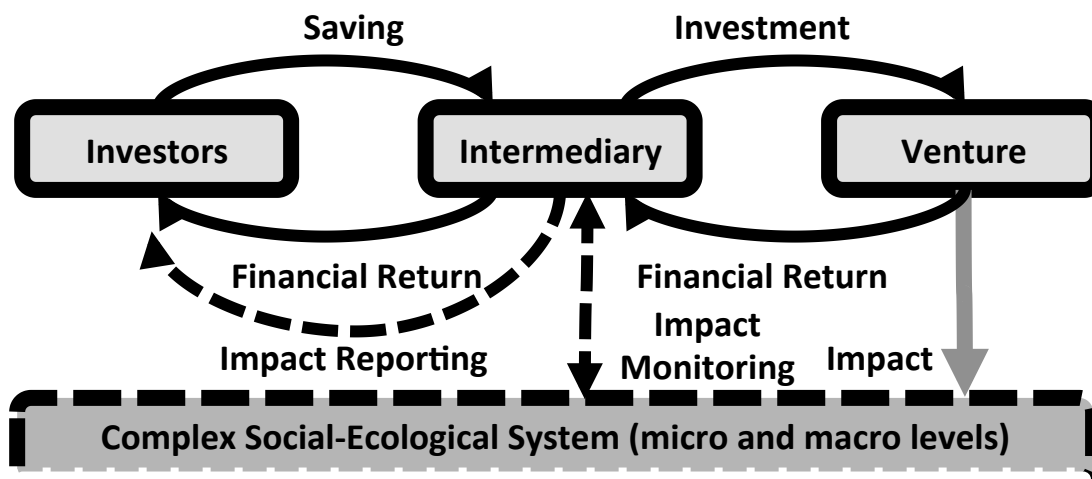
Notes

1. The Solidarity Funds in Quebec, created in 1983, is not seen as an SRI fund but rather as a social impact fund.
2. Resilient Capital is an example of such an innovation. Launched in 2011 this fund provides social enterprises access to capital.
3. In the late 1960s, Vancity created the VCS Housing Developments Ltd subsidiary to provide affordable housing to its members in the often bubble-prone Vancouver real estate market. Similarly, in the 1970s Vancity's failed Seed Capital program was set up to provide start-up loans to interesting business ideas, and even though this program was closed down much of the learning from it went into their later social enterprise development activities (Hardin, 1996).

MANUSCRIPT ENDS

Each of the previous chapters explored a different aspect of the relationship between investors, social financing intermediaries, social ventures and the complex social ecological systems they seek to impact. By taking an in-depth look at Vancity we are able to explore the operational intricacies of a viable social financing intermediary through all the pieces of its relationship with other community stakeholders (Fig 5.2). The history of its evolution speaks not only to the external role it has played in British Columbia, but also the internal conflicts that have been critical to this credit union's development. It may be that this internal political process, one in which legitimacy for high-level corporate action comes from a space of making a successful political appeal to the credit union's membership, has been critical in allowing Vancity to maintain its coherence while also seeking to reconcile the diverse social objectives of its members.

Fig 5.2 Model of Social Finance System with Intermediation: Chapter 5 Research Focus



The Vancity case suggests that shifting an investment portfolio towards social financing is a difficult process and that operationalizing the demonstration of impact presents a number of institutional challenges. However, it also suggests that these challenges need not diminish

financial performance and may indeed serve to generate long-term value for the organization that exceeds the short-term costs in establishing social finance practices. Indeed, inclusion of social performance as a material part of Vancity's financial statements suggests an important shift in mindset that sees these as critical indicators. Additionally, role of internal politics within Vancity's membership, most notably demonstrated in the rise to prominence of the Action Slate, suggests that the costs of internal political decision-making may be both justified and recoverable if they can connect lender-members to their desired social impacts over a long-term time horizon.

Chapter 6 – Conclusion

Overview

This chapter revisits the overall findings of this dissertation and points to next steps for applied research, basic research and the development of decision-making tools for social finance. The structure of this chapter is as follows:

- key general findings;
- social finance operationalization;
- social finance and social innovation;
- future social finance research; and
- broader social innovation research agenda.

Key General Findings

With **international context**, the interest in social financing Canada is not unique nor is the relatively unsophisticated nature of the social finance marketplace. United States, United Kingdom, Australia and elsewhere are also seeing a growth in interest and activity related to social financing. In some areas, Canada is behind its peers in social finance development, for example the foundation-led social finance community in the United States or the government-led social finance community in the United Kingdom. Where Canada has a unique place is in the prominence of the credit union sector in social finance activity. The relatively high level of sophistication of the credit union sector is recognized by many other actors and social financing space, and it is because of this that a case study of operationalizing social finance at the Vancity credit union reveals leading trends in the sector. However, this also reveals a tension between the local nature of economically sustainable non-governmental social financing along the lines of Vancity or Desjardins and

the global nature of many complex social-ecological challenges such as climate change or global financial crises such as the one seen in 2008. While locally-driven organizations may be nimble enough to meet their local challenges, they are few and far between and while they have been deeply transformative at a local level they have yet to generate change at a global scale.

We also find that social financiers are still **early in the development of impact measurement systems**. By looking at the type of measurement tools that are currently being used we can see that there is a distinction between processes used to identify appropriate metrics, sets of impact measurement standards and tools for evaluate impact. From examining the history of environmental and health impact assessments from which social impact measurement both borrow and resemble, we can anticipate in number of developments in social finance impact measurement in the future. Most importantly, we have seen little movement in the direction of community-based evaluation decision-making, yet these have become quite common in both the health and environmental impact assessment fields and will likely become more prominent as social financing develops. As impact measurement systems advance, we also can see that there should be some synergies between **modern portfolio theory and social finance experimentation**. Portfolio strategies draw from finance to seek to mitigate financial risk by selecting investment portfolios with individual elements that have uncorrelated returns, allowing for more predictable returns on aggregate. At the same time, undertaking multiple inductive experiments to identify the elements of a complex adaptive social-ecological system can lead to greater depth of understanding about these systems and how effective interventions into them could be supported. Both modern portfolio finance theory and inductive experimentation complex adaptive systems rely on using a variety of investments to achieve their accounts, suggesting the natural synergy through the strategic use of an investment

portfolio. It is through the strategic exploitation of this natural synergy that this dissertation has proposed to use developmental impact investing as a social financing tool.

Operationalization of Social Finance

Experimentation and use of proofs-of-concept. Vancity uses an approach in which they undertake experiments in promising potential markets and service delivery approaches, both within the social finance space but also in their bread-and-butter retail banking business. This exploratory approach is particularly important entering the social finance industry where it is difficult to gauge success, market institutions are weak or non-existent, and the feedback mechanisms for identifying a successful innovation are unclear.

Risk capital is put into investments and institutions. Since institutions are weak in social finance, alongside the direct investments in Vancity's own products are investments in the institutions, largely public goods, which can also be used by other market entrants. Where the market does not have the institutional infrastructure to function effectively, the infrastructure has to be built alongside the market.

Combination of peer cooperation and competition. More broadly, the development of new markets involves bringing a number of actors to the table with competing interests. In some cases, these interests are indirectly different, such as when public sector, private sector and non-profit sector actors are brought together to reach agreement on some common frameworks they can use to interact. In other cases, the competing interests are direct, such as when innovations and infrastructure are built which allow the large credit unions to compete against each other more effectively but also collectively capture market share from the commercial banks.

Holding contested organizational objectives. Although the overall focus of Vancity is still on maintaining its financial health and providing for its members financially, the goals of the

board extend beyond the financial. The balance between the financial and the social, plus the question of what the social should contain, is not a settled one within Vancity. Partly as a consequence, there is a push towards solid reporting on the social impacts that are made.

Reporting impact seriously. Vancity's push on having detailed, credible reporting on its ESG impacts in its consolidated financial statements raises its importance above that of standard corporate social responsibility reports. Despite this, the shift of Vancity's total assets into a social finance space is still limited due to the large share of their total assets held in residential mortgages.

A little bit goes a long way. Social finance is still an emerging field, and despite the small share of Vancity's total assets moving into the field, what they have put in has helped seed an ecosystem of social enterprises and financiers that have followed in their wake. The field is likely so new that any diminishing returns from investing in it have been small and more than counteracted by the role they play in creating and expanding the overall social finance market.

Social Finance and Social Innovation

We return to our initial key research question and ask whether or not social finance is a social innovation. So far the evidence does not suggest that social finance in Anglophone Canada has transformed resource and authority flows in ways that have durability and broad impact as per Westley and Antadze's definition (2010). We have not seen the emergence of a large scale, self-sustaining social finance market that has been capable of connecting investors to ventures at a scale large enough to generate major social-ecological changes at a systemic level. Social finance transactions tend to contain a high proportion of unique elements, making them non-repeatable and costly. For intermediaries seeking to place their capital this contributes to the perception that there are few investible social

ventures available. On the other hand, the lack of investment comparability also makes it difficult for intermediaries seeking investment to develop investment portfolios with a range of risk-reward profiles.

There are intermediaries that have succeeded in developing viable social financing models within specific geographic niches. Vancity has been able to channel a large amount of social financing in British Columbia, yet the social financing ecosystem is primarily centered on Vancity and has not extended beyond British Columbia or been replicated elsewhere. Similarly, the *Caisse Populaire* movement in Quebec has been a key component of that province's economic model, however, despite Desjardins' dominance of the financial system in Quebec its model has not expanded beyond Quebec's borders at a substantial scale nor has its model been replicated elsewhere. Canadian credit unions were only allowed to operate provincially until 2012 and it is unclear whether Vancity and Desjardins have hit the limits of their ability to grow or if those limits were a consequence of a regulatory environment that constrained their growth beyond the boundaries of their home provinces. Within their home provinces both models have been deeply transformative and stand up as social innovations that have deepened resilience within their communities. Both Vancity and Desjardins are deeply locally embedded, which has helped lower the transaction costs for their social financing activities, but this has also made their models difficult to implement at a larger scale or to underpin a large, varied social finance marketplace. This reflects a larger tension that is at its most acute with regards to the issue of metric standardization. While the standardization of social impact measurement is often seen as the keystone in building the infrastructure for a social finance marketplace, the best practices of successful social finance intermediaries include embedding the development and implementation of impact metrics in the communities where the social finance interventions take place. Effectively the processes that are the most critical to making

impact measurement effective are the same ones that hinder the development of market-wide standards. There are investors who want to commit resources to social financing projects and ventures that wish to access social financing, but the current trajectory of social finance development in Canada is unlikely to lead to the critical system shifts needed to create a robust social financing marketplace capable of generating the series of social innovations needed to respond to our increasingly complex social-ecological challenges.

Future Social Finance Research

Social finance, particularly when placed in the broader context of public-private-social sector relationships, is still both an emerging field of study and an emerging industry. Because of this the research conducted as part of this dissertation raises a host of new areas for future research that can be broadly classified into two major categories. First, there is **further research in social finance** itself. Second, there is a broader research agenda on **multi-sector social innovation**. For additional research in social finance the key topics that have arisen over the course of this research are:

- **Empirical data - investments.** There is a need for accessible, comparable data sets on social finance investments. Beyond the JP Morgan and Global Impact Investing Network survey on impact investing there are not easily comparable databases on social financing (Saltuk, Bouria, Mudalair, & Pease, 2013). In particular, comparable data on both the financial and social returns from social financing appears to be non-existent.
- **Definitional clarity.** For both researchers and practitioners social financing remains fraught with deep definitional issues. Clarifying what is social financing, what is not social financing and if it even makes sense to make a clear distinction is still unclear. This is particularly important for operationalization problems. With

practitioners it inhibits market development as confusing language makes it difficult for the suppliers of capital, users of capital, market intermediaries and regulators to develop the sector. For researchers the definitional vagueness stands in the way of creating comparable data sets and case studies that can add empirical validity to current research efforts.

- **Heterogeneity.** Much of the academic and grey literature on social financing, including this dissertation, treats social-ecological impact as a general objective. However, different social financiers value different social-ecological impacts. For example, two equally profitable, equally risky investments will be of different value to different social financiers if one has a social impact in wetland preservation and the other's social impact is in affordable housing.
- **Financial models.** Individual social financing investments are often tailor-made, which increases the involved transaction costs and make it difficult to compare investments. While a key cause of this approach is the lack of approaches to modeling heterogeneity, a consequence is that in social financing there are few uses of financial models that incorporate social impacts. Modeling approaches that combine both social and financial outcomes would greatly aid in the development of the social finance industry and would also inform a number of related fields, including evaluation, public finance and risk assessment.
- **New investment vehicles and stakeholder relationships.** Tied to questions of definitional clarity, there are a variety of new financing tools that alter traditional financial relationships. For these it is not just the social and financial outcomes that merit exploration, but also the way they change stakeholder relationships. In the financing of social services and other public goods, the incentive structures created by social performance bonds and social impact bonds deserve further exploration,

- as should the redefinition of stakeholder relationships arising from hybrid investment-grants such as first-loss capital and community bonds.
- **Attracting social enterprises.** It is unclear whether a social financing intermediary's reputation as having a track record of successfully funding impactful projects attracts higher quality ventures, particularly when the ventures also have mainstream financing alternatives. Furthermore, it is unclear what role a social financier can play in attracting additional investment, customers or grants for a social venture.
 - **Investor behaviour.** The changes in investor behaviour resulting from changes in available social finance products are unknown, particularly when those social financiers, institutional and retail, support organizations through donations or the purchase of goods and services as well as through their social investments. Potential crowd-in and crowd-out interactions between these different sources of liquidity become more relevant as the use of social financing increases.
 - **Catalyzing systemic change.** The pathways that social innovations take from niche-level innovations to broad systemic change are complex, as are the strategies that system entrepreneurs use to navigate broad-based change. The processes through which social financing can contribute to or prevent social change are key to developing a deeper understanding of both the uses of social finance and of social innovation in general.

Research Limitations

A core limitation in this dissertation is a direct result of the lack of definitional clarity in the social finance sector makes strong data validity difficult. Without clear standards to decide what gets included and excluded when counting social financing data leaves the empirical

work in this dissertation largely exploratory. For example, in Chapter 2 the survey of current social financiers included those who felt they met the definition of “social financier” provided in the survey itself. However, this meant that the self-inclusion did not receive external verification and meant that it was possible that we included organizations that under a stricter definition would not be considered social financiers, while simultaneously not having a clear definition of a social financier meant that we could not be clear as to who should be counted as the population of Canadian social financiers and therefore it is almost certain that the data set excluded organizations that should be counted among Canadian social financiers. One approach to take in future research would be to disaggregate social finance data to a greater degree and focus on specific elements that are more clearly definable such as community bonds or social impact bonds.

A second major limitation in this dissertation is the lack of a detailed exploration of how social finance impacts organizations with different legal forms. The primary focus of this dissertation was the role of the social financier and the intermediaries needed to provide social financing. However, the most direct connection between the flow of resources provided by social financiers and the complex social-ecological systems they seek to impact are usually from the work the supported ventures are undertaking. As important as impact measurement and decision-making from the side of the social financiers are, the ways that novel social financing products change the stakeholder relationships and incentive structures that connect mission-driven organizations with their financiers can greatly change the nature of the impact these organizations make. For example, if a soup kitchen that seeks to increase food security for a city’s homeless population decides to sell its food rather than give it away because that newly generated income could be used to access a new source of debt financing, the soup kitchen may ultimately undermine its own mission by excluding its impoverished target population. Exploring the impact that the new

obligations social financing places upon mission-driven organizations will provide a critical new dimension to our understanding of how social financing changes resource and authority flows.

Broader Social Innovation Research Agenda

The hard reality of resource enablers and constraints that financial flows represent makes social financing a powerful lens through which multi-sectoral relationships in complex social-ecological systems can be viewed. The wide variety of social institutions that humans have created all have social, ecological and economic impacts and are each flawed in their own way. The most creative social financing organizations have been able to use their resources to change the relationships between governments, social entrepreneurs, their own investors and the financial sector in ways encourage the development and adoption of changes that improve the social-ecological resilience of the communities they work within, as Vancity has demonstrated. However, analytically social financing is only part of the broader question of how social innovation works in complex social-ecological systems. Beyond the focus on social finance, an additional set of research topics has growth organically out of the approach taken in this dissertation:

- **Accountability and innovation.** Resources are often provided to those seeking to create social change, yet over time this raises the question of how to ensure that resources are used in their intended manner. While the measurement of social impact is one accountability mechanism, others exist as well. In particular, the investments in hostage capital may also be useful as an alternative to measurement (Allen, 2012) that under some circumstances may be more useful in allowing for innovation.

- **Multi-stakeholder governance.** The particular role that credit unions have played in the development of Canadian social finance suggests that their governance structures merit further investigation. Unlike social financing activities led by foundations or states, credit unions that engage in social financing also face competitive pressures from banks and often other credit unions. This means that to maintain their financial base, they must also maintain the confidence of the members as clients, owners and people impacted by the social-ecological system the credit union's social financing strategy impacts. This is coupled with their relationships with other private, public and nonprofit sector actors; subjects credit unions to highly complex voluntary governance arrangements that may both restrict activity in a manner that enables a particularly innovative approach to social financing.
- **Social innovation through market transformation.** Social financing and social enterprise more broadly may play a role in creating new markets and transforming the structure of existing markets. For example, the mutual banks that served as precursors to modern credit unions played a pivotal role in the 19th century creation of retail credit markets (Hansmann, 1996). In recent years microfinance social enterprises have demonstrated an approach to banking that led to the development of primarily for-profit microfinance banking, following a pattern similar to that paved a century earlier by mutual banks. There may be broader lessons at play in the use of social enterprises in the development of new markets.
- **Social innovation through government transformation.** Similar to market transformation, social financing and social enterprises may play a role in the creation of new public services. In particular, services delivered by social enterprises can provide proofs-of-concept for risk-adverse governments. Historical

examples of this include the expansion public education and universal health care based in part on the charitable schools and hospitals provided primarily by religious orders prior to their adoption by the public sector. Here, there may also be broader lessons for the transmission of new innovations from the political economic margins to a broader change in public policy.

- **Institutional ecologies.** The transmission of ideas between sectors and institutional transformation suggests that the relationships between different institutional types merit further exploration in explaining social innovations. All ways of human organizing are imperfect, with combinations of strengths and weaknesses well or poorly suited to different contexts. However, much like a biological ecosystem where species fulfill distinct but complementary niches such as decomposition, photosynthesis and predation, institutions also fill distinct but complimentary niches. Social finance and social enterprises are defined in part by their hybridity, and an exploration of these hybrid forms can help expose the underlying relationships between these institutions. Indeed, there is likely a special social role played by these hybrid organizations in the creation of new social institutions.
- **Political economy of social innovation.** There may be multiple institutional sources of innovation in a complex social-ecological system, but these opportunities are identified, developed and implemented by people. Which institutions people are a part of and how they interact with these institutions plays a central role in determining who gets to create social innovations and how. For example, institutional structures where the determination of which ideas will be undertaken is decided by who brings the greatest quantity of resources to the table, the one-dollar one-vote model of the financial markets, will differ from democratic

institutions where decisions are based on a one-person one-vote model. However, these decisions are made; the decision of which experiments to undertake determines which innovations will eventually prove viable and determine the form of the economy in the future. Ultimately, the question of the political economy of innovation boils down to this: who gets to define the future?

Social financing exists in a unique space that makes connections that could enable intriguing social innovations possible. Finance is at its core concerned with the allocation of resources over time, and the possibility of better aligning economic incentives with the time horizons over which complex social-ecological systems operate speaks to the potential inherent in social finance. Adding to this, social financing lives at the intersection of the public, private and nonprofit sectors and social financing tools can change the roles of and relationships between these sectors. Because of these features social financing has captured the imagination of people from all sectors who seek to redefine these relationships and create a radically different post-welfare state world. How the social financing sector is built, who is included in its development and who is excluded from its determining its priorities will speak to who is included in our collective imagination.

Bibliography

Chapter 1

- Anheier, H. K., & Salamon, L. M. (2006). The Nonprofit Sector in Comparative Perspective In Powell, W. W., & Steinberg, R. (Eds.), *The nonprofit sector: A research handbook*. Yale University Press, 89-113.
- Akerlof, G. (1970). The market for "lemons": Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics*, 84(3), 488-500.
- Allen, D. (2012). *The institutional revolution: Measurement & the economic emergence of measurement*. Chicago, IL: University of Chicago Press.
- Altman, D., & Berman, J. (2011). *The single bottom line*. Dalberg Global Development Advisors. Retrieved from, <http://www.dalberg.com/documents/Single-Bottom-Line.pdf>.
- Arrow, K. (1950). A difficulty in the concept of social welfare. *The Journal of Political Economy*, 58(4), 328-346.
- Arrow, K. (1974). *The limits of organization*. New York: W W Norton & Company.
- Arthur, W. (1994). Inductive reasoning and bounded rationality. *The American Economic Review*, 84(2), 406-411.
- Ashby, R. (1961). *An Introduction to cybernetics*. London, UK: Chapman & Hall.
- Austin, J., & Seitanidi, M. (2012). Collaborative value creation: A review of partnering between nonprofits and businesses: Part 1. Value creation spectrum and collaboration stages. *Nonprofit and Voluntary Sector Quarterly*, 41(5), 726-758.
- Beinhocker, E. (2007). *The origin of wealth: The radical remaking of economics and what it means for business and society*. Boston, MA: Harvard Business School Press.
- Berger, I., Cunningham, P., Drumwright, M. (2004). Social alliances: Company/nonprofit collaboration. *California Management Review*, 47(1), 58-90.
- Best, H., & Harji, K. (2013). *Social impact measurement use among Canadian impact investors*. Toronto, ON: Purpose Capital.
- Bloom, P., & Chatterji, A. (2010). Scaling social entrepreneurial impact. *California Management Review*, 51(3), 114-133.
- Bouri, A. (2011). How standards emerge: The role of investor leadership in realizing the potential of IRIS. *Innovations, Special Edition for SOCAP11*, 145-159.

- Bragg, I. (2010). *Impact investing in Canada: A survey of assets*. Social Investment Organization. Retrieved from, <http://riacanada.ca/wp-content/uploads/ImpactInvestinginCanada-ASurveyofAssets-2010.pdf>.
- Bridge, R., & Corriveau, S. (2009). *Legislative innovations and social enterprise: Structural lessons for Canada*. BC Centre for Social Enterprise. Retrieved from, http://www.centreforsocialenterprise.com/f/Legislative_Innovations_and_Social_Enterprise_Structural_Lessons_for_Canada_Feb_2009.pdf.
- BC Social Innovation Council. (2012). *Action plan recommendations to maximize social innovation in British Columbia*. BC: Author.
- Bugg-Levine, A., & Goldstein, J. (2009). Impact investing: Harnessing capital markets to solve problems at scale. *Community Development Investment Review*, 5(2), 30-41.
- Bugg-Levine, A. (2009). Impact investing: Harnessing capital markets to drive development at Scale. *Beyond Profit*, May/June, 16-21.
- Canadian Task Force on Social Finance. (2010). *Mobilizing private capital for public good*. Toronto: Social Innovation Generation.
- Centre for Social Innovation. (2013). *The CSI Community Bond Story*. Toronto, ON: Author.
- Christensen, C. M., Baumann, H., Ruggles, R., & Sadtler, T. M. (2006). Disruptive innovation for social change. *Harvard Business Review*, December, 94-101.
- Coase, R. H. (1937). The nature of the firm. *Economica*, 4(16), 386-405.
- Coase, R. H. (1960). The problem of social cost. *Journal of Law & Economics*, 3, 1-44.
- Cooper, A. C., & Smith, C. G. (1992). How established firms respond to threatening technologies. *The Executive*, 6(2), 55-70.
- Cooperatives Secretariat. (2004). Co-operatives and the Social Economy. Retrieved from, <http://www.envision.ca/pdf/SocialEconomy/CoopsSocialEconomy.pdf>.
- Central 1. (2011). *Central 1 Credit Union*. Retrieved from <http://www.central1.com>.
- Desjardins Group. (2012). *Creating – 2011 annual report*. Levis: Desjardins Group.
- Elson, P., Gouldsbrough, A., & Jones, R. (2009). *Building capital, building community: A comparative analysis of access to capital for social enterprises and nonprofits in Ontario and Quebec*. Toronto, ON: Ontario Nonprofit Network.
- Emerson, J. (2003). The blended value proposition: Integrating social and financial returns. *California Management Review*, 45(4), 35–51.

- Ferraro, F., Pfeffer, J., & Sutton, R. (2005). Economics language and assumptions: How theories can become self-fulfilling. *Academy of Management Review*, 30(1), 8-24.
- Fraser, E., Dougill, A., Mabee, W., Reed, M., & McAlpine, P. (2006). Bottom up and top down: Analysis of participatory processes for sustainability indicator identification as a pathway to community empowerment and sustainable environmental management. *Journal of Environmental Management*, 78, 114-127.
- Freireich, J., & Fulton, K. (2009). *Investing for social & environmental impact: A design for catalyzing an emerging industry*. San Francisco, CA: Monitor Institute
- Funtowicz, S. O., & Ravetz, J. R. (1990). *Uncertainty and quality in science for policy*. Norwell, MA: Kluwer Academic Publishers.
- Geels, F. (2010). Ontologies, socio-technical transitions (to sustainability), and the multilevel perspective. *Research Policy*, 39, 495-510.
- Geels, F., & Schot, J. (2007). Typology of sociotechnical transition pathways. *Research Policy*, 36, 399-417.
- Geobey, S. (2005). *A model of the voluntary sector: An analysis of the structure and functions of voluntary organizations*. Thesis: Queen's University.
- Godeke, S., Pomares, R., Bruno, A. V., Guerra, P., Kleissner, C., & Shefrin, H. (2009). *Solutions for impact investors: From strategy to implementation*. New York: Rockefeller Philanthropy Advisors.
- Grabenwarter, U., & Liechtenstein, H. (2012). *In search of gamma: An unconventional perspective on impact investing*. IESE Business School, University of Navarra and Family Office Circle Foundation.
- Hansmann, H. (1980). The role of nonprofit enterprise. *The Yale Law Journal*, 89(5), 835-901.
- Hansmann, H. (1996) *The ownership of enterprise*. Cambridge, MA: The Belknap Press of Harvard University Press.
- Harji, K. (2009). Delivering more capital to communities. *Making Waves*, 20(3), pages 5-11.
- Harji, K., & Hebb., T. (2009). *The quest for blended value returns: Investor perspectives on social finance in Canada*. Ottawa: Carleton Centre for Community Innovation.
- Harji, K., Kjorven, A., Geobey, S., & Weisz, A. (2012). *Redefining returns: Social finance awareness and opportunities in the Canadian financial sector*. Toronto: Venture Deli and Purpose Capital.
- Holling, C. S., Gunderson, L., & Ludwig, D. (2002). In quest of a theory of adaptive change. In L. Gunderson & C. S. Holling (Eds.), *Panarchy: Understanding transformations in human and natural systems* (3-22). Washington, DC: Island Press.

- Homer-Dixon, T. (2000). *The ingenuity gap*. New York: Knopf.
- Human Resources and Skills Development Canada. (2013). *Harnessing the power of social finance: Canadians respond to the national call for concepts for social finance*. Retrieved from, <http://www12.hrsdc.gc.ca/p.5bd.2t.1.3ls@-eng.jsp?PID=7401>.
- Imagine Canada. (2010). *A framework for action for the nonprofit sector*. White paper. Toronto: Author.
- Jackson, E. (2012). Interrogating the theory of change: Evaluating impact investing where it matters most. *Journal of Sustainable Finance & Investment*, 3(2), 95-110. doi:10.1080/20430795.2013.776257
- James, E., & Young, D. R. (2007). Fee income and commercial ventures. In D. R. Young (Ed.), *Financing nonprofits: Putting theory into practice* (93-120). Lanham, M.D.: AltaMira Press.
- Joy, I., de Las Casas, L., & Rickey, B. (2011). *Understanding the demand for and supply of social finance: Research to inform the Big Society Bank*. The Big Society Finance Fund. Retrieved from, http://www.nesta.org.uk/sites/default/files/understanding_the_demand_for_and_supply_of_social_finance.pdf.
- Kay, J. (2010). *Obliquity: Why our goals are best achieved indirectly*. New York: Penguin Books.
- Kelly, K. (1994). *Out of control: The new biology of machines, social systems and the economic world*. New York: Basic Books.
- Porter, M., Hills, G., Pfitzer, M., Patscheke, S., & Hawkins, E. (2013) *Measuring Shared Value: How to Unlock Value by Linking Social and Business Results*. FSG
- Krosinsky, C. (2008). Sustainable equity investing: The market-beating strategy. In C. Krosinsky & N. Robins (Eds.), *Environmental markets insight: Sustainable investing – The art of long-term performance* (19-30). London: Earthscan.
- Lucas-Leclin, V., & Nahal, S. (2008). Sustainability analysis. In C. Krosinsky & N. Robins (Eds.), *Environmental markets insight: Sustainable investing – The art of long-term performance* (41-73). London: Earthscan.
- MacKenzie, D., & Millo, Y. (2003). Constructing a market, performing theory: The historical sociology of a financial derivatives exchange. *American Journal of Sociology*, 109(1), 107-145.
- Mackey, J. (2007). *Conscious Capitalism: Creating a new paradigm for business*. Boston, MA: Harvard Business School Publishing.

- Malhotra, A., Laird, H., & Spence, A. (2010). *Social finance census 2010: A summary of results from the social finance census of nonprofits and social purpose businesses*. Ontario Nonprofit Network and Social Venture Exchange.
- McGowan, K. (manuscript submitted for publication). *The research journey: Travels across the idiomatic and axiomatic towards a better understanding of complexity*.
- Mendell, M., & Rocío Nogales, R. (2008). *Social enterprises in OECD member countries: What are the financial streams? Working paper*. Retrieved from, <http://www.aruc-es.uqam.ca/Portals/0/cahiers/C082008%20original.pdf>.
- Miller, P. (2011). *The smart swarm: How to work efficiently, communicate effectively, and make better decisions using the secrets of flocks, schools, and colonies*. New York: Penguin Group.
- Ministry of Economic Development, Trade and Employment. (2013). *Impact: A Social Enterprise Strategy for Ontario*. Retrieved from, <http://www.ontario.ca/business-and-economy/impact-social-enterprise-agenda-ontario>.
- Mulgan, G. (2007). *Social innovation: What it is, why it matters, and how it can be accelerated*. Oxford, UK: Skoll Centre for Social Entrepreneurship.
- Mulgan, G. (2010). Measuring social value. *Stanford Social Innovation Review*, 8(3), 38–43.
- Mulgan, G., Ali, R., Halkett, R., & Sanders, B. (2007). *In and out of sync: The challenge of growing social innovations. Research Report*. London, UK: NESTA. Retrieved from <http://www.socialinnovationexchange.org/node/238>.
- Mumford, M. D. (2002). Social innovation: Ten cases from Benjamin Franklin. *Creativity Research Journal*, 14(2), 253-266.
- Nicholls, A. (2010a). The institutionalization of social investment: The interplay of investment logics and investor rationalities. *Journal of Social Entrepreneurship*, 1(1), 70–100.
- Nicholls, A. (2010b). The functions of performance measurement in social entrepreneurship: Control, planning and accountability. In K. Hockerts, J. Mair & J. Robinson (Eds.), *Values and opportunities in social entrepreneurship* (241-272). New York: Palgrave MacMillan.
- Nelson, R., & Winter, S. (1982). *An evolutionary theory of economic change*. Cambridge: Belknap Press of Harvard University Press.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
- North, D. C. (1991). Institutions, ideology, and economic performance. *Cato Journal*, 11, 477.
- O'Donohoe, N., Leijonhufvud, C., Saltuk, Y., Bugg-Levine, A., & Brandenburg, M. (2010). *Impact investments: An emerging asset class*. New York: J.P. Morgan Global Research.

- Olsen, M. (1965). *The logic of collective action*. Cambridge: Harvard University Press.
- Olsen, S., & Galimidi, B. (2008). *Catalog of approaches to impact measurement: Assessing social impact in private ventures*. Social Venture Technology Group. Retrieved from, http://svtgroup.net/wp-content/uploads/2011/09/SROI_approaches.pdf.
- Ostrom, E. (2005). *Understanding institutional diversity*. New Jersey: Princeton University Press.
- Page, S. (2007). *The difference: How the power of diversity creates better groups, firms, schools and societies*. New Jersey: Princeton University Press.
- Palandjian, T. (2010). *Investing for impact: Case studies across asset classes*. The Parthenon Group and Bridges Ventures. Retrieved from, <http://www.parthenon.com/GetFile.aspx?u=%2FLists%2FThoughtLeadership%2FAttachments%2F15%2FInvesting%2520for%2520Impact.pdf>.
- Phillips, Hager & North Investment Management. (2010). *An overview of impact investing*. Retrieved from, <https://www.phn.com/portals/0/pdfs/Articles/Overview%20of%20Impact%20Investing.pdf>.
- Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism – and unleash a wave of innovation and growth. *Harvard Business Review*, 89(1–2), 62–77.
- Power, M., Scheytt, T., Soin, K., & Sahlin, K. (2009). Reputational risk as a logic of organizing in late modernity. *Organization Studies*, 20(2–3), 301–324.
- Power, M. (2007). *Organized uncertainty: Designing a world of risk management*. New York: Oxford University Press.
- Reed, M., Fraser, E., & Dougill, A. (2006). An adaptive learning process for developing and applying sustainability indicators with local communities. *Ecological Economics*, 59, 406–418.
- Restakis, J. (2010). *Humanizing the economy: Co-operatives in the age of capital*. Gabriola Island, BC: New Society Publishers.
- Ridley-Duff, R., & Bull, M. (2011). *Understanding social enterprise: Theory & practice*. SAGE Publications Ltd.
- Rittel, H. W., & Webber, M. M. (1973). Dilemmas in a general theory of planning. *Policy Sciences*, 4(2), 155–169.
- Salamon, L. (1987). Partners in public service: The scope and theory of government-nonprofit relations. In W. Powel (Ed.), *The nonprofit sector: A research handbook* (99–117). New Haven, CT: Yale University Press.

- Salamon, L. (1994). The rise of the nonprofit sector. *Foreign Affairs*, 73(4), 109-122.
- Saltuk, Y., Bouri, A., Mudalair, A., & Pease, M. (2013). *Perspectives on progress: The impact investor survey*. J.P. Morgan and Global Impact Investing Network. Retrieved from, <http://www.thegiin.org/cgi-bin/iowa/resources/research/489.html>.
- Saul, J. R. (1992). *Voltaire's bastards: The dictatorship of reason in the west*. Toronto: Simon and Schuster.
- Simon, H. A. (1976). *Administrative behavior: A study of decision-making processes in administrative organizations* (3rd ed.). New York: Free Press.
- Stern, K. (2013). *With charity for all*. New York: Doubleday.
- Strandberg, C. (2007). *The social purpose capital market: An opportunity for the Canadian charitable sector*. Tides Canada Foundation.
- Strandberg, C. (2008). *Primer: Responsible investment pilot project*. Community Foundations of Canada. Retrieved from http://www.corostrandberg.com/pdfs/2008_08_01_CFC_Responsible_Investment_Primer.ppt.
- Surowiecki, J. (2004). *The wisdom of crowds: Why the many are smarter than the few and how collective wisdom shapes business*. New York: Doubleday.
- Taleb, N. (2007). *The black swan: The impact of the highly improbable*. New York: Random House.
- Trelstad, B. and Katz, R. (2011). Mission, Margin and Mandate: Multiple Paths to Scale. *Innovations, Technology, Governance, Globalization* 6(3), 41-53.
- Tuan, M. (2008). *Measuring and/or estimating social value creation: Insights into eight integrated cost approaches*. Bill and Melinda Gates Foundation.
- Turcotte, M. (2012). *Charitable giving by Canadians*. Statistics Canada.
- Vromen, J. J. (1995). *Economic evolution: An inquiry into the foundations of the new institutional economics*. London, UK: Routledge.
- Wainwright, H. (1994). *Arguments for a new left*. Oxford, UK: Blackwell.
- Waldrop, M. (1992). *Complexity: The emerging science at the edge of order and chaos*. New York: Simon & Schuster.
- Weinberg, G. (1975). *An introduction to general systems thinking*. New York: Wiley.
- Weisbrod, B. A. (1975). Toward a theory of the voluntary nonprofit sector in a three-sector economy. In E.S. Phelps (Ed.), *Altruism, morality, and economic theory* (171-196). New York: Russell Sage Foundation.

- Weisbrod, B. (1977). *The voluntary nonprofit sector*. Lexington, MA: Lexington Books.
- Weisbrod, B. (1998). Conclusions and public policy issues: The road ahead. In B. Weisbrod (Ed.), *To profit or not to profit: The commercial transformation of the nonprofit sector* (287-305). New York: Cambridge University Press.
- Westley, F., & Antadze, N. (2010). Making a difference: Strategies for scaling social innovation for greater impact. *The Innovation Journal*, 15(2). Retrieved from <http://www.innovation.cc/volumes-issues/vol15-no2.htm>.
- Westley, F., Zimmerman, B., & Patton, M. Q. (2007). *Getting to maybe: How to change the world*. Toronto, ON: Vintage Canada.
- Westley, F., Olsson, P., Folke, C., Homer-Dixon, T., Vredenburg, H., Loorbach, D., ... van der Leeuw, S. (2011). Tipping toward sustainability: Emerging pathways of transformation. *AMBIO*, 40(7), 762-780.
- Williamson, O. E. (1994). Comparative economic organization: The analysis of discrete structural alternatives. *International Centre for Economic Growth, Occasional paper No. 54*.
- Williamson, O.E. (1996). *The mechanisms of governance*. New York: Oxford University Press.
- World Council of Credit Unions. (2013). *2012 statistical report*. Retrieved from, <http://www.woccu.org/publications/statreport>.
- Yetman, R. J. (2007). Borrowing and debt. In D. R. Young (Ed.), *Financing nonprofits: Putting theory into practice* (243-270). Lanham, MD: AltaMira Press.
- Yunus, M. (2006). *Nobel Lecture*. Retrieved from http://www.nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html.
- Zeitlow, J., Hankin, J., & Seidner, A. (2007). *Financial management for nonprofits: Policies and practices*. Hoboken, NJ: John Wiley and Sons.

Chapter 2

- Abraham, A. (2006). Financial management in the nonprofit sector: A mission-based approach to ratio analysis in membership organizations. *Journal of American Academy of Business, Cambridge*, 10(1), 212-217.
- Allen, D. (2012). *The institutional revolution: Measurement & the economic emergence of measurement*. Chicago, IL: University of Chicago Press.
- Bagnoli, L., & Megali, C. (2011). Measuring performance in social enterprises. *Nonprofit and Voluntary Sector Quarterly*, 40(1), 149-165. doi: 10.1177/0899764009351111
- Borzaga, C., Depedri, S., & Tortia, E. (2011). Organisational variety in market economies and the

- role of co-operative and social enterprises: a plea for economic pluralism. *Journal of Co-operative Studies*, 44(1), 19-30.
- Brown, J. (2006). Equity finance for social enterprises. *Social Enterprise Journal*, 2(1), 73-81.
- Bowman, W. (2007). Managing endowment and other assets. In D. R. Young (Ed.), *Financing non-profits: Putting theory into practice* (271-290). Lanham, M.D.: AltaMira Press.
- Bugg-Levine, A. (2009). Impact investing: Harnessing capital markets to drive development at scale. *Beyond Profit*, May/June, 16-21.
- Bull, M., & Crompton, H. (2006). Business practices in social enterprises. *Social Enterprise Journal*, 2(1), 42-60.
- Canadian Task Force on Social Finance. (2010). *Mobilizing private capital for public good*. Toronto: Social Innovation Generation.
- Edery, Y. (2006). Ethical developments in finance: Implications for charities and social enterprise. *Social Enterprise Journal*, 2(1), 82-100.
- Elliot, A. (2011). *Investing for the good of society: Why and how wealthy individuals respond*. London, UK: NESTA.
- Freireich, J., & Fulton, K. (2009). *Investing for social & environmental impact: A design for catalyzing an emerging industry*. San Francisco, CA: Monitor Institute.
- Godeke, S., Pomares, R., Bruno, A. V., Guerra, P., Kleissner, C., & Shefrin, H. (2009). *Solutions for impact investors: From strategy to implementation*. New York: Rockefeller Philanthropy Advisors.
- Hansmann, H. (1990). When does worker ownership work? ESOPs, law firms, codetermination, and economic democracy. *Yale Law Journal*, 99(8), 1749-1816.
- Hansmann Henry, B. (1996). *The ownership of enterprise*. Cambridge: Cambridge University Press.
- Hansmann, H. (2003). The role of trust in nonprofit enterprise. In Anheier, H. K., & Ben-Ner, A. (Eds.), *The study of nonprofit enterprise: Theories and approaches* (pp. 115-122). New York, NY: Springer.
- James, E., & Young, D. R. (2007). Fee income and commercial ventures. In D. R. Young (Ed.), *Financing non-profits: Putting theory into practice* (93-120). Lanham, MD: AltaMira Press.
- Joy, I., de Las Casas, L., & Rickey, B. (2011). *Understanding the demand for and supply of social finance: Research to inform the Big Society Bank*. London, UK: NESTA.
- Jung, O. (2012). *Credit Conditions Faced by Small and Medium-Sized Enterprises Investing in Research and Development*. Ottawa, ON: Industry Canada Small Business Branch.

- Malhotra, A., Laird, H., & Spence, A. (2010). *Social finance census 2010: A summary of results from the social finance census of nonprofits and social purpose businesses*. Toronto: Social Venture Exchange.
- Ridley-Duff, R., & Bull, M. (2011). *Understanding social enterprise: Theory & practice*. SAGE Publications Ltd.
- Strandberg, C. (2010a). *A road map for the development of a sustainability strategy*. Ottawa, ON: Credit Union Central of Canada.
- Strandberg, C. (2010b). *The state of community/mission investment of Canadian foundations: A report of Community Foundations of Canada and Philanthropic Foundations of Canada*. Community Foundations of Canada and Philanthropic Foundations of Canada. Retrieved from, <http://pfc.ca/wp-content/uploads/cmi-in-canada-report-en.pdf>.
- Weber, O., & Geobey, S. (2012). *Social Finance and Nonprofits: the Contribution of Social Finance to the Sustainability of Nonprofit Organizations and Social Enterprises*. Calgary, AB: Mount Royal University Institute for Nonprofit Studies.
- Weber, O., & Remer, S. (2011). Social banks and the future of sustainable finance. *The World Financial Review*, May-June, 4-7.
- Wood, K., Holoday, M., & Veldhuis, N. (2010). *2010 Non-profit performance report*. Vancouver, BC: The Fraser Institute.
- Yetman, R. J. (2007). Borrowing and debt. In D. R. Young (Ed.), *Financing nonprofits: Putting theory into practice* (243-270). Lanham, MD: AltaMira Press.
- Young, D. R. (2007a). Toward a normative theory of nonprofit finance. In D. R. Young (Ed.), *Financing nonprofits: Putting theory into practice* (339-372). Lanham, MD: AltaMira Press.
- Young, D. R. (2007b). Why study nonprofit finance? In D. R. Young (Ed.), *Financing nonprofits: Putting theory into practice* (3-22). Lanham, MD: AltaMira Press.
- Zeitlow, J., Hankin, J., & Seidner, A. (2007). *Financial management for nonprofits: Policies and practices*. Hoboken, NJ: John Wiley and Sons.

Chapter 3

- Ahl, V. and Allen, T. (1996). *Hierarchy theory: A vision, vocabulary and epistemology*. New York, NY: Columbia University Press.
- Allen, D. (2012). *The institutional revolution: Measurement & the economic emergence of measurement*. University of Chicago Press, Chicago, IL.

- Amalric, F. (2005). The equator principles: A step towards sustainability? In CCRS (Ed.), *CCRS working paper series*. Zurich: Centre for Corporate Responsibility and Sustainability.
- Arthur, W. (1994). Inductive reasoning and bounded rationality. *The American Economic Review*, *84*(2), 406–411.
- Aubert, C., de Janvry, A., & Sadoulet, E. (2009). Designing credit agent incentives to prevent mission drift in pro-poor microfinance institutions. *Journal of Development Economics*, *90*(1), 153-162. doi: 10.1016/j.jdeveco.2008.11.002
- Bank for International Settlements (BIS). (2005). *International convergence of capital measurement and capital standards ("Basel II")*. Basel, Switzerland: Basel Committee on Banking Supervision.
- Bartual Sanfeliu, C., Cervelló Royo, R., & Moya Clemente, I. (2013). Measuring performance of social and non-profit Microfinance Institutions (MFIs): An application of multicriterion methodology. *Mathematical and Computer Modelling*, *57*(7-8), 1671-1678. doi: 10.1016/j.mcm.2011.11.010
- Best, H. and Harji, K. (2013). *Social impact measurement use among Canadian impact investors*. Toronto, ON: Purpose Capital.
- Bond, A. J., & Morrison-Saunders, A. (2009). Sustainability appraisal: Jack of all trades, master of none?. *Impact assessment and project appraisal*, *27*(4), 321-329.
- Bond, A. J., Morrison-Saunders, A., & Pope, J. (2012). Sustainability assessment: The state of the art. *Impact Assessment and Project Appraisal*, *30*(1), 53-62.
- Bond, A. J., & Pope, J. (2012). The state of the art of impact assessment in 2012. *Impact Assessment and Project Appraisal*, *30*(1), 1-4.
- Bugg-Levine, A., & Emerson, J. (2011). *Impact investing - Transforming how we make money while making a difference*. San Francisco: Jossey-Bass.
- Calnan, M. (2004). Commentary: The people know best. *International Journal of Epidemiology*, *33*, 506-507.
- Conley, J. M., & Williams, C. A. (2011). Global banks as global sustainability regulators?: The equator principles. *Law & Policy*, *33*(4), 542-575. doi: 10.1111/j.1467-9930.2011.00348.x
- Cooch, S., & Kramer, M. (2006). *Compounding impact: Mission related investing by US foundations*. Boston, MA: Foundation Strategy Group.
- Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2007). Financial performance and outreach: A global analysis of leading microbanks. *The Economic Journal*, *117*(517), F107-F133. doi: 10.1111/j.1468-0297.2007.02017.x

- Esteves, A. M., Franks, D., & Vanclay, F. (2012). Social impact assessment: The state of the art. *Impact Assessment and Project Appraisal*, 30(1), 34-42.
- Esteves, A. M., & Vanclay, F. (2009). Social development needs analysis as a tool for SIA to guide corporate-community investment: Applications in the minerals industry. *Environmental Impact Assessment Review*, 29(2), 137-145. doi: 10.1016/j.eiar.2008.08.004
- European Centre for Health Policy. (1999). *Health impact investment: Main concepts and suggested approach*. WHO Regional Office for Europe and the European Centre for Health Policy.
- Fraser, E., Dougill, A., Mabee, W., Reed, M., & McAlpine, P. (2006). Bottom up and top down: Analysis of participatory processes for sustainability indicator identification as a pathway to community empowerment and sustainable environmental management. *Journal of Environmental Management*, 78, 114-127.
- Geobey, S., & Weber, O. (2014, May). *Measuring the Social and Environmental Impact of Finance: Lessons from Environmental and Health Impact Assessment*. Paper presented at Administrative Sciences Association of Canada 2014 Conference, Muskoka, Ontario, 10-13 May.
- Gibson, R. B. (2006). Sustainability assessment: basic components of a practical approach. *Impact Assessment and Project Appraisal*, 24(3), 170-182.
- Gibson, R. B. (2012). Why sustainability assessment? In A. Bond, A. Morrison-Saunders & R. Howitt (Eds.), *Sustainability assessment: Pluralism, practice and progress* (pp. 3-17). London: Taylor and Francis.
- Global Alliance for Banking on Values. (2012). *Global Alliance for Banking on Values*. Retrieved from www.gabv.org.
- Global Impact Investing Network. (2012). *IRIS Metrics*. Retrieved from <http://iris.thegiin.org/about-iris>.
- Goss, A., & Roberts, G. S. (2011). The impact of corporate social responsibility on the cost of bank loans. *Journal of Banking and Finance*, 35(7), 1794-1810.
- Hacking, T., & Guthrie, P. (2008). A framework for clarifying the meaning of triple bottom-line, integrated, and sustainability assessment. *Environmental Impact Assessment Review*, 28(2-3), 73-89. doi: 10.1016/j.eiar.2007.03.002
- Hadfield-Hill, S. (2007). The greening of project finance. *Geography Compass*, 1(5), 1058-1075. doi: 10.1111/j.1749-8198.2007.00050.x
- Hermes, N., & Lensink, R. (2007). Impact of microfinance: A critical survey. *Economic and Political Weekly*, 42(6), 462-465.

- Hermes, N., & Lensink, R. (2011). Microfinance: Its impact, outreach, and sustainability. *World Development*, 39(6), 875-881. doi: 10.1016/j.worlddev.2009.10.021
- Hermes, N., Lensink, R., & Meesters, A. (2011). Outreach and efficiency of microfinance institutions. *World Development*, 39(6), 938-948. doi: 10.1016/j.worlddev.2009.10.018
- International Finance Corporation. (1998). *Environmental assessment*. Washington: International Finance Corporation.
- International Finance Corporation. (2011). *Update of IFC's policy and performance standards on environmental and social sustainability, and access to information policy*. Washington, DC: International Finance Corporation.
- Joffe, M., & Mindell, J. (2002). A framework for the evidence base to support health impact assessment. *Journal of Epidemiology & Community Health*, 56(2), 132-138.
- Jordan, J., Dowswell, T., Harrison, S., Lilford, R., & Mort, M. (1998). Health needs assessment: Whose priorities? Listening to users and the public. *British Medical Journal*, 316, 1668.
- Khandker, S. R. (1998). *Fighting poverty with microcredit: Experience in Bangladesh*. New York: Oxford University Press.
- Korslund, D. (2012). *Strong and straightforward: The business case for sustainable banking*. Zeist: Global Alliance for Banking on Values.
- Lawrence, R. F., & Thomas, W. L. (2004). The equator principles and project finance: Sustainability in practice? *Natural Resources & Environment*, 19(2), 20.
- Lingane, A., & Olsen, S. (2004). Guidelines for social return on investment. *California Management Review*, 46(3), 116-135.
- Meyskens, M., Robb-Post, C., Stamp, J. A., Carsrud, A. L., & Reynolds, P. D. (2010). Social ventures from a resource-based perspective: An exploratory study assessing global Ashoka fellows. *Entrepreneurship Theory and Practice*, 34(4), 661-680. doi: 10.1111/j.1540-6520.2010.00389.x
- Millar, R., & Hall, K. (2012). Social return on investment (SROI) and performance measurement. *Public Management Review*, 1-19. doi: 10.1080/14719037.2012.698857
- Missbach, A. (2004). The equator principles: Drawing the line for socially responsible banks? An interim review from an NGO perspective. *Development*, 47(3), 78-84.
- Morgan, R. K. (2012). Environmental impact assessment: The state of the art. *Impact Assessment and Project Appraisal*, 30(1), 5-14.
- Mulgan, G. (2010). Measuring social value. *Stanford Social Innovation Review*, 8(3), 38-43.

- Nicholls, J., Lawlor, E., Neitzert, E., & Goodspeed, T. (2009). *A guide to social return on investment - An introduction*. Edinburgh: The Cabinet Office.
- Offord, D. R., Kraemer, H. C., Kazdin, A. E., Jensen, P. S., & Harrington, R. (1998). Lowering the burden of suffering from child psychiatric disorder: Trade-offs among clinical, targeted, and universal interventions. *Journal of the American Academy of Child & Adolescent Psychiatry, 37*(7), 686-694.
- Pace, E. S. U., & Basso, L. F. C. (2009). Social return on investment, value added and volunteer work. *Journal of the Academy of Business & Economics, 9*(3), 42-58.
- Principles for Responsible Investing. (2012). *Annual report 2012*. London, UK: Principles for Responsible Investment.
- Quayes, S. (2012). Depth of outreach and financial sustainability of microfinance institutions. *Applied Economics, 44*, 3421-3433.
- Quigley, R. (2004). *Clarifying health impact assessment, integrated impact assessment and health needs assessment*. London, UK: NHS Health Development Agency.
- Reed, M., Fraser, E., & Dougill, A. (2006). An adaptive learning process for developing and applying sustainability indicators with local communities. *Ecological Economics, 59*, 406-418.
- Reichel, A., & Seeberg, B. (2011). The ecological allowance of enterprise: An absolute measure of corporate environmental performance, its implications for strategy, and a small case. *Journal for Environmental Sustainability, 1*, 81-93.
- Retief, F. (2010). The evolution of environmental assessment debates: Critical perspectives from South Africa. *Journal of Environmental Assessment Policy & Management, 12*(4), 375-397. doi: 10.1142/s146433321000370x
- Richardson, B. J. (2005). The equator principles: The voluntary approach to environmentally sustainable finance. *European Environmental Law Review, 14*(11), 280.
- Robinson, M. S. (1996). Addressing some key questions on finance and poverty. *Journal of International Development, 8*(2), 153-161. doi: 10.1002/(sici)1099-1328(199603)8:2<153::aid-jid372>3.0.co;2-6
- Rotheroe, N., & Richards, A. (2007). Social return on investment and social enterprise: Transparent accountability for sustainable development. *Social Enterprise Journal, 3*(1), 31-48.
- Ruta, D., Mitton, C., Bate, A., & Donaldson, C. (2005). Programme budgeting and marginal analysis: bridging the divide between doctors and managers. *British Medical Journal, 330*(7506), 1501.

- Ryan, P. W., & Lyne, I. (2008). Social enterprise and the measurement of social value: Methodological issues with the calculation and application of the social return on investment. *Education, Knowledge & Economy*, 2(3), 223–237.
- Simon, H.A. (1982). *Models of bounded rationality: Behavioral economics and business organization*, vol. 2. Cambridge, MA: MIT Press.
- Stevens, A., & Gillam, S. (1998). Health needs assessment: Needs assessment: From theory to practice. *British Medical Journal*, 316, 1448.
- The Equator Principles. (2011). *The equator principles*. Retrieved from <http://www.equator-principles.com/>.
- The Global Reporting Initiative. (2011). *Sustainability reporting guidelines & financial services sector supplement*. Amsterdam, The Netherlands: The Global Reporting Initiative.
- Vanclay, F., & Bronstein, D. A. (1995). *Environmental and social impact assessment*. Chichester: Wiley.
- Watchman, P. (2005). A legal framework for the integration of environmental, social and governance issues into institutional investment. London, Geneva: Freshfield Bruckhaus Deringer and UNEP FI Asset Management Working Group.
- Weber, O., Scholz, R. W., & Michalik, G. (2010). Incorporating sustainability criteria into credit risk management. *Business Strategy and the Environment*, 19(1), 39-50. doi: DOI: 10.1002/bse.636
- Weinstein, M., Torrance, G., & McGuire, A. (2009). QALYs: The basics. *Value in Health*, 12(Supplement 1), S5-S9.
- Weisbrod, B. A. (1964). *External benefits of public education: An economic analysis (No. 105)*. Industrial Relations Section, Department of Economics, Princeton University.
- Wood, D., Thornley, B., & Grace, K. (2012). *Impact at scale: Policy innovation for institutional investment with social and environmental benefit*. San Francisco, CA: InSight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University.
- World Health Organization. (2012). *About health impact assessment*. Retrieved from www.who.int/hia/about/en.
- Wright, C., & Rwabizambuga, A. (2006). Institutional pressures, corporate reputation, and voluntary codes of conduct: An examination of the equator principles. *Business and Society Review*, 111(1), 89-117. doi: 10.1111/j.1467-8594.2006.00263.x
- Wright, J., Williams, R., & Wilkinson, J. R. (1998). Health needs assessment: Development and importance of health needs assessment. *British Medical Journal*, 316(7140), 1310.

Chapter 4

- Arthur, W. (1994). Inductive reasoning and bounded rationality. *The American Economic Review*, 84(2), 406–411.
- Bugg-Levine, A., & Emerson, J. (2011). *Impact investing: Transforming how we make money while making a difference*. San Francisco: Jossey-Bass.
- Buttle, M. (2007). 'I'm not in it for the money': Constructing and mediating ethical reconnections in UK social banking. *Geoforum*, 38(6), 1076–1088. doi: 10.1016/j.geoforum.2006.12.011
- Canadian Task Force on Social Finance. (2010). *Mobilizing private capital for public good*. Toronto: Social Innovation Generation.
- Davies, W. (2010). *The Politics of Externalities: Neo-liberalism, Rising Powers and Property Rights*. Economic Social Research Council, The rising Powers Working Papers.
- Ebrahim, A., & Rangan, V.K. (2010). *The limits of nonprofit impact: A contingency framework for measuring social performance*. Working paper 10-099. Cambridge, MA: Social Enterprise Initiative, Harvard Business School.
- Emerson, J. (2003). Blended value proposition: Integrating social and financial return. *California Management Review*, 45(2), 35–51.
- Freireich, J., & Fulton, K. (2009). *Investing for social and environmental impact: A design for catalyzing an emerging industry*. New York: Monitor Institute.
- Giddens, A. (1990). *The consequences of modernity*. Cambridge: Polity Press.
- Glaser, M., & Weber, M. (2007). Why inexperienced investors do not learn: They do not know their past portfolio performance. *Finance Research Letters*, 4, 203–216.
- Grabenwarter, U., & Liechtenstein, H. (2012). *In search of gamma: An unconventional perspective on impact investing*. IESE Business School, University of Navarra and Family Office Circle Foundation.
- Gunderson, L.H., & Holling, C.S. (2002). Resilience and adaptive cycles. In L. Gunderson and C. Holling (Eds.), *Panarchy: Understanding transformations in human and natural systems* (25-62). Washington, DC: Island Press.
- Hansmann, H. (1996) *The ownership of enterprise*. Cambridge, MA: The Belknap Press of Harvard University Press.
- Hardin, H. (1996). *Working dollars: The VanCity story*. Vancouver: Douglas & McIntyre.
- Harji, K., Kjørven, A., Geobey, S., & Weisz, A. (2012). *Redefining returns: Social finance awareness and opportunities in the Canadian financial sector*. Toronto: Venture Deli and Purpose Capital.

- Jayne, M.R., & Skerratt, G. (2003). Socially responsible investment in the UK—criteria that are used to evaluate suitability. *Corporate Social Responsibility and Environmental Management*, 10(1), 1–11. doi:10.1002/csr.25
- Joy, I., de Las Casas, L., & Rickey, B. (2011). *Understanding the demand for and supply of social finance*. London: NESTA.
- Koellner, T., Suh, S., Weber, O., Moser, C., & Scholz, R.W. (2007). Environmental impacts of conventional and sustainable investment funds compared using input-output life-cycle assessment. *Journal of Industrial Ecology*, 11(3), 41–60.
- Maree, M., & Mertens, S. (2012). The limits of economic value in measuring the performance of social innovation. In A. Nicholls and A. Murdock (Eds.), *Social innovation: Blurring boundaries to reconfigure markets* (114-136). New York: Palgrave Macmillan.
- Markowitz, H. (1952). Portfolio selection. *The Journal of Finance*, 7(1), 77–91.
- Maturana, H., & Varela, F. (1987). *The tree of knowledge: The biological roots of human understanding*. Boston: Shambhala Publications.
- Milevsky, M., Aziz, A., Goss, A., Comeault, J., & Wheeler, D. (2006). Cleaning a passive index: How to use portfolio optimization to satisfy CSR constraints. *The Journal of Portfolio Management*, 32(3), 110–118.
- Monks, R., Miller, A., & Cook, J. (2004). Shareholder activism on environmental issues: A study of proposals at large US corporations (2000–2003). *Natural Resources Forum*, 28(4), 317–330. doi: 10.1111/j.1477-8947.2004.00104.x
- Moore, M., Westley, F., Tjornbo, O., & Holroyd, C. (2012). The loop, the lens, and the lesson: Using resilience theory to examine public policy and social innovation. In A. Nicholls & A. Murdock (Eds.), *Social innovation: Blurring boundaries to reconfigure markets* (114-136). New York: Palgrave Macmillan.
- Mulgan, G. (2010). Measuring social value. *Stanford Social Innovation Review*, 8(3), 38–43.
- Nicholls, A. (2009). ‘We do good things, don’t we?’: ‘Blended value accounting’ in social entrepreneurship. *Accounting, Organizations and Society*, 34, 755–769.
- Nicholls, A. (2010a). The institutionalization of social investment: The interplay of investment logics and investor rationalities. *Journal of Social Entrepreneurship*, 1(1), 70–100.
- Nicholls, A. (2010b). The functions of performance measurement in social entrepreneurship: Control, planning and accountability. In K. Hockerts, J. Mair & J. Robinson (Eds.), *Values and opportunities in social entrepreneurship* (241-272). New York: Palgrave MacMillan.
- Nicholls, J., Lawlor, E., Neitzert, E., & Goodspeed, T. (2012). *A guide to social return on investment*. London: Cabinet Office (Office of the Third Sector).
- North, D.C. (1990). *Institutions, institutional change and economic performance*. Cambridge:

- Cambridge University Press.
- O'Donohoe, N., Leijonhufvud, C., Saltuk, Y., Bugg-Levine, A., & Brandenburg, M. (2010). *Impact investments: An emerging asset class*. New York: J.P. Morgan Global Research.
- Ottinger, R. (2007). Portfolio philanthropy: How philanthropists can apply portfolio theory to make wiser social investments. *Stanford Social Innovation Review*, 5(4), 25–26.
- Parthenon Group and Bridges Ventures (2010). *Investing for impact: Case studies across classes*. London: The Parthenon Group, Bridges Ventures and Global Impact Investing Network.
- Patton, M. Q. (2011). *Developmental evaluation: Applying complexity concepts to enhance innovation and use*. New York: The Guilford Press.
- Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism – and unleash a wave of innovation and growth. *Harvard Business Review*, 89(1–2), 62–77.
- Power, M. (2007). *Organized uncertainty: Designing a world of risk management*. New York: Oxford University Press.
- Power, M., Scheytt, T., Soin, K., & Sahlin, K. (2009). Reputational risk as a logic of organizing in late modernity. *Organization Studies*, 20(2–3), 301–324.
- Pradhan, B., Roy, P., Saluja, M., & Venkatrum, S. (1998). *Income, expenditure and social sector indicators of households in rural and urban India*. Micro Impacts of Macroeconomic and Adjustment Policies, Third Annual Meeting, November 2–6.
- Quilley, S. (2012). System Innovation and a New 'Great Transformation': Re-embedding Economic Life in the Context of 'De-Growth'. *Journal of Social Entrepreneurship*, 3(2), 206-229.
- Saltuk Y., Bouri, A., & Leung, G. (2011). *Insight into the impact investment market: An in-depth analysis of investor perspectives and over 2200 transactions*. New York: J.P. Morgan Social Finance Research.
- Sandberg, J., Juravle, C., Hedesström, T., & Hamilton, I. (2009). The heterogeneity of socially responsible investment. *Journal of Business Ethics*, 87(4), 519–533. doi: 10.1007/s10551-008-9956-0.
- Schaltegger, S. & Wagner, M. (2010). Sustainable entrepreneurship and sustainability innovation: Categories and interactions. *Business Strategy and the Environment*, 20(4), 222–237. doi: 10.1002/bse.682
- Schuster, L. (2001). The societal responsibility of commercial and savings banks. In C. Guene & E. Mayo (Eds.), *Banking and social cohesion* (159-163). Charlbury, UK: John Carpenter.
- Simon, H.A. (1982). *Models of bounded rationality: Behavioral economics and business organization, vol. 2*. Cambridge, MA: MIT Press.

- Ulanowicz, R.E. (1997). *Ecology, the ascendant perspective*. New York: Columbia University Press.
- VanCity. (2010). *Vancouver City Savings Credit Union*. Retrieved from <https://www.vancity.com>.
- Weber, O. (2006). Investment and environmental management: The interaction between environmentally responsible investment and environmental management practices. *International Journal of Sustainable Development*, 9(4), 336–354.
- Weber, O., Mansfeld, M., & Schirrmann, E. (2011). The financial performance of RI funds after 2000. In W. Vandekerckhove, J. Leys, K. Alm, B. Scholtens, S. Signori & H. Schaefer (Eds.), *Responsible investment in times of turmoil* (75-91). Berlin, Germany: Springer.
- Weber, O., Scholz, R., & Michalik, G. (2010). Incorporating sustainability criteria into credit risk management. *Business Strategy and the Environment*, 19(1), 39–50.
- Weisbrod, B. (1998). Conclusions and public policy issues: The road ahead. In B. Weisbrod (Ed.), *To profit or not to profit: The commercial transformation of the nonprofit sector* (287-305). Cambridge University Press.
- Wood, D., Thornley, B., & Grace, K. (2012). *Impact at scale: Policy innovation for institutional investment with social and environmental benefit*. San Francisco, CA: InSight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University.
- Yetman, R. J. (2007). Borrowing and debt. In D. R. Young (Ed.), *Financing nonprofits: Putting theory into practice* (243-270). Lanham, MD: AltaMira Press.

Chapter 5

- Altman, D., & Berman, J. (2011). *The single bottom line*. Dalberg Global Development Advisors. Retrieved from, <http://www.dalberg.com/documents/Single-Bottom-Line.pdf>.
- Bacow, L. S. (1998). Risk sharing mechanisms for brownfields redevelopment. In C. H. Benson, J. N. Meegoda, R. B. Gilbert & S. P. Clemence (Eds.), *Risk-based corrective action and brownfields restoration* (178–195). Reston, VA: American Society of Civil Engineers.
- Bragg, I. (2013). *2012 Global Sustainable Investment Review*. *Global Sustainable Investment Alliance*. Retrieved from, <http://gsiareview2012.gsi-alliance.org/#/1/>.
- Bugg-Levine, A., & Emerson, J. (2011). *Impact investing: Transforming how we make money while making a difference*. San Francisco: Jossey-Bass.
- Buttle, M. (2007). ‘I’m not in it for the money’: Constructing and mediating ethical reconstructions in UK social banking. *Geoforum*, 38(6), 1076–1088. doi: 10.1016/j.geoforum.2006.12.011
- Canadian Imperial Bank of Commerce. (2010). *Annual accountability report 2009*. Toronto: CIBC.

- Canadian Task Force on Social Finance. (2010). *Mobilizing private capital for the public good*. Toronto: Canadian Task Force on Social Finance.
- Cadman, T. (2011). Evaluating the governance of responsible investment institutions: An environmental and social perspective. *Journal of Sustainable Finance & Investment*, 1(1), 20–29. doi: 10.3763/jsfi.2010.0004
- Central 1. (2011). *Central 1 Credit Union*. Retrieved from <http://www.central1.com>.
- Chertok, M., Hamaoui, J., & Jamison, E. (2008). The funding gap. *Stanford Social Innovation Review*, 6(2), 44–51.
- Credit Union Central of Canada. (2012a). *National system review fourth quarter 2011 system results*. Ottawa: Credit Union Central of Canada.
- Credit Union Central of Canada. (2012b). *Social responsibility and Canada's credit unions*. Ottawa: Credit Union Central of Canada.
- da Silva, A. F. C. (2007). Social banking: The need of the hour. In A. F. C. da Silva (Ed.), *Social banking – Perspectives and experiences* (3–9). Hyderabad, India: The Icfai University Press.
- Department of Finance Canada. (2010). *World Economic Forum Ranks Canadian Banks Soundest in the World for the Third Consecutive Year*. Retrieved from <http://www.fin.gc.ca/n10/10-078-eng.asp>.
- Desjardins Group. (2012). *Creating – 2011 annual report*. Levis: Desjardins Group.
- Edery, Y. (2006a). Ethical developments in finance: Implications for charities and social enterprise. *Social Enterprise Journal*, 2(1), 82–100.
- Edery, Y. (2006b). A new model for supporting social enterprise through sustainable investment. *Social Enterprise Journal*, 2(1), 82–100.
- Emerson, J. (2003). The blended value proposition: Integrating social and financial returns. *California Management Review*, 45(4), 35–51.
- Geobey, S., & Weber, O. (2013). Lessons in operationalizing social finance: the case of Vancouver City Savings Credit Union. *Journal of Sustainable Finance & Investment*, 3(2), 124-137.
- Hardin, H. (1996). *Working dollars: The VanCity story*. Vancouver, BC: Douglas & McIntyre.
- Harji, K., & Hebb, T. (2009). *The quest for blended value returns: Investor perspectives on social finance in Canada*. Ottawa: Carleton Centre for Community Innovation.
- Hausmann, R., Tyson, L. D., & Zahidi, S. (2012). *The global gender gap report 2012*. Geneva: World Economic Forum.

- Hermes, N., Lensink, R., & Meesters, A. (2011). Outreach and efficiency of microfinance institutions. *World Development*, 39(6), 938–948. doi: 10.1016/j.worlddev.2009.10.018
- Kaeufer, K. (2010). *Banking as a vehicle for socio-economic development and change: Case studies of socially responsible and green banks*. Cambridge, MA: Presencing Institute.
- Koellner, T., Suh, S., Weber, O., Moser, C., & Scholz, R. W. (2007). Environmental impacts of conventional and sustainable investment funds compared using input-output life-cycle assessment. *Journal of Industrial Ecology*, 11(3), 41–60.
- Krosinsky, C. (2008). Sustainable equity investing: The market-beating strategy. In C. Krosinsky & N. Robins (Eds.), *Environmental markets insight: Sustainable investing – The art of long-term performance* (19-30). London: Earthscan.
- Lucas-Leclin, V., & Nahal, S. (2008). Sustainability analysis. In C. Krosinsky & N. Robins (Eds.), *Environmental markets insight: Sustainable investing – The art of long-term performance* (41-73). London: Earthscan.
- Mackey, J. (2007). *Conscious capitalism: Creating a new paradigm for business*. Boston, MA: Harvard Business School Publishing.
- Meehan, W. F., Kilmer, I. D., & O’Flanagan, M. (2004). Investing in society. *Stanford Social Innovation Review*, 1(4), 34–43.
- Milano, R. (2011). Social banking: A brief history. In O. Weber & S. Remer (Eds.), *Social banks and the future of sustainable finance* (15-47). New York, NY: Routledge.
- O’Rourke, A. (2003). The message and methods of ethical investment. *Journal of Cleaner Production*, 11(6), 683–693.
- Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism – and unleash a wave of innovation and growth. *Harvard Business Review*, 89(1–2), 62–77.
- Remer, S. (2011). Social banking at the crossroads. In O. Weber & S. Remer (Eds.), *Social banks and the future of sustainable finance* (136-195). London: Routledge.
- Rotheroe, N., & Richards, A. (2007). Social return on investment and social enterprise: Transparent accountability for sustainable development. *Social Enterprise Journal*, 3(1), 31–48.
- Sandberg, J., Juravle, C., Hedesström, T., & Hamilton, I. (2009). The heterogeneity of socially responsible investment. *Journal of Business Ethics*, 87(4), 519–533. doi: 10.1007/s10551-008-9956-0
- Scholz, R. W., Weber, O., Stünzi, J., Ohlenroth, W. & Reuter, A. (1995). The systematic measuring of environmental risk. Credit defaults caused by environmental risk – Results of a first study. [Umweltrisiken systematisch erfassen. Kreditausfälle aufgrund ökologischer Risiken – Fazit erster empirischer Untersuchungen]. *Schweizer Bank*, 4, 45–47.

- Schuster, L. (2001). The societal responsibility of commercial and savings banks. In C. Guene & E. Mayo (Eds.), *Banking and social cohesion* (159–163). Charlbury, UK: John Carpenter.
- Strandberg, C. (2012). *A road map for the development of a sustainability strategy*. Ottawa, ON: Credit Union Central of Canada.
- TD Bank Financial Group. (2011). *2010 corporate social responsibility report and public accountability statement*. Toronto: TD Bank Financial Group.
- The Global Reporting Initiative. (2008). *Sustainability reporting guidelines & financial services sector supplement*. Amsterdam, The Netherlands: The Global Reporting Initiative.
- van Bellegham, J., & Cole, L. (2005). Dockside green. *Environmental Design & Construction*, 8(6), s42 – s46.
- VanCity. (2010). *Vancity is for the wealthy – Vancity 2009 annual report*. Vancouver, BC: Vancouver City Savings Credit Union.
- VanCity. (2011). *Vancity 2010 annual report*. Vancouver, BC: Vancouver City Savings Credit Union.
- VanCity. (2012a). *Good money is changing how we see wealth*. Vancouver, BC: Vancity.
- VanCity. (2012b). *Our history*. Retrieved from <https://www.vancity.com/AboutUs/OurValues/OurHistory/>.
- Weber, O. (2006). Investment and environmental management: The interaction between environmentally responsible investment and environmental management practices. *International Journal of Sustainable Development*, 9(4), 336–354.
- Weber, O. (2011). The future of social banking. In O. Weber & S. Remer (Eds.), *Social banks and the future of sustainable finance* (196–211). London: Routledge.
- Weber, O., & Duan, Y. (2012). Social finance and banking. In J. R. Nofsinger & K. Baker (Eds.), *Socially responsible finance and investing* (161–180). Hoboken, NJ: John Wiley & Sons.
- Weber, O., Mansfeld, M., & Schirrmann, E. (2011). The financial performance of RI funds after 2000. In W. Vandekerckhove, J. Leys, K. Alm, B. Scholtens, S. Signori, & H. Schaefer (Eds.), *Responsible investment in times of turmoil* (75–91). Berlin, Germany: Springer.
- Weber, O., & Remer, S. (2011a). Social banking – Introduction. In O. Weber & S. Remer (Eds.), *Social banks and the future of sustainable finance* (1–14). London: Routledge.
- Weber, O., & Remer, S. (2011b). Social banks and the future of sustainable finance. *The World Financial Review*, May–June, 4–7.
- Weber, O., Scholz, R. W., & Michalik, G. (2010). Incorporating sustainability criteria into credit risk management. *Business Strategy and the Environment*, 19(1), 39–50. doi: 10.1002/bse.636

Yunus, M., & Weber, K. (2007). *Creating a world without poverty*. New York: Public Affairs.

Chapter 6

Allen, D. (2012). *The institutional revolution: Measurement & the economic emergence of measurement*. University of Chicago Press, Chicago, IL.

Hansmann, H. (1996). *The ownership of enterprise*. Cambridge, MA: The Belknap Press of Harvard University Press.

Saltuk, Y., Bouri, A., Mudalair, A., & Pease, M. (2013). *Perspectives on progress: The impact investor survey*. J.P. Morgan and Global Impact Investing Network.

Westley, F., & N. Antadze. (2010). Making a difference: Strategies for scaling social innovation for greater impact. *The Innovation Journal*, 15, article 2.

Appendix A: Redefining Returns



REDEFINING RETURNS: Social Finance Awareness and Opportunities in the Canadian Financial Sector

June 2012





We cannot sacrifice society and the environment while collecting good financial returns in the long run. It's only a matter of time before we realize that.

– Pension Fund Analyst, Quebec

TABLE OF CONTENTS

EXECUTIVE SUMMARY	5
INTRODUCTION & CONTEXT	6
REPORT OBJECTIVES	7
METHODOLOGY & LIMITATIONS	8
AWARENESS OF SOCIAL FINANCE	11
SOCIAL FINANCE ACTIVITY	15
CHALLENGES & RECOMMENDATIONS	18
SUMMARY OF RECOMMENDATIONS	26
CONCLUSION	30
APPENDIX: BACKGROUND & CONTEXT ON SOCIAL FINANCE INVESTING	31
REFERENCES	36
ABOUT THE AUTHORS	38

EXECUTIVE SUMMARY

The financial sector in Canada, and globally, is in the midst of a period of volatility and uncertainty. Despite these challenges, there has been an increase in interest in the topic of social finance. This trend is consistent with international activity, driven by investors that are seeking a combination of financial and social returns to their capital.

This report provides new insights into the issues and opportunities around social finance as perceived by the Canadian financial sector. Through a combination of interviews, a national survey, and focus groups, we identified several key themes that relate to the awareness and activity around social finance, as well as the challenges and barriers to engaging in social finance. We provide a set of recommendations to address these issues, in order to increase the level of awareness and activity around social finance in the Canadian financial sector.

Our research discovered key issues and challenges related to the level of awareness and activity around social finance, as we describe below:

- There is generally a low level of awareness around social finance across the financial sector, apart from niches such as credit unions and those involved in the "green economy".
- There is a higher level of awareness of associated terms such as socially responsible investing or corporate social responsibility. In a similar vein, there is an increased appreciation of the importance of non-financial considerations.
- There is confusion on the language and terminology used to describe social finance and associated terms, even among those who were somewhat familiar with these issues. Compounding this issue, information on social finance is usually accessed via mainstream media, which is often fragmented or lacks depth.
- Many impact investment opportunities are currently not accessible or suitable for mainstream investors, and there is often not enough product to create a balanced portfolio for retail or institutional clients. As well, social finance investments are generally perceived to be high risk.
- There remains a gap in social finance knowledge among financial advisors and wealth managers, with few channels to educate clients about their investment options.

In response to these issues outlined above, we proposed a set of recommendations in order to advance the level of awareness and activity of social finance in Canada, including:

- Increased sensitivity toward the proper use of financial terminology among social finance advocates as well as potential investees for social finance.
- Targeted education and awareness building of financial advisors and asset managers through industry associations and certification programs.
- Encourage the creation of information on impact investment opportunities, and reduce the barriers for community organizations to participate in innovative financing mechanisms.
- Equip prospective investees with tools necessary to enhance their financial and operational performance, and to enhance their investment readiness.
- Equip investors and intermediaries with tools unique to evaluating the risk and performance of social finance products.
- Strategically involve government to mitigate short-term investment risks in order to enhance long-term sustainability of potential investments, develop market infrastructure, and strengthen intermediary capacity.
- Provide clarity to institutional investors on their fiduciary obligations that are consistent with investing in social finance products.

INTRODUCTION AND CONTEXT

The financial sector is currently in a period of volatility and apprehension. While Canada seems to be better positioned than comparable countries, there remain ongoing concerns around economic growth, unemployment, and currency fluctuations. Today, the investment climate reflects the pessimistic mood of investors. There has been a corresponding flight to low-risk assets, particularly for institutional investors.

Despite these challenges, there are reasons to be optimistic. Investors have adjusted their risk/return expectations to more reasonable levels than we have seen over the past decade. At the same time, parallel movements are seeking to re-imagine capitalism as a system that defines value beyond a narrow measure of financial returns, and which recognizes the non-financial impacts of corporate and investment decisions as critical to the long-term performance and health of corporations. The limitations of modern portfolio theory have been recognized, and many of its core tenets need to be revised (Christian 2011).

These trends can be viewed as an opportunity for social finance in Canada. There is momentum globally, and increasingly in Canada as well, to explore alternative asset classes to those that perpetuated the financial crisis of 2008. As an example, microfinance was the only asset class that generated a positive financial return during the crisis, and many global institutional investors have since invested large amounts of capital into the sector. Socially-responsible investing - notably through the UNPRI signatories - is gaining traction among the largest global and Canadian institutional investors. JP Morgan has estimated the potential for impact investment capital over the next 10 years to be in the range of \$400 billion to nearly \$1 trillion globally (Saltuk et al, 2011).

Despite many of these positive developments and opportunities, the range of activity and invested capital

in social finance is relatively small. Social finance in Canada is at a nascent stage of development, and is currently characterized by its "uncoordinated innovation"; disparate entrepreneurial activities and business model innovations are occurring in response to market needs and policy incentives (Fulton and Freirich, 2009). While the market size for social finance has not yet been definitively established, the Social Investment Organization's most recent survey estimates impact investments in Canada at \$4.5 billion (Bragg, 2010). There is a strong demand for finance that can generate both financial and social returns, as Canada's social sector remains undercapitalized relative to the needs placed on it.

While Canada has a long history of credit unions and cooperatives, particularly in Quebec and British Columbia, we also have a relatively underdeveloped social finance sector that is characterized by significant gaps in knowledge, infrastructure, service providers, and deal flow opportunities. These issues are not unique to Canada, and are also present in countries such as the US and UK that have a more mature social finance sector. To date, Canada has seen relatively limited engagement of the traditional financial sector in social finance, with some regional exceptions.

OBJECTIVES

THE OBJECTIVES OF THIS REPORT ARE TO:

- Provide a Canada-wide overview of the level of awareness of social finance among the general finance sector;
- Identify whether raised awareness of social finance would serve to increase social finance investments;
- Identify the gaps in knowledge that exist within the financial sector regarding social finance;
- Identify barriers to investment by the financial sector in social finance options or opportunities;
- Proposes strategies and approaches designed to build awareness across the financial sector, to create investment in social finance; and,
- Provide recommendations for next steps for the federal government to help advance social finance awareness, and ultimately a social finance marketplace in Canada.

METHODOLOGY & LIMITATIONS

Our methodology consisted of a range of quantitative and qualitative approaches to create a robust picture of the state of social finance in Canada. Collected data was then triangulated to identify key themes and trends. The following is a summary of the key methods that we utilized:

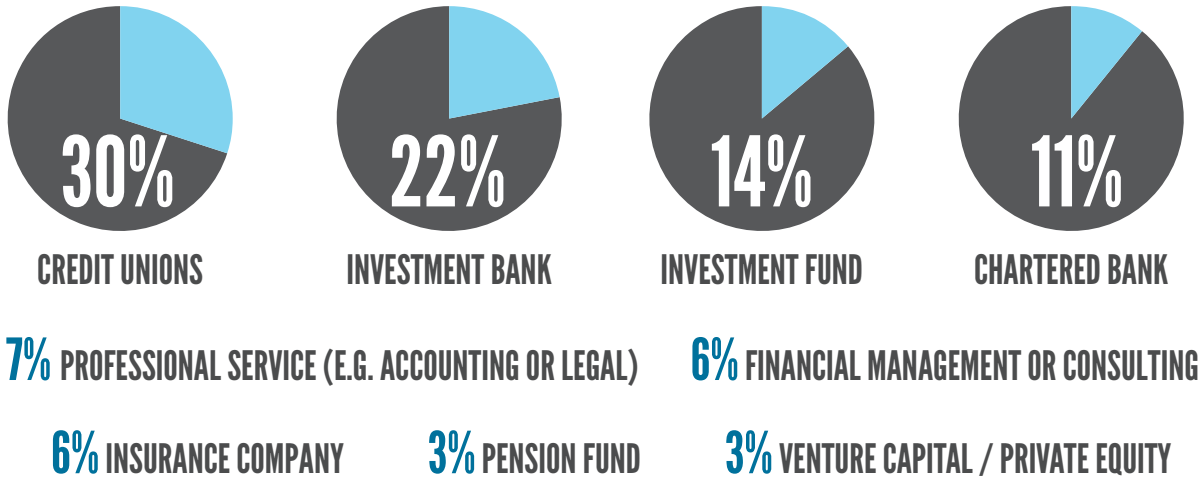
- **DOCUMENT REVIEW:**¹ We conducted an extensive document review that included key domestic and international publications, and also conducted in-depth analyses of websites, press releases, and case studies.
- **KEY INFORMANT INTERVIEWS:** We conducted 47 in-person or telephone interviews with stakeholders from the finance sector, across the country, and within different sub-sectors. Semi-structured interviews lasted between 30-60 minutes, and took place in-person, via phone or Skype. Interviews were conducted with individuals with various degrees of understanding and experience in social finance (including those without any experience). Informants were selected using a mixture of convenience sampling of people in Purpose Capital's network, survey respondents and a snowball sample of people suggested by interviewees.
- **SURVEY:** We conducted a widely-distributed survey, targeting respondents from various sub-sectors (banking, mutual funds, pension funds, venture capital, credit unions, and insurance providers) across the country. Within these sub-sectors, we targeted the members of Canada's major financial sector associations, and also directed the survey to key individuals within these networks, reaching out to a total of 317 recipients (some of these individuals represented groups of professionals). Survey questions covered similar subject matter to the interviews except for the additional follow-up questions for clarification.
- **FOCUS GROUPS:** We conducted focus groups of targeted participants in 3 major urban centres (Toronto, Vancouver and Montreal) in order to validate our key hypotheses and findings. In all, 21 participants attended focus groups, representing a diverse range of positions within the financial sector. Participants possessed varying degrees of awareness of social finance, ranging from those with no prior knowledge of the concept, to those already engaged in social finance activity.

The following table relates the key objectives as articulated in the Statement of Work to the methodologies we utilized to capture and validate data.

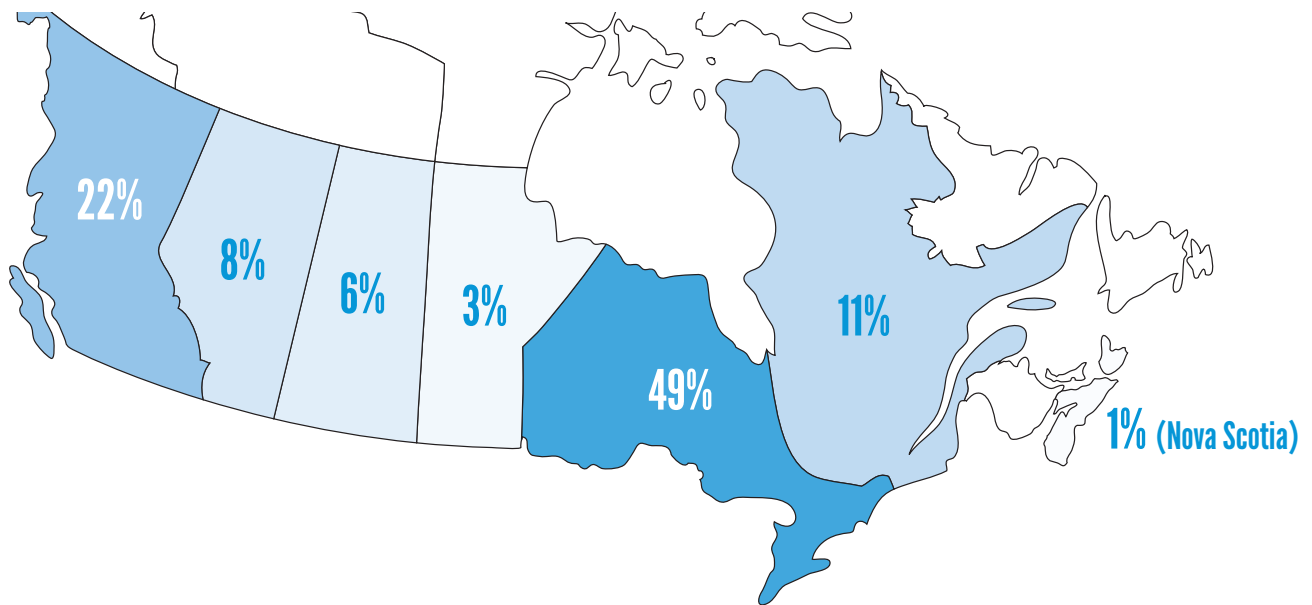
OBJECTIVES OF THE PROJECT	DOCUMENT REVIEW	INTERVIEWS	SURVEY	FOCUS GROUPS
The extent to which social finance instruments and mechanisms are understood across the finance sector	✓	✓	✓	✓
Whether raised awareness of social finance would serve to increase social finance investments from the general financial sector		✓	✓	✓
Other barriers to social investment	✓	✓	✓	✓
Recommendations for a practical way forward from these findings		✓	✓	✓

1. Please refer to the Appendix

SURVEY RESPONDENTS BY SECTOR



SURVEY RESPONDENTS BY REGION



LIMITATIONS

LOW RESPONSE RATES TO THE SURVEY: Overall our survey respondents represented the breadth of the financial sector, though responses were heavily weighted towards credit unions. Despite our broad outreach to financial sector associations as well as direct survey respondents, we achieved a relatively low response rate. We distributed the survey to over 317 recipients (institutions, associations, and individuals), and received 72 responses. We attempted to mitigate this issue through the use of multiple highly targeted survey rounds, though subsequent feedback suggested that surveying would continue to provide a limited set of respondents. As a result, we increased

our outreach to individuals via interviews and focus groups, and selectively targeted areas where we sought further detail or validation on preliminary survey findings.

SELF-SELECTION BIAS: As expected, many respondents to our requests for survey responses and interviews were disproportionately well-versed or interested in social finance. This bias was reflected in the survey, where a relatively high rate of respondents identified as being from the credit union sector. We addressed this limitation by reaching out to the

sectors that were underrepresented in the survey, such that our interview and focus group samples were relatively uniform across the targeted financial sectors.

INCONSISTENCY AROUND LANGUAGE: The sector continues to face a challenge around the usage of language. For example, terms with different meanings are often used interchangeably, resulting in a lack of clarity and understanding. This issue was mitigated by the use of clear language that was tested in advance of deploying our data collection tools, and the use of examples when asking questions through the survey, interview, and focus group tools. We note this as a general challenge for the growth of social finance, and elaborate on this issue later in the report.

NEGATIVE BIAS IN CURRENT FINANCIAL MARKETS:

There is a disproportionate focus within the financial sector on financial returns, as opposed to social or environmental returns. Our approach to addressing this risk was to conduct focus groups where participants were targeted and segmented according to certain characteristics or experiences (for example, bringing together existing investment professionals from the socially-responsible investment space). This allowed us to build a granular understanding of the key issues that these sub-sectors face.

AWARENESS OF SOCIAL FINANCE

What is the level of social finance awareness within the financial sector?

FINDING: THERE IS LOW AWARENESS OF SOCIAL FINANCE

Overall knowledge of social finance in the Canadian financial sector is low, based on our findings from the interviews in particular. However, social finance concepts tend to be more familiar to people working in the niche financial sectors such as socially responsible investing and credit unions. Due to the self-selection bias in our survey, our results reflect a higher level of awareness and engagement with social finance than that of the mainstream financial community.

Our interviews and focus groups demonstrated several key knowledge gaps. For many participants, the term social finance was associated with charity or lower financial returns. More broadly, social finance was often used interchangeably with related terms like corporate social responsibility, socially responsible investing, and microfinance, even amongst individuals who were relatively knowledgeable. As well, many survey respondents expressed a general interest in learning more about social finance and impact investing.

Outside of academics and some NGOs with a specific mandate to participate in the social financing sector or community, there's very little discussion going on that I'm aware of.

– Public Foundation Executive, British Columbia

[To me] social finance sounds like glorified philanthropy; only instead of a tax receipt, you can hope to get your money back.

– Investment Bank Executive, Ontario

Credit union respondents, on the other hand, demonstrated much greater awareness of social finance than the mainstream financial community. This finding is consistent with the Social Investment Organization's 2010 findings that of the \$4.45 billion in Canadian impact investments, \$951 million come from credit unions outside Quebec and \$1.9

billion come from Quebec Development Capital and Solidarity Finance (Bragg 2010), much of which has origins in the Desjardins movement. For every social finance term we asked about in our surveys, credit union respondents said they were more familiar than our other respondents, and we also saw this pattern in our interviews.

FINDING: THERE IS INCREASED AWARENESS OF (THE IMPORTANCE OF) NON-FINANCIAL CONSIDERATIONS

Consistent with broader trends in the business world, there is an enhanced focus on non-financial considerations, primarily within the context of a broader interpretation of risk. Environmental, social and governance (ESG) indicators are primarily seen as ways of gaining a richer understanding of the material risks involved in an investment (usually for publicly-traded companies). This has reinforced the need and demand for non-financial information, which has in turn prompted increased investment activity that makes use of this information.

"As an increasing number of institutional investors have adopted the self-interested, rational approach, its limitations and inadequacies have become increasingly apparent. In particular, the rational investor does not possess the capabilities of reason to assess the objective well-being of beneficiaries, recognize fundamental sources of investment reward in the real economy, or fulfill the fiduciary obligation to allocate benefits impartially between current and future generations." (Lydenberg, 2012)

Negative screening is often the primary tool around ESG indicators, though there is some evidence that the tools available to evaluate non-financial considerations on the social dimensions (the S in ESG) remain limited. These frameworks are being operationalized through increased adoption of corporate social responsibility initiatives as a way to reduce reputational risk, and the growth of socially-responsible investing to provide a more balanced interpretation of the full range of risks that public companies face.

FINDING: THERE IS SOME AWARENESS OF TERMS RELATED TO OR ASSOCIATED WITH SOCIAL FINANCE

In the general financial community, awareness is low and confusing terminology (some of it disseminated by social finance advocates) often clouds a clear understanding. This is partly the result of inconsistent use of financial sector terminology by social finance advocates. For example, “Social Impact Bonds” are not bonds in any mainstream financial sense. Even the term “social” in social finance is confusing, as to many the label seemingly excludes environmental impact.

That said, there is awareness of many terms closely related to social finance. Socially responsible investment is quite familiar to people in the mainstream financial community, with 94% of our survey respondents identifying as either somewhat familiar or familiar with the term. Similarly, corporate social responsibility was a term that came up in many of our interviews. As well, in specific niches particularly among younger advisors and analysts, there is familiarity with concepts such as climate risk, sustainability and the general mainstreaming of “green economy” concepts. There was relatively less awareness of social issues or, when there was awareness, of how to take it into account.

We have a mandate to do a triple-bottom line evaluation of impact, but it has been difficult for us to develop the protocols and procedures for determining social benefit because we’re one step or two steps removed from that end recipient.

– Public foundation, British Columbia

Advisors note that there is demand for social finance from some private clients, though it is difficult to know how often there have been requests for products. Several advisors noted that high net worth individuals have asked for socially-oriented investments. This trend is consistent with evidence in other jurisdictions, such as the United Kingdom (Elliot 2011).

This [trend] is very exciting to me as a financial advisor. My clients are charitable but they are also interested in earning a good return on their investments, and if they can have an opportunity to include such [blended] investments such as these in their portfolio, they would be enthusiastic.

– Financial advisor, Alberta

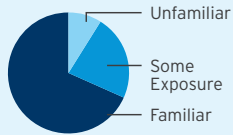
GLOBAL TREND: INCREASED INTEREST IN IMPACT INVESTING

Investors are becoming increasingly concerned about the social returns on their investments, and not exclusively with their financial returns (O’Donohoe, Leijonhufvud & Saltuk 2010). The impact investment philosophy unlocks substantial capital to build a more sustainable and equitable global economy, while allowing for diversification across geographies and asset classes (Palandjian 2010). Impact investments have the potential to complement philanthropy and government intervention as a potent force for addressing global challenges; these investments actively seek to place capital in businesses and funds that can provide solutions at a scale that philanthropic intervention alone cannot reach (Fulton & Freireich 2009).

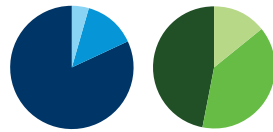
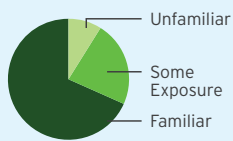


SURVEY RESPONDENTS AWARENESS OF SOCIAL FINANCE TERMS²

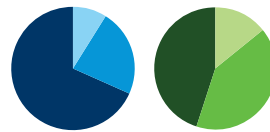
CREDIT UNIONS RESPONDENTS



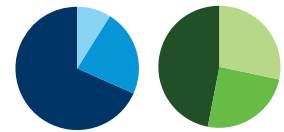
RESPONDENTS FROM ALL OTHER SECTORS



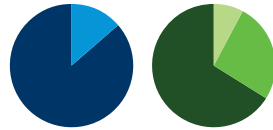
SOCIAL FINANCE



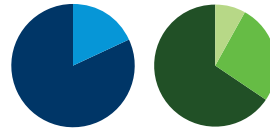
IMPACT INVESTING



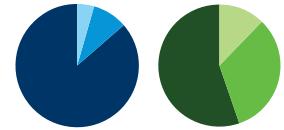
MISSION-RELATED INVESTING



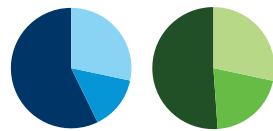
(SOCIALLY) RESPONSIBLE INVESTING



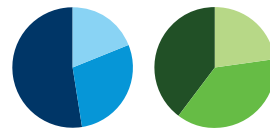
(ENVIRONMENTAL) SUSTAINABILITY



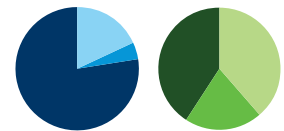
MICROFINANCE



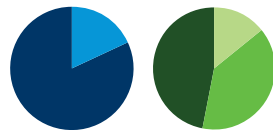
CLEANTECH



CLIMATE RISK



TRIPLE-BOTTOM LINE



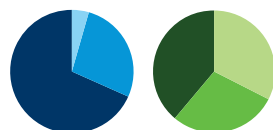
SOCIAL ENTERPRISE



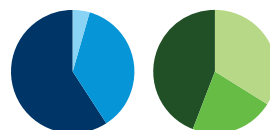
CO-OPERATIVES



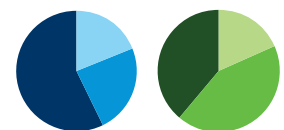
CREDIT UNIONS



SOCIAL IMPACT MEASUREMENT



ENVIRONMENTAL, SOCIAL AND GOVERNANCE STANDARDS (ESG)



LEADERSHIP IN ENERGY AND ENVIRONMENTAL DESIGN (LEED)

2. We caution readers from interpreting these results across the general financial sector given the self-selection bias and limited sample size of survey responses, as described in the section on limitations.

FINDING: INFORMATION ON SOCIAL FINANCE IS USUALLY ACCESSED VIA MAINSTREAM MEDIA

Mainstream and specialized media were the largest noted sources of information on social finance and impact investing. Interviewees cited The Economist, Globe & Mail, Financial Post and the Harvard Business Review as media through which they learned about social finance.

However, learning about social finance through these mainstream media outlets has not necessarily reduced confusion. Coverage appears to be fragmented and light on details, rarely distinguishing social finance from more widely-known concepts like socially responsible investing. This lack of depth in many ways contributes to confusion over terminology, and does not naturally lead to actionable information that advisors and analysts could follow-up on for product recommendations.

FINDING: THERE IS SOME STIGMA AROUND SOCIAL FINANCE

Despite a growing awareness of social and ecological considerations in business decision-making, a lack of clarity around the definition and scope of social finance contributes to the perception of investments in this area being high-risk. Beyond financial instruments, there is a general stigma around social finance investments and related institutions, particularly the association with the non-profit and charitable sector. The perception is that non-profits rely heavily on grants, which in turn lessens their capacity for properly managing credit, and contributes to a higher risk profile.

There is also a notable level of apprehension around government involvement, which is perceived to skew the market towards unattractive or unsustainable investments. Interestingly, the stigma attached to grant-receiving organizations in the social sector extends to revenue-generating social enterprises, cooperatives and credit unions that do not receive grants. It is believed that these organizations have significantly higher governance risks, despite a lack of evidence to suggest that the risks are significantly different from other financial institutions.

Why would they [charities] even want to ask for somebody's capital that they have to repay, when they can just go to their same old donor base that has been loyal for so long and ask for it for free? That is a structural problem, and has more to do with the charities than the providers of capital.

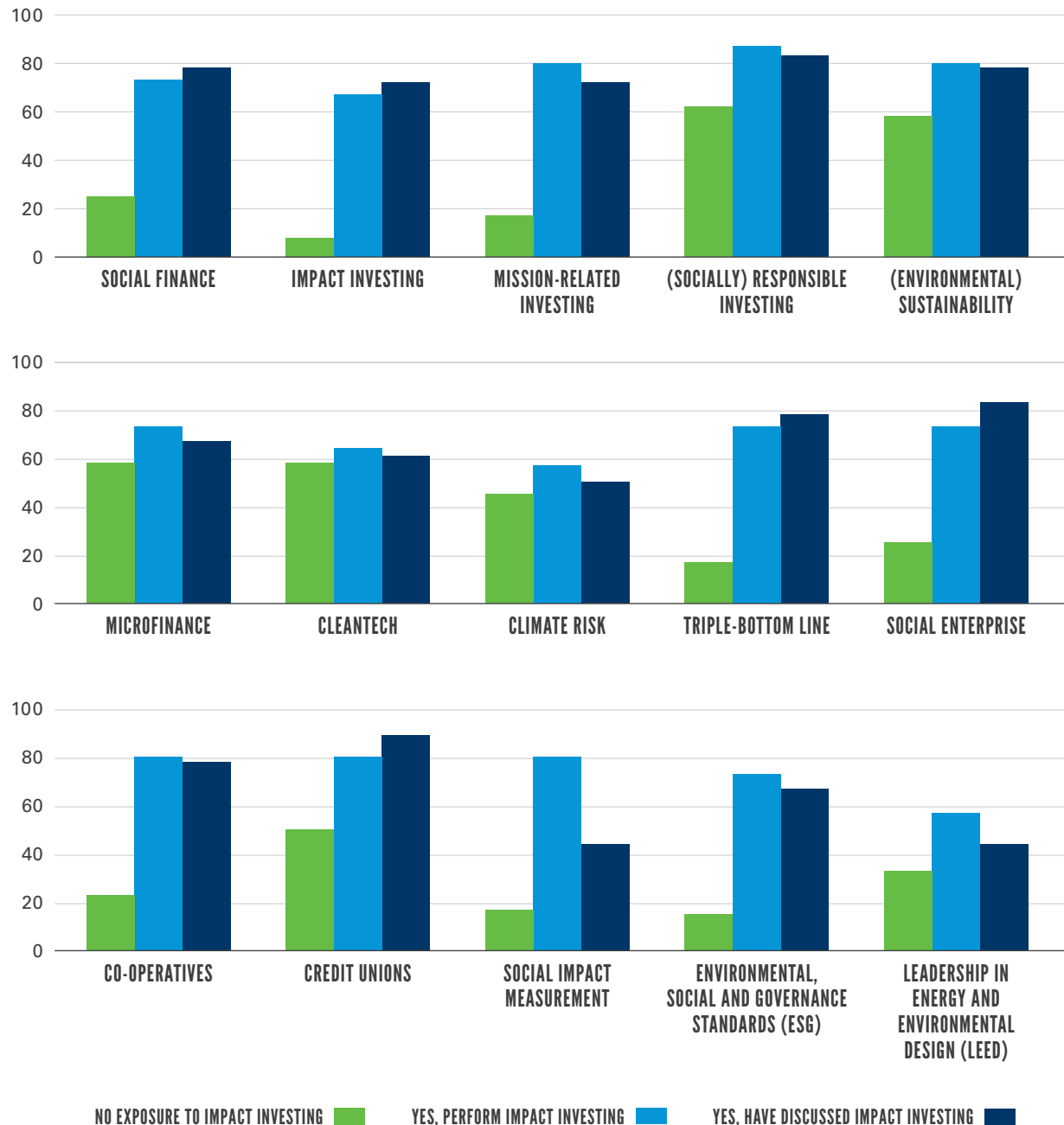
– Venture capital, Ontario

ACTIVITY

Does awareness lead to social finance activity?

Gauging the connection between awareness of social finance and social finance activity is difficult since the overall level of awareness is low.

SURVEY RESPONDENTS' LEVEL OF FAMILIARITY WITH SOCIAL FINANCE RELATED TERMS



FINDING: CREDIT UNIONS ARE CONDUCTING MORE SOCIAL FINANCE ACTIVITY THAN OTHER FINANCIAL SECTORS

Similar to findings on awareness, credit unions reported more social finance activity than other financial sectors. Members of this sector clearly highlighted that demand for social finance products often came from their member-owners directly. This meant that some of the credit unions were first-movers who had to develop social finance products and the systems to manage them on their own, rather than using models that had been developed by other financial organizations. In essence, their stakeholders required them to invest resources on developing products before there had been a clear demonstration of their viability in the marketplace.

Trailblazers in social finance recognized their flexible institutional structures as a key strategy for success. A variety of debt, equity and even grant-based instruments are used to support social investments and may come from different arms of the parent organization. This means that in practice, financing for a project could come from a small business loan, private equity, a foundation grant or some combination of these. Similarly, these trailblazers often had an “institutional indifference” meaning that they were equally open to investing in for-profit, not-for-profit and co-operative organizations.

FINDING: INSTITUTIONAL INVESTORS HAVE SETTLED ON ESG ASSESSMENTS

Institutional investors such as pension funds, have adopted some ESG assessments, but in most cases have not broadened their lens beyond that. There has been an increase in interest resulting from a number of institutional investors signing on to the United National Principles for Responsible Investing (UNPRI)³ and the Carbon Disclosure Project (CDP)⁴, including some of Canada’s largest institutional investors.

However, there is still a great deal of uncertainty regarding fiduciary responsibility. Some institutional investors have found the logic of SRI appealing, and see ESG considerations as a necessary component of a holistic risk-assessment and a long-term orientation. However, other institutional investors retain a narrower focus on prioritizing financial returns. In some cases where institutional investors are seeking to integrate ESG considerations, there can be significant internal pressures against this shift such as from legal counsel or investment committee members.

3. The UNPRI is an investor initiative in partnership with the UN Environment Program’s Finance Initiative and the UN Global Compact that seeks to help institutional investors integrate environmental, social and governance issues into their decision-making.

4. The CDP is an independent not-for-profit organization that provides companies and investors with a system to measure, disclose, manage and share climate change and water information.

FINDING: LOW AWARENESS AMONG BOTH ADVISORS AND CLIENTS PERPETUATES LOW DEMAND FOR SOCIAL FINANCE PRODUCTS

Investment advisors had low familiarity with social finance in general, and social finance products in particular. Related to the challenge of a lack of accessible products for retail clients, financial advisors and asset managers may not be able to refer products that fit the risk/return profiles clients are seeking. This is especially true if the advisor’s institution does not offer their own product, and where there is less incentive to conduct research on external products.

Even where there is awareness of social finance among advisors, there remains a gap in the knowledge of available social finance products and their track records. This gap in knowledge is particularly important as investors generally prefer working with the financial advisors they already have a relationship with, rather than conducting their own research into the financial products available at boutique firms.

GLOBAL TREND: INCREASING IMPACT INVESTMENT ACTIVITY

More capital is being directed towards (deliberate) impact investing, even if the exact magnitude and nature of those flows are under debate. The Monitor Institute (Fulton & Freireich 2009) stated that the industry could grow to \$500 billion within 5-10 years, representing an estimated 1% of global assets under management as of 2008. A survey by JP Morgan and the Global Impact Investing Network (GIIN) in November 2010 estimated a market size of profit potential ranging from \$183 billion to \$667 billion, and invested capital in the range of \$400 billion to nearly \$1 trillion (O’Donohoe, Leijonhufvud & Saltuk 2010). A revised study in December 2011 surveyed investors representing over 2,200 private transactions totalling over \$4 billion of investment, up from 1,000 transactions and almost \$2.5 billion in the previous year (Bouri et al 2011).



Generally, interview and survey respondents saw opportunities in social finance even if they were not currently engaged in the field. There is evidence that clients - high net worth individuals and retail investors, in particular - are expressing more interest in the area of social finance and impact investing. However, there are few channels to educate clients about their options, and this has reinforced the challenge of uncovering latent demand for social finance products.

FINDING: FEW SOCIAL INVESTMENT PRODUCTS ARE AVAILABLE AS MAINSTREAM INVESTMENTS

There are few specific product offerings that are available as mainstream impact investments in Canada. For example, Socially Responsible Investment funds are available through a wide range of investment advisors, though several interviewees noted a dearth of options on impact investment products (beyond screening).

Clean tech and internationally-oriented microfinance are recent additions that are becoming more widely available. For advisors and investors there are now a number of high-profile institutions that offer options, including Desjardins, Vancity, Sustainalytics, Sarona Asset Management, and RBC/Phillips Hager & North.

CHALLENGES & RECOMMENDATIONS

LANGUAGE & VOCABULARY

There are several different terms that are used interchangeably by those in non-profit organizations and financial institutions alike. Words like 'impact', 'sustainability' or even 'social' hold very different meanings for those on different sides of the capital equation. Generally speaking, those in mainstream finance have a tendency to categorize impact investing into the more familiar realm of socially responsible investing (SRI).

There is a debate happening [amongst ourselves] between those who feel they have been doing impact investing for decades, perhaps under the theories of responsible investing, versus those who have recently adopted much more critical views on what impact actually means.

– Venture Capitalist, Alberta

Furthermore, the misapplication of specific terms with established definitions has had a detrimental impact when it came to building trust and credibility between the social and financial sectors. For example, as ubiquitous as the term 'donation' may be amongst charities, the term 'bond' has equally strict expectations amongst the finance community. The Social Impact Bond was raised in a number of conversations as a misleading label for a product that has no guarantee of principle, as traditional bonds do. This is an obstacle in reaching Canadian investors who have precise expectations on various types of financial products. Asset managers expressed concern over recommending products where the risk or return parameters are not explicitly defined, or are inconsistent with existing product definitions:

When it comes to new products, there is no tolerance for any ambiguity around product structure, return expectations and exposure to risk. You can't create a radical new financial product or instrument, slap a familiar label on it and expect people to not only accept it, but allocate their savings towards it. It will only make investors more skeptical.

– Asset Manager, Alberta

RECOMMENDATION:

1. Create symmetry and ensure effective communication. Greater sensitivity toward terminology with long standing definitions amongst the financial community is required, especially if they relate directly to risk or return on investment.
2. Those on the demand side of capital (non-profits, social enterprises) may benefit from becoming more literate in financial vernacular and using it in the appropriate context (e.g. incorporating financial literacy training into the professional development tracks of non-profit executives).

GLOBAL TREND: LANGUAGE

Many of the impact investors in Canada actively supported the social economy long before the terminology to categorize their activity was developed. The sector faces issues around consistent language, and the term social finance is not well known or well understood by most investors (Harji & Hebb 2009). In a recent survey conducted by JP Morgan and the GIIN, survey respondents believed that the number of institutional or high net worth individual (“HNWI”) investors who “know what impact investing is” has doubled since 2009. However, three-quarters of respondents would still describe the current impact investing market as “in its infancy and growing”, rather than “about to take off” (19%) (Bouri et al 2011).



BOTTLENECK FROM ADVISORS/MANAGERS

Within the ecosystem of capital markets, the relationships between the owners and managers of capital take on multiple forms and result in complex mechanisms through which capital flows. Many of these mechanisms are highly regulated or operate within a rigid framework, which can slow the response to changing demands within the investment community.

As noted earlier, awareness among owners of capital has resulted in increased consideration of values-based investing. They are discovering impact investment opportunities through mainstream channels, and the notion that profit-generating opportunities can align with their personal philanthropic principles is resonating deeply amongst this new breed of investors.

These investors include young professionals who tend to be more proactive than prior generations with regards to financial management as well as to their responsibility to society, and large family estates that are exploring broader interpretations on how their legacy is built. For many investors in this category, they can be disincentivized from pursuing these objectives when their financial advisor or portfolio manager is unable to respond to their requests for additional information or products.

There is growing frustration among high-net worth individuals, and families, around the lack of impact investment expertise in Canadian estate planning & advisory services. These investors are either being directed away or offered little relevant information.

– Private Equity Executive, Ontario

In this regard, front-line professionals represent a key component of the financial ecosystem that is not yet adequately positioned to mobilize a significant pool of private capital from retail investors. This is the result of not only insufficient knowledge or incentive structures on the part of the advisor, but also from a lack of readily accessible products for asset managers to easily direct their investors to, with minimum effort on their part.

There are a handful of professionals who currently specialize in managing SRI products, or more rarely, are fuelled by their personal interest in social finance and may direct investors to local opportunities or ‘off the book’ transactions that bear no benefit to the professional. However, their reach pales in comparison to the industry at large.

I introduce local investment opportunities to my clients and tell them it’s there. But that’s all I can do. It cannot be brokered through my firm; they cannot have it in their portfolio here. I can’t oversee it and I don’t profit from these transactions. But I am willing to do this. Most advisors would not be.

– Portfolio Manager, Ontario

Changing the Know Your Client process to mandate asking whether clients care about social impact would be great, if there were more products around to actually fulfill that need when they say yes. Advisors need to be educated too, and we need a range of products.

– Advisor, Alberta

RECOMMENDATIONS:

1. Target awareness building and education of financial advisors and retail asset managers who will be most effective at unlocking latent demand among potential social finance opportunities and enhance the value proposition of 'on the books' products while providing a motive for change at the institutional level.
2. Support education and training of front-line professionals through existing industry associations such as the Social Investment Organization, and certification programs, such as Concordia University's Sustainability Investment Professional Certification (SIPC). Furthermore, such education provides resources and trusted individuals that other front-line professionals may refer their clients to.
3. It is worth re-examining the practices surrounding client intake and the Know Your Client (KYC) protocols performed at advisory and asset management firms. Very few organizations have distinct lines of questioning to capture a client's social or environmental preferences, and how they may influence investment preferences. Clearly, this needs to be supported with product availability to adequately meet these newly identified needs - however asking the question is a critical first step to understanding the size and type of demand.

LIMITED PRODUCT ACCESSIBILITY

Many current impact investment opportunities in Canada are primarily targeted at private accredited investors, who are partial to local or community impact, or at foundations whose missions are distinctly aligned with the opportunity itself. This is largely because the most accessible investment opportunities are in the form of community bonds, loans or direct equity investments where the size of the investment is far below what may be attractive for larger institutional investors to even consider. Portfolio managers also expressed concern over their ability to meet their fiduciary duty in creating a balanced portfolio with only impact investment products available today.

If a client came to me with [too much of] a focus on social returns, I would not be confident in my ability to provide them a diversified portfolio using only these type of funds.

– Financial Advisor, Ontario

Finally, fund managers have cited existing securities legislation that limits the portion of illiquid assets allowed in a mutual fund portfolio⁵ as a key barrier preventing larger investment in social impact products. By their nature, community notes, bonds or investments into local loan funds are illiquid due to their vesting periods but most importantly due to the lack of a secondary market for the resale or valuation of these investments. Although investors may demand these products, and accept the increased risk or reduced liquidity associated with them, this regulation prevents them from accessing these assets through traditional mutual funds.

As channels of investment demand grow, there will be corresponding pressure to create impact investment products that are suitable for mainstream distribution (for retail or institutional investors). Additionally, many portfolio managers would expect that impact investment products be allowed status similar to existing investment options such as TFSA eligible securities or investments.

If the Federal government does not allow [social finance products] to be TFSA or RRSP eligible, that would reduce the legitimacy of these products and reduce the amount of investors who would participate. We need to think about Canadians investing in Canada.

– Credit Union Manager, Alberta

The Canadian Securities Association needs to consider granting social impact fund exemptions from the current securities restrictions around the value of illiquid investment allowed in a mutual fund portfolio. This is the single biggest barrier to being able to offer a Canada-wide, social impact fund through [our organization].

– Mutual Fund Executive, Ontario

5. National Instrument 81-102 (2.4) Restrictions Concerning Illiquid Assets.

RECOMMENDATION:

1. Support the creation of a centralized database of active social impact opportunities provides advisors with easy access to accurate information on social finance products - and to direct clients accordingly. Initiatives like SIO's directory of SRI Funds are great starting points for centralising information.
2. Remove barriers for community organizations to participate in innovative financing mechanisms (e.g. Community Bonds) to increase the potential pipeline of local investment opportunities. Advocacy efforts are underway to explore hybrid legal structures (such as Community Interest Companies and Benefit Corporations).
3. Support the development of a National Impact Investment Fund to consolidate many of the smaller scale, fragmented financing products so that they are more accessible to mainstream markets. In June 2011, the SIO completed its feasibility study on this National Fund of Funds. Efforts are underway to enlist resources and support for various sectors to further its implementation.

GLOBAL TREND: PRODUCT ACCESSIBILITY

Access to reliable, accurate information on viable investment opportunities remains one of the key issues for impact investors. A recent JP Morgan survey cites the lack of a track record of successful investments and a shortage of quality investment opportunities as the top two challenges to industry growth (Saltuk et al., 2011b). Search costs are high as "investment ready" opportunities are difficult to find, and the costs of due diligence can be prohibitively high for early-stage investments that require a relatively small amount of capital.



HIGH RISK PERCEPTION

The challenges around risk perception stem from a general lack of confidence associated with any financial products or investment initiatives where the social or environmental mandate appears to overshadow, or at a minimum, lessen the importance of the profit potential. As a result, there is a natural stigma towards non-profit lending, social finance or even credit unions' ability to generate financial returns.

The prevailing perspective is that social finance has stemmed from concessionary capital and compromising returns is necessary. They will soon realize this is not true once they see performance of more funds like [ours] and once investors begin to demand more.

– Private Equity Executive, Ontario

These perceptions of risk have been associated with a number of factors:

1. Low confidence in the ability of non-profits or social enterprises to effectively manage capital. In particular, there is negative bias towards those who have historically relied on government grants or subsidies; there is little confidence that these organizations can successfully operate a profit maximization strategy;
2. Lack of quality reporting and transparency with regards to their financial or operational metrics;
3. Lack of clarity around measuring social metrics is especially prevalent amongst investors when returns on a particular investment are directly calculated based on a pre-determined set of social outcomes and results;
4. Insufficient track record of success and ability to yield competitive returns;
5. Liquidity risk, even on securitized investments, in that it is unlikely to be morally acceptable for a lender or investor to foreclose on property or exercise a claim on assets used to carry out a social mission; and similarly,
6. High reputational risk associated with investing in this sector as these investments tend to generate greater levels of public interest and scrutiny.

The myth that co-ops and socially-minded organizations are for some reason a greater risk to the financial community than standard start-up businesses needs to stop. The statistics will tell you an entirely different story. They are in fact a far lower risk, have far fewer delinquencies and are far better able to weather the storms than start-up organizations that don't have that.

– Credit Union, Alberta

There are really good co-ops and co-ops that are not as good, but this is the same for [for-profit] companies too. It is really a matter of how good the governance is... it may take longer for a co-op to reach maturity, but once it has we expect the same kind of risk.

– Private Equity, Quebec

RECOMMENDATIONS:

1. Equip prospective investees with tools necessary to effectively monitor, understand and report financial as well as operational metrics. Non-profits and social enterprises may need to upgrade their financial reporting and monitoring strategies so as to generate the type of comparative information potential investors expect to see in for-profit companies.
2. Embedded executives have proven to be a very successful and cost effective model for integrating business expertise and capacity into organizations that don't currently have, or cannot afford these resources on a permanent basis.⁶
3. Equip investors and intermediaries with tools to evaluate the risk and performance of social finance products. The due diligence process of a non-profit or social enterprise may vary slightly from traditional methods, as the indicators of success may not be as obvious. Reference guides, like the Social Enterprise Analytical Model, published by the Chantier de L'Économie Sociale in Quebec, are a good starting point.
4. Educate the future generation of business leaders by integrating multi-dimensional risk assessment and impact investing principles into post-secondary and graduate programs.

GLOBAL TREND: RISK/RETURN/ IMPACT CONSIDERATIONS

Valuation of risk and return in social finance is still an emerging industry, as it is in many other parts of the world. Consequently, there is inconsistent use of language and a “challenge to build a lexicon of valuation” (Emerson 2003). Even a brief examination of some valuation methods indicates that there is no unilaterally accepted approach, let alone a single metric, to social impact measurement or the blended value that is created by all investments (Olsen and Galimidi 2008, Tuan 2008). Individuals vary in their expectations of impact and thus need to be addressed accordingly (Duncan & Wong 2010; Moon 2010). Standards and benchmarks for determining non-financial performance have yet to be widely adopted. Therefore investors must often rely on their own judgment to assess the impact being made (O'Donohoe, Leijonhufvud & Saltuk 2010). Measurements of social impact are often difficult to establish and are largely anecdotal (Geobey, Westley & Weber 2011; O'Donohoe, Leijonhufvud & Saltuk 2010). In the absence of performance benchmarks, investors have difficulty comparing the social performance of their investments against one another and as a result there is little consistent quantitative data about the social impact actually achieved (Bugg-Levine & Goldstein 2009).



6. Examples include the embedded executive program curated by MaRS Discovery District via the provincially funded Business Mentorship & Entrepreneurship Program. Similarly, the Industrial Research Assistance Program (IRAP) offers financial support and 'consulting' services for innovative new start-ups. The Canadian Youth Business Foundation loan recipients are required to work with a business mentor for the duration of their loan - the mentor is assigned by the foundation and ranges from seasoned executives to successful entrepreneurs.

GOVERNMENT INTERVENTION IN CAPITAL MARKETS

Government initiatives that aim to directly manipulate or influence the flow of investment are generally seen as intrusive, and were perceived negatively amongst those participating in this study. Some respondents described attempts to attract investors via tax incentives or similar one-dimensional efforts as unsustainable or even irresponsible. Many participants cited their experience with labour sponsored venture capital funds as the source of their apprehension, where others had less specific macroeconomic concerns towards government subsidy or intervention.⁷ For example, many believe that tax incentives fail to serve the long-term growth potential of a particular market segment by creating a dependency on incentives to attract capital, rather than the merits of a carefully conducted investment evaluation.

Finally, with regard to government intervention in social financing activities, some participants expressed concern over the long-term implications of increased private sector involvement in what were previously public sector responsibilities. Asset managers forewarned of the criticism they would expect from clients, if indeed a new product was introduced that funded a social service, especially when the pay-off or returns associated with these products are not clearly understood. Similarly, asset managers acknowledged that initiatives where clients feel that government is relinquishing their public sector responsibilities will be met with skepticism that may become a barrier to mainstream adoption.

As with any paradigm shift, people need to get used to new products and risk factors. Governments stepping in and providing a cushion during this process is pivotal - however it must be done responsibly. Investors need encouragement to navigate risks and rewards, not temporary lures or incentives that lead to misguided placements of capital.

- Portfolio Manager, Ontario

Our biggest macro-risk is [the impact of] government intervention in markets from fiscal indebtedness . . . [such as by] attempting to grow tax intakes . . . and how this translates into monetary and financial repression - that is, holding bonds and keeping interest rates low - these are our biggest challenges.

- Pension Fund, Quebec

RECOMMENDATIONS:

1. There is a case for government intervention, particularly around legitimizing social finance products, however the challenge is in how much and where. The role of government should be to mitigate short-term risk in order to create long-term sustainability, rather than simply to attract temporary infusions of capital toward certain initiatives.
2. There are various proposals for government support circulating within the social finance community that attempt to address both the immediate need for capital as well as the long-term sustainability of an asset class or market segment. Some of these are:
 - a. First loss capital guarantees provided by the government would provide risk mitigation to structured funds that contribute to impact investment objectives.
 - b. Supporting intermediaries (i.e. subsidizing staff, administration, legal costs etc.) or new funds, reduces the transaction costs associated with impact investing without skewing the risk/reward valuations associated with the investment itself.

7. Recognizing that the social economy in Quebec is notably more developed than in the rest of Canada, it was expected that there would be significantly different views on the role of government in directing the evolution of a social economy.

IMPACT INVESTING AS AN ASSET CLASS

Many respondents advocated for the maturation of impact investing to the point where its products represent a unique asset class of their own. Although this may be an intermediary step towards a necessary evolution of capital markets, participants expressed concern that pushing impact investments into their own asset class will marginalize their underlying principles, thus limiting its adoption into mainstream investment markets.

Branding a particular investment strategy as ‘social’ or ‘impact-based’ may reach a target market of values driven investors and raise awareness and capital towards certain social causes. However, several participants active in the SRI space feel strongly that advocating for the development of these niche investments may distract from existing strategies that aim to incorporate SRI principles more broadly across all asset classes and business activities.

Is impact investing an asset class? In some ways it is a little like the term cleantech. There are clean technology investors who invest in start-up equity, there are cleantech investors who invest in growth equity, there are cleantech investors who provide debt at an institutional level to renewable energy programs, and there are public companies with publicly traded debt and shares. It is something that cuts all the way across, but there is a bit of a theme to it.

– Credit Union, British Columbia

We are concerned about the potential negative impact that ‘impact investment’ may have on the SRI industry as a whole. It is possible that ‘impact investment’ may take away some of SRI’s steam (resources) to push some of the largest corporations towards enhanced social and environmental performance. For example, are the social and environmental benefits of a small organic juice company more ‘impactful’ than moving Coca-Cola towards enhanced CSR practices?

– Investment Fund, British Columbia

RECOMMENDATIONS:

1. For many, the ultimate goal of impact investing is to direct capital towards addressing some of the most pressing social and environmental challenges. For others, it represents a paradigm shift in the role of business and what it means to create value. A challenge occurs when the pursuit of one goal may distract or conflict with efforts of another. Ultimately, impact investing requires a holistic approach towards market development that simultaneously addresses the immediate need for capital deployment as well as broader macroeconomic objectives. This includes supporting:
 - a. Mechanisms and infrastructure to channel investment capital into social enterprises and non-profits. This includes creation of new financial products, education programs, and evaluation methods and most importantly, requires finding middle ground between the social and financial sectors, recognizing that compromises will need to be made.
 - b. Systems level changes to existing business mentality and definitions of value creation. For example, this occurs as organizations expand their responsibility towards a broader stakeholder base and the negative externalities that affect them. This must come organically, from within organizations; however, legislative innovations and other supports can be established to facilitate this process.

FIDUCIARY DUTY

The most common challenge to impact investing, as cited by fund managers or institutional investors, is their fiduciary responsibility to protect the investment of their clients or investors.

The mandates of institutional investors, especially pensions, are strictly regulated and many cite this rigidity as reason for not being able to consider impact investments where the financial risk is unfamiliar. Asset managers are expected and legally obligated to conduct their activities in a way that maximizes returns for their clients. In the absence of a strong record of success or proven financial sustainability, it can be challenging to provide a sound rationale for exploring social finance strategies.

If a pension plan believes supporting a particular social cause was a worthwhile thing to do...then they might very well have a dual mandate. But unless someone provides me with a dual mandate I'm not interested in it and, in fact, it would be irresponsible of me to pursue a dual mandate.

– Venture Capital Manager, Ontario

RECOMMENDATIONS:

1. Provide clarity to institutional investors on their fiduciary obligations, in a manner that is consistent with their existing principles. For example, there are now several legal interpretations (such as Freshfields II and the UNPRI) of fiduciary responsibility that allow for the consideration of a wider set of stakeholder interests, beyond a narrow focus on maximizing financial return.
2. In the current environment, there are several ways to fit impact investment in the context of fiduciary responsibility. These include:
 - a. Understanding fiduciary duty as an intergenerational task. In order to preserve future prosperity and existing standards of living, a concerted effort is required to build economic and business models that capture broader assessments of risk and value.
 - a. Proving that impact investment products and vehicles are able to generate market-competitive returns through effective reporting and communication to investors.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS	CHANGE AGENTS AND METHODS OF ACTION		
LANGUAGE & VOCABULARY	GOVERNMENT	INDUSTRY ASSOCIATIONS & INTERMEDIARIES	MARKET
1. Increasing sensitivity toward financial terminology.	Build Awareness	Build Awareness	Experiment & Explore
2. Increasing literacy, on the demand side of capital, with financial vernacular and using it in the appropriate context.	Education & Skill Training	Education Delivery	Experiment & Explore
BOTTLENECK FROM ADVISORS/ MANAGERS	GOVERNMENT	INDUSTRY ASSOCIATIONS & INTERMEDIARIES	MARKET
1. Targeting education and awareness building to financial advisors and retail asset managers, and those who have direct interaction with retail investors.	Education & Skills Training	Build Awareness	-
2. Support education and training of front-line professionals through existing industry associations and certification programs.	Accreditation	Education Delivery & Accreditation	-
3. Re-examine the practices surrounding client intake and the Know Your Client (KYC) protocols performed at advisory and asset management firms.	Policy & Regulation	Build Awareness	Build Demand

RECOMMENDATIONS

CHANGE AGENTS AND METHODS OF ACTION

LIMITED PRODUCT AVAILABILITY

	GOVERNMENT	INDUSTRY ASSOCIATIONS & INTERMEDIARIES	MARKET
1. Support the creation of a centralized database of active social impact opportunities.	Infrastructure Support	Consolidate Information	-
2. Remove barriers for community organizations to participate in innovative financing mechanisms.	Policy & Regulation	-	-
3. Support the development of a National Impact Investment Fund to consolidate many of the smaller scale, fragmented financing products into those that are more accessible to mainstream markets.	Infrastructure Support	Facilitate Partnerships	-

HIGH RISK PERCEPTION

	GOVERNMENT	INDUSTRY ASSOCIATIONS & INTERMEDIARIES	MARKET
1. Equip prospective investees with tools necessary to effectively monitor, understand and report financial as well as operational metrics.	Education & Skills Training	Education Delivery	Experiment & Explore
2. Finance embedded executive programs for social enterprises or non-profit organizations.	Infrastructure Support	Facilitate Partnerships	Build Demand
3. Equip investors and intermediaries with tools unique to evaluating the risk and performance of social finance products.	Education & Skills Training	Education Delivery	-
4. Educate the future generation of business leaders by integrating multi-dimensional risk assessment and impact investing principles into academia in post-secondary and graduate programs.	Build Awareness	Build Awareness	Build Demand

RECOMMENDATIONS

CHANGE AGENTS AND METHODS OF ACTION

GOVERNMENT INTERVENTION IN CAPITAL MARKETS

	GOVERNMENT	INDUSTRY ASSOCIATIONS & INTERMEDIARIES	MARKET
1. Mitigate short-term risk in order to create long-term sustainability.	Infrastructure Support	Build Awareness	-
2. Address both the immediate need for capital as well as the long-term sustainability of an asset class or market segment through:	Policy & Regulation	Build Awareness	-
a. First loss capital guarantees			
a. Supporting intermediaries	Infrastructure Support	Build Awareness	-

IMPACT INVESTING AS AN ASSET CLASS

	GOVERNMENT	INDUSTRY ASSOCIATIONS & INTERMEDIARIES	MARKET
1. Support impact investing with a holistic approach that simultaneously addresses the immediate need for capital deployment as well as broader macroeconomic objectives. This includes supporting:			
a. Mechanisms and infrastructure to channel investment capital into social enterprises and non-profits.	Infrastructure Support	Facilitate Partnerships	Build Demand
a. Systems level changes to existing business mentality and definitions of value creation.	Policy & Regulation	Build Awareness	Experiment & Explore

RECOMMENDATIONS

CHANGE AGENTS AND METHODS OF ACTION

FIDUCIARY DUTY

	GOVERNMENT	INDUSTRY ASSOCIATIONS & INTERMEDIARIES	MARKET
1. Clarify fiduciary duty.	Policy & Regulation	Build Awareness	Build Demand
2. Fit impact investment with the context of fiduciary obligations:			
a. Understanding fiduciary duty as an intergenerational task.	Education & Awareness	Education & Awareness	Build Demand
b. Proving that impact investment products and vehicles are able to generate market-competitive returns.	Education & Skills Training	Build Awareness	Build Demand

CONCLUSION

As this report has noted repeatedly, and as has been referred to in other publications (Task Force 2010, Harji and Hebb 2009), there is a breadth of existing social finance activity across the country. Canada's credit union sector has, and continues to be, a key driver of social finance activity. Several recent announcements such as the establishment of the MaRS Centre for Impact Investing and the RBC Impact Investing Fund provide positive signals for further evolution of this nascent marketplace.

This report identified the key issues related to the awareness of social finance among the financial sector, to identify gaps in knowledge and barriers to investment, and to propose strategies and recommendations to catalyze awareness and activity in social finance by the financial sector. Through primary and

secondary data collection and analysis, this report provided new insights into the issues and opportunities around social finance among the general financial sector across Canada.

In addition to our recommendations to address these issues, there is an emerging set of activity around social finance across Canada that can be leveraged and built upon. It is our expectation that the process of identifying and engaging individuals and institutions in this study, as well as the publication of this report, will itself contribute to increased awareness and adoption of social finance among the finance sector beyond the existing institutions already engaged in this area.

APPENDIX: BACKGROUND AND CONTEXT ON SOCIAL FINANCE AND IMPACT INVESTING

INDUSTRY OVERVIEW

Social finance⁸ is the deliberate, intentional application of tools, instruments, and strategies to enable capital to achieve a social, environmental, and financial return (Harji & Hebb 2009). Organizations that receive such investment can be found in the non-profit and for-profit sectors or in the hybrid space between them, they are mission-driven and seek to maximize blended value. Essentially, social finance addresses three separate but interconnected aspects of what we call the social capital market - the supply of capital searching for that “blended value” return, the demand for that capital, and the intermediaries that link the two (Harji 2009).

Investors are becoming increasingly concerned about the placement of their investments and not exclusively with their return on investments (JP Morgan 2010). Impact investments have the potential to complement philanthropy and government intervention as a potent force for addressing global challenges; they actively seek to place capital in businesses and funds that can provide solutions at a scale that philanthropic intervention alone cannot reach (Fulton & Freireich 2009). The impact investment philosophy unlocks substantial capital to build a more sustainable and equitable global economy while allowing for diversification across geographies and asset classes (Palandjian 2010).

More capital is being directed towards (deliberate) impact investing, even if the exact magnitude and nature of those flows are under debate. The Monitor Institute (Fulton & Freireich 2009) stated that the industry could grow to \$500 billion within 5-10 years, representing an estimated 1% of global assets under management as at 2008. A survey by JP Morgan and the Global Impact Investing Network (GIIN) in November 2010 estimated a market size of profit potential ranging from \$183 billion to \$667 billion, and invested capital in the range of \$400 billion to nearly \$1 trillion (O’Donohoe, Leijonhufvud & Saltuk 2010). A revised study in December 2011 surveyed investors representing over 2,200 private transactions totalling over \$4 billion of investment, up from 1,000 transactions and almost \$2.5 billion in the previous year, respectively (Bouri et al 2011).

SOCIAL FINANCE IN CANADA

Social finance in Canada is at a nascent stage of development, and can be characterized as “uncoordinated innovation”, where disparate entrepreneurial activities and business model innovations occur in response to market needs or policy incentives (Fulton & Freireich 2009). The Canadian Task Force on Social Finance (2010) has estimated that impact investments could yield \$30 billion for investment in social enterprises and more sustainable community organizations (2010), and the Social Investment Organization has identified \$4.45 billion in impact investments (Bragg 2010). Despite this potential, impact investing in Canada has been slow to materialize (Jagelewski 2011).

Government, at both the federal and provincial levels, has been the primary source of social finance in Canada - particularly through grants and contributions, as well as operating and program subsidies. (Hebb 2006; Cameron 2003). At the provincial level, Quebec has been a leader in social finance through targeted programs, dedicated financing vehicles and capital pools, and an enabling regulatory environment (Mendell & Nogales 2008; Strandberg 2006). As well as funding programs and projects directly, government has often funded social initiatives indirectly through intermediaries (Hebb 2006).

More recently, there has been increased interest among foundations to utilize the full range of their assets to achieve their social objectives (Godeke and Pomeroy, 2009). Several progressive Canadian foundations have already used program-related investments (PRIs) to invest in social enterprise and nonprofit property investments (Strandberg 2008). These efforts are occurring against a backdrop of interest across the country: the Centre for Impact Investing was recently established in Toronto at the MaRS Discovery District, and nascent policy initiatives to stimulate social enterprise have been initiated in British Columbia and Nova Scotia.

Despite these positive trends, Canada’s social sector remains undercapitalized relative to the needs and pressures placed on it, and only a small percentage of finance is “invested with intent” to fill this gap (Strandberg 2007; Mendell & Nogales 2008).

8. Note: we use the terms ‘social finance’ and ‘impact investing’ interchangeably for the purposes of this report.

Canada's nonprofit and voluntary sector is the second largest in the world (Hall et al. 2005), and several estimates of social enterprise activity across Canada suggest growth in the sector (Brouard et al. 2008; Pearson 2008). As it currently stands, there is a shortage of funding for social enterprises making it an inefficient and uncoordinated market (Malhotra, Laird, Spence 2010).

DEMAND FOR SOCIAL FINANCE

Since the 1970s, crises in the welfare state, international development, market structures and in state socialism have highlighted the weaknesses of both for-profit and public approaches to problem-solving on their own (Salamon 1994). At the same time, traditional non-profits have learned that commercial initiatives aligned with their social missions could provide an additional means of making an impact and diversifying revenue streams (Weisbrod 1998; James and Young 2007). This has led to the development of social enterprises seeking to combine both social and profit generation in a single organization (Ridley-Duff & Bull 2011).

Overall, this has resulted in a shift towards bringing the social sector into the centre of public policy attention, an increase in its scope, and an increase in its scale (Helmut & Salamon 2006). Social sector institutions receive grants and donations from individuals who do not benefit directly from the resulting social and environmental benefits. However, attempts at commercializing social sector activity has caused concern over mission drift, leading to the erosion of public trust in these organizations and the sector as a whole (Weisbrod 1998). Traditionally there has been little capacity for those providing funds to the social sector to be able to monitor performance, so the non-profit legal framework has served as a check against profit-taking (Hansmann 1980).

The non-profit sector itself has traditionally faced constraints that the for-profit and public sectors do not face. Salamon notes that the non-profit sector is prone to failures due to insufficient resources and narrowness of interest (1987), which can be partially attributed to lack of access to capital (Hansmann 1980). In accumulating capital for social purposes, the structure of Canada's investment industry is divided: philanthropy on one end of the financing spectrum and profit-maximization at the other (Harji 2009). Canada's existing tax, legal and regulatory frameworks have been developed over generations in support of this bifurcated system, making it ill-conducive to establishing the impact investing mechanisms necessary to coordinate the marketplace (Task Force 2010).

For example, a charity is only permitted to conduct business related to its expressed charitable purpose, thereby restricting the types of revenue-generating activities in which it may engage (PH&N, 2010). As a result, charitable status may be too restrictive for a social entrepreneur, who needs to generate alternative sources of revenue in funding their initiatives, yet incorporating as a for-profit eliminates the enterprise from qualifying for grant funding that may be necessary during the critical early stages of development.

Social economy organizations serve different purposes than for-profit and public organizations and, consequently, have different organizational needs. Businesses, unlike donation-based non-profits, have a one dimensional profit maximization objective, and can gauge the success of services through revenue-generation. They are able to clearly identify their customers and owners, and tend to have a more stable and predictable cash flow. This last point also means that donation based non-profits have higher relative needs for liquidity than similar-sized for-profits (Zeitlow, Hankin & Seidner 2007; Bowman 2007). Diversification of revenue streams can reduce this instability somewhat (Young 2007b), however, the lack of future profits as collateral for debt (Yetman 2007) or the option of equity investments, restricts the fundraising needed to develop those diverse revenue streams.

INVESTOR ENGAGEMENT

Impact investors can be segmented into two categories based on their investment objectives: impact-first, where achieving social or environmental good are the primary target, even if at the expense of financial return, and financial-first investors who often seek market rate returns but have an appetite for social or environmental value drives (Fulton & Freireich 2009). Each of these types of investors exist across various asset classes ranging from cash deposits to alternative instruments such as real estate or venture capital (PH&N 2010).

Many of the impact investors in Canada have been actively supporting the social economy long before the terminology to categorize their activity was even developed. The sector faces issues around consistent language, and the term social finance is not well known or well understood by most investors (Harji & Hebb 2009). In a recent survey conducted by JP Morgan and the GIIN, survey respondents believe that the number of random institutional or high net worth individual ("HNWI") investors who "know what impact investing is" has doubled since 2009. However, three-quarters of respondents would still describe the

current impact investing market as “in its infancy and growing”, rather than “about to take off” (19%) (Bouri et al 2011).

Valuation of risk and return in social finance is still an emerging industry, as it is in many other parts of the world. Along with this follows the inconsistent use of language and the “challenge to build a lexicon of valuation” (Emerson 2003). Even a brief examination of a subset of the available methods indicates that there is no unilaterally accepted approach, let alone a single metric, to social impact measurement or the blended value that is created by all investments (Olsen and Galimidi 2008, Tuan 2008). Individuals vary in their expectations of impact and thus need to be addressed accordingly (Duncan & Wong 2010; Moon 2010). Standards and benchmarks for determining non-financial performance have yet to be widely adopted; therefore investors must often rely on their own judgment to assess the impact being made (O’Donohoe, Leijonhufvud & Saltuk 2010). Measurements of social impact are often difficult to establish and are largely anecdotal (Geobey, Westley & Weber 2011; O’Donohoe, Leijonhufvud & Saltuk 2010). In the absence of performance benchmarks, investors have difficulty comparing the social performance of their investments against one another and as a result there is little consistent quantitative data about the social impact actually achieved (Bugg-Levine & Goldstein 2009).

Recently, efforts have been made to establish a common rating system. The GIIN created its Impact Reporting and Investment Standards (IRIS) to provide a common framework for defining, tracking and reporting on the performance of impact investments. IRIS provides an independent set of metrics for organizations to use when reporting their impact and aims to increase the value of non-financial data by enabling performance comparisons and benchmarking (GIIN 2010). The Global Impact Investment Ratings System (GIIRS) is based on the IRIS taxonomy and reporting standard. It aims to assess the social and environmental impact (but not the financial performance) of companies and funds using a ratings approach analogous to Morningstar investment rankings or S&P credit risk ratings (B Lab 2010). While these ratings systems are being embraced by the impact investing community, the industry “remains beset by inefficiencies and distortions that currently limit its impact.” (Bugg-Levine & Goldstein 2009).

Access to reliable, accurate information on viable investment opportunities remains one of the key issues for impact investors. The lack of a track record of successful investments, and a shortage of quality investment opportunities rank as the top two challenges to industry growth in the recent JP Morgan

survey, with inadequate impact measurement practice coming in third (Saltuk et al., 2011b). Search costs are high as “investment ready” opportunities are difficult, and the costs of due diligence can be prohibitively high for early-stage investments that require relatively small amounts of capital.

INTERMEDIATION CHALLENGES

A lack of intermediation is at the forefront of the challenges facing impact investment (Ayton & Sarver 2006; Emerson & Bonini 2003; Harji & Hebb 2009). Sophisticated intermediaries are essential to address many of the risks noted above; they match available financial products to the specific needs of investors. These intermediaries provide meaningful information to the market in order to overcome the systemic information asymmetry that reinforces this uncoordinated state (Bugg-Levine & Goldstein 2009). The dearth of intermediaries has been attributed to the relatively new existence of an impact investment marketplace and the smaller scale of deal making opportunities; economic incentives for intermediaries have not been sufficient to attract new intermediaries to the sector (Emerson & Spitzer 2007).

Intermediaries need reach a certain level of sophistication in order to identify potential partners and structure creative deals that blend the various risk and reward expectations of investors in a relatively seamless manner (Harji 2009). Without intermediaries, impact investors are not able to calibrate risk and opportunity adequately, therefore limiting the amount of capital injected into the social economy (Harji & Hebb 2009; Hope Consulting 2010). Conversely, social ventures are in need of capital and the lack of intermediaries acts as a barrier to the growth, success and operation of everyday business (Malhotra, Laird, Spence 2010). The supply of capital does not correspond to the needs of social enterprises and as it currently stands, there is a significant misalignment between the demand and supply sides of social finance (Harji & Hebb 2010; Mendell & Nogales 2008).

Unlike in the private sector, there is an absence of a well-functioning “capital curve” for social businesses that matches the right kind of capital to the best prospects for profitability (Bishop & Green 2010). Different classes of investors can layer their capital at various stages in order to create a “blended capital curve” corresponding to several risk, return and impact combinations. For example, impact-first investors such as venture philanthropists can provide early-stage finance that delivers low financial returns and high risk but offers desirable social returns. Government provides a combination of capital (such as grant-funded TA, below-market debt) that can

scale up proven ideas, and finance-first investors can provide larger investments at even greater scale. Bridge financing in between these stages can be made more efficient through better coordination from investors, and feasible possibilities include phased investing (baton pass), co-investing, and internal horizontal syndication (Kohler et al, 2011).

ROLE OF GOVERNMENT

While impact investing denotes a natural inclination to the financial markets, the role of government has been critical - even in the financial markets, as we have witnessed over the last few years. Learning from the United Kingdom in particular, we have a set of markers around ways in which government can engage directly or indirectly in social finance, and the results and unintended consequences (HM Treasury 2011; Joy et al 2011). Beyond these countries, we have witnessed an array of approaches that can create an enabling environment for impact investing, and many of these initiatives can and have stretched beyond funding (Thornley & Wood 2011). All these trends are occurring within a set of broader structural, economic, political, and social changes occurring at a tremendous pace, and all of which are important contributors to this movement.

In a period of global fiscal constraint, impact investments can complement government services and attract private investment capital, providing greater opportunity to implement public-private partnerships and outcomes-based finance (Saltuk 2011a). Policy

and regulation are helping to catalyze impact investment activity in several jurisdictions globally, across a range of sectors (Thornley & Wood 2011). With financial constraints, the role of the state may not necessarily be diminished - though this could be the case in some regions, presenting both a set of challenges as well as opportunities - instead, governments will be more likely to use the other levers at their disposal apart from direct funding. Policy intervention can include: increasing the amount of capital for investment (supply development); increasing the availability or strengthening the capacity of capital recipients (demand development); or adjusting terms of trade, market norms, or prices (directing capital) (Thornley & Wood 2011).

Regulation and legislation have presented considerable barriers to the development of social finance in Canada. The existing legal infrastructure can be described as a "patchwork", with inconsistent and inadequate relevant legislative and regulatory systems (Bridge 2009:3). The Canada Revenue Agency takes a very conservative view of charitable activity, which discourages innovation in financial instruments and tools to leverage the full range of foundation assets towards achieving their mission (Strandberg 2008). Social enterprises, despite their increasing popularity, still face significant barriers in accessing finance due to the lack of enabling infrastructure - especially the limitations imposed through their legal status (Mendell 2008, Carter and Man 2008, Bridge and Corriveau 2009).

TABLE 1: IMPACT INVESTMENT ASSETS AND AMOUNT OF ASSETS

Source: Social Investment Organization (Bragg 2010)

Impact Investments Assets by Category	Assets (millions)
Aboriginal Funds	285.7
Community Futures Development Corporations	910.6
Community Loan Funds and Social Venture Capital	348.8
Credit Unions	951.5
Foundations	32.0
International Impact Investments	5.6
Quebec - Development Capital	1,049.1
Quebec - Solidarity Finance	850.5
Total	4,447.8

TABLE 2: INVESTOR INITIATIVES BY ASSET CLASS

Adapted from: Phillips, Hager & North (2010), Task Force (2010)

		FINANCIAL FIRST	IMPACT FIRST
ASSET CLASSES	CASH		<ul style="list-style-type: none"> Vancity deposit products
	DEBT	<ul style="list-style-type: none"> Ottawa Community Loan Fund Insurance Corporation of BC 	<ul style="list-style-type: none"> Central One Credit Union of BC Jubilee Fund Social Capital Partners Edmonton Special Enterprise Fund Canadian Alternative Investment Cooperative
	MEZZANINE / QUASI EQUITY	<ul style="list-style-type: none"> Société de capital de risque autochtone du Québec (SOCARIAQ) Sarona Frontiers Markets Fund 	
ALTERNATIVE INVESTMENTS	VENTURE CAPITAL	<ul style="list-style-type: none"> Vancity Capital Corporation Emerald Ventures Chrysalix Clean Energy Tech Fund 	<ul style="list-style-type: none"> Chantier de l'Économie Sociale
	PRIVATE/GROWTH	<ul style="list-style-type: none"> Cape Fund Investeco 	
	REAL ESTATE	<ul style="list-style-type: none"> Alterna Community Alliance Housing Fund 	<ul style="list-style-type: none"> Jubilee Fund
	ABSOLUTE RETURN (HEDGE FUNDS)		

REFERENCES

- Ayton, R., and Sarver, S. 2006. *Social Lending Today: Challenges Facing Social Finance Intermediaries*, Centre for the Development of Social Finance, Background Paper
- Bragg, I. 2010 *Impact Investing in Canada: A Survey of Assets*. Social Investment Organization
- Bridge, R. and Corriveau, S. 2009. *Legislative Innovations and Social Enterprise: Structural Lessons for Canada*. BC Centre for Social Enterprise.
- Brouard F., Hebb T., Madill J. (2008). *Canadian Social Enterprises: An Empirical Exploration of Social Transformation, Financial Self Sufficiency and Innovation*. Journal of Nonprofit and Public Sector Marketing.
- Bugg-Levine, A. 2009. *Impact Investing: Harnessing Capital Markets to Drive Development at Scale*. Beyond Profit, May/June, 16-21.
- Bugg-Levine, A. and Emerson, J. 2011. *Impact Investing: Transforming How We Make Money While Making a Difference*. Jossey-Bass.
- Bugg-Levine, A. and Goldstein, J. 2009. *Impact Investing: Harnessing Capital Markets to Solve Problems at Scale*. San Francisco, CA: Federal Reserve Bank of San Francisco, Community Development Investment Review, Vol. 5, No. 2, August 2009, pp. 30-41.
- Canadian Task Force on Social Finance (2010). *Mobilizing Private Capital for Public Good*. Social Innovation Generation, MaRS Discovery District.
- Canadian Task Force on Social Finance (2011). *Mobilizing Private Capital for Public Good: Measuring Progress During Year One*. Centre for Impact Investing, MaRS Discovery District.
- Cameron, S. 2003. *A National Study of Community Investment in Canada*. www.socialinvestment.ca/Survey_Results.doc
- Carter, T. and Man, T. 2009. *Business Activities and Social Enterprise: Towards a New Paradigm*. 2009 National Charity Law Symposium, The Canadian Bar Association/Ontario Bar Association.
- Carter, T. and Man, T. 2008. *Canadian Registered Charities: Business Activities and Social Enterprise Thinking Outside the Box*. National Centre on Philanthropy and the Law Annual Conference.
- Christian, L. 2011. *A New Foundation for Portfolio Management*. RSF Social Finance.
- Elliot, A. 2011. *Investing for the Good of Society: Why and How Wealthy Individuals Respond*. The Big Society Finance Fund, April.
- Emerson, J. 2003. *The Blended Value Proposition: Integrating Social and Financial Returns*. California Management Review, Vol. 45, No. 4, Summer 2003.
- Emerson J. and Bonini S. 2004. *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation*. Working Paper.
- Emerson, J. and Spitzer J. 2007. *From Fragmentation to Function: Critical Concepts and Writings on Social Capital Markets' Structure, Operation, and Innovation*. Skoll Centre for Social Entrepreneurship: Oxford.
- Fulton, K. and Freireich, J. 2009. *Investing for Social & Environmental Impact: A Design for Catalyzing an Emerging Industry*. Monitor Institute.
- Geobey, S., Westley, F. and Weber, O. 2010. *Innovation Through Developmental Impact Investing*. Social Innovation Generation, University of Waterloo. Working Paper
- Godeke, S. and Pomares, R. 2009. *Solutions for Impact Investors: From Strategy to Implementation*. Rockefeller Philanthropy Advisors.
- Hansmann, H. 1980. *The Role of Nonprofit Enterprise*. The Yale Law Journal Vol. 89, No.5, April, 835-901.
- Harji, K. 2009. *Delivering More Capital to Communities*. Making Waves. Volume 20, number 3 (Autumn/Winter 2009), pages 5-11.
- Harji, K. and Hebb, T. *The Quest for Blended Value Returns: Investor Perspectives on Social Finance in Canada*. Carleton Centre for Community Innovation: Ottawa.
- Hebb, T., LaPointe R. and Jackson E. T. 2006. *Mapping Economically Targeted Pension Fund Investing in Canada*. Carleton Centre for Community Innovation. Working Paper. Ottawa.
- Hebb T., A. Wortsman, M. Mendell, N. Neimtan, and R. Rouzier. 2006. *Financing Social Economy Enterprises*. Industry Canada Report, Ottawa. March 2006.
- Helmut K. and Salamon, M. 2006. *The Nonprofit Sector in Comparative Perspective*. In Powell, W. and Steinberg, R. 2006. *The Non-Profit Sector: A Research Handbook*. 2nd ed. Yale University Press, 89-114.
- HM Treasury. 2011. *Growing the Social Investment Market: A vision and strategy*.
- Jagelewski, A. 2011. *Social Impact Bonds: A Practical Social Innovation*. Policy Research Initiative, Government of Canada.
- James, E. and Young, D. 2007. *Fee Income and Commercial Ventures, in Young, D. 2007. Financing Nonprofits: Putting Theory into Practice*. AltaMira Press. 93-120
- Joy, I., de Las Casas, L., and Rickey, B. 2011. *Understanding the Demand for and Supply of Social Finance: Research to Inform the Big Society Bank*. The Big Society Finance Fund.

- Ludlow, J. and Jenkins, J. 2011. *Twenty Catalytic Investments to Grow the Social Investment Market*. The Big Society Finance Fund.
- Lydenberg, Steve. 2012. *Reason, Rationality and Fiduciary Duty*. Initiative for Responsible Investment. Hauser Center for Nonprofit Organizations.
- Malhotra, A., Spence, A., & Laird, H. 2010. *Social Finance Census 2010*. MaRS Discovery District & Ontario Nonprofit Network.
- Mendell, M. and Rocío Nogales, R. 2008. *Social enterprises in OECD Member Countries: What are the financial streams?* Working paper.
- O'Donohoe, N., Leijonhufvud, C. and Saltuk, Y. 2010. *Impact Investments: An Emerging Asset Class*. J.P. Morgan Global Research.
- Olsen, S., and Galimidi, B. 2008. *Catalog Of Approaches to Impact Measurement: Assessing social impact in private ventures*.
- Palandjian, T. 2010. *Investing for Impact: Case Studies Across Asset Classes*. The Parthenon Group and Bridges Ventures.
- Pearson, R. 2008. *The Nonprofit Capital Market in Canada*. The BC Alberta Social Economy Research Alliance (BALTA).
- Phillips, Hager & North. 2010. *An Overview of Impact Investing*.
- Powell, W. and Steinberg, R. 2006. *The Non-Profit Sector: A Research Handbook*. 2nd ed. Yale University Press.
- Ridley-Duff, R. and Bull, M. 2011. *Understanding Social Enterprise: Theory & Practice*, SAGE Publications Ltd.
- Salamon, L. 1987. *Partners in Public Service: The Scope and Theory of Government-Nonprofit Relations*. In Powell, W. ed *The Nonprofit Sector: A Research Handbook*.
- Salamon, L. 1994. *The Rise of the Nonprofit Sector*, Foreign Affairs, Jul/Aug 73, 4, 109-122.
- Saltuk, Y. 2011a. *Counter(Imp)acting Austerity: The global trend of government support for impact investment*. J.P. Morgan.
- Saltuk, Y., Bouri, A., and Leung, G. 2011b. *Insight into the Impact Investment Market: An in-depth analysis of investor perspectives and over 2,200 transactions*. J.P. Morgan and the Global Impact Investing Network.
- Strandberg, C. 2007. *The Social Purpose Capital Market: An Opportunity for the Canadian Charitable Sector*.
- Strandberg, Coro (2008). *Primer: Responsible Investment Pilot Project*. Community Foundations of Canada. www.corostrandberg.com/pdfs/2008%2008%2001%20%20CFC%20Responsible%20Investment%20Primer.ppt
- Strandberg, C., and Brenda Plant, B. 2004. *Scan of the Community Investment Sector in Canada*. National Roundtable on the Environment and the Economy. Ottawa.
- Kohler, J., Kreiner, T, and Sawhney, J. 2011. *Coordinating Impact Capital: A New Approach to Investing in Small and Growing Businesses*. Santa Clara University.
- Thornley, B. and Wood, D. 2011. *Impact Investing: A Framework for Policy Design and Analysis*. InSight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University.
- Tuan, Melinda (2008). *Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches*.
- Weisbrod, B. 1977. *The Voluntary Nonprofit Sector*. Lexington Books.
- Weisbrod, B. 1988. *The Nonprofit Economy*. Harvard University Press.
- Weisbrod, B. 1998. *To Profit or Not to Profit: The Commercial Transformation of the Nonprofit Sector*, Cambridge University Press.
- Williamson, O. 1996. *The Mechanisms of Governance*. Oxford University Press.
- Young, D. 2007. *Financing Nonprofits: Putting Theory into Practice*. AltaMira Press.
- Zeitlow, J., Hankin, J. and Seidner, A. 2007. *Financial Management for Nonprofits: Policies and Practices*. John Wiley and Sons.

ABOUT THE AUTHORS

KARIM HARJI

Karim Harji leads Purpose Capital, and is a co-founder and partner at Venture Deli. He was recently involved in the strategic assessment of the Rockefeller Foundation's Impact Investing Initiative, where he co-authored a comprehensive scan of the evolution of the impact investing industry globally.

Karim teaches social entrepreneurship at the Faculty of Engineering at the University of Toronto and the Schulich School of Business at York University, and is also a Senior Research Associate at the Carleton Centre for Community Innovation at Carleton University. He is the co-founder of socialfinance.ca, the leading website on social finance and impact investing in Canada.

Karim serves on the Boards of the Social Investment Organization and the Small Change Fund, and holds a Masters degree in Public Administration from Carleton University.

ALEX KJORVEN

Alex Kjorven is a consultant at Purpose Capital.

Alex was Project Manager for the 2011 Social Finance Forum at the newly launched MaRS Centre for Impact Investing. Previously, she led the ACCESS Community Capital Fund, spearheading the expansion of their microfinance model across Toronto. A former Senior Associate at KPMG LLP, Alex led audits and evaluations of companies and worked with a variety of investors in the firm's Advisory practice, performing due diligence on financing and acquisition activities.

Alex is a Chartered Accountant and holds a Bachelor of Commerce degree from the University of Toronto.

SEAN GEOBEY

Sean is a doctoral candidate in the University of Waterloo's Department of Environment and Resource Studies and a McConnell Fellow with SiG@Waterloo. His research looks at social innovation in complex systems, with a focus on how decision-making can be improved for investments seeking both a financial and a social return. Prior to his current doctoral studies, Sean earned an MA in Economics from Queen's University with a focus on voluntary sector organization strategy and governance.

In addition, Sean is a regular contributor to the SocialFinance.ca and is a contributing member of the Waterloo Region Record's Community Editorial Board. He also serves on the Waterloo-Wellington Self-Help Alliance's board of directors, was a co-founder of the Laurier Students' Public Interest Research Group and is currently the Chair of Fair Vote Canada's National Council.

ASSAF WEISZ

Assaf Weisz is a co-founder and partner of Venture Deli, a firm that grows and capitalizes ventures that matter to the world.

Prior to this, he co-founded and was the Executive Director of the Young Social Entrepreneurs of Canada (YSEC), where he grew the organization to become one of the nation's largest networks of social entrepreneurs. Assaf also advises Laidlaw Foundation on its granting stream and PRI committee, and serves as a founding board member of Operation Groundswell - a conscious backpacking social enterprise that runs trips in over 20 countries.

In 2011, Assaf was recognized as a Fellow of Social Entrepreneurship by the Ariane de Rothschild Foundation and Cambridge University. He has guest lectured at Schulich School of Business, spoken on behalf of the City of Toronto at the G20 Youth Summit, and at the Global Engineering Symposium.

ABOUT VENTURE DELI

Venture Deli accelerates the growth of, and facilitates investment in, ventures that matter to the world. We turn early/growth-stage businesses into market leading companies that set the bar higher for social and environmental impact.

Venture Deli acts as an intermediary between social ventures and impact investors. Our work with ventures focuses on enhancing their investment readiness for a successful capital raise.

We help these businesses to refine their business models, assess and monitor their social impact, and strengthen their operational capabilities and management teams.

Venture Deli is a proud B Corp based in Toronto. The firm's partners teach social entrepreneurship courses at Canada's leading business (Schulich School of Business, York University) and engineering (University of Toronto) schools.

ABOUT PURPOSE CAPITAL

Purpose Capital helps to develop investment strategies that matter to the world.

Purpose Capital supports investors and advisors in building strategies that align their investments with their social and environmental impact objectives.

We 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 impact.

Purpose Capital is a division of Venture Deli.

Venture Deli accelerates the development of promising early-growth companies across a variety of sectors by helping to strengthen their business models, management teams, and their social and environmental impact.



Venture Deli is a Certified B Corporation. Unlike traditional corporations, Certified B Corporations are legally required to consider the impact of their decisions on the long-term interests of their employees, suppliers, community, consumers, and the environment.

Venture Deli

Centre for Social Innovation
720 Bathurst St. Suite 313
Toronto, ON M5S 2R4
t: 416.846.9787
info@venturedeli.com
venturedeli.com

Follow us on Twitter
[@venturedeli](https://twitter.com/venturedeli)

Purpose Capital

Centre for Social Innovation
720 Bathurst St. Suite 313
Toronto, ON M5S 2R4
t: 647.302.4752
info@purposecap.com
purposecap.com

Follow us on Twitter
[@purposecap](https://twitter.com/purposecap)



Matter to the world.

Appendix B: List of Contacted Organizations

- Addenda Capital
- Affinity Credit Union
- Alterna Credit Union
- Arctic Cooperative Development Fund
- Assiniboine Credit Union
- Bealight Foundation
- Caisse d'economie solidaire
- Canadian Alternative Investment Corporation
- Canadian Economic Development Network (CEDNet)
- Canadian Worker Co-Operative Federation: Tenacity Fund
- CAPE Fund
- CCEC Credit Union
- Community Business Development Corporations
- Community Economic Development Investment Funds
- Community First Development Fund of Saskatoon
- Community Forward Fund
- Community Futures Development Corporations
- Community Power
- Capital Desjardins
- Edmonton Social Enterprise Fund
- Green Angel Energy
- Green Power Action
- Hamilton Community Foundation

- Inner City
- iNova Credit Union
- Investeco
- Island Savings Credit Union
- Jubilee Fund
- Lumaira Capital
- Manitoba Women's Enterprise Centre
- Mennonite Savings and Credit Union
- Mennonite Economic Development Associates: Sorona Risk Capital Fund
- Meritas
- Momentum
- Montreal Community Loan Association
- Muttart Foundation
- New Dawn Enterprises
- Oikocredit
- Ontario Trillium Foundation
- Ottawa Community Foundation
- Paro Centre for Women's Enterprise
- Philanthropic Advisory Services
- Philips, Hager & North, Investment Management Ltd.
- Real Estate Foundation of BC
- Renewal 2 Investment Fund
- Renfrew Community Futures
- RISE investment fund
- Rural Community Economic Development

- SEED Winnipeg
- Social Capital Partners
- Southbridge Funds
- St. John Community Loan Fund
- The Co-operators
- The Maytree Foundation
- Toronto Atmospheric Fund
- Toronto Enterprise Fund
- VanCity

Appendix C: Electronic Survey

Social Finance Provision

The questions of this survey focus on how asset management companies, lenders and investors provide capital for non-profits and social enterprises in Canada. Participation in this study is voluntary. You may decline to answer any questions that you do not wish to answer and you can withdraw your participation at any time by not submitting your responses. There are no known or anticipated risks from participating in this study, and we anticipate the survey will take about 20 minutes to complete.

It is important for you to know that any information that you provide will be confidential. All of the data will be summarized and no individual could be identified from these summarized results. Furthermore, the web site is programmed to collect responses alone and will not collect any information that could potentially identify you (such as machine identifiers).

Thank you for your participation in this survey on investment practices. Social finance is an approach to managing money that delivers social and/or environmental benefits, and in most cases, a financial return, although not necessarily so. Social finance encourages positive social or environmental solutions at a scale that neither purely philanthropic supports nor traditional investment can achieve.

As an additional definitional point, we note the four categories we use are:

- For-profit organizations are companies whose primary purpose is to generate income. Most sole proprietorships, partnerships and corporations would fit the definition of for-profit we are using.
- Non-profit/charitable are non-governmental organizations whose primary purpose is to provide a public service. This includes most non-profit corporations, including both those with and those without charitable status. For the purposes of this survey we shall also include trade unions and professional associations.
- Public sector organizations are agencies which provide public goods that are largely paid for through tax revenues. This includes the Canadian government, provincial governments and municipal governments. For the purposes of this survey we shall also include colleges, universities, hospitals, regional health authorities and school boards.
- Social enterprises are revenue-generating organizations that exist to primarily serve a social purpose. Unlike for-profit, non-profit/charitable and public sector organizations, there are currently no social enterprise legal forms in Canada. Social enterprises are likely to be for-profit businesses with a primarily social mandate or a revenue-generating unit within a non-profit organization. For the purposes of this survey we shall include all cooperatives as social enterprises.

1. For the purposes of survey administration can you provide us with your email? This address will not be tied to your answer, but will be used to ensure we do not send follow-up phone calls or emails after you have completed the survey.

Social Finance Provision

2. Our organization is a

- Bank
- Credit Union
- Other Cooperative
- Community Loan Fund
- Community Future Fund
- Pension Fund
- Private Investment/Equity Fund
- Private Foundation
- Public Foundation
- Other Foundation
- Insurance
- Venture Capital
- Venture Philanthropy
- Other Private Funder
- Other Public Funder
- Independent Funder
- Other (please specify)

3. What percentage of your portfolio funds are allocated to each of the following? This question is to help us develop a sense of your investment focus.

	0%	1-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%	91-100%	N/A
For-profit organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit & charitable organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public sector organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Finance Provision

4. Which of the following products are currently being used in order to finance for-profit, social enterprise, non-profit/charitable and public sector organizations in your portfolio (check all that apply):

	For-profit	Social enterprise	Non-profit / charitable	Public sector
Loans (General)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loans (secured)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loans (unsecured)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loans (subordinate)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loans (below-market interest)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mortgages	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lines of credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Working capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Leases	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Guarantees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Grants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Donations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other (please specify)

Social Finance Provision

Now, could you provide as with some information about the characteristics of the organizations and enterprises that you are financing?

5. As a percentage of our entire for-profit portfolio of investments, the for-profit organizations we fund are:

	0%	1-20%	21-40%	41-60%	61-80%	81-100%	N/A
Start-up organizations Spin-offs of larger organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing micro organizations (<4 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing small organizations (5-49 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing medium organizations (50-499)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing large organizations (>500)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6. As a percentage of our entire social enterprise portfolio of investments, the social enterprises we fund are:

	0%	1-20%	21-40%	41-60%	61-80%	81-100%	N/A
Start-up organizations Spin-offs of larger organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing micro organizations (<4 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing small organizations (5-49 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing medium organizations (50-499)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing large organizations (>500)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Finance Provision

7. As a percentage of our entire non-profit and charitable portfolio of investments, the non-profit and charitable organizations we provide loans to are:

	0%	1-20%	21-40%	41-60%	61-80%	81-100%	N/A
Start-up organizations Spin-offs of larger organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing micro organizations (<4 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing small organizations (5-49 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing medium organizations (50-499)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing large organizations (>500)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

8. As a percentage of our entire non-profit and charitable portfolio of investments, the non-profit and charitable organizations we provide grants to are:

	0%	1-20%	21-40%	41-60%	61-80%	81-100%	N/A
Start-up organizations Spin-offs of larger organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing micro organizations (<4 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing small organizations (5-49 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing medium organizations (50-499)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing large organizations (>500)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

9. As a percentage of public sector organizations in our portfolio of investments, the public sector organizations we fund are:

	0%	1-20%	21-40%	41-60%	61-80%	81-100%	N/A
Start-up organizations Spin-offs of larger organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing micro organizations (<4 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing small organizations (5-49 employees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing medium organizations (50-499)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Existing large organizations (>500)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Finance Provision

We would like to get a sense of the severity of the risks as they apply to funding for-profit organisations, social enterprises, non-profit organisations and public sector organisations.

10. How severe do you consider the financial risk as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

11. How do you consider potential financial returns as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

12. How severe do you consider management risk as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

Social Finance Provision

13. How severe do you consider public relations risks as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

14. How severe do you consider ethical risks as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

15. How severe do you consider overall inefficiency as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

16. How severe do you consider the risk of low fidelity to mission as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

Social Finance Provision

17. How high are cost structures as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

18. How severe is poor governance as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

19. How severe is poor access to capital as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

20. How severe is poor access to securities as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

Social Finance Provision

21. How severe is revenue uncertainty as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

22. How severe is low accountability to stakeholders as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

23. How severe is the risk of too little liquidity as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

24. How likely are organizations to be too small to be effective as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

Social Finance Provision

25. How severe are the burdens of tax regulation as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

26. How severe are the burdens of financial regulation as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

27. How severe are other regulatory burdens as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

28. How severe is the lack of relevant academic expertise as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

Social Finance Provision

29. How severe is the lack of financial community sophistication as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

30. How severe is the lack of financial community networks as they apply to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

31. How severe is the lack of expertise in managing credit as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

32. How severe is the lack of available investment advisors as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

Social Finance Provision

33. How severe is an over-reliance on public sector funding as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

34. How severe is an over-reliance on tax incentives as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

35. How severe is founder/leader domination as it applies to different kinds of organizations?

	Very low	Low	Moderate	High	Very high	N/A
For-profit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social enterprise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-profit/charitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Public	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comment

We're nearly there - only one page left.

Social Finance Provision

The questionnaire is nearly finished. Could you provide us with some information about your organization?

36. The educational background of our social finance portfolio managers is (check all that apply)

- Business-related (ex. MBA, CA, CFA, etc.)
- Government-related (ex. MPA)
- Social service-related (ex. MSW)

Other (please specify)

37. The prior work experience of our social finance portfolio managers is (check all that apply)

- Private sector
- Public sector
- Foundation / grant-making
- Non-profit sector
- Social enterprise
- Academic

Other (please specify)

Social Finance Provision

38. To track our social finance investments we

	Never	Sometimes	Often	Always	N/A
Mathematically model non-financial returns	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collect funder-created non-financial impact measurements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collect fundee-created non-financial impact measurements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Use different risk models than for for-profit organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Monitor their community partner relationships/support	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Compare income sources to their mission focus	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Use Impact Reporting and Investment Standards (IRIS)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other (please specify)

39. If you use a social finance measurement tool or tools, which do you use:

40. Are there any other barriers to providing social finance investments you would like to note: