STATE OF THE NATION

IMPACT INVESTING IN CANADA

MaRS | CENTRE FOR IMPACT INVESTING

PURPOSE Capital

FOUR EXAMPLES OF IMPACT INVESTING IN CANADA TODAY

1

FIRA FONDS D'INVESTISSEMENT POUR LA RELÈVE AGRICOLE

In 2010, the FONDS de solidarité FTQ, the Government of Québec and Desjardins Capital joined to create The Fonds d'investissemnet pour la relève agricole (FIRA), a $75-million private fund established to support sustainable agriculture and encourage the next generation of farmers in Quebec. The program provides patient capital in the form of subordinated loans or lease agreements of farmland, allowing young farmers time to establish their agricultural business in the early years. Property acquisition by FIRA allows for 15-year leases with exclusive right of redemption through entire lease.

Learn more: www.lefira.ca

2

SOLAR SHARE COMMUNITY BOND

Created in 2010 by TREC Renewable Energy Co-op. Solar Share is a non-profit co-operative with a mission to develop community-based solar electricity generation in Ontario by engaging residents and investors in projects that offer tangible financial, social and environmental returns. Solar Share bonds are backed by 20-year government agreements under Ontario's Feed-in Tariff program and are secured by mortgages on title. Ontario residents who become Solar Share Co-op members can purchase the bonds on a five-year term.

Learn more: www.solarbonds.ca

3

RENEWAL3

Renewal3 is part of Renewal Funds; it was started by Carol Newell and Joel Solomon, who met through a network of individuals using wealth for good. Renewal Partners was formed in 1994 to make debt and equity investments in triple-bottom-line companies. Renewal Funds invests social venture capital in early-growth stage companies in North America and is designed to deliver above-market returns at a lower risk profile than traditional venture capital funds. Sectors include organic and natural food, green products and environmental innovation. Renewal3 established a trust structure that allows Canadian foundations to invest. The trust structure is required, as current regulations do not allow foundations to invest in limited partnerships. Renewal3 has 16 Canadian foundations providing mission-related investments.

Learn more: www.renewalfunds.com

4

RBC GENERATOR FUND

The RBC Generator Fund was established in 2012, as a $10-million pool of capital to invest in for-profit businesses that tackle social or environmental challenges while generating market or near-market financial returns. Investment areas include energy, water, youth employment and community hiring for disadvantaged groups.

Learn more: www.rbc.com/socialfinance

FOREWORD

The recent global financial crisis, and ensuing soaring unemployment and plunging government revenues highlighted the increasingly urgent need to tackle persistent social issues in more effective ways. As governments around the world head towards a massive gap between the expected need for social services and their ability to pay for them, and philanthropic funding is increasingly under pressure, society must find innovative and new ways to tackle entrenched social issues that are both an economic burden and great injury to the fabric of society.

While our capitalist system in many respects deals admirably with its economic consequences, it largely does not deal with its social consequences. Despite efforts by governments, levels of social and economic inequality remain high across nations and we are still very far from resolving even our most urgent social issues such as homelessness, recidivism, drug addiction and education drop-out rates. The social sector has done its best to alleviate social problems that have eluded direct government intervention. Yet most social sector organisations are woefully under-funded with the majority having no more than a few months funding at their disposal. With philanthropic donations declining in parallel with the funds available from deficit-ridden governments, it is clear that there is a need for a revolution in resolving social problems. Impact investment may be where the revolution is leading us.

Impact investment is a response to the urgent need to achieve innovation and scale in the way we tackle today's complex societal challenges. It seeks to channel capital to drive measurable social and financial returns. It aims to harness investment and entrepreneurial skills to drive social innovation in the same manner investment and enterprise drives business and technical innovation. Attracting new capital to tackle issues at scale requires the development of an effective eco-system that connects the social sector to the capital markets and introduces new financial instruments that enable social entrepreneurs to achieve significant social impact as well as acceptable financial returns.

I believe we are now in the early days of a social revolution. A rising wave of social entrepreneurship is seeking to make a meaningful difference to people's lives. Impact investment will encourage a change in the mind-set of social organisations and entrepreneurs, enabling them to take risks as they invest in innovation and growth. It will also drive a change of mind-set among charitable, institutional and private investors attracted by the combination of social as well as financial returns. With an appropriate enabling policy and regulatory environment in place, social entrepreneurs and impact investors will be able to fill the gap between social need and current government provision. Impact investment has the potential to revolutionize our approach to social issues.

– SIR RONALD COHEN, CHAIRMAN OF THE SOCIAL IMPACT INVESTMENT TASKFORCE ESTABLISHED BY THE G8

As interest and activity around impact investing continues to grow in Canada, so does the demand for information around trends and opportunities. The State of the Nation Report provides updated information and analysis that can inform both new and existing actors in the impact investment sector.

We see this report – including the data, examples, analysis and recommendations – as an important contribution towards a robust and integrated marketplace. As the first report of its kind, we hope that it can provide a solid foundation for future market research efforts.

We would like to thank those who have been involved in the formation, research, and review of this comprehensive report. Together, we look forward to building on our results and lessons to date, and to deepen our collective engagement and performance in order to realize the potential of impact investing to enable progress on social and environmental issues.

— CO-AUTHORS, KARIM HARJI & JOANNA REYNOLDS

Over the last several years Canada has made tremendous progress in establishing the framework and infrastructure to support social finance and impact investing with the sector now being in the position to establish itself as a major component of the economic landscape both domestically and internationally.

There are tremendous steps being made in communities across the country and we hope that this synopsis of the projects that are being undertaken will help to highlight the efforts of foundations, charities and volunteers in bringing these visions to fruition and building the long term structural and systemic support that will allow these initiatives to become permanent parts of our communities.

We hope you find this outline of the state of the nation useful and look forward to continuing to report on the progress that is being made in moving the social finance and impact investing agenda forward.

— TED ANDERSON, DIRECTOR, MARS CENTRE FOR IMPACT INVESTING

That's where impact investing comes in — placing private capital into investments that deliver public good. The State of the Nation report is an important resource for understanding how impact investing is evolving in Canada, what the key players are up to, and the opportunities for astute first movers to participate in this growing field.

— SANDRA ODENDAHL, DIRECTOR OF CORPORATE SUSTAINABILITY AND
HEAD OF THE RBC SOCIAL FINANCE INITIATIVE, ROYAL BANK OF CANADA

As this report reveals, impact investing in Canada has made important strides. Much hard work has delivered some early successes. The CEDIF model in the east is a flexible tax-advantaged government incentive that has delivered local impact capital for years, and Quebec's Chantier de l'economie sociale has built a strong network of community organizations, conduits for impact capital, and funds to provide that capital. Also a welcome sign is the creation of more funds deploying capital. Renewal Funds, Resilient Capital, Social Enterprise Fund in Alberta and the Toronto Atmospheric Fund are all newer examples of successful impact funds. Community Forward Fund is a unique registered national fund attracting a broad array of investment. In addition to new fund development, the sector is marked by increasingly practical collaboration. This winter in Nova Scotia, practitioners needing to create a new debt tool pulled together experienced impact lenders and fund managers from across Canada and the northeast US, and in two days designed a solution. A national collaboration of four foundations and a Quebec investment fund has created a hybrid company to design and manage new thematic funds. This past fall the Social Enterprise World Forum in Calgary was notable both for its sheer size and for the strong voice of impact investors, in large part reflecting the sector-development efforts of the Centre for Impact Investing. As of yet less successful in ensuring broad representation of practitioners, but an important work in progress, the Canadian Advisory Task Force is working to bring a Canadian voice to the G8 impact investment initiative.

The report also reflects significant challenges. The big banks and institutions have stayed largely on the sidelines. The amount of capital they have deployed is far below their economic clout. They are needed to achieve the "impact at scale" we talk about and will not meaningfully participate until there are more funds providing a variety of market-appropriate risk-adjusted returns offered by fund managers with track record. The government must play its part too, ensuring that CRA regulations enable, rather than frustrate, the participation of foundations, charities and nonprofits. A final challenge is captured by the very breadth of the report. Ours is a sector too frequently characterized by activity and promotion and not frequently enough by strong voices responsible for significant funds under management. It undermines our seriousness, our credibility. The focus should be on raising capital and putting it to impact use, not talking about it.

Congratulations to MaRS and Purpose Capital on creating this rich and timely report. Impact investing is approaching a tipping point. Canadians are beginning to enjoy a choice about how their assets are invested. In the end, this work is not about being at the fringe of huge capital markets or facilitating government innovation. Impact investing is about ending the single bottom line, redefining "fiduciary", and reclaiming the social compact in Canada that calls all citizens and institutions to understand their economic success only in connection with the well-being of their communities, their nations, and the globe.

— ANDY BRODERICK, VICE PRESIDENT, COMMUNITY INVESTMENT, VANCITY

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PURPOSE CAPITAL

Purpose Capital is an impact investment advisory firm that mobilizes all forms of capital — financial, intellectual and social — to accelerate social change.

We work with investors and their advisors to design and deploy customized impact investment strategies spanning sectors, asset classes, and regulatory regimes. We also work with governments, businesses, entrepreneurs and sector-leading organizations to develop new products, platforms and markets for compelling financial returns and measurable social impact.

THE MaRS CENTRE FOR IMPACT INVESTING

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

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

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

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INTRODUCTION TO IMPACT INVESTING

OVERVIEW

The State of the Nation report responds to a need to better understand the nature of impact investing activity in Canada, the ways in which it is evolving and maturing, and the areas in which it could grow or falter.

- Impact investing is defined by investor and investee intention to create measurable positive impact beyond financial returns.
- Impact investing in Canada is characterized by a diversity of approaches and organizations.
- Overall activity continues to show signs of growth.
- There is a lack of existing, standardized data on impact investing activity.

The following section defines impact investing and places it within a Canadian context and the State of the Nation report.

CONTEXT

Canadians are faced with persistent social and environmental challenges that require cost-effective solutions. Our future ability to meet growing needs in education, healthcare, energy, climate change, and the inclusion of vulnerable populations such as seniors, people with disabilities and new Canadians, requires an integrated approach to link and unlock economic and social value.

In a traditional bifurcated system, governments and community organizations focus on meeting social needs through grants, donations and non-repayable contributions, while capital markets are focused on financial returns and economic growth. Our limited progress in addressing the most challenging social and environmental issues of our time suggest that this binary approach is no longer sufficient.

> "If we believe we are now in a world of constant, accelerating change, we must become leaders in making Canada and Canadians more resilient, adaptable and creative in finding sustainable solutions to long-standing social challenges. ... [I]t is time to re-think our operating models, our function, and our contribution to Canadian society, embracing innovation..."
>
> – TIM BRODHEAD, FORMER PRESIDENT, J.W. MCCONNELL FAMILY FOUNDATION

In response, a new set of solutions that bridge the public, private and social sectors is emerging. Often, these solutions take the form of innovative business models that seek to balance private gain and public good. Impact investing is an approach to financing these new models to accelerate positive social change. It demonstrates how finance can be harnessed to make progress across the private, public and social sectors and, perhaps most notably, in the areas where they intersect.

"I coined the term Blended Value (in 2000) to reflect what I felt was the reality that value was whole and that what all of us were bumping up against was a bifurcated world which asked us to accept that one had to be either for-profit or non-profit; an investor or a philanthropist. In contrast, I felt what we should really be focused upon was maximizing the total value of our companies, communities and capital."
–Jed Emerson, BlendedValue.org

Accordingly, impact investing is both a creative strategy to address systems change and an investment approach. The former has emerged from a response to changing behaviour that has pursued a new paradigm for public, private and community sectors work together to unlock new solutions to social and environmental challenges. The latter is a shift away from a trade-off mentality – the idea that profit and purpose are at odds with each other – to one that recognizes the "blended" positive-sum nature of investments that balance financial and social returns.

DEFINING IMPACT INVESTING

The term "impact investing" was coined in 2007, and has been used quite broadly to date. The most widely cited definition comes from a 2010 report by J.P. Morgan, the Global Impact Investing Network (GIIN) and the Rockefeller Foundation, which described impact investments as "investments intended to create positive impact beyond financial returns."[1]

Impact investment is differentiated from traditional investment by:

1. Investor intention: Investors seek to allocate capital (debt, equity or hybrid forms) to investments where they expect both to receive a financial return (ranging from return of principal to market-beating returns) and a defined societal impact.

2. Investee intention: Business models for investees (whether they are for-profit or non-profit enterprises, funds or other financial vehicles) are intentionally constructed to seek financial and social value.

3. Impact measurement: Investors and investees are able to demonstrate how these stated intentions translate into measurable social impact.

			IMPACT INVESTMENT		
Traditional	**Responsible Investing (RI)**	**Socially Responsible Investing (SRI)**	**Thematic**	**Impact-first**	**Venture Philanthropy**
Competitive Returns					
	ESG Risk Management				
		High Impact Solutions			
Limited or no focus on ESG factors of underlying investment analysis and execution.	ESG risks integrated into analysis of all holdings, as a component of financial risk management. Shareholder engagement is used to influence behaviour of holdings.	Negative and positive screening of ESG risks is used to align a portfolio to specific values. Shareholder engagement is used to influence behaviour of holdings.	Focus on one or more issue areas where social or environmental need creates commercial growth opportunity for market-rate returns.	Focus on one or more issue areas where social or environmental need may require some financial trade-off.	Social enterprise funding in a variety of forms, with a range of return possibilities. Investor involvement/ support is common.

Source: Purpose Capital adaptation of Bridges Venture Research (2012). The Power of Advice in the UK Sustainable Impact Investment Market. Available at: http://www.bridgesventures.com/links-research

For the purposes of this report, impact investing is placed within a broader continuum of approaches that are grouped under the umbrella of "social finance," as they broadly incorporate social and environmental considerations. The figure below compares impact investing across the continuum of approaches that constitute social finance.

This evolving typology includes terms such as responsible investment, community economic development and venture philanthropy. While these strategies are related (and are, arguably, important in their own right), we do not equate them with impact investing, but do reference them as they relate to impact investing later in this report. A more sophisticated definition can be expected to emerge as the impact investing marketplace matures.

BUILDING ON A RICH HISTORY IN CANADA

While impact investing is a relatively new term, the practice of intentionally investing for financial returns and positive social impact is not new in Canada. Traditionally, this activity has been grounded in local trends and needs, in response to pressing national social or environmental challenges. Examples of Canadian social investment reach back to the birth of the credit union movement in the early 1900s and continue through to more recent community economic development initiatives supported by various levels of government, such as Community Futures Development Corporations and Aboriginal Finance Institutions.

For decades, individual Canadians have established practices of investing through social responsible investing (SRI), through private or community foundations, or by investing in community economic development funds, either directly, with their personal wealth, or collectively, through labour unions, faith organizations and pension funds.

The following is a snapshot of milestones that have contributed to impact investing as we know it today.[2]

CREDIT UNIONS	1901	North America's first credit union, Caisse populaire de Lévis, is founded
	1946	Vancouver City Savings Credit Union is founded
CO-OPERATIVES	1861	Stellarton Co-operative, a mutual fire insurance company, is formed
	1971	Caisse d'économie solidaire Desjardins is founded
SOCIAL ECONOMY	1986	Development of Aboriginal Financial Institutions
	2007	Fiducie du Chantier de l'Économie sociale is created in Québec
COMMUNITY ECONOMIC DEVELOPMENT	1987	Government of Canada creates Community Futures Program
	1990	Community Economic Development Investment Funds (CEDIFs) are created
MICROFINANCE	1990	The first Canadian microfinance institution, Montreal Community Association is established
SOCIALLY RESPONSIBLE INVESTING	1997	Global Reporting Initiative (GRI) is launched
	2006	The UN Principles of Responsible Investment (PRI) are launched
IMPACT INVESTING	2007	Rockefeller Foundation coins the term "impact investing"
	2010	Canadian Task Force on Social Finance recommendations issued
ENABLING LEGISLATION	2012	Nova Scotia introduces the Community Interest Companies Act
	2012	British Columbia recognizes "Community Contribution Company"

While there has been strong interest in and appetite for the Canadian impact investing market, it faces a significant information gap.

OBJECTIVES FOR THE REPORT

The State of the Nation report responds to a need to better understand the nature of impact investing activity in Canada, the ways in which it is evolving and maturing, and the areas in which it could grow or falter. While there has been strong interest in and appetite for the Canadian impact investing market, it faces a significant information gap. As such, a robust analysis of the state of impact investing in Canada provides decision makers with critical information to identify, assess and benchmark the impact-investing ecosystem and its constituent parts.

This report has several related objectives:

- To describe impact investing and how it is developing across the country
- To assess current impact investing activity across sectors, regions and asset classes
- To share examples of investments that integrate financial returns and social impact
- To identify trends, issues and challenges across market segments
- To prioritize recommendations to allow impact investing to fulfill its potential

ORIENTATION FOR THIS REPORT

We can view impact investing similarly to traditional financial markets. Key market segments include: those who supply capital, those who demand capital, and intermediaries and enablers who facilitate the connections between the two.

The supply side (both asset owners and asset managers) includes individuals, foundations, community finance organizations, financial institutions, pension funds and government.

The demand side includes companies, non-profits and charities, co-operatives and other initiatives that need capital to initiate, operate or expand productive activities.

The Impact Investing Ecosystem

INTRODUCTION TO IMPACT INVESTING			
SUPPLY Who is providing investment and on what terms?	**PRODUCTS** Through what channels is capital matched with opportunities?	**INTERMEDIARIES** How is supply being matched with demand?	**DEMAND** Who is seeking investment and for what purpose?
IMPACT MEASUREMENT What impact is created?			
GOVERNMENT ENGAGEMENT How can government enable the marketplace?			
LEADERSHIP Who is providing leadership to the nascent field?			

If you are an investor or financial advisor, this report will help you understand what impact investing is and where it is most active across ten impact sectors. For business and social entrepreneurs, this report will provide you with examples of investments that have enabled entrepreneurs to open, operate or expand their businesses or initiatives. For those advancing public and institutional policy, this report will provide you with a snapshot of recent activities to enhance a supportive regulatory environment.

Readers can follow the target audience icons to identify sections that may be of particular relevance.

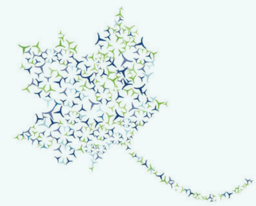
TARGET AUDIENCES ICONS

- S — **Supply** (Asset Owners and Managers)
- I — **Intermediaries** (Enablers and Service Providers)
- D — **Demand** (Ventures and Entrepreneurs)
- P — **Policy Makers**

SECTOR ICONS

- **Agriculture**
- **Health**
- **Energy**
- **Aboriginal**
- **Environment and Water**
- **Nonprofits and Social Enterprise**
- **Financial Services**
- **Housing and Community Facilities**
- **Education**

- **Section 2** reviews the supply of capital, including government, individuals, foundations, banks, pension funds and investment funds that invest for both social and financial returns.
- **Section 3** maps available financial products across Canada for both institutional and retail investors.
- **Section 4** scans intermediaries that link the supply and demand sides through market-enabling, demand-side, supply-side and market-building functions.
- **Section 5** covers the nine key sectors of activity as they relate to demand for capital, including an overview of key trends and opportunities in each sector and a profile of a relevant company or deal.
- **Section 6** outlines the current impact-measurement standards in use globally.
- **Section 7** reviews the role that government has in developing the supply, demand and direction of capital flow for impact investing.
- **Section 8** provides reflections and recommendations arising from this review of current activity to help realize the potential of impact investing in Canada.



CANADIAN TASK FORCE ON SOCIAL FINANCE

In 2010, The Canadian Task Force on Social Finance provided seven recommendations required to build a Canadian marketplace through capital mobilization, an enabling tax and regulatory environment, and the investment pipeline.

APPROACH AND LIMITATIONS

This report provides a comprehensive assessment of the range of activity around impact investing in Canada. The State of the Nation report used primary and secondary data research approaches to capture the range of impact investment activity in Canada to the end of 2012.[3] Primary research approaches included key informant interviews, case studies and surveys. Secondary research approaches included sourcing industry and government data sets, case studies and a literature review of existing studies in the field. This report includes publicly available data as well as proprietary/confidential data (which is generally reported in aggregate figures).

In undertaking this, the first report of its kind, there were several constraints around the nature of the data available for this report. There is a lack of existing, standardized data on impact investing activity (transactions) that covers important sectors, regions and asset classes. For example, we were not able to access individual transaction data from investors or funds, which prevented granular analysis of capital sources and flows, and expected and realized returns. As well, secondary data sources are fragmented and not always comparable.

At a practical level, linking the key components around impact investing (that is, investor and investee intention, and outcome measurement) remains a challenging exercise, and we often have to rely on self-reported information from organizations. One key resource to the field of impact investing is the annual review of the Responsible Investment Association (RIA, formerly the Social Investment Organization). The data behind this report informed our work, particularly in areas where no new data was available. However, in some circumstances, our definition of impact investment differed from that of the RIA, resulting in modifications in our use of their data. Any such deviations are noted in this text.

As noted above, impact investing is a subset of the larger category of social finance. For this report, we have used a specific definition of impact investing as described above. As such, this report does not examine related areas of social finance — such as community economic development and socially responsible investment — in detail in order to avoid confusion regarding these related fields.

For clarity and accuracy, we have cited available sources of information and identified specific gaps in the appropriate sections in the report. While this report has attempted to provide the elements of current and potential activity, it was not possible to construct an accurate overall market-sizing analysis as a significant amount of data is not yet available. For example, one issue we faced was not "double counting" impact investments from our research on asset owners and asset managers; as we noted earlier, this would require in-depth analysis at the transaction and portfolio level. As such, we have aggregated figures for specific market segments separately.

In addressing these limitations, we have included case studies and primary interviews to provide additional texture to the broad themes and trends we highlight in the report. We do not suggest that these examples are always representative of the broader activity across the impact investing ecosystem, but they have been intentionally chosen to highlight specific issues, trends or opportunities.

> We recommend that additional funding and activity be directed toward ensuring that more robust and accurate data exists in order to enhance the ability of market players to make informed decisions.

Not withstanding these limitations, we believe that this report provides a comprehensive and realistic assessment of the range of activity around impact investing in Canada. We expect that this report will also set the benchmark for future reports that can build on existing data we have collected. Across other industries in Canada that are undertaking similar analyses — such as venture capital and angel investing — several years of consistent and increasingly sophisticated data collection and analysis has been required. As we describe at the end of the report, we recommend that additional funding and activity be directed toward ensuring that more robust and accurate data exists in order to enhance the ability of market players to make informed decisions.

STATE OF IMPACT INVESTING IN CANADA

Impact investing in Canada is characterized by a diversity of approaches and organizations

Unsurprisingly, given the size of the country, impact investing in Canada spans a wide range of motivations, forms and uses. The supply of capital describes asset owners and asset managers who are already engaged in impact investing. For example, we point to private and community foundations, but even within these segments impact investing awareness and activity varies widely. While we have relatively less data and fewer examples in other market segments (such as high net worth individuals and family offices), we note active interest and several prominent Canadian examples within these segments.

Demand for impact capital is also significant, and we examine the key sectors that show promise, as well as relevant data and examples of existing activity. At the same time, there is a growing diversity of impact investing products available across asset classes, sectors, and regions, supported by an evolving set of tools and metrics to measure impact. As a result, new intermediaries are forming to facilitate links between supply- and demand-side actors and to help build the market. Each of these trends signals increased activity and sophistication, albeit in a fragmented manner across the country.

Overall activity continues to show signs of growth

Our scan of the marketplace has identified several types of investors who are seeking to deploy their capital through impact investing. An industry survey in 2013 indicated that there had been a 20% growth in the supply of capital from 2010 to 2012, with $5.3 billion in impact-investing assets in Canada.[4] In this report, we do not estimate a total market size, but instead describe the components that make up the "supply side"[5] of impact investment (capital), as well as an analysis of existing products (funds and related financial vehicles).

SUPPLY-SIDE MARKET ESTIMATE

SEGMENT		ESTIMATED TOTAL VALUE OF IMPACT ASSETS UNDER MANAGEMENT (2012)
High Net Worth Individuals		Data unavailable*
Foundations		$287,800,000
Community Finance Organizations	Aboriginal Financial Institutions	$491,000,000
	Community Loan Funds	$45,370,900
Financial Institutions	Credit Unions	$1,348,321,810
	Chartered Banks	Data unavailable*
Pension Funds		Data unavailable*
Government		Data unavailable*
Total		**$2,172,492,710**

PRODUCT-BASED MARKET ESTIMATE

SEGMENT	ESTIMATED TOTAL VALUE OF IMPACT ASSETS UNDER MANAGEMENT (2012)
Cash and Cash Equivalents	Data unavailable*
Private Debt	$50,014,525
Public Debt	$450,000,000
Private Equity	$240,200,000
Public Equity	No Available Products
Venture Capital	$858,000,000
Total	**$1,598,214,525**

*For those segments for which data is unavailable, a more thorough explanation of data limitations is included within that particular segment's narrative. Data unavailable does not necessarily mean that no data is available, but that data limitations prevent us from offering a true estimate of the segment's size.

At a basic level, there is a misalignment between capital and opportunity; more often than not, entrepreneurs continue to identify finance as a key barrier to growth, and investors continue to rank deal-flow and investment readiness as a fundamental issue.

SUMMARY

Enabling infrastructure is being constructed

Our findings from across the country indicate that promising examples for enabling structures and conditions for impact investing exist. The social economy ecosystem in Quebec is an admirable example of how a network of organizations can work together toward shared objectives and leverage various forms of capital – including impact investments – to advance social progress. Our research highlights several regions (such as British Columbia and Ontario) and sectors (including affordable housing and renewable energy) with a relatively healthy base of support that encourage activity among investors, entrepreneurs and market enablers.

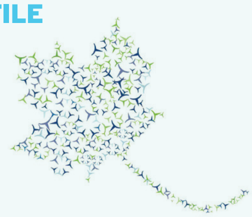
Challenges remain in several important areas

Looking beyond established sectors and regions, there is still much work to be done to create supportive infrastructure for impact investing. At a basic level, there is a misalignment between capital and opportunity; more often than not, entrepreneurs continue to identify finance as a key barrier to growth, and investors continue to rank deal-flow and investment readiness as a fundamental issue. The search and transaction costs of deals remain relatively high, even without accounting for issues such as impact measurement and a restrictive regulatory system. These and other issues require concerted and sustained effort in order to stimulate more activity.

Industry building will require coordinated action and leadership

Even if the practice of impact investing is not new –and there are certainly good examples of successful organizations – there is much work to be done to nurture and celebrate Canadian exemplars. Creating the conditions for all market actors to harness the potential of impact investing will require coordinated action within and across sectors and regions. In assessing the potential opportunities for leadership in Canada, we prioritize areas for action for each market segment in the concluding section of the report.

PROFILE



THE CANADIAN TASK FORCE ON SOCIAL FINANCE

The Canadian Task Force on Social Finance was conceived in 2010 by Social Innovation Generation (SiG) to identify opportunities to mobilize private capital for public good, within either non-profit or for-profit enterprises. The task force is comprised of leaders from the public and private sectors who recognize that profound social and environmental challenges require Canadians to find new ways to fully mobilize effective long-term solutions.

The Canadian Task Force on Social Finance presented impact investing as a $30- billion opportunity, if only 1% of Canada's Assets Under Management (AUM) were directed toward investments in ventures and initiatives that provide a financial return and a social or environmental impact. The task force shares an understanding that mobilizing private capital to generate social and economic value represents an effective opportunity to address the capital requirements to advance solutions for Canada's complex social and environmental challenges. The 10 leaders who make up the Canadian task force recommended action to address three main challenges:

1. **Capital Mobilization:** Unlocking new sources of capital (for example, foundation endowments, pension funds, first-loss capital from government) for public good.
2. **Enabling Tax and Regulatory Environment:** Making it easier or less onerous for charities and non-profits to start enterprises to generate revenue
3. **Investment Pipeline:** Providing social entrepreneurs and enterprising non-profits with the business training they need

The seven recommendations detailed in the report ("Mobilizing Private Capital for Public Good") provide a national framework for advancing social finance in Canada.

Progress on the recommendations of the Canadian Task Force on Social Finance has been significant but uneven. While certain recommendations — for example, to create the Canada Impact Investment Fund and to establish a federal-provincial, public-private tax working group — have not been carried out to date, concrete advancements toward other recommendations have laid the groundwork for more systemic change. In some cases, these advancements have resulted in notable breakthroughs.

Impressive leadership from all sectors has been evident, including in the areas of mobilizing capital, creating an enabling tax and regulatory environment, and developing an investment pipeline. For example, since 2011, we have seen the launch of the $10-million RBC Generator fund and the $600,000 Ontario Catapult Microloan Fund; the creation of Community Contribution Companies in British Columbia; growth in the number of registered B Corporations; the launch of the SVX; and interest from the federal and several provincial governments in leveraging Social Impact Bonds to address persistent policy challenges.

On the whole, the level of awareness about the potential of social finance in Canada has increased, providing momentum for more tangible advancements over the medium term.

The Canadian Task Force on Social Finance Members

Ilse Treurnicht – task force chair; CEO of MaRS Discovery District

Tim Brodhead – president and CEO of The J.W. McConnell Family Foundation

Sam Duboc – chair of Pathways to Education Canada; founder of Edgestone Capital Partners

Stanley Hartt – chair of Macquarie Capital Markets Canada

Tim Jackson – CEO of the Accelerator Centre; partner of Tech Capital

Rt. Hon. Paul Martin – former prime minister and minister of finance; founder of Cape Fund

Nancy Neamtan – president and executive director of Chantier de l'économie sociale

Reeta Roy – president and CEO of The MasterCard Foundation

Tamara Vrooman – CEO of Vancity Credit Union

Bill Young – president of Social Capital Partners

2.0

THE SUPPLY SIDE: IMPACT INVESTORS

OVERVIEW

A range of actors are involved in the provision of capital, each with their own unique objectives and characteristics.

- Community finance organizations bring deep expertise and experience.
- Foundations have begun to utilize impact investing to advance their missions.
- Chartered banks are beginning to recognize prospective opportunities.
- Credit unions are engaged in impact investing,as consistent with their mission.
- A key challenge for investors is the lack of awareness of impact investing and a perceived lack of choice among investment opportunities.

In this section, we review the key investor types involved in the supply of capital for impact investing, and describe the nature of their engagement in providing capital that is seeking both financial return as well as social or environmental impact. In addition, we refer to two segments that, while not exclusively engaged in impact investing, show potential for future inclusion.

2.1 HIGH NET WORTH INDIVIDUALS

High net worth individuals are keen to allocate personal wealth toward intended impact

The supply of capital is a key element of impact investing; indeed, it is often the focus of term itself (in terms of the amount of capital mobilized or deployed).

CURRENT ACTIVITY

Canada is home to many high net worth individuals (HNWIs); it ranks seventh in the world with 298,000 HNWIs, a number that is growing by 6.5% annually.[6] In 2012, wealth among these individuals grew to a record $897 billion in 2012[7]. These trends have not, however, been reflected to the same degree in the engagement of HNWIs in impact investing, or even philanthropy. Without a formal organization of HNWIs, and given the private nature of these investments, investment data for this segment remains elusive. Between 2007 and 2010, total charitable donations in Canada stayed roughly the same, while the average annual amount per donor and the average amount per donation fell slightly.[8] These trends are in stark contrast to the US, where prominent HNWIs have played leadership roles in making significant commitments of financial, intellectual and social capital to catalyze impact investing.

> Key challenges for HNWIs include a lack of awareness of impact investing and a perceived lack of choice among investment opportunities.

While impact investing has not yet received a similar level of traction in Canada, several HNWIs serve as pioneers in the market. Often these individuals provide high-risk capital to early- or growth-stage social businesses as accredited investors, particularly in areas where they have a personal attachment or sectoral expertise. For example, the National Angel Capital Organization's 2012 survey of angel investment groups captured $3.2 million of investment in cleantech ventures.[9] In other cases, HNWIs have established family foundations that have invested in Canadian impact funds as a vehicle to explore impact investing. At present, there is no significant data on Canadian family office engagement, but it is possible that their involvement remains under the radar.

CHALLENGES AND OPPORTUNITIES

Key challenges for HNWIs include a lack of awareness of impact investing and a perceived lack of choice among investment opportunities. As well, impact investing implies an unfamiliar (and potentially uncomfortable) linkage between the traditionally separate roles of philanthropy and investment management. Intermediaries such as community foundations and Tides Canada[10] have been able to address these challenges through donor education and engagement, including creating impact-focused, donor-advised funds that present an alternative to traditional giving vehicles. However, there is emerging interest among family offices and young philanthropists, who are beginning to educate themselves on the existing or prospective opportunities in impact investing, both in Canada and internationally. As well, the right structures and incentives must be in place to drive family offices and affiliated advisors to actively seek, vet and recommend impact investment products that are in line with their clients' financial and social preferences.

CASE STUDY

BILL YOUNG
PRESIDENT, SOCIAL CAPITAL PARTNERS

Bill Young, president of Social Capital Partners and a member of the Canadian Task Force on Social Finance, is one of Canada's foremost impact investors. "After the life-changing event of coming into some wealth, I had to rethink my career and how I might be able to use my business experience to do some good in the world," says Young. "I began to wonder why we divide the world into for- and non-profit, and how we could instead use market forces to do good. All of this led me to impact investing."

Young divides his impact investments into two categories: his work with Social Capital Partners, an innovative non-profit which links financial returns to its social goals around employment, and his private investments in products and projects that aim to make the world a better place. Young's personal impact investments are primarily in impact investment funds. However, Young recognizes the shortage of investment opportunities, especially when compared with the abundance of opportunities in the conventional investment market.

> "But the good news is the deals that are out there are of good quality."

"This isn't surprising given that this is an emerging field," says Young. "But the good news is the deals that are out there are of good quality."

Young continues to wrestle with the question of social impact measurement and a lack of advisor support. In spite of these challenges, Young remains enthusiastic about the opportunities of investing for impact. "It just makes sense for me to put a portion of my wealth into vehicles that are making the world a better place," he says. Young encourages HNWIs to speak to their advisors. "Like any system, change in one actor influences others," he says. "Insist that your wealth advisors start bringing you deal flow that falls into this field. The more we can mobilize to put pressure on traditional institutional support, the more products, distribution networks and large-scale institutions we'll see. We, as high net worth individuals, can be real leaders in making this a reality."

2.2 FOUNDATIONS

Foundations have begun to utilize impact investing to advance their missions

CURRENT ACTIVITY

With a strong commitment to social and environmental goals, Canadian foundations represent leading impact investors across several thematic sectors. In spite of this, impact investment activity appears to be concentrated among a few foundations, with many only beginning to test the waters. In a recent survey, only 31% of surveyed foundations indicated a strong understanding of impact investing, and only 16% had stated policies on impact investing.[11] However, this survey also indicated that activity is slated to increase: over the next five years, foundations plan to grow their impact investing assets, with surveyed foundations intending to increase their mission-related investment (MRI)[12] allocations by an average of 29.5% and program-related investment (PRI)[13] allocations by an average of 23%.[14]

The survey of 63 Canadian foundations showed that 29% have allocated assets toward MRI and 20% have allocated assets toward PRI.[15] Across Canadian foundations, approximately $207.5 million are currently

CASE STUDY

EDMONTON COMMUNITY FOUNDATION

As a former executive director of a social-services non-profit, Edmonton Community Foundation CEO Martin Garber-Conrad knows well the financial challenges that non-profits face. To help address these challenges, the foundation partnered with the City of Edmonton to start the Social Enterprise Fund in 2008.

Today, the fund has $12 million in assets under management and provides loans to new and growing social enterprises as well as real estate-backed loans for affordable housing and community facilities projects. The foundation sources deal-flow through its strong community relationships, provides basic education for eligible organizations on the role of debt financing and makes debt financing available to potential borrowers. Loans range from $50,000 to $250,000 for social enterprises, and up to $1.5 million for larger real estate projects. With the fund set to reach self-sufficiency in the next year, the Edmonton Community Foundation is pleased with both the social and financial returns it has been able to generate. In October 2013, the foundation announced the launch of the Alberta Social Enterprise Venture Fund to amplify the activity and impact of the original Social Enterprise Fund.

While Garber-Conrad acknowledges the challenges of being an impact investor in this nascent market, including high transaction costs and limited intermediary infrastructure, he encourages his colleagues at other foundations to get involved. "This is not an area that foundations have traditionally worked in, and most don't have in-house resources to do this well," says Gerber, noting that "The foundations in Canada who have significant expertise in this area are all willing to share it."

invested in MRI and $80.3 million in PRI.[16] Foundations most commonly provide debt financing to non-profit and social-purpose for-profit organizations, with 77% of foundations investing through a third-party impact fund or capital program.[17] Foundations most commonly invest in community development, health, children and youth, education and social services.[18] For the most part, foundations indicated that their investments had met their financial expectations,[19] but only a handful of surveyed foundations are undertaking measurement of the social returns of their investments, with many of these foundations choosing to communicate their impact through case studies.[20]

CHALLENGES AND OPPORTUNITIES

Foundations face a number of challenges in allocating capital to impact investments – the most important of which is the need for additional clarity from the Canada Revenue Agency around rules related to MRI and PRI allocations, including their inability to directly invest in impact funds (which are often structured limited partnerships). Additionally, foundation boards, committees and staff are often not yet well equipped to realize the opportunities posed by impact investing, due to capacity constraints or skill gaps related to sourcing, vetting and monitoring impact investments. Yet, as 58% of foundations indicated that they would consider investing in an opportunity that provided below-market rates of return,[21] foundations could be ideal impact-first investors in investees with high social value or could unlock capital from other investors if their challenges can be addressed.

CANADIAN TASK FORCE ON SOCIAL FINANCE

Recommendation #1:

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

Endorsed by the boards of the Community Foundations of Canada, Imagine Canada and Philanthropic Foundations of Canada

CASE STUDY

THE J.W. MCCONNELL FAMILY FOUNDATION

LA FONDATION DE LA FAMILLE J.W. MCCONNELL

The J.W. McConnell Family Foundation is a recognized leader in impact investment among Canadian foundations. In 2007, the foundation made its first PRI—a loan that helped launch Quest University. Following a 2009 board motion to allocate 5% of the foundation's endowment to impact investing, the foundation has developed a strong portfolio of impact investments, and is on track to exceed the Social Finance Task Force goal of 10% of total assets invested in impact investments through 2020.

The foundation currently holds $6M in MRIs, including Renewal2 Social Trust, Vancity's Resilient Capital, Investeco's Sustainable Food Trust and Renewal3 Trust, and $5.75 million in PRIs, including Equiterre's Maison du développement durable, PLAN Institute's Tyze and Evergreen Brick Works. Erica Barbosa Vargas, program officer with the foundation, says, "As a foundation, we have a range of assets that we can mobilize to further the impact of the community sector. We do not look at impact investment in isolation. It is one more financial instrument we have at our disposal."

The foundation has learned a lot in the time since its first investment, including how costly direct investments can be. The foundation also continues to encounter regulatory challenges in placing their capital, such as limitations on investing in private businesses and limited partnerships. Looking forward, Vargas sees a broader role for foundations in building the market. "Foundations can help to build the impact-investment marketplace by enabling financial innovation for different types of investment. We are in a unique position to review our entire set of tools, and leverage them to increase the impact that we seek to have." As the number of foundations engaged in the space grows, Vargas stresses the need for open communication. "We need to talk to each other and to other investors," she says. "This is an important industry with tremendous potential, but we need to build it in collaboration."

"This is an important industry with tremendous potential, but we need to build it in collaboration."

– ERICA BARBOSA VARGAS

2.3 COMMUNITY FINANCE ORGANIZATIONS

Community finance organizations bring deep expertise and experience

Community finance organizations take a variety of forms, and are usually created explicitly to address local issues through the provision of capital to underserved organizations, populations or regions. In Canada, organizations such as Aboriginal Finance Institutions and Community Loan Funds have mandates to provide access to financing where traditional financial institutions have not done so. Over the years, community finance organizations have made important contributions to the evolution of impact investment in Canada beyond providing access to finance.

ABORIGINAL FINANCIAL INSTITUTIONS

CURRENT ACTIVITY

Canada's 53 Aboriginal Financial Institutions (AFIs) support the development of the Aboriginal small business community[22]. Established in 1986, AFIs are owned by the communities in which they operate and are under the control of Aboriginal boards. According to Lucy Pelletier, the chair of the National Aboriginal Capital

Corporation Association, "AFIs don't use the term 'impact investment,' but they are absolutely conscious of the impact they are able to create with their investments." Dominique Collin, principal at Waterstone Strategies, adds, "Aboriginal communities are underserved by the banking system because of their remoteness, the small size of their capital needs, their lack of track record and a non-standard regulatory environment. All of these factors combine to create a huge difference in accessing capital for Aboriginal communities."

AFIs provide a variety of financial services, including promoting and underwriting Aboriginal business development through business loans, pre- and post-loan support, financial consulting services, youth business programs and training services. Since their inception, AFIs have provided more than $1.8 billion in financing to Aboriginal small business through more than 37,000 loans[23] in all sectors of the Canadian economy. In 2012, AFIs provided 1,395 loans, valued at $122 million.[24] AFI assets currently exceed $491 million.[25] In 2012, AFIs generated $280 million in primary economic impact, leveraged $80 million, generated 1,266 new jobs and maintained 2,869 full-time equivalent jobs. With an estimated capital gap of $43.3 billion[26] for the Aboriginal economy, there is a strong and growing demand for AFI capital.

CHALLENGES AND OPPORTUNITIES

In spite of this strong potential, AFIs face a unique challenge. Many AFIs have disbursed their entire asset base, and must now develop partnerships to access new capital[27]. For example, the Saskatchewan Indian Equity Fund has partnered with TD Bank Group, and Quebec's Societé de Crédit Commercial Autochtone has partnered with a First Nations pension fund, the Corporation de Développement Économique Montagnaise and the Fonds de Solidarité du Quebec. Yet, in the face of this challenge lies an opportunity. "AFIs know the communities they serve," says Pelletier. "They want to create wealth in Aboriginal communities." Because of these strong relationships, there is a growing role for AFIs as intermediaries for other impact investors.

COMMUNITY LOAN FUNDS

National
- Canadian Alternative Investment Cooperative
- Community Forward Fund

British Columbia
- Women's Enterprise Centre

Alberta
- Momentum

Manitoba
- Jubilee Fund

Ontario
- Access Community Capital Fund
- Paro Centre for Women's Enterprise
- Ottawa Community Loan Fund
- Community Power Fund

Québec
- Rèseau québécois de crédit communautaire
- ACEM Credit Communautaire
- Québec City Community Loan Fund

New Brunswick
- Saint John Community Loan Fund

CURRENT ACTIVITY

Our research has identified at least 14 community loan funds in Canada that provide debt financing to non-profit and for-profit organizations across sectors ranging from sustainable agriculture to affordable housing. Most community loan funds are based in urban centres and serve local populations; however, national and regional community loan funds also exist. Investments range from startup microloans of $5,000 to larger loans to growing SMEs of more than $1.5 million.[28]

Community loan funds are either financed by large institutional investors, private investors or retail investors, and currently have collective assets under management of more than $45 million.[29]

CASE STUDY

CANADIAN ALTERNATIVE INVESTMENT COOPERATIVE

The Canadian Alternative Investment Cooperative (CAIC) was created in the early 1980s and now manages $6.7 million[30] in capital from its members from the faith community, making investments that promote positive social change and alternative economic structures. The cooperative makes debt investments in not-for-profits and social enterprises that are unable to secure financing from conventional lenders. CAIC assess its social impact through the ability of recipients to fill their mandates and to function sustainably through the access to appropriate capital.

In 2012, CAIC dispersed $1.6 million in loans[31]. CAIC's borrowers may request loans from one of CAIC's three lending streams: social enterprise financing, mortgages for community-based projects, and social and affordable housing.[32] CAIC sources potential borrowers through an on-line application process, as well as through a network of non-profits and social enterprises. The cooperative also provides mentorship support to each of its borrowers to maximize their social and financial success.

2.4 FINANCIAL INSTITUTIONS

CREDIT UNIONS

Credit unions are engaged in impact investing, as consistent with their mission.

Our research has indicated that a vast majority of surveyed credit unions offer impact-investing products with either at-market or above-market return. However, few of the surveyed credit unions undertake formal measurement of the social impact of these products or activities.

CURRENT ACTIVITY

Impact investing is a natural fit for credit unions, whose principles of social responsibility, financial inclusion and community commitment are reflected in their missions, strategies and product offerings. The Responsible Investment Association (RIA) estimates that credit unions manage $1.35 billion in impact investing assets.[33] Surveyed credit unions project a 60% increase in the value of their impact investing products by 2018[34]. "As a socially responsible co-operative," says Priscilla Boucher, vice-president of social responsibility at Assiniboine Credit Union, "our mission is to provide financial services for the betterment of our members, employees and communities. Our vision is a world where financial services in local communities contribute to a sustainable future for all." With this orientation and local presence, credit unions have proven themselves to be adept at identifying areas where community need and business opportunities align.

Since their founding in the early 1900s, credit unions have not only provided products and services that are similar to what chartered banks offer, but also other strategies that embed social considerations. For example, credit unions across the country offer microfinance and community-investment products, frequently lending to borrowers such as non-profit organizations that may not qualify on favourable terms at other financial institutions. Credit unions also offer a range of impact-investing products, the most popular being debt financing to non-profits

CASE STUDY

ASSINIBOINE CREDIT UNION

Founded in 1943, Assiniboine Credit Union (ACU) is a socially responsible and profitable financial co-operative with more than $3.2 billion in assets, over 570 employees and more than 108,000 members. ACU is a member of the Global Alliance for Banking on Values. "It's about using financial services for good," says Priscilla Boucher, vice-president of social responsibility. "We've got lots of issues facing our communities. How can we use financial products and services as a way to help address those issues?"

ACU has two components to its approach to impact investment: serving underserved individuals, organizations and communities, and financing organizations and projects that are delivering positive social environmental and economic returns to the community. Boucher sees a role for credit unions in meeting the needs of underserved markets in a way that is efficient, effective and profitable, and providing financing to support organizations doing good things. For credit unions considering impact investing, Boucher advocates taking stock of community needs. "Understand the most significant issues that are facing your community. Of these issues, which can you help to address using your core business? Identify who else cares about those issues and find opportunities to partner with them."

and microfinance for individual borrowers, and also display concentration in sectors such as affordable housing finance. Our research has indicated that a vast majority of surveyed credit unions offer impact-investing products with either at-market or above-market return.[35] However, few of the surveyed credit unions undertake formal measurement of the social impact of these products or activities.

CHALLENGES AND OPPORTUNITIES

Credit unions occupy a unique place in the impact-investing landscape. Their close relationship with local communities and their history of providing underserved markets with access to affordable financial services positions them well to expand their impact investment product offering. "There is a huge opportunity for credit unions to set the standard as being supporters of impact investing," says Vern Albush, director of corporate social responsibility at Servus Credit Union. "This is something that is very consistent with credit union principles." Despite this promise, credit unions usually face a number of challenges in the short term, including a lack of internal knowledge, restrictive credit policies and procedures, a lack of investment readiness of potential borrowers, amplified risk considerations and potential profitability concerns. To further facilitate their ability to offer these products, surveyed credit unions recommended a government-led loan loss reserve or guarantee program, incentives such as tax credits or RRSP-eligibility, and capacity-building programs to prepare borrowers for investment.

PROFILE

Vancity

Founded in 1946, Vancity has grown to become Canada's largest credit union, serving 414,000 members at more than 60 locations across British Columbia, with more than $17 billion in assets under management. Vancity's membership,—80% retail members and 20% community investment members — is committed to a triple-bottom-line approach. Vancity's key impact areas include not-for-profits, social enterprises and co-operatives, aboriginal banking, local and organic food, affordable housing, social purpose real estate, and energy and the environment. Vancity also provides grants, microcredit, traditional loans and lines of credit, and start-up and growth financing to small businesses and organizations. Vancity is a member of the Global Alliance for Banking on Values, and is a widely recognized pioneer in the areas of financing social enterprise and social finance.

CHARTERED BANKS

Chartered banks are beginning to recognize prospective opportunities

CURRENT ACTIVITY

While leading international financial institutions are engaged in impact investing — including J.P. Morgan, Goldman Sachs, UBS, Deutsche Bank, Citibank and others — those in Canada have generally engaged in a limited manner. However, as awareness among clients increases, Canadian banks are beginning to educate themselves on trends and opportunities in impact investing, and have begun to implement initiatives that align with their distinct corporate strategies. For example, several banks are considering impact-investing products that align with specific customer and corporate values. RBC's announcement of a $10-million investment in the RBC Generator,[36] a pool of capital for investing in for-profit businesses tackling social or environmental challenges, was well publicized as the first commitment of its kind. More recently, TD Bank is actively considering impact investing for both its Canadian and US operations.[37]

As awareness among clients increases, Canadian banks are beginning to educate themselves on trends and opportunities in impact investing, and have begun to implement initiatives that align with their distinct corporate strategies.

Depending on how impact investing is defined, chartered banks have situated these products and services either as a cross-cutting department (such as corporate social responsibility) or within a specific division (such as private wealth management, institutional investor management, or sector-specific lending such as cleantech or Aboriginal lending). TD Securities was a lead underwriter of the World Bank's first green bond program, and is the second-largest North American lead manager of World Bank Green Bonds. Across chartered banks, impact investment product offerings remain limited. For institutional clients, existing products are often not available "off the shelf" and may have limited differentiation from traditional products or services. Products for retail clients also remain limited, though several banks have indicated that interest among this segment is starting to grow. Overall, however, data on impact investing activity and uptake among these institutions remains inaccessible.

CHALLENGES AND OPPORTUNITIES

There are a number of barriers within chartered banks that limit the visibility of impact-investment products, including internal restrictions on advisors and restricted product development,[38] though advisors specializing in socially responsible investments are available in a number of financial institutions. As client awareness grows, it can be expected that advisors within these institutions will be encouraged to develop a more sophisticated understanding of the latent and actual demand from retail and institutional clients, which in turn will bolster the case for enhanced product availability, advisor education and corporate engagement in impact investing.

PROFILE

RBC

RBC led the way for chartered banks when it announced a $20 million commitment to "impact finance" in 2012.[39] The initiative features the creation of a $10 million RBC Impact Generator Fund, which will take equity in Canadian companies with a focus in energy, water, employment for youth and community hiring. In August 2013, the fund announced its first investment of $500,000 into the MaRS Cleantech Fund.[40] The initiative also features a $10-million investment of the RBC Foundation's assets into SRI funds.

2.5 PENSION FUNDS

Pension funds have limited engagement in impact investing

Despite greater activity internationally, Canadian pension funds have displayed relatively little activity and interest in the field of impact investing. "It is a relatively nascent market for these investments," says Ryan Pollice, senior associate at Mercer. However, pension fund managers have shown interest in investments that target strong risk-adjusted returns with ancillary positive environmental and social impacts. "We've seen more interest in sustainability-themed public and private market investments that seek to both benefit from and contribute to solutions to environmental and social problems," says Pollice.

> "We've seen more interest in sustainability-themed public and private market investments that seek to both benefit from and contribute to solutions to environmental and social problems,"
>
> —RYAN POLLICE, SENIOR ASSOCIATE AT MERCER

An important exception are the Quebec worker funds, such as the Fédération des travailleurs et travailleuses du Québec (FTQ)'s Fonds des Solidarités FTQ, SOLIDEQ's Société locale d'investissement pour le développement de l'emploi and the Confédération des Syndicat Nationaux's Fondaction and Filaction. These funds have invested extensively in the province's social economy, totalling more than $6 billion in 2012[41] , and providing patient capital to the Fiducie du Chantier de l'économie sociale as well as a range of non-profits and social enterprises.

PROFILE

PENSION FUNDS IN QUEBEC

Pension funds across Canada have been relatively inactive in impact investing, with pension funds in Québec being the major exception. Quebec's largest labour federations have supported the development of numerous workers' funds, which have been an important source of risk capital for the social economy. The development of such funds was a crucial step in integrating the social economy into the mainstream socio-economic agenda and in developing grassroots social economy efforts.

FTQ manages "Fonds des Solidarités FTQ," a labour-sponsored fund that invests patient capital in Québecois entrepreneurs in accordance with its larger mandate of enhancing community economic development in Quebec. The fund provides shareholders with an opportunity to invest in the local economy while at the same time gaining a 30% tax credit (15% provincial, 15% federal) not offered to other pension funds. Currently, FTQ has net assets of $9.3 billion and 615,000 shareholders; it has invested $5.7 billion in 2,239 enterprises and has created or maintained 168,577 jobs.[42] Since its inception, FTQ's interest in Québec's social economy has gone beyond just the operation of "Fonds de Solidarités," as it has now taken on a state-like role of encouraging economic planning by creating a series of specialized funds to encourage investment in Quebec-based industries.[43]

CSN manages "Fonds de Développement pour la Coopération et l'emplois," also known as "Fondaction," a fund dedicated to the development of social-first and environmentally responsible businesses. As laid out by its mandate, 60% of all of Fondaction's assets must be invested within Quebec; thus far the fund has significantly contributed to the development of Quebec's social economy. Currently, Fondaction has assets of $940.8 million and has invested $619.9 million in more than 100 SMEs and funds; it has maintained or created, directly or indirectly, 27,848 jobs.[44]

Outside of Quebec, there are a number of factors thwarting pension fund activity in impact investment. Barriers include a lack of long-term performance data, perceptions of high risk related to liquidity or scale issues, and concerns around whether impact investments are consistent with fiduciary duties. Evidently, pension managers would benefit from greater information on, and a wider range of examples of, impact investments that have both achieved market-rate returns and satisfied social-impact considerations that are important to asset owners. At the same time, however, the largest Canadian pension funds are signatories to the UN Principles for Responsible Investing (UNPRI), which recognizes that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.

PRI Principles for Responsible Investment

- BC Municipal Pension Plan
- Canada Pension Plan Investment Board
- Fondaction CSN
- Fonds de solidarité FTQ
- Gestion FÉRIQUE
- Healthcare of Ontario Pension Plan (HOOPP)
- Native Benefits Plan
- Ontario Teachers' Pension Plan
- Ontario Public Service Employees Union

Canadian pension plans that are signatories to the UNPRI

CANADIAN TASK FORCE ON SOCIAL FINANCE

Recommendation #4:
Canada's federal and provincial governments are encouraged to mandate pension funds to disclose responsible investing practices, clarify fiduciary duty in this respect and provide incentives to mitigate perceived investment risk.

Endorsed by the boards of the Community Foundations of Canada, Imagine Canada and Philanthropic Foundations of Canada

2.6 GOVERNMENT

Governments align their capital with public interest objectives

P

CURRENT ACTIVITY

By their nature, governments invest for public benefit. Beyond traditional grants and contribution programs, some of these investments also target financial returns and involve intentional outcome measurement. Impact investment can allow government to achieve public policy goals through a wider range of financial strategies, or to achieve better outcomes through new forms of financing social progress initiatives. In this sense, we would consider federal, provincial and municipal governments to be engaged impact investors. Indeed, provincial governments supply more external finance to social enterprises than any other level of government. However, impact investments constitute a relatively small portion of overall government expenditures.

For the purposes of this report, we have adopted an analytical model from Impact Investing Policy Collaborative to organize our examination of government intervention in impact investing. Following this model, in this section we review "supply development" via government co-investment as well as "directing capital" through procurement; section 7.0 provides a fulsome discussion of government involvement across the other segments of the model.

Policy Framework

POLICY FRAMEWORK		
SUPPLY DEVELOPMENT	DIRECTING CAPITAL	DEMAND DEVELOPMENT
Investment rules and requirements	Taxes, subsidies, reporting requirements and intermediation	Enabling "corporate" structures
Co-investment	Procurement	Capacity building

Government influence (orange)

Government direct participation (teal)

Source: Pacific Community Ventures, Impact Investing: A Framework for Policy Design and Analysis.

CO-INVESTMENT

Co-investment occurs when governments invest in partnership with other individuals or organizations in order to achieve both a financial return and social objectives[47]. The provision of new dollars itself is important, but also has an important set of other signalling effects. For example, government co-investment helps to reduce the real or perceived financial risk of investments and, by extension, helps to leverage additional investment that might not otherwise have been accessible.

While there are a variety of programs at the federal, provincial and municipal levels around co-investment, there is not yet a coherent strategy. Some provinces have established specific bureaus to initiate such strategies, such as Ontario's Office for Social Enterprise. Others have mandates for supporting the social economy distributed among departments, such as Quebec's proactive stance toward social economic development.[48] In other provinces, co-investment related to impact investment is undeveloped, as in Prince Edward Island, which has "no specific departmental mandate at provincial or municipal levels to support social economy organizations."[49]

Based on the specific definition above, our research yielded no government co-investments in 2012 – noting the challenges of data access as well as the definition of co-investment that we are using above for this report. However, we present other illustrative examples that have occurred prior to 2012, and note that the figures presented here are a snapshot and cannot be considered comprehensive or representative.

EXAMPLES OF CO-INVESTMENT

FEDERAL

Green Municipal Fund

The Government of Canada endowed the Federation of Canadian Municipalities' Green Municipal Fund, which provides loans to municipalities for plans, studies and projects related to brownfield, energy, water, waste and transportation. The Green Municipal Fund has financed 934 initiatives in 460 communities, generating 32,000 jobs, $3.7 billion in GDP and saving $82 million for municipalities each year. The fund has also reduced GHG emissions by 339,000 tonnes per year, diverted 138,000 tonnes of waste per year from landfill and treated over 136 million cubic metres of water annually[50].

Amount: $550 million
Year: 2000

Employment and Social Development Canada's investment in Enterprising Non-Profits

Employment and Social Development Canada provided $1.5 million to the Trico Foundation to support the expansion of Enterprising Non-Profits Canada through matching funds for technical assistance and education.

Amount: $1.5 million
Year: 2013

PROVINCIAL

BRITISH COLUMBIA

Coast Opportunity Funds

The Coast Opportunity Funds, endowed by the federal and provincial governments as well as philanthropic groups, support long-term activities to maintain or improve the Great Bear Rainforest or to support

sustainable businesses and community-based employment opportunities.[52]
Amount: $30 million (federal); $30 million (provincial)
Year: 2007

ALBERTA

Social Enterprise Fund

The City of Edmonton helped to establish the Social Enterprise Fund in collaboration with the Edmonton Community Foundation, which provides grant and loan funding to Edmonton's social enterprises.[53]
Amount: $3 million
Year: 2007

ONTARIO

Ontario Centres of Excellence Social Innovation Pilot Program

Ontario Centres of Excellence expanded its business services to non-profits, enterprising charities and co-operatives through a pilot program targeting the social innovation sector. Projects funded must leverage one additional investment partner.[54]
Amount: $1 million
Year: 2011

Social Enterprise Demonstration Fund

The Social Enterprise Demonstration Fund will pilot new social finance projects and unlock additional capital.[55]
Amount: $4 million
Year: 2013

Ontario Catapult Microloan Fund

The Ministry of Economic Development, Trade and Employment, in partnership with the Centre for Social Innovation, TD Bank Group, Microsoft Canada, Alterna Savings, Social Capital Partners and KPMG, launched the $600,000 Ontario Catapult Microloan Fund. The fund offers $5,000–$25,000 loans and support services to social enterprises.[56]
Amount: $600,000
Year: 2013

Centre for Social Innovation Loan Guarantee

The City of Toronto provided a loan guarantee for Centre for Social Innovation (CSI)'s first mortgage in recognition of its contributions to economic development and culture. As a result of this guarantee, CSI was able to secure a better interest rate from Alterna Credit Union.[57] [58]
Amount: $5.8 million
Year: 2011

QUÉBEC

Fiducie du Chantier de l'économie sociale

Fiducie du Chantier de l'économie sociale, created by the Chantier de l'économie sociale in 2007 is the first patient capital fund in Québec. The Fiducie is a result of successful collaboration between the social economy, government and the labour movement, and responds to the unmet need for long-term capital in the social economy. The fund was initially capitalized by Economic Development Canada with a grant of $22.8 million. Investors (trustees) in the Fiducie include the Fonds de solidarité ($12 million), Fondaction ($8 million) and the Québec government, Investissement Québec ($10 million). To date (2013), the Fiducie has invested $30 million in over 100 enterprises, creating almost 1,700 jobs.[197]
Amount: $53 million
Year: 2007

FIRA Fonds d'investissement pour la relève agricole

In 2010, the FONDS de solidarité FTQ, the Government of Québec and Desjardins Capital joined to create The Fonds d'investissemnet pour la relève agricole (FIRA), a $75-million private fund established to support sustainable agriculture and encourage the next generation of farmers in Quebec. The program provides patient capital in the form of subordinated loans or lease agreements of farmland, allowing young farmers time to establish their agricultural business in the early years.
Amount: $75 million
Year: 2010

NOVA SCOTIA

Black Business Initiative (BBI)

Established in collaboration between the Government of Canada and the Province of Nova Scotia, the Black Business Initiative provides loan financing to Black-owned businesses in Nova Scotia. By 2009, BBI investments helped to create 570 full- and part-time jobs.[59]
Amount: Unknown
Year: 1996

Community Business Development Corporations' Social Enterprise Loan

Nova Scotia's Community Business Development Corporations offer a Social Enterprise Loan of up to $150,000 to non-profits starting social enterprises.[60]
Amount: Unknown
Year: Unknown

A SELECTION OF PROCUREMENT POLICIES

VANCOUVER OLYMPIC ORGANIZING COMMITTEE COMMUNITY BENEFITS AGREEMENTS

The Vancouver Olympic Organizing Committee required Community Benefits Agreements from suppliers detailing their intended commitment to social, economic and environmental sustainability, including $42.5 million in procurement opportunities for inner-city residents and businesses.[64]
Year: 2010

ETHICAL PURCHASING POLICY

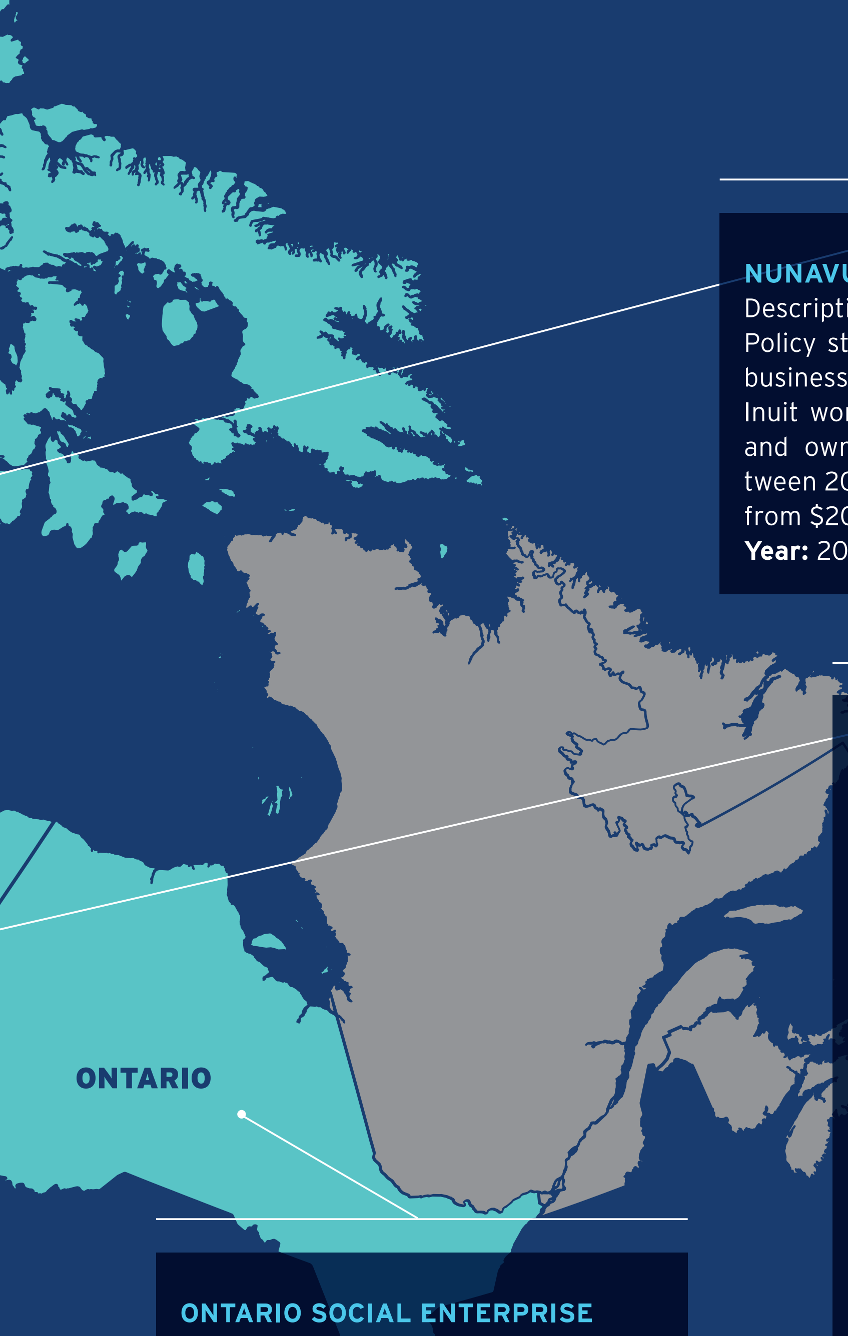
The City of Vancouver has an Ethical Purchasing Policy that requires city staff to prioritize suppliers with strong commitments to social and environmental responsibility in purchasing decisions.[65]
Year: 2005

ALBERTA ENVIRONMENT'S RESPONSIBLE PROCUREMENT POLICY

Alberta Environment's Responsible Procurement Policy favours environmentally preferred products and services for producing internal and external publications, as well as for procuring major electronic equipment and infrastructure.[66]
Year: 2005

SUSTAINABLE PURCHASING POLICY

The City of Edmonton has a Sustainable Purchasing Policy which requires city staff to consider the key environmental and social benefits of products and services when making purchasing decisions.[67]
Year: 2009



NUNAVUMMI NANGMINIQAQTUNIK IKAJUUTI POLICY

Description: The Nunavummi Nangminiqaqtunik Ikajuuti Policy states that contracts should be issued to Nunavut businesses, large tenders must include a training plan for Inuit workers, and RFPs must evaluate Inuit employment and ownership in making procurement decisions.[73] Between 2000 and 2007, contracting to Inuit firms increased from $20,154,000 to $59,395,000.[74]

Year: 2000

SUSTAINABLE DEVELOPMENT PROCUREMENT GUIDELINES

Manitoba's Sustainable Development Procurement Guidelines require civil servants to consider promoting sustainable economic development; conserving resources and energy; promoting pollution prevention, waste reduction and diversion; and evaluating value, performance and need in all procurement decisions.[68]

Year: 2000

ABORIGINAL PROCUREMENT INITIATIVE

The Aboriginal Procurement Initiative directs all provincial government departments to increase the participation of Aboriginal businesses in providing goods and services to the Manitoba government through Aboriginal business sourcing, Aboriginal business content, and set-aside and scoping programs.[69]

Year: 2009

WINNIPEG SOCIAL PURCHASING PORTAL

The province of Manitoba has signed on to the Winnipeg Social Purchasing Portal, which commits purchasers to buying products and services from registered portal suppliers. These suppliers subscribe to community economic development principles and provide local, ethical goods and services that offer preferential employment to those with barriers.[70]

Year: Unknown

ONTARIO SOCIAL ENTERPRISE STRATEGY'S PROCUREMENT COMMITMENT FOR THE 2015 PAN AM/PARAPAN AM GAMES

The 2013 Ontario Social Enterprise Strategy committed to integrating social enterprises into procurement processes for the 2015 Pan Am/Parapan Am Games.

Year: 2013

TORONTO SOCIAL PROCUREMENT FRAMEWORK

The City of Toronto has developed the Toronto Social Procurement Framework to guide the development of a social procurement policy by 2015.[72]

Year: 2012

PROCUREMENT

Another important way that governments direct capital is through socially and environmentally responsible procurement practices. **Social Procurement involves incorporating social and/or environmental criteria (such as preferential purchasing from social enterprises or companies that minimize waste) into the purchasing of goods and services by government.** This type of intervention can help to pool demand for socially or environmentally beneficial goods and services, develop common specifications to make it easier for social enterprises to meet government requirements, and promote access to social enterprises.[61] Although procurement initiatives are significant in driving demand for socially and environmentally beneficial products and services, they are not considered to be impact investments.

There are a number of promising procurement initiatives at the federal, provincial and municipal levels across the country, but these initiatives remain fragmented. Again, given the challenges of data access as well as the definition of procurement we have used above, our research was not able to identify accurate data on government procurement programs exclusive to 2012. However, we present other illustrative examples that have occurred prior to 2012, and note that the figures presented here cannot be considered comprehensive or representative.

CANADIAN TASK FORCE ON SOCIAL FINANCE

Recommendation #2:
The federal government should partner with private, institutional and philanthropic investors to establish the Canada Impact Investment Fund.

Recommendation #3:
To channel private capital into effective social and environmental interventions, investors, intermediaries, and social enterprises and policy makers should work together to develop new bond and bond-like instruments.

2.7 RELATED SUPPLY-SIDE ACTORS

In addition to the supply segments described above, there are a number of other institutions whose activities align closely with impact investing, but do not fit neatly within our definition due to the broad range of activities they undertake. As these institutions develop and as data becomes more robust, there may be an opportunity to segment their impact investing activities for inclusion. These institutions include Community Futures Development Corporations (CFDCs) and Community Economic Development Investment Funds (CEDIFs).

COMMUNITY FUTURES DEVELOPMENT CORPORATIONS

Community Futures Development Corporations are government-funded programs that provide local entrepreneurs with debt financing and business development services. The programs are intended to stimulate local economies, and social impact is measured in job creation and the amount of capital circulated throughout specified regions. Government funding is distributed provincially and the program is run through local offices, with provincial/ regional associations coordinating the efforts. In Québec, Le Réseau des Société d'aide au développement des collectivités and Centre d'aides aux entreprise manages the province's 57 CFDCs and 10 Community Business Development Corporations.[57] In 2012, the national Community Futures program managed $911.21 million in assets[76] and in 2012, dispersed $177 million, with a maximum loan size limit of $150,000.[77 78]

COMMUNITY ECONOMIC DEVELOPMENT INVESTMENT FUNDS

Largely successful in Nova Scotia, but also existing in Québec, Manitoba and Prince Edward Island, the CEDIF program is an innovative financing model that provides local residents with incentives to invest in their community. In 1999, the Nova Scotia Ministry of Economic Development, the Nova Scotia Securities Commission and the Ministry of Finance developed a program in which local investors receive a 35% tax credit and further potential benefits through RRSP tax deductions when they invest in a CEDIF. CEDIFs can either be managed by an enterprise that is raising capital or by an intermediary who invests a blind pool of capital into local businesses and provides returns to investors.

As of 2012, Nova Scotia's CEDIF programs have disbursed $58 million in equity capital to 61 CEDIFs. In 1999, CEDIFs across the province raised $1.1 million from 261 investors, compared with $7.5 million from 914 investors in 2012. Total funds raised have grown at 44% annually, due to increases in the total amount invested by residents and an increase in the number of investment-ready enterprises. By 2012, much of the CEDIF capital was being invested in wind energy and agricultural ventures. Although the CEDIF program is highly successful in Nova Scotia, it has yet to be as successful in other provinces. Douglas Pawson, Rockefeller Foundation Fellow with the Impact Investing Policy Collaborative, believes that a culture of community economic development and self-reliance is a contributing factor in the success of CEDIFs. While successful on a local level, the CEDIF program is also currently limited in its scalability due to restrictions on the amount of individual investments.

CASE STUDY

YELLOWKNIFE COMMUNITY FUTURES ECONOMIC DEVELOPMENT OFFICE

Yellowknife's Community Futures Economic Development Office provides local entrepreneurs with start-up loans. The program aids individuals who are looking to start a venture but don't have the track record or appropriate capital to obtain a conventional loan. Loans range from $5,000 to $125,000, with an average loan size of $80,000. Over the last 14 years, the program has only written off three loans. The office maintains a 0% delinquency rate, and 48% of all entrepreneurs have operated their business for more than five years[79].

3.0

FINANCIAL PRODUCTS

OVERVIEW

Impact investment products are offered across a wide spectrum of asset classes and offer a range of risk and return profiles. However, the majority of impact products are offered to a narrow investor class of institutional and private investors.

- Comparatively, products for retail investors are limited. The lack of retail products can be attributed to a variety of factors, including incomplete information on consumer demand and preferences and fragmented product pipelines, among others.
- It is common to find investment terms structured differently for impact investments than traditional investments, in order to achieve an intended social or environmental impact.

This section provides a review of available financial products across six asset classes with specific examples.

3.1 PRODUCT ANALYSIS

EXAMPLES OF IMPACT INVESTMENT PRODUCTS

- Vancity Resilient Capital Program
- Desjardins Priority Terra Guaranteed Investment Product
- Saint John Community Loan Fund
- Toronto Community Housing Bond
- Community Economic Development Investment Funds (CEDIFs)
- The Capital for Aboriginal Prosperity and Entrepreneurship Fund
- Emerald Technology Ventures
- Renewal Funds
- SolarShare Bond
- Jubilee Investment Certificate

Impact-investment products in Canada are offered across a spectrum of six different asset classes: cash and cash equivalents, private debt, public debt, public equity, private equity and venture capital. Given that the sector is still a small niche in traditional financial markets, existing products do not always align cleanly with mainstream definitions of asset classes.

CASH AND CASH EQUIVALENTS

Cash and cash-equivalent products are characterized by a short- to medium-term horizon and fixed low interest rates. Our research has indicated that there are currently no cash or cash-equivalent products with defined impact mandates offered to investors in Canada.

Term Deposits

Term deposits are deposits held at a financial institution for a fixed term ranging from a month to a few years. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days' notice. Based on the definition above, we have classified Guaranteed Investment Certificates (GICs) under this taxonomy. In Canada, there are five products, all offered by credit unions, under this classification. Minimum investments range from $100 to $1,000, and terms range from one to five years. Currently, term deposits and GICs have return profiles ranging from 0.05% to 5% (for longer-term products)[83].

Example: The Vancity Resilient Capital Program is an example of a deposit-based product that provides depositors a way to fund high-impact social enterprises with minimal risk over terms of five, six or seven years. The Resilient Capital Program in turn provides patient capital for qualifying social enterprises to help build resilient communities. As of July 2013, the program had raised $13.5-million from investors[84].

Example: The Desjardins Co-operative offers a three- or five-year Priority Terra Guaranteed Investment product that is linked to the growth of companies committed to preserving the environment. Investors must invest a minimum of $500 and are guaranteed a maximum annual compound rate of return of 2.91% per year for a three-year commitment, and 4.56% per year for a five-year commitment. The Priority Terra Guaranteed Investment product is offered in Quebec and Ontario[85].

PRIVATE DEBT

Private debt products provide private, retail, and institutional impact investors with low-risk, low-return investment opportunities. In Canada, private debt products have terms ranging from one to seven years, with exceptional products offering terms as long as 20 years. These products have variable and fixed interest rates ranging from 1% to 7%. Most of the 20 private debt products are, or were, offered as fixed-income investments in community finance organizations or community loan funds. Consequently, the primary sector of focus for these products is non-profits and social enterprise. Within the product landscape, community bonds[86] are beginning to emerge as a viable product type for location-specific projects, for example, the Solarshare Community Bond.

Example: The Saint John Community Loan Fund, located in New Brunswick, offers retail, institutional and private investors the opportunity to invest in their community. With a minimum investment of $250 and a maximum investment of $15,000, the fund provides investors with an option to choose their time horizon and return, with a minimum of two years and a maximum of 3%, respectively . Investors have the choice of directing their investment toward specific social impact activities in housing, employment or business start-up activities. Funds invested into the Saint John Community Loan Fund are pooled and invested in three impact sectors of focus: non-profit and social enterprise development, employment and affordable housing. Since its inception in 2007, the loan fund has helped to improve the economic resilience of local families and has contributed more than $3 million in new income circulated in Saint John.[88]

PUBLIC DEBT

Public debt products, issued by either private or public (municipal, provincial or federal level) entities, are exchange-traded fixed-income securities that provide the public market with low-risk, low-return investment opportunities. Public debt products are defined as financial instruments that are freely tradable on a public exchange or over the counter, with few if any restrictions. Our market research has yielded only one public debt product available to the market. The lack of public debt products available for investment is largely due to the lack of liquidity needed to sustain activity within capital markets in Canada.

Example: In 2007 and 2010, Toronto Community Housing (TCH) offered a two-tranche, $450-million bond issuance over a 40-year term with an average 5% rate of return. The bond was given an AA senior unsecured debt rating by Standard and Poors and was underwritten by TD Securities, Scotia Capital, RBC Capital Markets and National Bank Financial. The bond was used to finance the revitalization of Toronto's Regent Park neighbourhood, an affordable housing community in Toronto. The goal of the revitalization project is to replace 2,083 affordable housing units and construct 700 new units.[89]

PRIVATE EQUITY

Private equity products are characterized by their high-risk, high-return profiles; they are offered through medium- and long-term engagements. Within Canada, private-equity products are offered as private equity funds or fund of funds to institutional and private investors. Most private equity products offer market-rate returns and are concentrated within the energy and emerging market sectors. Private equity products in Canada are offered for seven to 14 years, with evergreen funds also available to investors. Although there are few private equity products available to investors in Canada, more than $204.2-million dollars have been sourced through private equity impact investment products[90].

Example: The Capital for Aboriginal Prosperity and Entrepreneurship Fund is a $50-million private equity fund that provided institutional and private investors the opportunity to receive a market-rate return on a five- to seven-year term. The fund focuses on mid-market opportunities with a strong degree of Aboriginal involvement and connection to Aboriginal communities throughout Canada. The fund currently has six portfolio companies that are active in sectors ranging from sustainable agriculture to ethical manufacturing.

PUBLIC EQUITY

Public equity products are defined as exchange-traded products. There are no public equity impact investment products within Canada. Rather, the only available public equity products within the social investment landscape are Socially Responsible Investment (SRI) mutual funds. There are currently 61 SRI mutual funds that are available to retail and institutional investors in Canada, through financial institutions, asset management firms and credit unions[91].

However, while several SRI funds integrate social considerations, very few have explicitly stated impact mandates that go beyond a 'risk reduction' analysis.

VENTURE CAPITAL

Venture capital products provide accredited and institutional investors with opportunities to invest in early-stage companies that integrate social or environmental objectives. In Canada, the majority of venture capital products are concentrated in a limited number of sectors, namely cleantech, renewable energy and the environment, with a few venture funds spanning other sectors.[92] The average term for investments into venture capital funds is 10 years, with products accessible to investors in every territory and province. As of the end of 2012, at least $858 million has been sourced through venture capital products[93].

> "We see our impact as being twofold," says Paul Richardson, CEO of Renewal Funds. "We are investing capital in companies that are doing the right thing and we are giving our investors a good experience of investing in something that has a mission as well as a financial reward."

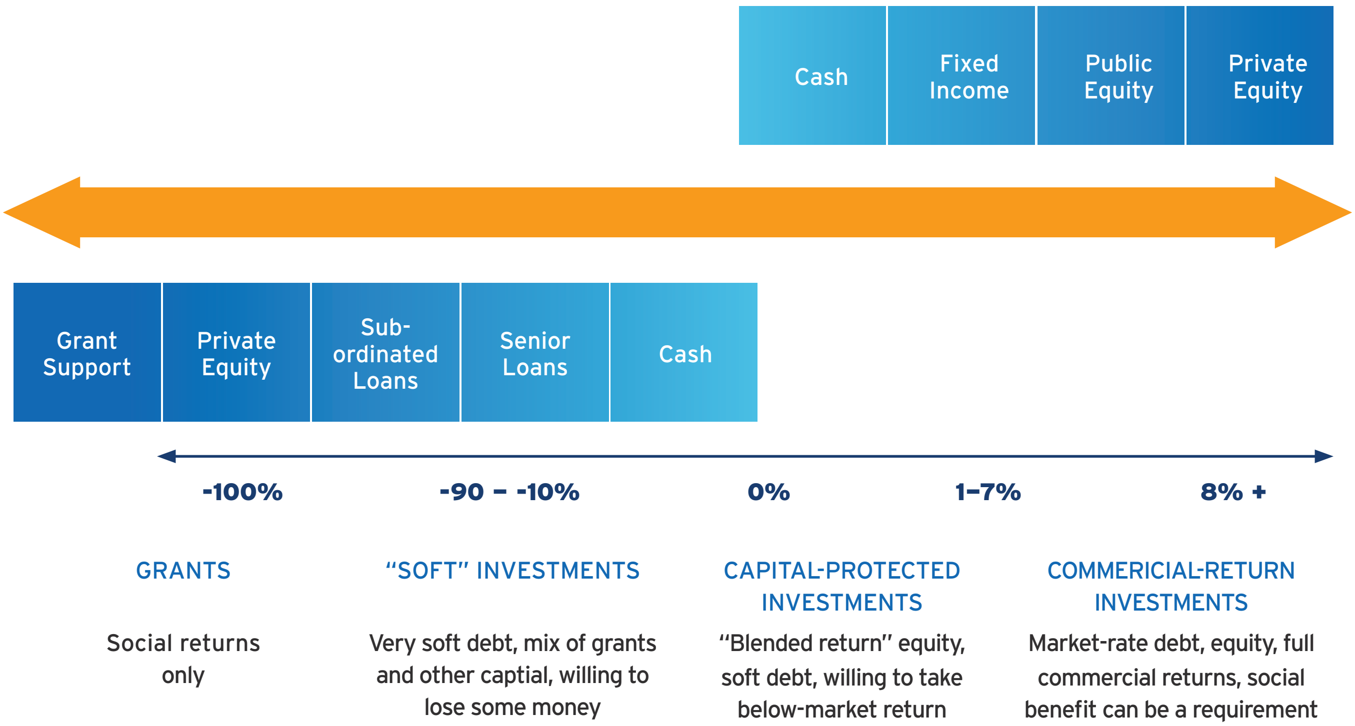
Example: Emerald Technology Ventures manages venture capital funds of $450 million focused on cleantech particularly within the water, energy and materials sectors[94]. Based in Switzerland and Canada, the funds have a 10-year term with a minimum investment of €1 million. The funds invest in early to expansion stage ventures with deal sizes ranging from €2–€8 million. To date, Emerald Technology Ventures has invested in 22 companies.

Example: The Renewal2 Investment Fund invests social venture capital in early-growth-stage companies in North America. The fund focuses on green building products, green consumer products, and organic and natural food companies. Renewal2 has $35 million in committed capital[95]. "We see our impact as being twofold," says Paul Richardson, CEO of Renewal Funds. "We are investing capital in companies that are doing the right thing and we are giving our investors a good experience of investing in something that has a mission as well as a financial reward." Renewal Funds adds value to entrepreneurs they support through capital, networks and expertise. In turn, they deliver above-market returns while creating positive change. Renewal2 was a pioneer GIIRS fund and continues to support efforts for consistent measurement of social impact.

CEDIFs: Predominately used in Nova Scotia, Community Economic Development Investment Funds (CEDIFs) are private equity products available only to retail investors within the province. Within the scope of this report, due to their lack of intentionality around social impact, CEDIFs are not considered to be impact investment products. However, in many cases they have been used to generate considerable social and environmental benefit, in addition to local economic objectives. To date, 61 CEDIFs have been created, with at least 120 offerings through which more than $58 million have been sourced[96]. For more information on CEDIFs, please refer to section 2.7.2.

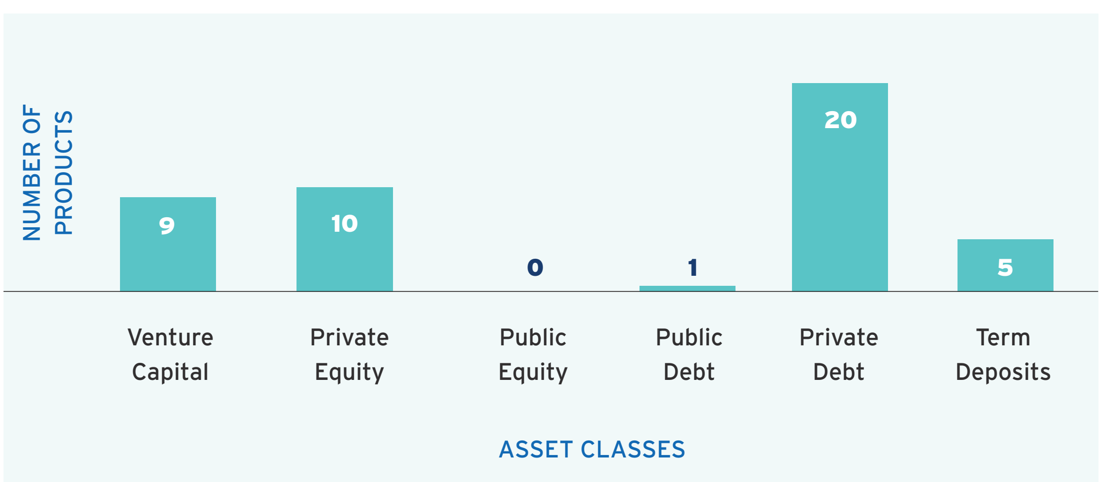
3.2 PRODUCT TRENDS

Impact investors have a range of motivations and risk-return profiles that influence their investment decisions, as the figure below illustrates.



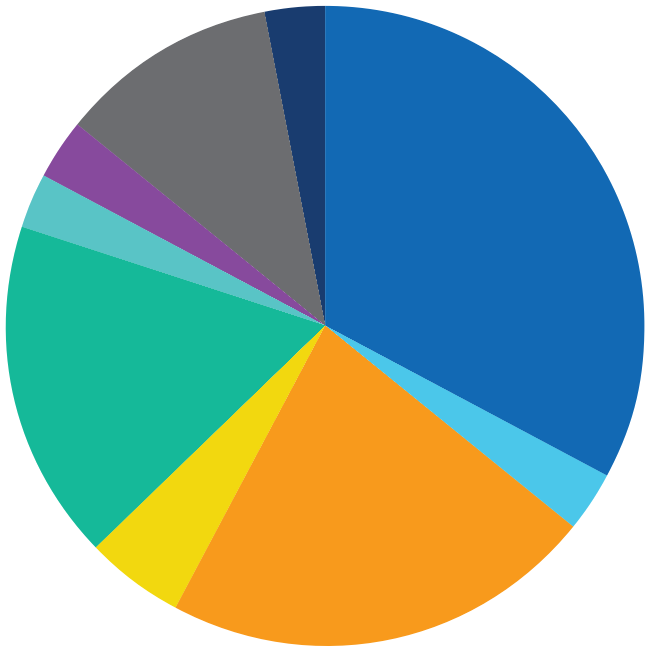
Source: F.B. Heron Foundation and Jessica Shortall (2009): "Introduction to Understanding and Accessing Social Investment"

Impact Investment Products in Canada



Estimated proportion of impact investments by primary target area

Based on stated aim of impact investment products – capital volumes sourced in 2012



33%	Cleantech and Renewable Energy
3%	Environment
22%	Nonprofits and Social Enterprises
5%	Aboriginal Business
17%	Emerging Markets
3%	Sustainable Agriculture
3%	Forestry
11%	Housing and Community Facilities
3%	Multiple Sectors

Private debt products are the most numerous but the least well known

Within Canada, there are approximately 45 impact investment products. Private debt products are the most common, comprising 44% of available products. However, although private debt products are the most numerous, the prevalence of regionally-focused products has resulted in reduced nationwide awareness[97].

Although the Canadian impact investment market provides investors with products across all asset class, there is a significant lack of diversity and depth.

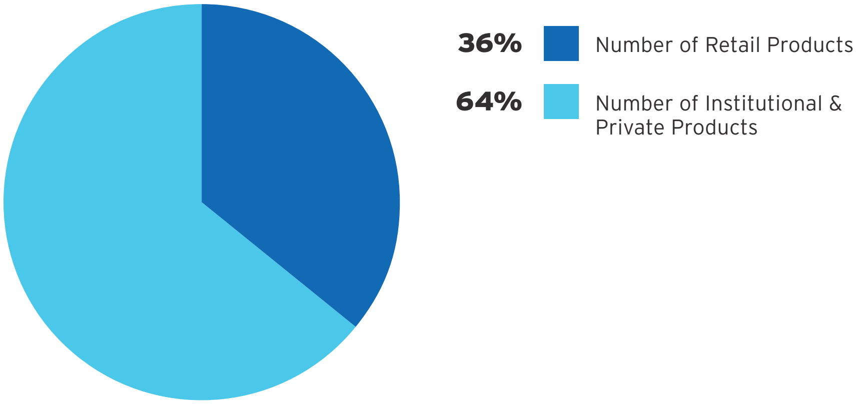
Quantity does not equal volume

The quantity of products available in each asset class does not reflect the volume of capital sourced. Although private debt ranks first in terms of the number of products, this asset class does not drive a large volume of capital, as most products are offered by community loan funds that have limited marketing and distribution capabilities and are restricted in the amount of capital they can raise. In fact, venture capital products, due to the nature of the ventures and funds in which they invest, source the highest volumes of capital. The minimal amount of capital sourced through private debt products is a result of many different factors that affect the availability of retail products.

Diverse yet lacking depth

Although the Canadian impact investment market provides investors with products across all asset class, there is a significant lack of diversity and depth. Within each asset class, there are very few different types of products. Furthermore, certain asset classes are limited to specific sectors: for example, energy comprises a majority of venture capital products under review, while private debt products are primarily focused on affordable housing and community facilities, as well as non-profits and social enterprises[98].

Impact Investment Products



Limited availability of retail products

It is evident within the analysis conducted that the current complement of impact investment products is highly skewed to favour accredited and institutional investors, even though few of these products exist at a scale large enough for large institutional investors such as pension funds. Comparatively, products for retail investors are limited. The lack of retail products can be attributed to a variety of factors, including incomplete information on consumer demand and preferences, fragmented product pipelines, regulatory restrictions around retail products, limited distribution platforms, and a lack of knowledge and education for financial planners and advisors.

The lack of retail products can be attributed to a variety of factors, including incomplete information on consumer demand and preferences, fragmented product pipelines, regulatory restrictions around retail products, limited distribution platforms, and a lack of knowledge and education for financial planners and advisors.

Financial advisors and planners play a large role in influencing the investment decisions of retail investors. Yet, as we explore in section 4.0, financial advisors and planners in Canada currently lack sufficient knowledge of the impact investing market. Moving forward, education for financial advisors and planners may help to unlock new capital from retail investors and encourage the demand for more impact investing products.

4.0

CONNECTING THE MARKET: INTERMEDIARIES & ENABLERS

OVERVIEW

Intermediaries facilitate the channelling of capital between the supply and demand sides of a capital market. Across Canada, intermediaries and enablers are active in several ways, including:

- building the capacity of the demand side of the market to attract and utilize capital and reach their intended social and financial returns;
- matching capital from the supply side of the market to investment-ready ventures;
- brokering between the supply and demand sides of the market to enable the efficient flow of capital through product development and deal creation; and
- enabling the market as a whole through research, advocacy and education.

This section provides an overview of activity and indicates key challenges and opportunities for advancement impact investing in Canada.

Intermediary Marketplace

MARKET-ENABLING FUNCTIONS					
Research & Market Data	**Market Creation & Development**	**Supporting Culture Shifts**	**Talent-building**	**Convening**	**Measurement & Evaluation**
Generating market data to help demand side and supply side actors to make informed investment decisions	Awareness raising, education and infra-structure creation	Helping supply and demand side actors to speak the same language and understand new ap-proaches to financial and social issues	Supporting the development of new sector talent, building knowledge and expertise for the sector	Bringing together key stakeholders to share learning, facilitate connec-tions and promote collaboration	Helping supply- and demand-side actors to undertake measurement of the social impact of a venture or an investment
Carleton Centre for Community Innovation / Centre d'innovation communautaire de Carleton PURPOSE Capital MaRS Centre for Impact Investing RIA Responsible Investment Association Université Concordia University	MaRS Centre for Impact Investing Chantier de l'économie sociale	SocialFinance.ca SiG Certified B Corporation bcorporation.net Centre for Social Innovation	Simon Fraser University Schulich School of Business York University Carleton University school for social entrepreneurs	Employment and Social Development Canada / Emploi et Développement social Canada Canada Public Policy Forum / Forum des politiques publiques TRICO Charitable Foundation	Social Asset Measurements SROI Canada Sustainalytics SiMPACT Strategy Group

DEMAND-SIDE FUNCTIONS		FINANCIAL INTERMEDIARY FUNCTIONS	SUPPLY-SIDE FUNCTIONS	
Development & Investment Readiness	**Financial Intermediation & Product Structuring**	**Capital Matching**	**Pool & Mobilize Capital**	**Investor Education**
Working with social ventures to develop internal capacity and prepare for investment	Designing, developing, structuring and monitor-ing financial products, platforms and funds	Introducing supply side to demand side actors and coordinating the placement of capital	Coordinating co-invest-ment from multiple investors to reduce risk and transaction costs	Educating investors and their advisors about the range of investment opportunities
enp enterprising non-profits Community Forward Fund impact8 SVP Social Venture Partners tef Toronto Enterprise Fund ACCESS Community Capital Fund	Desjardins Vancity Torys LLP Iler Campbell LLP Barristers and Solicitors PURPOSE Capital	SVX Invest for impact Concentra Financial Catalyst CSI Crowdfunding for a better world	TIDES canada uncommon solutions for the common good investeco capital MaRS Cleantech Fund Pique Ventures Invest Confidently & Passionately Sarona Asset Management ecotrust	RIA Responsible Investment Association First Affiliated Family Office Group™ Raymond James

4.1 THE MARKETPLACE OF INTERMEDIARIES

Intermediaries play a critical role in unlocking investment capital and directing it into products, generating a robust deal-flow within the Canadian marketplace. They play an important role in managing risk and reducing transaction costs. As illustrated below, intermediaries serve a variety of functions.

The marketplace of dedicated impact-investing intermediaries is growing, but at present remains quite small. In response, some impact investors are playing the role of an intermediary themselves: providing technical advice to prepare social ventures to become investment-ready, while also conducting due diligence and placing capital. As the marketplace matures, a wider array of service providers may develop to take on these functions.

Because of the nascent stage of the intermediary marketplace, there is limited accessibility and awareness of the market and a lack of alignment in service offerings. Impact-measurement professionals have responded to this challenge with professional accreditation; for example, through certification in the Social Return on Investment (SROI) methodology through the SROI Network. This allows other market actors to easily access local, knowledgeable and reputable services as needed. Such an approach could be replicated among other intermediary service provider groups.
Currently, there is a fragmentation in the investment pipeline between innovative social ventures that are demanding capital and impact investors who are supplying capital. This fragmentation is symptomatic of the nascent stage of development in the impact-investing market. **At present, there is a critical gap in the knowledge, expertise and capacity of both the supply- and demand-sides of the market to actually place or receive capital.** Some of the key barriers to investment are described in the table below.

S

KEY BARRIERS FACING THE SUPPLY AND DEMAND SIDES OF THE IMPACT INVESTING MARKETPLACE

SUPPLY-SIDE BARRIERS	DEMAND-SIDE BARRIERS
Information and understanding: While most investors understand financial returns, there is a lack of accurate and reliable data about, and understanding of, impact-oriented ventures. **Costs:** There is a higher transaction cost associated with assessing and understanding social ventures, especially due to the relatively small size of deals in the impact-investing marketplace. **Access to and awareness of investment opportunities:** As the market is at a stage of uncoordinated innovation, it is challenging for investors to find high-quality impact-oriented ventures in an efficient way.	**Capability and investment readiness:** Social ventures lack the ability to plan for and manage investment. **Capacity:** Impact-oriented ventures often lack the financial ability to service debt and meet intended financial returns as well as social and environmental impacts. **Expertise:** Many impact-oriented ventures lack the financial expertise necessary for managing an investment. **Articulating a value proposition:** Many social ventures are unable to effectively communicate their value proposition.

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

These barriers result in increased transaction costs and higher-risk investments, thus limiting capital flows. As the market matures, knowledgeable intermediaries and market-enabling organizations will help supply- and demand-side actors to overcome these barriers.

PROFILE

COMMUNITY FORWARD FUND

The Community Forward Fund (CFF) is one example of a multi-functioning impact investor, intermediary and market enabler. CFF is a financial intermediary, attracting capital from investors and placing capital with non-profits and charities. CFF also provides investment-readiness services to the non-profits and charities in which it invests; these services include one-on-one support, workshops and training, and address the need for capacity building and financial coaching among its target demand demographic.

CASE STUDY

CENTRE FOR SOCIAL INNOVATION COMMUNITY BOND

In 2009, the Centre for Social Innovation (CSI) decided to purchase and renovate a building, at a cost of $6.8 million, in order to expand its popular community-based social enterprise located in Toronto. After approaching several mainstream financial institutions, securing a loan guarantee from the City of Toronto and securing a mortgage, there remained a $2-million funding gap. To address this gap, CSI developed the community bond, using the skills and expertise of the CSI board, staff and community. The team's services were provided either pro bono or at a discounted rate because of their relationship with CSI, reducing what otherwise might have been a prohibitive cost.

Community bonds were offered on a five-year term, with a minimum investment of $10,000 and an annual return of 4%. To find investors, CSI relied heavily on its broad networks and strong reputation. Although there was an extraordinary level of interest in the community bonds, the process for finding investors was time-intensive for CSI staff, who met individually with many would-be investors and maintained involvement throughout the investment process. One of the most appealing elements of the community bond was its RRSP eligibility. Initially an exciting opportunity, this quickly turned into one of the biggest challenges of the bond process, as investors' personal financial institutions lacked familiarity with the bond, making it difficult for them to process, which resulted in increased time and cost for both the banks and CSI. Later in the process, Consentra Credit Union agreed to process the transactions.

Many community organizations are interested in replicating the community bond, and some have even started the process. However, without the network that CSI relied upon, finding investors and experts to help build a similar bond would be a much more challenging process for other organizations. CSI understands the importance of education in reducing the transaction costs of implementing a community bond and is working to educate others so that they can learn from CSI's experience.

Intermediaries and Enablers Involved

Market enabler – Centre for Social Innovation, Leadership and Social Innovation Incubator (market builder)

Social lender – Alterna Savings Credit Union

Loan guarantor – City of Toronto

Legal consultation – Brian Iler, lawyer, Iler Campbell LLP

Business consultant – Scott Hughes, principal at CapacityBuild Consulting Inc.

Financial consultant – Susan Hartnett

Investment broker – Consentra Credit Union (Community Bond RRSP transactions); investor's financial institutions

PROFILE

CANADIAN EDUCATIONAL INSTITUTIONS

Educational institutions are playing an important role in developing new sector talent for the impact-investing market. They are included as intermediaries in this section because they play an important role in enabling the impact-investing market by providing supply-side, demand-side and intermediary organizations with talent. Universities and colleges across the country are exploring impact investing as an emerging area of interest and are developing course and program offerings around this new field. The proliferation of student clubs, social venture competitions, accelerators, conferences and dedicated research institutes at Canadian universities signals that students and faculty alike support impact-investing initiatives.

There is an opportunity to increase both the depth and breadth of impact-investing offerings at Canadian educational institutions and, by extension, to address some of the critical knowledge gaps in the marketplace. Professionals in this field require cross-sector expertise, including an understanding of social and environmental issues, as well as financial and business acumen. Program offerings can be developed with a multi-disciplinary approach, bringing business school students together with those studying community development in order to bridge the gap between programs.

4.2 SUPPLY-SIDE INTERMEDIARIES

Supply-side intermediaries provide advice to investors to enable the efficient placement of capital. Currently, intermediaries are disproportionately focused on supply-side functions, partly due to the disproportionate resources of the supply side to pay for intermediary services as well as a defined market need. Supply-side intermediaries include:

- **Financial advisors and planners** help their clients to identify and invest in impact investment products.
- **Impact investing consultancies** develop investment strategies and help build impact investment portfolios for a variety of investors. These firms are often engaged in researching market opportunities and performing market analysis, some of which is public.

FOCUS: FINANCIAL ADVISORS AND PLANNERS

Financial advisors and planners play critical roles in helping to shape the availability of capital from retail investors, as reflected in our survey of financial advisors and planners. Despite their professional experience, the advisors and planners surveyed had limited understanding of or comfort with impact investing. More than half of the advisors and planners surveyed indicated they had only a basic knowledge of impact investing; just a quarter of advisors and planners said they had sufficient knowledge of impact investment products to comfortably identify them to their clients.

> "Advisors are challenged by the lack of mainstream impact investing products. The risk for advisors is that the challenges in assessing financial valuations will lead their clients to perceive this as charitable giving. Terminology in the market can be confusing for clients."
>
> —DEB ABBEY

CASE STUDY

BRENT BARRIE

Brent Barrie is the director of Halifax's First Affiliated Family Office Group. "The families we work with tend to manage their wealth on a multi-generational basis," says Barrie. "So we aren't just planning for retirement, rather we are investing with a family's children or grandchildren in mind." Barrie's clients have an active interest in philanthropic giving.

"a lack of information, a lack of deal flow and the relative newness of the impact investing market has kept our clients from investing for impact thus far."

"A fair portion of our clients have family philanthropic plans and channel their giving through donor-advised funds." Many of Barrie's clients are interested in impact investing as an add-on to their philanthropic strategy, as a method of diversification or as an expression of the family's values.

In spite of this interest, says Barrie, "a lack of information, a lack of deal flow and the relative newness of the impact investing market has kept our clients from investing for impact thus far."

Barrie sees building colleagues' and clients' understanding of the impact investing market as essential. "Advisors are your multiplier effect," says Barrie. "If advisors have information on impact investing at their fingertips, they can assess for which clients these types of products are suitable. It's about understanding your clients' needs and bringing opportunities to them that they may not be aware of. Whenever you can engage the client in issues beyond the rate of return, it's an opportunity to provide them with value."

In spite of these limitations, their clients are interested in impact investments. Most advisors and planners surveyed have had clients ask about investments that integrate social or environmental impact; those advisors estimated that a small percentage of their clients are appropriate for this type of investing. According to our survey, advisors, planners and their clients are most interested in mutual fund products focused on the environment and sustainability.[100]

Limited track records, lack of availability and high-risk profiles among impact investing products serve as barriers for clients seeking to invest in this area. According to Deb Abbey, executive director of the Responsible Investment Association (formerly the Social Investment Organization), "Advisors are challenged by the lack of mainstream impact investing products. The risk for advisors is that the challenges in assessing financial valuations will lead their clients to perceive this as charitable giving. Terminology in the market can be confusing for clients."

Opportunities to grow impact investing abound, with more than half of the surveyed advisors and planners indicating that they believe impact investing offers an opportunity to grow or differentiate their practice. Advisors and planners also indicated that they would be more motivated to recommend impact investing products if their firm approved a group of these products and if more such investment vehicles were available. According to Abbey, "There is a huge market out there for leadership-based, positively focused investment options; impact investing certainly falls in this category."

CASE STUDY

PATTI DOLAN

Patti Dolan, a Calgary-based financial advisor serving individual and institutional clients with Raymond James, has been specializing in socially responsible investing since 1995. Over the past 20 years, Dolan has seen the number of companies reporting on environmental, social and corporate governance factors (ESG) increase and noticed growth in the number of SRI products available. While Dolan sees impact investing as the next wave of this approach, she and other advisors are limited in the products they are able to offer and the advice they are able to give their clients. "As an Investment Industry Regulation Organization of Canada-registered advisor, it is difficult to give advice to invest in this area. Most product offerings are for accredited investors," she says. By comparison, advising retail clients to invest in conventional SRI options is much easier. "In most cases, my client's financial expectations are being exceeded."

In spite of the obstacles, Dolan sees a strong appetite for smaller investors to make impact investments. "There is room in most portfolios for some kind of participation in impact investing. There is particular interest from my younger clients—a real desire to invest in a local opportunity and have that community connection."

Dolan sees a significant role for advisors in building the impact investing market. She suggests that advisors interested in impact investing educate themselves and join industry organizations such as the Responsible Investment Association to get the support they need. "Talk to your clients," says Dolan. "I think if advisors actually offered these products to their clients, they would be surprised how much interest is out there."

"There is particular interest from my younger clients—a real desire to invest in a local opportunity and have that community connection."

4.3 FINANCIAL INTERMEDIARIES

Financial intermediaries serve a critical role in the actual placement of capital into social ventures, sometimes serving a dual role of working to attract capital themselves. Highly active segments in this market include social lenders, such as credit unions and community loan funds, while online platforms for capital placement and matching, including crowdfunding platforms, exist only in their earliest forms. Financial intermediaries include:

- **Capital matching platforms** connect impact ventures, funds, investors and service providers by providing due diligence as well as matching services.
- **Crowdfunding platforms** allow social ventures and entrepreneurs to raise funds through contributions from unaccredited investors. These take the form of donations and pre-sales; outside of Canada there are also some debt and equity offerings.
- **Social venture capital funds** provide capital to high-growth-potential social ventures in the form of equity. This high-risk capital is generally invested at an early stage and used to scale-up or grow the venture.
- **Social lenders,** ranging from mainstream financial institutions to community loan funds, provide debt financing for social ventures. Rates of interest and debt vehicles differ as greatly as the lenders themselves.
- **Venture philanthropist funds** provide grants, expertise, advice and guidance to high-potential social ventures and tend to provide longer engagements than accelerator programs.
- **Investment brokers** coordinate the placement of capital and structure products and transactions. Some investment brokers specialize in particular transactions, such as the development of social impact bonds.

PROFILE

TIDEScanada
uncommon solutions for the common good

Tides Canada provides financial, philanthropic and project management services to philanthropists, foundations and civil organizations, and exemplifies several intermediary roles. Tides Canada works with foundations to connect them with opportunities with the right impact and risk profile. **Through the New Market Funds Society, Tides Canada is working with the Vancity Community Foundation, the Bealight Foundation and the Trico Charitable Foundation to establish an intermediary charity that will develop funds for foundations to invest in.**

On the capital side, Tides Canada currently hosts more than 200 donor-advised funds (DAFs) and has granted more than $100 million to thousands of organizations. "Increasingly, donors want to know funds are being invested to create not only a financial but also a social return," says Sarah Goodman, Senior Vice President of Business Development and Strategy. "Today only 3.5% of the capital in foundations is granted out annually, leaving huge amounts in investments. If first invested for impact, DAFs can double the social return on every charitable dollar." **This fall, Tides Canada is launching Change Capital, the first impact DAF offered nationally.**

Moving forward, Tides Canada sees opportunities to enhance the flow of capital by providing foundations and HNWIs with impact investment products that meet their needs. "There are opportunities to weave impact investments together with strategic programmatic work to leverage impact," says Goodman. "Over time, it's a process of integrating impact investing into philanthropic strategy."

PROFILE

SVX
Invest for impact

The SVX (Social Venture Connexion) is a private investment platform built to connect impact ventures, funds and investors in order to catalyze new debt and equity investment capital for ventures that have demonstrable social and/or environmental impact and the potential for financial return. SVX was developed under the leadership of MaRS Discovery District and the MaRS Centre for Impact Investing, in collaboration with TMX Group. The SVX is supported by the Government of Ontario, Torys LLP, KPMG, The J.W. McConnell Family Foundation, the Royal Bank of Canada and the Hamilton Community Foundation. SVX is the first platform of its kind in North America.

"As impact ventures are turning to investors for financing, they are facing significant challenges and barriers," says Adam Spence, founder of the SVX. "An innovation was needed to change both the way that impact ventures access capital and the way that investors access investment opportunities." |SVX has been designed to increase access to capital for impact ventures by reducing the cost of raising capital, conducting basic due diligence for investors, and creating a coordinated network for ventures and investors to meet and interact.

> "An innovation was needed to change both the way that impact ventures access capital and the way that investors access investment opportunities."

The SVX aims to raise at least $2.5 million in capital for at least 10 successful issuers in its first year.

4.4 DEMAND-SIDE INTERMEDIARIES

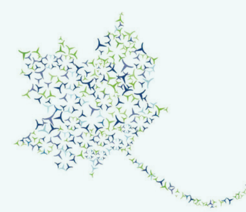
In order to attract capital from financial intermediaries, social ventures often require capacity building and advisory services provided by demand-side intermediaries. However, the financial resources required to access intermediary services are often a major barrier to the ability of social ventures to raise capital. For this reason, many demand-side intermediary functions are offered on a non-profit basis or by supply-side institutions building a robust investment pipeline. Affordable demand-side intermediary services must be made available in order to enable robust deal flow. Demand-side intermediaries include:

- **Business advisory service providers,** who offer business advice and supports to social ventures in order to increase their capacity and capability to attract and manage capital.
- **Professional service providers (lawyers, accountants),** who are involved at various stages of deals and product development, and may or may not have specialized knowledge of impact investing.
- **Social venture incubators/accelerators,** which are organizations or programs that work with social ventures in an intensive way to develop their capacity and investment readiness.
- **Investment readiness providers,** who work with high-potential social ventures to prepare them to effectively manage and utilize capital, and often make an investment in the venture.

PROFILE

GOVERNMENT AS MARKET ENABLERS

P There is a significant role for governments to play as market enablers. The federal government and several provincial governments have identified a keen interest in developing this role for themselves, though in most cases they have yet to fully define what this would entail. Some examples of recent market-enabling activity by governments include convening (for example, the Government of British Columbia's convening of the BC Council for Social Innovation), investing in market infrastructure (for example, the Government of Ontario's Ministry of Economic Development, Training and Employment's support of the MaRS' SVX and CSI's Catapult Microloan program), and enabling market research (for example, Employment and Social Development Canada's 2012 Call for Concepts for Social Finance). As the market develops, the role of governments will evolve from a sporadic convening role into a more intentional enabler.



CANADIAN TASK FORCE ON SOCIAL FINANCE

Recommendation #7:
To strengthen the business capabilities of charities, nonprofits and other forms of social enterprises, the eligibility criteria of government sponsored business development programs targeting small and medium enterprises should be expanded to explicitly include the range of social enterprises.

4.5 MARKET ENABLERS

CHANTIER
DE L'ÉCONOMIE SOCIALE

Chantier de l'économie sociale, one of the leading market enablers in Québec, is a "network of networks," coordinating co-operatives, non-profits and community development organizations working in the social economy. The Chantier fulfills many functions, including developing markets by creating innovative financial instruments that have been adopted throughout the sector; developing supports for social enterprises; and convening key stakeholders to create an enabling policy and regulatory environment. A leading financial and policy innovator, the Chantier develops relationships with key stakeholders in both the financial and government sectors to drive sector-wide progress.

One example of Chantier's success as a market enabler is the widespread adoption of the term "social economy." According to Nancy Neamtan, CEO of the Chantier, "It [was] a lot of networking, getting people to talk to each other and understand the principles behind it. We're still working on a common vocabulary, but it was a defining moment when everyone started using the term social economy." **Chantier's ability to unite stakeholders quickened the pace of dialogue with government and drew the sector together.**

Neamtan believes provincial organizing is of the highest importance when it comes to engaging with government and moving the impact-investing agenda forward. "A lot of the issues are at the provincial level," she says. "The regulatory realities between British Columbia, Alberta and Nova Scotia are very different." In order to put impact investing on the federal government's agenda, Neamtan says, "some of the major provinces need to be asking for it or doing it already."

Market enablers are organizations working to increase the knowledge and capacity of actors, with the aim of growing the impact-investing marketplace in Canada. Market enablers promote the growth of the impact investing marketplace through advocacy, research and development of market data, market development, supporting culture shifts, talent-building and convening working groups. Market enablers include:

- **Professional networks,** which allow for the development of collaborations, partnerships, internal and external learning opportunities and professional development.
- **Educational institutions,** including universities, colleges and technical schools, which offer impact investing courses, certificate programs, research centres and conferences. These institutions are one of the major pathways to entry for new talent.
- **Leadership and social innovation incubators,** which nurture thought-leadership, foster social innovation, and produce high-quality research and analysis.
- **Market builders,** who produce high-quality research, analysis and policy innovations and develop market infrastructure.
- **Conveners,** who bring together cross-sector stakeholders in order to engage in discussions and take action to move the impact-investing agenda forward.
- **Mainstream consultancies,** which sometimes serve impact-oriented clients. Many of these firms have made an initial foray into impact investing through research and partnerships.
- **Impact analysts,** who measure returns – financial, social and environmental – across portfolios, or for particular deals. They provide the measurement of projected and actual social returns to enable investors to make appropriate investment decisions.

5.0

THE DEMAND FOR CAPITAL: SECTOR REVIEW

OVERVIEW

Describing the landscape of opportunities where impact investments are situated is a complex challenge, given the range of issues in which impact investors are interested. This sector-based analysis focuses on nine specific sectors, outlined below, that are well aligned with interest and opportunities in impact investing.

- Sectors such as environment and water, energy, aboriginal business, non-profits and social enterprise, and agriculture have blossomed in recent years, given strong opportunities for creative solutions in these sectors and favourable conditions for investors.
- Other sectors, such as affordable housing, financial services, health and education, have been relatively slower to develop, yet present promising opportunities for market growth.

This section draws on secondary data sources to describe each sector as it relates to impact investing, review relevant opportunities and trends, and describe specific examples.[101]

5.1 AFFORDABLE HOUSING

MEDIUM ACTIVITY HIGH INTEREST

The affordable housing sector represents an area of great need, with approximately 1.5 million Canadians in core housing need.[102] While the sector has had some innovative impact investment activity, primarily through the creation of housing development corporations and bond offerings, activity to date has been limited.

DEFINING THE SECTOR

In Canada, affordable housing[103] is an issue with both financial and social implications. An astounding 200,000 Canadians experience homelessness each year[104] and 520,000 Canadian living with mental illness are need of supportive housing units.[105] [106] The cost to the Canadian economy to provide social services, health care, corrections services and emergency shelter to this population is approximately $7 billion per year[107].

MARKET OPPORTUNITY

Given existing housing stock, we estimate that the number of additional affordable and supportive housing[108] units needed in Canada is just over 1 million units.[109] As the average capital cost to build a new unit of affordable housing is $200,000,[110] the total affordable and supportive housing capital cost is $202 billion. **In 2012, provincial and federal governments spent $3.4 billion dollars on affordable housing. The resulting difference is a funding gap of up to $200 billion.**[111] Federal expenditures on social housing are expected to decrease to $500 million in 2020.[112] The decline in government spending is accentuated by the inability of affordable housing providers to secure private financing, as "few housing providers have the adequate cash flow/balance sheets necessary to secure debt financing from banks."[113] The declining trend in government spending and the inability of affordable housing providers to leverage mainstream financing denotes an opportunity in the sector for impact investing.[114]

KEY TRENDS

To date, impact investing within the affordable sector has primarily come in the form of debt financing from community finance organizations and credit unions. A large majority of transactions to date have used a blended financing model, combining both public and private investment. A major development in the role of impact investment in affordable housing has been the creation of Housing Development Corporations (HDCs). These corporations utilize private market-funding mechanisms, not available to municipalities and not-for-profit organizations, to finance the development of affordable and supportive housing units. From community bond offerings to unique blended-finance partnerships, these corporations serve as important instigators in the creation of innovative financing approaches. One such example is the Toronto Community Housing Corporation's bond issuance in May 2007 and February 2010, which raised an aggregate $450 million[115] for Toronto's Regent Park Revitalization Project.

CASE STUDY

CHRYSALIS DRUG AND ALCOHOL SOCIETY FOR WOMEN AND VANCITY CREDIT UNION

Vancity Credit Union's Impact Real Estate team partners with its members in order to build their capacity to engage in social-purpose enterprise real estate projects, from their inception to their occupancy, through early integration into the real estate development process. One such partner is Chrysalis Society. Based in Vancouver, BC, Chrysalis Society is a not-for-profit organization that supports women who have been seriously affected by addiction, violence, poverty and exploitation. For more than 25 years, the society has supported women through their individual recovery process, offering long-term residential accommodation, mental health care and comprehensive holistic supports. Chrysalis Society's supportive housing and wraparound services support successful long-term recovery for women.

In 2010, the Chrysalis Society sought to purchase the residential house they were renting for one of their programs. After the initial appraisal of $675,000, the Society received funding from Human Resources and Skills Development Canada's Homelessness Partnering Strategy to purchase the house. However, an increase in the value of the house between the appraisal and the funding approval meant that Chrysalis Society had to seek out a mortgage to finance the difference. After evaluating several alternatives, the Society approached Vancity. Shannon Skilton-Hunjan, executive director of Chrysalis Society, explains that there were benefits in addition to the preferred financial terms of a 5% interest rate. "In partnering [with Vancity], Chrysalis was able to maintain the philosophy and values of the organization," she says. The terms of the mortgage that Vancity provided allowed the organization to save $2,400 per month. Less than two years after the initial transaction, Chrysalis Society was presented with an opportunity to gain ownership of its New Day residential house. Again, Chrysalis Society approached Vancity for a mortgage to fill the funding gap, and the credit union was able to facilitate financing. The society then engaged two other private sources in a second and third mortgage—creating a unique financing structure that allowed them to purchase the property.

The mortgage financing provided by Vancity provided Chrysalis Society with additional financial flexibility. According to Skilton-Hunjan, the ability to own their property "opened up new funding options for [the society]. [We] are now able to apply for grants that we wouldn't have been able to otherwise." Home ownership has given the society "more control over their environment" as they are now able to manage maintenance on their own. The mortgage has helped make possible for 109 women to access the society's services in 2013.

5.2 ENERGY

HIGH ACTIVITY | HIGH INTEREST

The renewable energy sector is accelerating quickly, driven by global concern and domestic targets for climate-friendly energy production. Energy conservation and energy efficiency remain important supporting priorities. Impact investment opportunities exist across the value chain, notably small-scale projects in the hydro, biomass and energy conservation segments.

DEFINING THE SECTOR

Renewable energy is the production of electricity generated through bioenergy,[117] solar, wind or hydroelectric methods.[119] By reducing the greenhouse gas emissions and other related environmental challenges of conventional energy sources, renewable energy mitigates our environmental impact. Investments into R&D and technology to facilitate an accelerated adoption of renewable energy, as well as energy conservation and energy efficiency, can further reduce this impact. In addition to its clear environmental benefits, renewable energy can also have social benefits when projects are developed with the involvement of vulnerable populations, such as Aboriginal peoples and other excluded groups. The production of renewable energy has increased dramatically, as the importance of environmentally conscious energy strategies has become a global imperative. In Canada, federal and provincial governments have set targets for renewable energy production within their energy portfolios, including a federal target of 90% of Canada's electricity from zero-emitting sources by 2020.[119]

MARKET OPPORTUNITY

Global investment in renewable energy reached $244 billion in 2012.[120] Canada has the third largest renewable energy capacity in the world, with 17% of its total energy supply and over 60% of total electricity generated by renewable resources.[121] While hydroelectric power composes a substantial portion of Canada's renewable energy portfolio, we are rapidly developing strong companies in the wind and solar energy sectors.[122] Energy conservation and energy efficiency have also become increasingly important for Canadians, with more than half of Canadians taking some measures to conserve energy.[123] In spite of this

CASE STUDY

MaRS Cleantech Fund

Woodland Biofuels Inc.
The Future of Fuel™

MARS CLEANTECH AND WOODLAND BIOFUELS

The MaRS Cleantech Fund is a privately backed $30-million fund that provides early-stage funding (from $1–3 million) to companies in the cleantech sector. In December 2012, the fund announced a $2-million dollar investment in Woodland Biofuels Inc., a Mississauga, ON, biomass company. The company produces cellulosic ethanol from biomass, converting forestry and agricultural waste into fuel using a proprietary gasification and catalytic conversion process. The zero-carbon-emitting process exploits a large need in the market for low-cost ethanol, as the company expects to produce ethanol at half the current cost of production of gasoline.[125] The North American market is expected to be worth $25–30 billion.[126] The MaRS Cleantech Fund investment was structured as preferred shares and provided the fund with a board seat. The investment is being used to expand the company's production facility and will take the company to commercial stage.

growing market, there is a significant lack of funding available for the development of new technologies in this sector.[124] Although various levels of government have developed funding and grants for R&D, there is a need for risk capital to support technology development.

KEY TRENDS

Impact investing has played a role in developing renewable energy sources across Canada. While impact investments have helped to develop renewable energy and energy efficiency technology, R&D in the sector has been primarily funded through a mixture of public sector (including Crown corporations) and private sector (including private equity funds) sources. Further down the value chain, impact investors, including private equity and venture capital funds, use equity to support infrastructure and product development. Toward the end of the value chain, both debt and equity are used to finance the system development and application stages, with community loan funds and credit unions providing debt financing to enterprises wishing to convert operations to renewable energy sources. Viable investments mostly come in the form of small-scale (10–500 kwh) projects for local communities or SMEs, while larger scale initiatives (more than 500 kwh) remain the domain of private.

Further down the value chain, impact investors, including private equity and venture capital funds, use equity to support infrastructure and product development.

CASE STUDY

SolarShare

Invest in a brighter future

SolarShare Co-operative is an initiative of the Toronto Renewable Energy Co-operative (TREC), a non-profit, environmental co-operative that develops community-owned renewable energy projects and educates Ontarians about renewable energy, energy conservation and the community power model. SolarShare offers members of the co-operative an opportunity to participate in the development of solar projects within Ontario by investing in Community Solar Bonds, securities invested in a portfolio of solar projects. Bonds are priced between $1,000 and $100,000, and are offered on a five-year terms at a 5% annual interest rate. The bonds are backed by 20-year government agreements under Ontario's Feed-in Tariff (FiT) program, which guarantee a steady stream of revenue and are secured by mortgages on title. To date, SolarShare has raised $3.3 million in bonds from its 581 co-operative members. SolarShare attributes its success to its active and engaged team and board; angel investor funds for startup costs; exemptions offered by the Co-operatives Act; and a thorough due-diligence process for purchasing projects and accessing capital.

5.3 AGRICULTURE

MEDIUM ACTIVITY | HIGH INTEREST

Driven by strong consumer demand, the sustainable agriculture sector has taken off. Impact investors are placing their capital in ventures that are working to improve environmental outcomes, either through the direct production of agricultural goods or through supportive technologies to reduce environmental impact.

DEFINING THE SECTOR

Sustainable agriculture encompasses ventures using agricultural processes and technologies with the intention of creating environmental benefits. Specifically, sustainable agriculture addresses issues such as the degradation of soil, water, land and animal ecosystems through standard agricultural practices. Further down the value chain, sustainable food manufacturers and retailers who sell local, organic products also fall within the sector.

MARKET OPPORTUNITY

The depletion of resources through environmental damage is a fundamental driver of sustainable agriculture programs that have both economic and environmental benefits. The Canadian organic market is estimated at $3.7 billion[127] and consumer trends within the "green/organic" food industry suggest there is a growing desire for sustainable products. **In 2012, 58% of Canadians reported buying organic groceries on a weekly basis.**[128]

PROFILE

investeco CAPITAL

Investeco, Canada's first environmental investment management company, manages four private equity funds, including the Sustainable Food Fund. Through its strong private networks Investeco has invested $35 million in high-growth North American companies with $1–30 million in revenues, near-term profitability and more than 20%+ growth within the renewable energy, water, sustainable agriculture and cleantech industries.

Investeco's Sustainable Food Fund invests in high-growth private food and agriculture companies that have a strategic advantage in the market by virtue of their brand, distribution channels, unique supply chain, unique processing capabilities or proprietary technologies. The fund will invest in companies that supply locally produced and/or natural or organic foods, technologies that increase the efficiency and sustainability of the agricultural sector, and technologies that utilize agricultural wastes for the sustainable development of products such as biofuels and biomaterials.

Investeco has a demonstrated track record within the sustainable agriculture sector. Past investments include Organic Meadow, Canada's leading organic dairy brand; Rowe Farms, Ontario's leading producer and independent retailer of locally grown, all-natural meats; Horizon Distributors, a distributor of ecologically sound and organic food products; Ensyn Biofuels, the world's leading commercial biofuel producer using rapid thermal pyrolysis; and Woodland Biofuels, a leading producer of cellulosic ethanol from renewable wastes.

KEY TRENDS

Impact investment within the sector has come from both public and private institutions. Provincial governments have committed to the development of sustainable agriculture through the creation of funds that invest in regional and national initiatives, such as the British Columbia Agri-Food Futures Fund and Quebec's La Financière Agricole, which have invested capital in supporting local and organic community farming within their respective regions. Private equity impact funds, such as Investeco's Sustainable Food Fund and Renewal Funds, have placed equity investments in organic- and health-branded retailers. Venture capital firms and community finance organizations have placed investments upstream, with sustainable production businesses and local food farmers. Investment within the sector is not limited to activities that are directly involved in the value chain of agriculture production. For example, a whole class of ventures is developing technologies that support the use of sustainable agricultural practices, or that have the potential to use agricultural outputs sustainably. These ventures fall under the subsectors of biochemical, bioenergy, biofertilizer, biopesticide, greenhouse technology and sustainable aquaculture.

CASE STUDY

innovacorp

EARLY STAGE VENTURE CAPITAL

TruLeaf

Innovacorp is an early stage venture capital company focused on Nova Scotia, which invests in organizations that operate in the technology, clean technology and life sciences sectors. Their $25-million cleantech fund has made investments ranging from $250,000 to $2 million. Along with financing, the company provides investees with advisory and incubation services as well as access to a network of experts and advisors. TruLeaf is a Halifax-based sustainable agriculture company that is enabling the growth of local and sustainable produce in environments that would not normally be conducive such growth. Its indoor Smart Plant System combines innovation in agricultural lighting systems with leading-edge hydroponic, greenhouse and nutrient-film technologies.

In August 2012, Innovacorp made a $250,000 investment in TruLeaf, which deployed the funds toward R&D and the construction of prototype-scale microform. TruLeaf acknowledges that the capital, expertise and networks provided by Innovacorp were instrumental in moving the company forward. Currently, TruLeaf is in another round of financing (aiming to raise $8–9 million), with the capital going toward commercializing the firm. A critical part of commercializing the company is determining environmental metrics to communicate the firm's competitive edge within the sustainable agriculture industry.

5.4 ENVIRONMENT & WATER

HIGH ACTIVITY HIGH INTEREST

Growing environmental consciousness among consumers and an increasing focus on the efficient use of resources and green infrastructure have created multiple investment opportunities in the environmental sector.

DEFINING THE SECTOR

Environmental advocates have long recognized the power of markets to bring needed resources to address complex environmental problems. The sector has a well-developed selection of investment opportunities and products designed to finance sustainability enhancements. One component of these investments is in green infrastructure — an approach to resource management that accounts for interactions between natural and human systems and uses natural systems to address environmental, social and economic needs.[129] A second component is investments in water, including water quality and quantity trading, water and wastewater infrastructure, and water-efficiency technologies. A third component is investments in air-quality markets, which trade in the reduction of emissions. A fourth component is biodiversity and habitat markets, which leverage financial tools to protect ecosystems and species. Increasing environmental consciousness and global environmental threats continue to drive individuals, businesses and governments to demand products and services that mitigate our environmental impact.

MARKET OPPORTUNITY

Estimates of most environmental markets are difficult to obtain; water markets currently have the most developed data. Equilibrium Capital Markets estimates that the global water market is worth approximately $500 billion.[130] Global Water Intelligence estimates Canada's water market was worth US $4.66 billion in 2010.

KEY TRENDS

Despite the large potential market opportunity, a lack of capital in the sector may have stunted development. "Over the past five years, there has been a fair amount of funding available for renewable energy and cleantech companies," says Paul Richardson, CEO of Renewal Funds. "There has been less money for the rest of the environmental universe." In particular, Richardson points to a lack of capital for seed and co-investments. "The earlier stage the company, the more difficult it is to find partners … Everyone recognizes that the earlier stage the company, the higher the risk. There are not enough large investors willing to take the gamble on these early stage companies. There is a lack of funds in our space with whom we can syndicate," he says. "Investors understand the impact [in this sector] and are willing to be more patient than they have been historically. There is huge opportunity for people to make a difference in this space," says Richardson.

"Investors understand the impact [in this sector] and are willing to be more patient than they have been historically. There is huge opportunity for people to make a difference in this space,"

– PAUL RICHARDSON, CEO OF RENEWAL FUNDS

CASE STUDY

AQUATIC INFORMATICS

Aquatic Informatics, a British Columbia–based company that has developed unique productivity software for water and climate monitoring, is featured in Renewal2's investment portfolio. Aquatic Informatics primarily sells this software to federal, state, provincial and local governments, academics and consultants, who need to collect and analyze large volumes of environmental data. Aquatic Informatics' software helps these customer groups manage and use enormous amounts of environmental data to improve environmental outcomes.

5.5 FINANCIAL SERVICES

LOW ACTIVITY | MEDIUM INTEREST

Canada has a strong tradition of providing accessible financial services to its most vulnerable citizens. Innovations in microfinance and inclusive banking are growing the market for financial services that generate both financial and social returns.

DEFINING THE SECTOR

The financial services sector is notable for its use of innovative tools to provide access to financial services for those who might not otherwise qualify, including microfinance. **Microfinance is the provision of affordable financial services to individuals and small businesses that otherwise would not be able to access them.** Microfinance draws on a more than 40-year history of innovation at the intersection of the financial sector and international development. Traditionally, most microfinance institutions (MFIs) and accessible microfinance products invest in individuals or institutions in emerging markets, and include for-profit and non-profit structures. The global microfinance industry has now matured to achieve scale, as is evident from the Microfinance Information Exchange (MIX) platform, which collects and validates standard financial, operational, product, client and social performance data from MFIs across the globe. In Canada, a number of credit unions and community finance organizations provide microfinance products to low-income clients.

CASE STUDY

CANADIAN EDUCATIONAL INSTITUTIONS

ACCESS Community Capital Fund was formed to help promising entrepreneurs with viable business plans gain access to financing not available through traditional financing sources. Individual loans are made using a character-based lending decision process, in which the abilities, skills and commitment of the applicant, as well as the strength of the business plan, are key decision criteria. **ACCESS funds are used to guarantee loans through partner financial institutions.** The fund was created by investments from socially minded individuals, organizations and businesses. ACCESS clients are typically entrepreneurs who are just starting a new business or have been running a business for less than two years. The borrower may have no credit history, or may have a poor credit record due to unemployment, illness or unforeseen life events.[133]

CASE STUDY

ASSINIBOINE CREDIT UNION'S NORTH END BRANCH

Winnipeg's North End is characterized by high rates of crime, poverty and unemployment. Over a period of 10 years, every major financial institution left the neighbourhood, leaving only a handful of "fringe financial institutions" to service the population. In 2006, Assiniboine Credit Union (ACU) began partnering with the North End Community Renewal Corporation to open accounts for unbanked residents. "Over time we realized that although this was serving a portion of the community, it wasn't meeting the needs of the North End for a full-service financial institution," says Priscilla Boucher, vice-president of social responsibility for ACU. As a result, ACU subsequently developed the business case for operating in the community, raising $18 million of capital in tandem with a community consultation process that eventually facilitated the opening of financially viable branch in the North End.

"The branch is meeting our business plan expectations and the amount of new business being done at the McGregor Branch is growing," says Boucher. According to Boucher, there is a big opportunity for impact investing in financial services. "There is a market there and it can be done profitably,"

The community has warmly received the ACU's McGregor Branch, which opened in January 2012. **As a result of referrals from community partners, more than 180 new accounts have been opened by unbanked or underbanked individuals,** and 240 new RESP accounts have been opened by low-income families. "The branch is meeting our business plan expectations and the amount of new business being done at the McGregor Branch is growing," says Boucher. According to Boucher, there is a big opportunity for impact investing in financial services. "There is a market there and it can be done profitably," she says, "but it is not often considered a target market for large financial institutions."

KEY TRENDS

While size estimates differ, in Canada there is a population of "unbanked" individuals – people who either do not have a bank account, or have a bank account with a $0 balance. Community-based organizations such as **RISE Asset Development and ACCESS Community Capital Fund provide microloans and alternative financial products to a populations that face barriers to using traditional banking services,** including new immigrants, low-income earners and individuals on social assistance. As well, credit unions have traditionally initiated microloan programs for their members and have often deliberately targeted underserved populations or regions.

5.6 EDUCATION

LOW ACTIVITY | LOW INTEREST

Education has not been a priority sector for Canadian impact investors to date, due to strong government-funded education systems. However, opportunities do exist to address pressing needs such as improved connections between the high school and post-secondary systems, workplace skills training, adult literacy, and technology and design for special needs students.

DEFINING THE SECTOR

While education is a leading sector for impact investors elsewhere in the world, Canada's provincially funded public education systems have made the need for impact investment somewhat less acute. Canada's K-12 education system is recognized as one of the best in the world, yet the system faces challenges in ensuring that all students achieve their greatest potential. There are a number of factors driving the need for impact investment in the sector, including scarcity of public funds and the rapid proliferation of education technology and online education. With education budgets shrinking, schools across the country are looking to control costs. This has created a window of opportunity for ventures that offer low-cost, high-quality solutions to education challenges.

MARKET OPPORTUNITY

In 2008–2009, the Canadian K-12 market comprised more than five million students in 15,000 schools across 375 school boards.[134] Total government expenditure on education was estimated at $74.5 billion in 2008.[135] However, the fragmentation of customers across hundreds of school boards makes the scaling of education ventures very difficult.[136] "There is a serious gap in seed investments for pilot opportunities for K-12 solutions," says Joseph Wilson, education advisor at MaRS Discovery District. "Many education innovations that look promising die because of the long sales cycles into K-12 systems. Seed capital [is needed to] float startups throughout this customer-development period. Once they are past this stage, they can compete more readily with the 'regular' tech companies when looking at Series A funds because they have robust data as well as purchase orders in the pipeline."

> "There is a serious gap in seed investments for pilot opportunities for K-12 solutions,"
>
> – JOSEPH WILSON, EDUCATION ADVISOR AT MARS DISCOVERY DISTRICT.

KEY TRENDS

Education's systemic ability to effect broad social change makes it a popular sector of focus for many impact investors. **Impact investors seek to invest in educational innovations that improve the quality and affordability of education.** The increasing use of computers and electronic devices both inside and outside of the classroom has also created market opportunities for products and services that deliver high-quality education using virtual channels.[137] Wilson sees opportunity for impact investment in the area of technology and design for special needs students. "This space is large enough on its own to show a return on investment and has the benefit of being a separate budget item for most school districts," he says. "The reality of long-term play is that many products that are designed for special-needs communities end up spinning out into the mass market." Moving forward, investment opportunities in this sector may include venture capital and private equity investments that bridge education and technology or non-profit interventions that have a venture philanthropy focus.

CASE STUDY

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

5.7 HEALTH

LOW ACTIVITY | MEDIUM INTEREST

Health is a primary sector of focus for impact investors outside of Canada, in emerging and developing markets. Our government-funded health system has reduced the need for private capital to address issues of access. Instead, impact investments in the Canadian health sector largely focus on innovations that yield better patient outcomes.

DEFINING THE SECTOR

The health sector encompasses products and services that reduce cost in the health sector, improve patient outcomes and comfort, and improve overall well-being. As health-care costs continue to rise, we anticipate that this sector will play a role of greater prominence for impact investors.

MARKET OPPORTUNITY

Health-care spending in Canada continues to rise — it was up to $172 billion in 2008, 60% higher than in 1998, with much of this increase being attributed to the rise of chronic diseases.[138] This burden is also reflected in the cost of health benefits: 70% of health benefit costs come from six chronic disease categories, all which are preventable or modifiable through behavioural changes.[139] The private sector invests almost $700 million yearly in applied health research in Ontario, employing more than 40,000 people in more than 900 companies and generating revenues of more than $14 billion a year.[140] Historically, however, health has not been a strong sector of focus for Canadian impact investors due to modest margins, long times to scale, and high risk profiles of investment opportunities.[141] Where it has occurred, investment has been focused on venture capital and private equity opportunities, specifically on commercialization of technology that can produce more effective outcomes for specific conditions.

KEY TRENDS

One key market opportunity in this sector is the emergence of digital health — "the technologies and networks used by all stakeholders"[142 143] in the health care delivery ecosystem to enhance collaboration and individual wellness and reduce overall costs. This opportunity can be expected to grow, as a recent industry report notes that in 2008, 60% of all Canadians over the age of 45 and 52% of seniors accessed health information online.[144] Given the nascent nature of this sector and the risks involved in this early stage of development, cross-sectoral partnership is essential. "All of the related systems involved in the health sector are going to have to come together to figure this out. All stakeholders need to be at the table," says Andrew Taylor, executive vice-president of Grand Challenges Canada, an organization funded by the Government of Canada to support bold ideas with the potential for substantial impact in global health innovation and outcomes.

CASE STUDY

BIO DIASPORA

BioDiaspora is a Canadian B Corporation that employs a "big data" approach to predicting and mitigating the spread of infectious diseases. Their technology is used to accurately predict and anticipate how infectious disease threats will spread around the world. Founded by Dr. Kamran Khan, an infectious disease clinician and scientist at St. Michael's Hospital in Toronto, ON, and an associate professor at the University of Toronto, the company does pioneering work at the intersection of geographic information systems, transportation networks, data visualization and software development, which has attracted interest from both the research and business communities.

"Spinning out into a company allows us to do things that we couldn't [do] in a research environment," says Albert Tseng, vice-president of business development at BioDiaspora. Tseng describes how an enterprise structure allows the company to respond more quickly to user needs and subsequently scale financially and socially. As BioDiaspora scales its impact, the founders are looking for more than just investors – they are looking for strategic partners. "We're interested in working with investors who understand our target markets and can leverage their expertise and networks to help us gain traction," says Tseng.

5.8 NON-PROFIT & SOCIAL ENTERPRISES [145]

MEDIUM ACTIVITY | MEDIUM INTEREST

Canada's social sector faces structural challenges in accessing conventional, sustainable and long-term financing. Impact investors play an important role in unlocking capital for non-profits and social enterprises that are harnessing business models that align with their missions and that have the ability to generate both financial returns and amplify social impact.

DEFINING THE SECTOR

Canada's non-profit sector is robust, vibrant and, at six times as large as the domestic automotive sector,[146] one of the biggest in the world. There are an estimated 175,000 to 200,000 non-profits in Canada, including 78,000 with a charitable status.[147] These organizations collectively generate revenues of more than $90 billion a year from increasingly diverse sources and employ 1.3 million people.[148] The sector is diverse, ranging from arts and culture to health and social services. Within these sectors, non-profits are exploring ways to generate revenue via social enterprise business models (in order to meet their missions by selling goods and services) or to develop alternative revenue sources that can be directed toward programs.

MARKET OPPORTUNITY

Between 2005 and 2009, total revenues for registered charities increased to $177 billion, an annual growth rate of 4.4%.[149] In 2010, Canadian tax filers claimed $8.3 billion in charitable donations.[150] In spite of these sizable numbers, non-profits and social enterprises have significant capital needs that are not being met. According to a 2012 survey in Ontario, between 2010 and 2012, 66% of non-profit social enterprises run by charities and 61% of social enterprises run as for-profit entities were seeking capital[151]. Half of these organizations were targeting between $50,000 and $1 million, with aggregate demand for all respondents estimated at $170 million in Ontario alone.[152] This form of capital is often not accessible from traditional financial institutions.

CASE STUDY

CANADIAN ALTERNATIVE INVESTMENT COOPERATIVE'S INVESTMENT IN YWCA HALIFAX

The CAIC's 2013 investment in YWCA Halifax was built on a long-standing relationship. Having been the lender on a prior loan, CAIC "was the natural partner when a new need came up," says Beth Coates, CAIC's financial manager. The YWCA's vision was to build a daycare and office space. After investments from the YWCA and the Government of Nova Scotia, CAIC provided a second mortgage. CAIC facilitated the deal by taking the riskier position as a second lender, without charging the interest premiums normally associated with such a position. CAIC reports that the investment is meeting their financial expectations and full enrolment at the daycare suggests a strong social return as well.

Moving forward, Coates sees strong demand for real estate-backed, low-cost capital investments in the sector. "These investments give investors some risk mitigation," she says, "making a 2–3% premium more tolerable knowing that their capital is not at risk." The key, according to Coates, is unlocking hidden demand within the non-profit sector. "Because of short conventional funding cycles, very few non-profits are thinking strategically about how to build their assets," she says. "We need to put some catalysts in place to get the sector to start thinking this way." Successful deals like this one may be just the impetus that inspired organizations need.

KEY TRENDS

Governments, foundations and donors are all important sources of capital, but they do not provide it in sufficient diversity or quantity to meet demand[153]. **Non-profits are often unable to access capital because they are unable to guarantee loans, leverage assets or provide exit strategies for investors, often leaving them reliant on grants.** Though many organizations are interested in pursuing financing options,[154] debt and equity are significantly underused in the sector, in part due to risk-averse nature of non-profit organizations, limited in-house financial literacy and an inordinate focus on grants.[155] Across Canada, loans are the most common form of financing offered to non-profits[156], with subordinate loans and equity most commonly offered to for-profit social businesses. In spite of these challenges, a few leading players, including Vancity, the Canadian Alternative Investment Cooperative (CAIC), the Community Forward Fund and the Edmonton Social Enterprise Fund, are fostering impact investment in social-purpose organizations. In order to unlock a greater diversity and quantity of financing options for the sector, new corporate forms that enhance the ability of social-purpose organizations to access debt and equity financing, government enabled loan guarantees and patient capital pools are required.[157]

5.9 ABORIGINAL BUSINESS

MEDIUM ACTIVITY | HIGH INTEREST

As the Aboriginal business sector grows, more impact investors are looking for opportunities to partner with these enterprises to address the systemic disadvantages faced by Aboriginal communities while also generating financial returns. This sector is led by Aboriginal-focused funds, which are proving the sector's immense potential.

DEFINING THE SECTOR

Aboriginal people in Canada face systemic disadvantages to their social, cultural and economic well-being. Aboriginal people are more likely to have a lower median after-tax income, experience unemployment, collect social assistance, live in substandard housing, experience abuse, be victims of crime and be incarcerated than non-Aboriginals.[158] The Centre for Policy Alternatives estimates that it would take $1 billion to bring all Aboriginal children up to the poverty line.[159]

MARKET OPPORTUNITY

At the same time, the Aboriginal business sector is growing. As of 2011, there were more than 37,000 businesses owned by First Nations, Metis and Inuit persons in Canada.[160] This is an increase of 37.6% from 2006, five times the rate of the general population. Aboriginal businesses span the sectors of the Canadian economy, including construction (18%), primary resources (13%), and knowledge- and service-based sectors (28%).[161] According to the Canadian Council for Aboriginal Business, 61% of Aboriginal businesses are profitable, with 35% of businesses increasing revenues in 2009–2010.[162] Aboriginal businesses are important employers for the Aboriginal population, who comprise 62% of the workforce for these firms. Access to capital is a major barrier to the success of Aboriginal business, with many Aboriginal entrepreneurs relying on personal savings rather than other forms of lending.[163] Fifty-two percent of Aboriginal businesses identified Aboriginal lending agencies as a main source of financing for ongoing operations.[164] The capital gap faced by the Aboriginal economy is estimated at $43.3 billion.[165]

KEY TRENDS

According to Donna Morton, managing partner at Principium Money Management, "Impact investing in the Aboriginal business sector is early," but a variety of individual and institutional investors are getting involved. Aboriginal Focused Funds accounted for $359.75 million in impact investment assets in Canada in 2011, up from $285.7 million in 2010.[166] One such fund is the Capital for Aboriginal Prosperity and Entrepreneurship (CAPE) Fund, a $50-million private equity investment fund that aims to encourage Aboriginal entrepreneurship, build Aboriginal business, encourage Aboriginal ownership and increase participation by Aboriginal persons. The Canadian Council on Aboriginal Business identifies strong opportunities for investing in Aboriginal SMEs in the coming years given their steady growth, specifically in the "higher-risk zone between commercial and incubation social finance."[167] There is also a significant role for government to serve as a catalyst, "especially in high-priority high-impact areas such as education, housing and economic self-sufficiency."[168]

CASE STUDY

INDIGENA SOLUTIONS

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

6.0

IMPACT MEASUREMENT

OVERVIEW

Investors and ventures use impact measurement tools throughout the investment life cycle. Currently, there is a tremendous diversity in the number of possible approaches and the extent to which metrics are adopted.

- **Impact Reporting and Investment Standards (IRIS)** provides a standardized taxonomy and a set of consistent definitions for social, environmental and financial performance.
- **Social Return on Investment (SROI)** is a principles-based methodology used to monetize the social value created by social or environmental initiatives.
- **Demonstrating Value** is a measurement tool, targeted toward social ventures, that combines business performance monitoring with social impact evaluation.
- **Investors and ventures face a number of challenges including:** comparability and standardization, cost and competing priorities.
- **Opportunities exist for investors,** ventures and intermediaries to improve existing practices, including collaboration and sharing sector-based measurement strategies.

This section reviews the above methodologies and provides a summary of key challenges and opportunities.

6.1 INTENTIONS FOR IMPACT MEASUREMENT

Both supply- and demand-side actors use impact measurement for a variety of purposes. The common denominator for all actors is that impact measurement helps to articulate whether impact investing actually makes a difference. In this section, we examine the intention of both supply- and demand-side actors in using impact measurement, present a selection of measurement frameworks, and discuss the challenges and opportunities associated with impact measurement.

Investors use impact measurement throughout the investment life cycle to define their impact goals, select investments that fit with these goals, monitor the impact of their investments and report to stakeholders on impact-value creation. Ventures use impact measurement to enhance their social impact, improve their performance, and communicate their value to potential or current investors. At the field level, social metrics are essential to supporting the development of social finance tools and investment vehicles[169] and to attracting capital.[170 171]

The way metrics are used differs substantially based on the actor's purpose and intentions. As a result, there remains a tremendous diversity in the number of possible approaches and the extent to which they are adopted. There is no universally adopted standard, and much variation exists among sectors, regions and investor profiles. Some measurement initiatives have been deliberately set up to complement each other, while others operate in parallel and are not connected. Despite this fragmentation, there are a number of specific initiatives that are important to highlight, though this list is by no means comprehensive.

6.2 SELECTED MEASUREMENT FRAMEWORKS

Impact Reporting and Investment Standards
Impact Reporting and Investment Standards (IRIS) provides a standardized taxonomy and a set of consistent definitions for social, environmental and financial performance. This has helped investors and ventures to use a common language when reporting on impact. The IRIS initiative has involved the development and refinement of standards, the promotion of adoption of these standards and the solicitation of anonymous performance data to build a data repository. It was founded in early 2008 by a coalition that included the Rockefeller Foundation, the Acumen Fund and B Lab, and is now hosted at the Global Impact Investing Network. The initial version of the standards was launched in mid-2009, and has been continually updated since then.

The IRIS data repository allows for the aggregation of data from funds and industry networks. IRIS is intended to coexist with other measurement initiatives, such as the Global Impact Investing Rating System (GIIRS), in order to provide industry stakeholders with a common language for output indicators (although not outcomes or impacts). While there has been steady adoption of IRIS among leading impact investors, there is evidence to suggest that its adoption is hampered by the fact that it only facilitates shared understanding of outputs, while investors are more concerned with outcomes.

Global Impact Investing Rating System

Rating Status: Preliminary Rating

GIIRS IMPACT RATED

Rating Date: 3/27/2012

Company Name: Waste A Go Go

★★★

COMPANY RATINGS REPORT

GIIRS ratings are reviewed, rigorous, transparent, comprehensive, and comparable ratings of company impact. GIIRS helps investors make money while solving the world's most challenging problems. GIIRS Driving Capital to Impact

Powered by B Lab

COMPANY RATINGS SUMMARY

Section Weight	Impact Area	Stars	Total Pts (200 Pts Avail.)
	OVERALL	★★★	98.8
5.0%	Governance Related to a company's mission, stakeholder engagement, governance structure, controls, and overall transparency	★★★★	7.8
20.0%	Workers Focuses on how the company treats its workers through compensation, benefits, training, ownership, and work environment.	★★★★	24.9
22.5%	Community Covers the company's impact on external community stakeholders	★★	19.2
22.5%	Environment Focuses on indirect and direct environmental impact of the company and its operations	★★★★★	47.0
30%	Socially & Environmentally Focused Business Models (SEM) Highlight a company's core impact business model, amplifying their positive impact beyond simply high impact business practices	N/A	21.0 (Points distributed in their relevant impact areas.)

COMPANY DESCRIPTION

Company Description: Waste A Go Go is Peru's largest manufacturer of bottled lemonade

Company Mission: We believe in the preservation of the environment and strive to reduce waste in all of our product manufacturing.

Sector: Manufacturing

Primary Market of Operations: Emerging

Industry Category: Manufactured Goods

Size (# of Employees): 100

Industry: Beverages (ISIC 11)

Primary Country of Operations: Peru

Products & Services: LemonadeLemonade

Revenue Range: $20,000,000 - $99,999,999

B Corporation? No

Date Founded: 9/15/2001

Section Weights: Weighting on a particular impact area within the company's assessment. Weights vary based on the companies sector, size, and geography

Stars: Set ranges based on quintiles of GIIRS Pioneers; reset bi- annually (see below for ranges)

Overall Rating	Overall Points	Impact Stars	GOV Points	WOR Points	COM Points	ENV Points
GIIRS Rated	0 to 79	★	0-2.9	0-17.9	0-12.9	0-0.9
		★★	3-4.9	18-20.9	12-25.9	5-10.9
★★★	80-99.9	★★★	5-6.9	21-23.9	26-38.9	11-24.9
★★★★	100-124.9	★★★★	7-8.9	24-28.9	39-69.9	25-39.9
★★★★★	125+	★★★★★	9+	29+	70+	40+

Global Impact Investing Rating System (GIIRS) Ratings and Analytics represent a set of third-party assessments of the social and environmental impact of both companies and funds. GIIRS Impact Ratings are analogous to Morningstar investment ratings or S&P credit risk ratings, and provide third-party ratings of social and environmental performance for impact investment in the private markets, particularly private equity and debt investments in companies and funds. Using a series of key performance indicators (KPIs) and guided by the IRIS taxonomy of definitions, the GIIRS assesses companies, as well as funds and their portfolio companies, on four performance areas: governance, workers, community and environment. The impact assessment used to generate GIIRS ratings is also used to certify B Corporations.

These assessments are intended to be comprehensive, comparable and complementary across the B Analytics platform that allows investors to compare data across sectors, regions and organizational sizes. GIIRS Company Impact Ratings offers a company seeking investment capital a rating of its social and environmental impact including: an overall rating; ratings in approximately 15 sub-categories; KPIs relevant to the company's industry, geography, size and social mission; and benchmark data highlighting a company's performance as compared to its peers. A GIIRS Fund Rating is comprised of the score from a Fund Manager Assessment (10% of total rating) and an aggregation of the scores of the companies in the fund's portfolio (90% of total rating).

Social Return on Investment
Social Return on Investment (SROI) is a principles-based methodology used to monetize the social value created by social or environmental initiatives. While there are many variations in the theory and practice of SROI analysis, the SROI Network has emerged as a body that provides intellectual leadership by publishing a comprehensive "Guide to SROI," offering training efforts that can lead to accreditation and facilitating industry-building through regional networks, including SROI Network Canada.

SROI has gained the attention of many stakeholders, including investors, because it speaks the language of business and is viewed as an objective approach to capturing and communicating social value creation through numbers. All of these potential advantages also have their limitations, as SROI can be time- and resource-intensive, and may not always be the ideal tool for each situation. The process of doing an SROI is as important as the set of numbers that emerges at the end, and is the reason that the SROI Network has insisted on a principles-driven approach that maintains the integrity of the methodology.

Environmental, Social and Governance Metrics
Environmental, social and governance (ESG) metrics are largely associated with the practice of responsible investing among large institutional investors, although they have broader significance as well. The concept is to integrate ESG metrics into fundamental equity analysis, as would be done with any other risk factor. ESG integration is a risk-mitigation strategy that is applied across the whole portfolio, and is not the same as negative or positive screening, which focuses on specific stocks. Beyond portfolio design, there has recently been more activity in the area of shareholder advocacy and proxy voting, in order to proactively engage large corporations on their environmental performance, with mixed results.

A range of initiatives that draw on, or link to, ESG metrics have been spawned. Among the most prominent are the UN Principles for Responsible Investment (UNPRI), which states that ESG issues can affect the performance of investment portfolios, and so must rightly be considered within fiduciary responsibility. Service providers such as Sustainalytics and RiskMetrics provide ESG research and analysis to many large institutional investors, though often the quality and breadth/depth of research and analysis on the social metrics are limited in comparison to the environmental and governance information.

Demonstrating Value
Demonstrating Value is a measurement tool, targeted toward social ventures, that combines business performance monitoring with social impact evaluation. The tool helps ventures to map their organization and information needs, prioritize monitoring, design a snapshot to communicate the venture's impact, and implement monitoring and reporting improvements. Demonstrating Value is designed to support management and planning decisions and to communicate organizational value in order to attract investment and community support.

6.3 CHALLENGES OF IMPACT MEASUREMENT

Investors and ventures face a number of challenges in conducting impact measurement. These include comparability and standardization, cost and competing priorities.

Among investors, there is a desire for comparability and consistency in measurement. Confusion exists around the language used by different actors in the field of impact investing,[172 173] as well as the vastly different measurement systems required to reflect the impact potential of a diversity of products and investment opportunities.[174] However, in a survey of Canadian impact investors, more than half indicated that they, or their ventures on their behalf, use a customized or proprietary measurement system to convey the unique impact created by a venture. This level of customization has resulted in a diversity of measurement methods that has contributed to investor confusion in the field of measurement. According to Anshula Chowdhury, CEO of Social Asset Measurements, "The field of social impact measurement is challenged by a lack of standardization of indicators. In Canada, we lack financial proxies that are specifically suited to our context. However, this also creates an opportunity in terms of crowdsourcing indicators and financial proxies."

> "Investors and ventures face challenges in figuring out the cost and benefit of impact measurement,"
>
> – ANSHULA CHOWDHURY, CEO OF SOCIAL ASSET MEASUREMENTS

Both investors and ventures benefit from robust measurement of a venture's impact, but with limited resources available, many are reluctant to divert resources from operations to measurement. "Investors and ventures face challenges in figuring out the cost and benefit of impact measurement," says Chowdhury. Ventures face many competing priorities for their time and resources, while investors are concerned about having their investees divert attention from operations to conduct measurement. For this reason, many investors are keen to find ventures that have already integrated measurement into their operations, to avoid the challenge of diverting attention to the creation of new measurement procedures.[175]

6.4 OPPORTUNITIES FOR IMPACT MEASUREMENT

In spite of these challenges, there are a number of opportunities for investors, ventures and intermediaries to improve existing impact measurement practices, including collaboration and sharing sector-based measurement strategies.

Investors understand the challenges and limitations of existing measurement frameworks and recognize that they cannot individually address these challenges. In a recent survey, several investors expressed a willingness to partner with other organizations to work through some of these challenges. **Investors could collaborate with their peers to carry out due diligence. Such collaboration would also benefit ventures by streamlining measurement requirements.** This collaboration is already happening internationally through networks such as Toniic, which conducts social and financial due diligence and monitoring for its members. By working together and developing common standards where possible, impact investors could reduce the costs of measurement and develop harmonized metrics, which would enable greater comparability within a sector.

Investors could also reduce the burden on ventures and achieve comparability between investments within a sector by developing shared sector-based metrics strategies. Investors are cognizant of the limitations of "one size fits all" measurement approaches that attempt to capture impact across all sectors. By convening around sector-specific metrics, investors could improve the efficiency and applicability of measurement for their investments. As well, IRIS offers a range of sector-specific metrics that may be helpful to investors. A broad range of organizations, including ventures and intermediaries, could be involved in the development of these strategies to ensure stakeholder buy-in.

PROFILE

SOCIAL ASSET MEASUREMENTS

Social Asset Measurements harnesses technology to measure the impact of non-profits, for-profits and the public sector. According to CEO Anshula Chowdhury, "Non-profits and for-profits use our social impact measurement services to demonstrate their value to funders, to improve program outcomes and to increase employee engagement. Investors, such as foundations, use our services to assess where they should be investing and to assist with their annual reporting." To serve these clients, Social Asset Measurements has developed a suite of software tools: Sabita Indicator and Financial Proxy Database, which enables clients undertaking SROI analysis or other outcomes-based frameworks, and Ira Impact Reporting and Management Suite, which allows clients to report on their social impact across geographies and programs.

7.0

GOVERNMENT ENGAGEMENT

OVERVIEW

Federal, provincial and municipal governments play an important role in building the infrastructure necessary to advance impact investing. Governments are able to do this through different mechanisms, both direct and indirect, that can effectively shape the policies and programs necessary to develop and grow the impact investing market.

- While there have been some examples of **directing capital,** for example, Nova Scotia's CEDIFs and Ontario's Green Energy Act, they are the exception rather than the rule.
- **Demand development** include enabling corporate structures. In Canada, two new hybrid corporate models were formed in 2012: the Community Contribution Company (CCC) in British Columbia and the Community Interest Company (CIC) in Nova Scotia.
- Across Canada, there has been very limited change in investment rules and requirements that support **supply development** for impact investing, though this is slowly beginning to evolve in areas such as program-related investing, mission-related investing and crowdfunding.

Borrowing from the impact investing policy framework proposed by the Impact Investing Policy Collaborative (IIPC), this section will specifically outline the role of government as an outside influence through three categories of policy intervention: directing capital, supply development and demand development. This section provides a snapshot of government policy interventions across the country, rather than a comprehensive picture of all government activity in impact investing.

Policy Framework

POLICY FRAMEWORK		
SUPPLY DEVELOPMENT	**DIRECTING CAPITAL**	**DEMAND DEVELOPMENT**
Investment rules and requirements	Taxes, subsidies, reporting requirements and intermediation	Enabling "corporate" structures
Co-investment	Procurement	Capacity building

Government influence

Government direct participation

Source: Pacific Community Ventures, Impact Investing: A Framework for Policy Design and Analysis.

Through tax credit and incentive programs, governments have been able to direct capital to key sectors to create opportunities for impact. Some provincial governments have also played a key role in developing demand for capital for social enterprises, for example, through enabling corporate structures. Lastly, governments have played an enabling role in supply development by changing the existing investment rules and requirements.

It is important to note the impact investing field is relatively new in Canada, and many government policies and regulations in this area are ad hoc and under development. Moreover, there is a lack of holistic impact-investing strategy at the national and provincial levels. As a result, the policies, regulations and programs discussed in this section vary in scope, geographic focus, efficacy and issue area. Overall, however, most of the recent regulations and activities point to the increased government awareness of the significance of impact investments. Many governments have started to evaluate current investment rules and regulations in order to identify gaps in the system and devise effective, long-term and systematic solutions to address these limitations.

A Selection of Government Demand Development and Capital Directing Activities

BRITISH COLUMBIA **Type:** Demand development **Name:** Community Contribution Company	The Community Contribution Company (CCC) was created in British Columbia's Bill 23 Finance Statutes Act, 2012. This hybrid social enterprise structure must allocate at least 60% of its value toward social purposes.[177] The remaining value must be distributed to investors. CCCs must publish annual community contribution reports providing details of their social spending, community activities and dividend payment. In cases where a CCC is dissolved, at least 60% of its value must be directed toward social purposes, with the remaining value to be distributed to investors. British Columbia's first CCC, Accelerating Social Impact CCC Ltd., was launched in July 2013. The model is expected to unlock new ways to generate meaningful local employment and wealth for the province.[178]
SASKATCHEWAN **Type:** Directing capital **Name:** Go Green Fund	The Go Green Fund supports results-based projects that reduce greenhouse gas emissions, water or biodiversity conservation, water-quality improvements, waste reduction and enhanced public understanding of environmental issues.
MANITOBA **Type:** Directing capital **Name:** Community Enterprise Development Tax Credit	Established in 2003, the Community Enterprise Development Tax Credit responded to community need for investment capital. The program offers a non-refundable 30% credit for resident investors in eligible community enterprise development projects.[179] Eligible enterprises receive a maximum of $1 million in repayable capital and investors can earn up to a maximum of $9,000. As of April 2009, a total of $1.9 million had been invested in 12 community enterprises that had been approved under the Community Enterprise Development Tax Credit.[180]
MANITOBA **Type:** Directing capital **Name:** Neighbourhoods Alive! Tax Credit	Established in 2011, the Neighbourhoods Alive! Tax Credit is a non-refundable 30% income tax credit provided to corporations that partner with charitable organizations to create new social enterprises in Manitoba. Donations from corporations with a permanent establishment in Manitoba provided prior to the establishment of a social enterprise or during the first three years of its operation are eligible. The newly created social enterprise must be fully owned by a Manitoba charitable organization and at least 25% of its employees must have been facing multiple barriers to employment when hired.
ONTARIO **Type:** Directing capital **Name:** Ontario Green Energy and Green Economy Act	The Ontario Green Energy Act and Green Economy Act (GEA) was established in 2009 to expand renewable energy generation, remove barriers to clean energy projects, encourage energy conservation and promote the creation of clean energy jobs.[181] As of 2011, the government indicated that the GEA had created 20,000 jobs, leveraged more than $27 billion in private investment,[182][183] supported more than 30 companies operating or planning solar and wind manufacturing facilities, and reduced coal usage.[184]
NOVA SCOTIA **Type:** Directing capital **Name:** Equity Tax Credit	Established in 1993, the Equity Tax Credit Act assists small businesses, co-operatives and community economic development initiatives in obtaining equity financing by offering personal income tax credit to individuals investing in eligible businesses. The income tax credit is worth 35% of investments, up to a maximum annual credit of $15,000.

NOVA SCOTIA **Type:** Directing capital **Name:** Community Economic Development Funds	In 1999, Nova Scotia amended the Equity Tax Credit Act to create the Community Economic Development Funds (CEDIF) program. CEDIFs create a pool of investment capital available to local businesses and simplify the offering process. Through the program, investors can obtain an additional 20% credit for holding their shares for five years or more.[185] The economic impact of the program has also been significant. Please refer to section 2.7.2 for detailed description of Community Economic Development Investment Funds (CEDIFs).
NOVA SCOTIA **Type:** Directing development **Name:** Community Interest Company	In December 2012, Nova Scotia passed the Community Interest Companies Act, with the aim of establishing a new category of share capital company. Community Interest Companies (CICs) combine elements of both for-profits and non-profits and are based on the UK Community Interest Company, a successful legal vehicle for social and community enterprise. Eligible organizations must have a community purpose; to keep assets of CICs in the public realm, there are caps and an asset lock on financial returns. While it is too early to tell the impact of this new corporate form, it is expected to accelerate the development of Nova Scotia's 1,098 social enterprises.[186]
NEWFOUNDLAND & LABRADOR **Type:** Directing capital **Name:** Direct Equity Tax Credit Program	The Direct Equity Tax Credit, established in 2000, provides a provincial income tax credit of 30–35%, up to a maximum of $50,000, for investments made in small businesses in key growth sectors of the economy, with permanent establishment in Newfoundland and Labrador.[187]
PRINCE EDWARD ISLAND **Type:** Directing capital **Name:** Community Economic Development Business Program	Launched in 2011 under the Community Development Equity Tax Credit Act, the Community Economic Development Business program provides a 35% personal income tax credit, up to $7,000, to individuals investing in businesses approved by the Community Economic Development Business program.

7.1 DIRECTING CAPITAL: TAX CREDITS & REFORMS

Governments can direct capital through tax programs, subsidies and reporting requirements that can favour impact investing. In Canada, government intervention through tax credit and incentive programs has been the most notable, directing capital to community enterprises or businesses with environmental and social mandates. While there have been some very successful examples of directing capital, for example, Nova Scotia's CEDIFs and Ontario's Green Energy Act, they are the exception rather than the rule.

CANADIAN TASK FORCE ON SOCIAL FINANCE

Recommendation #6:
To encourage private investors to provide lower-cost and patient capital that social enterprises need to maximize their social and environmental impact, a Tax Working Group should be established. This federal-provincial, private-public Working Group should develop and adapt proven tax-incentive models.

7.2 DEMAND DEVELOPMENT: ENABLING CORPORATE STRUCTURES

Demand development activities are programs or policies that increase the demand for impact-investing capital or build institutional capacity of projects and investees.[188] Recognizing the limitations of traditional corporate structures, British Columbia and Nova Scotia have started to explore different models that combine elements of both not-for-profit and for-profit structures. In Canada, two new hybrid corporate models were formed in 2012: the Community Contribution Company (CCC) in British Columbia and the Community Interest Company (CIC) in Nova Scotia.

These new models, similar to other hybrid corporations such as the Low-Profit Limited Liability Companies (L3C) in the US and Community Interest Company (CIC) in the UK, reflect the growth of interest in businesses that generate social and/or environmental returns as well as financial return. These new structures help clarify what constitutes a social enterprise, and accommodate the various elements of corporate structure that allow companies as well as investors to clarify and optimize the balance between social impact and financial return objectives. Another form of enabling corporate structure – Benefit Corporations – are being adopted across several US states, but not yet in Canada.

CANADIAN TASK FORCE ON SOCIAL FINANCE

Recommendation #5:
To ensure charities and non-profits are positioned to undertake revenue generating activities in support of their missions, regulators and policy makers need to modernize their frameworks. Policy makers should also explore the need for new hybrid corporate forms for social enterprises.

7.3 SUPPLY DEVELOPMENT: INVESTMENT RULES AND REQUIREMENTS

Supply development involves the creation of investment rules and requirements to facilitate a greater flow of capital in the impact-investing marketplace[189]. Supply development activities affect how the marketplace performs by attracting capital, mitigating risk or reducing the cost of financial transactions. Governments can choose to influence the development of capital through rules and requirements that affect who can invest, the types of intermediaries that can support financial transactions and where investment can take place. Across Canada, there has been very limited change in investment rules and requirements that support supply development for impact investing, though this is slowly beginning to evolve in areas such as program-related investing, mission-related investing and crowdfunding.

PROGRAM-RELATED INVESTING: UPDATED CRA GUIDANCE

Under Canada Revenue Agency (CRA) regulations, charities, including foundations, are permitted to make PRIs.[190] New CRA guidance (Community Economic Development Activities and Charitable Registration (CG-014), RC 4143), issued in July 2012, expands the eligible PRI recipients to include non-qualified donees.[191] Under the new guidance, the foundation must maintain control of their PRI to non-qualified donees, in order to ensure that the investment is aligned with foundation's own activity.[192]

CROWDFUNDING

Crowdfunding has gained popularity in recent years as an effective tool for businesses to raise funds. In the US, crowdfunding has gained momentum with the passing of the Jumpstart Our Business Startups Act, which allows businesses to raise capital from non-accredited investors. Canada's securities laws do not permit crowdfunding to finance a business through the issuance of securities, as the issuer must provide a prospectus, an offering memorandum or an exemption from prospectus requirements.[193] Instead, most crowdfunding activity has centred on raising funds for small projects that do not involve the issuance of securities.

Crowdfunding Models

MODELS	DESCRIPTION	PLATFORM
Donation/reward	Financial contribution without any expectation of a financial return	Kickstarter, Indiegogo
Lending	Lending with an expectation that it will be repaid	Kickstarter, Indiegogo
Pre-purchases	Contributors receive the product or service being offered	Kickstarter, Indiegogo
Peer-to-peer lending	Contributors provide funds on a temporary basis, expecting repayment	Funding Circle, Prosper
Equity securities crowdfunding	Crowd-investing in an issue in exchange for securities	Not yet allowed in Canada. Saskatchewan is currently exploring this option.

Some provincial governments have started to explore crowdfunding as a means to open the supply of capital for enterprises. Saskatchewan's Financial and Consumer Affairs Authority (FCAA) released a concept proposal in July 2013, proposing an exemption to their Securities Act, 1988, which would legalize equity crowdfunding for startups with a two-year sunset clause.[194] Similarly, the Ontario Securities Commission (OSC) began a review of National Instrument 45-106, Prospectus and Registration Exemptions (NI45-106), in June 2012, and released a consultation paper to "identify issues that stakeholders may have about the use of the exemptions and to obtain information that would assist in deciding whether changes are necessary or appropriate."[195] The review aimed to foster greater access to capital markets by startups and SMEs while maintaining appropriate investor protection.

PROFILE

Ontario

ONTARIO OFFICE OF SOCIAL ENTERPRISE

Launched in 2012, the Ontario Office for Social Enterprise (OSE) promotes social entrepreneurship across Ontario. "We are the one entry point into government for social enterprise stakeholders," says Ryan Lock, director of social enterprise at the Ontario Ministry of Economic Development and Innovation. "We play a coordinating role across the many different ministries and agencies of the government with an interest in social enterprise."

The wide mandate of the OSE includes raising awareness of Ontario social enterprises, building the sector's credibility, aligning resources and attracting investment. The office also addresses challenges internal to government, such as legislation and intergovernmental collaboration.

"Government is uniquely qualified to enact supportive policies," says Helen Burstyn, special advisor at the OSE. "There are long-standing policy challenges and punitive rules when it comes to social enterprise. We're here to help build the bridge between the different levels of government to create an enabling environment."

The OSE is also ready to work with similar offices in other provinces to ensure that the Canadian marketplace excels. "Sometimes there is a healthy rivalry between jurisdictions, but there are other issues for which rivalry doesn't make sense," says Burstyn. "We need to work together as a collective on issues such as impact measurement and the G8 process, to speak with one voice."

While there has been some progress across the country in establishing regulatory environments that support the development of the impact investing market, there is still room for improvement. **Less-developed provinces can use the experience of leading provinces to support supply-development initiatives.** With a few provinces leading the way in demand development through new corporate forms, other provinces should pay close attention to early results. In terms of regulation, despite early attempts to begin unlocking capital through changing rules and requirements, there remains a lack of clarity, as well as restrictions on the activities of charities and non-profits, which continue to delay the placement of capital.

> "There are long-standing policy challenges and punitive rules when it comes to social enterprise. We're here to help build the bridge between the different levels of government to create an enabling environment."
>
> – HELEN BURSTYN, SPECIAL ADVISOR AT THE OSE

Government attention to these issues is growing and may be approaching a point at which more concerted government strategies will successfully catalyze the impact investing marketplace. To reach this tipping point, more work is needed across the country on all three fronts — directing capital, supply development and demand development.

OFFERING MEMORANDUM EXEMPTIONS

Offering Memorandum (OM) exemptions allows issuers to sell their securities to anyone. An OM exemption could enhance capital raising options for SMEs, including those with a social or environmental mission,[196] without the high cost of issuing a prospectus. An OM exemption is currently available in all provinces except Ontario, although that province is beginning to explore options. In August 2013, in its Exempt Market Review, the OSC announced that they are considering an OM exemption for late-stage companies.

One area of supply development that requires action is the limitation on foundations' abilities to invest in limited partnerships. In Canada, many impact investing opportunities are structured as limited partnerships, but under the Federal Income Tax Act, public foundations and charities may operate a related business only if it is "linked and subordinate" to the charity's purpose or operated primarily by volunteers; private foundations are prohibited from operating any business. Many foundations argue that the ability to invest in limited partnerships would allow them to diversify their revenue streams and encourage innovation.

SUMMARY

While there has been some progress across the country in establishing regulatory environments that support the development of the impact investing market, there is still room for improvement. Less-developed provinces can use the experience of leader provinces to support supply-development initiatives. With a few provinces leading the way in demand development through new corporate forms, other provinces should pay close attention to early results. In terms of regulation, despite early attempts to begin unlocking capital through changing rules and requirements, there remains a lack of clarity, as well as restrictions on the activities of charities and non-profits, which continue to delay the placement of capital.

Government attention to these issues is growing and may be approaching a point at which more concerted government strategies will successfully catalyze the impact investing marketplace. To reach this tipping point, more work is needed across the country on all three fronts — directing capital, supply development and demand development.

8.0

SUMMARY & RECOMMENDATIONS

OVERVIEW

Our research demonstrates that interest in impact investing is increasing and it is gaining traction across Canada. However, there are still unrealized opportunities that are not being exploited.

- Leadership and resources are required to advance the impact-investing marketplace,
- As is more intentional collaboration across public, private and social sectors.

In this section, we present a set of recommendations that can enhance the activity and leadership around impact investing in Canada in the coming years, as well as examples of organizations that are actively moving forward on some of these areas.

S

For asset owners
Institutional asset owners can play an important role in signalling their interest for embedding impact considerations into their investment decisions and creating the conditions and incentives within which to do so.

We recommend that asset owners:
1. Commit to integrating non-financial considerations within investment strategies and approaches, including long-term time horizons, broadened articulation of stakeholder analysis and ESG integration.
2. Signal the availability of capital for promising impact opportunities and incentivize asset managers to seek opportunities that view impact as an important consideration of the risk/return assessment.
3. Revisit the concept of fiduciary responsibility in order to encompass social or environmental considerations, such as accounting for multi-generational time horizons and risk mitigation from embedding these issues.

Realizing Potential: The Global Impact Investing Network (GIIN) is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return.

S

For asset managers
Asset managers have an important role to play in harnessing the opportunities that impact investing presents, particularly in building their own awareness and capabilities.

We recommend that asset owners:
1. Integrate social and environmental considerations within investment analyses, in order to assess how impact considerations reflect the holistic nature of value creation (from a risk as well as reward perspective).
2. Use, and contribute to, various initiatives that map, analyze, report and certify extra-financial value, such as the GIIN.
3. Signal the availability of capital that will be made available to promising impact opportunities, and encourage other investors to introduce opportunities to co-invest in impact deals.
4. Assess the feasibility of tapping into existing community development financial institution and financial institution infrastructure to access local impact opportunities.

Realizing Potential: The United Nations Principles of Responsible Investment (UNPRI) Initiative is an international network of partners that have committed to six principles of responsible investment related to the incorporation of ESG analysis into investment analysis and decision-making.

S

For financial institutions

Financial institutions are well positioned to harness impact investing across several business lines, with the potential for new customer acquisition, product development and reputational benefits.

We recommend that financial institutions:

1. Create products and build capacity to serve social enterprises and the not-for-profit/charitable sectors by adapting existing products to these organizations or building new, customized products.
2. Develop a greater range of "on-book" products that focus on high-growth impact sectors (for example, natural resources, affordable housing) that are made available to institutional, accredited and eventually retail investors.
3. Identify latent demand from retail investors around products that integrate impact considerations, and design products and supporting processes (for example, advisor education) to maximize awareness and uptake.
4. Integrate social and environmental considerations within strategic and operational decision-making (for example, procurement) in a manner that goes beyond traditional corporate social responsibility.

Realizing Potential: The Global Alliance for Banking on Values (GABV) is a membership organization, made up of the world's leading sustainable banks, from Asia, Africa, Australia, Latin America, North America and Europe. Member banks – which include three Canadian credit unions – comply with sustainable banking principles and share a commitment to finding global solutions to international problems.

S

For foundations

Public, private and community foundations have embraced impact investing as a concept, and there are opportunities for accelerated activity and collaboration.

We recommend that foundations:

1. Prioritize board education to encourage members to harness the full range of foundation assets toward supporting the organization's mission, and empower leaders and staff to align grant-making and investment strategies.
2. Set targets and commitments for MRIs.
3. Work with other impact investors to build a pipeline of compelling impact-investing opportunities across specific sectors, regions, or issue areas.

Realizing Potential: The leaders of Community Foundations of Canada and Philanthropic Foundations Canada have adopted the first recommendation of the task force to increase MRI among Canadian foundations. Both organizations have provided ongoing education and leadership for their member organizations.

I

For financial advisors and planners

While there are encouraging signs of latent interest among retail investors, for the most part there is a low degree of activity and awareness. Advisors and planners can provide clarity around where impact investing is appropriate and prudent for clients, so that clients are able to plan, invest and live in a manner consistent with their values.

We recommend that financial advisors and planners:

1. Surface latent demand for impact investing via proactive awareness and education campaigns, including those that target younger investors and savers who seem to be open to investing in this manner.
2. Coalesce data to demonstrate that the traditional notion of the trade-off between financial returns and social impact is a false dichotomy, and to assist in building product options that are comparable to mainstream offerings.
3. Engage clients and peers in education and awareness-building through industry events and continuing education programs.

Realizing Potential: The Responsible Investment Association (RIA) is a national, membership-based organization. Its members include financial institutions, mutual fund companies, investment firms, financial advisors, and organizations and individuals who practice and support all types of responsible investing. The RIA and its members strongly believe that responsible investing is a valuable investment tool that can be used to enhance returns, reduce risk and catalyze positive social change.

I

For intermediaries and enablers

While there are not many intermediary organizations in the market today, their eventual emergence will be vital to support the growth and evolution of impact investing. Intermediaries and enablers play a number of roles; to enhance their importance and engagement, we recommend that they:

1. Build platforms and standards that improve access to and sophistication of data that can be used for investment decisions, and to make it easier to find opportunities to syndicate deals.
2. Support capacity development and investment readiness models that strengthen the quality of the investment pipeline, taking into account sector-specific and/or geography-specific preferences.
3. Identify and communicate examples of successful models, investments and opportunities, including making information on available opportunities and capital sources accessible to all market segments.
4. Specialized intermediaries can begin to benchmark, report and verify realized financial and social performance of impact investments, and develop and refine accessible measurement tools for both investors and investees.

Realizing Potential: Chantier de l'économie sociale is a network of more than 20 organizations and networks across various sectors committed to advancing Québec's social economy. Chantier has worked with its partners to create innovative financial instruments, develop supports for social enterprises, and convene key stakeholders to create an enabling policy and regulatory environment.

I

For universities and research institutions
Research and educational institutions can leverage their students' interest in impact investing to nurture students who can put these principles into practice.

We recommend that universities and research institutions:
1. Increase the quantity and quality of research and teaching around impact investing, and increase links to related sectors (such as social entrepreneurship and finance)
2. Develop approaches to collaborate with practitioners to address market gaps around data or research, using approaches that balance academic rigour with practitioner relevance and utilization.

Realizing Potential: The Canadian University Research Alliance on Responsible Investing brings together 31 national and international organizations and networks of practitioners, academics and stakeholders from the investment sector, university research centres and key stakeholders in the field to provide research and analysis.

D

For entrepreneurs
Business owners and leaders are increasingly concerned with understanding the non-financial implications of capitalism, in order to build stronger businesses or exploit new market opportunities.

We recommend that entrepreneurs:
1. Embed values and practices that balance profit, people and the planet within the strategy and operations of new or growing businesses, and communicate these practices authentically.
2. Showcase successful business models that embed social or environmental considerations, particularly those that counter the perceived trade-off between financial returns and social impact.

Realizing Potential: Certified B Corporations are companies that use businesses approaches to improve their social impact. There are now over 780 Certified B Corporations in 25 countries across 60 different industries. Canada has more than 75 B Corporations in six provinces.

D

For non-profit and charitable organizations
Leaders of social sector organizations should take advantage of the opportunities that impact investing provides, and build their knowledge and expertise around how to best harness impact investing.

We recommend that non-profit and charitable organizations:
1. Encourage greater education of boards and staff around the possibilities provided by different forms of capital, and how these forms of capital can be employed collectively in order to amplify social impact.
2. Strengthen organizational capacity to adopt innovative approaches to service delivery, including outcome-based approaches that have strong mission alignment and contribute to revenue diversification.

Realizing Potential: The Canadian Community Economic Development Network (CCEDNet) is a national, member-run organization with regional representation in eight provinces and territories. CCEDNet's mission is to strengthen Canadian communities by creating economic opportunities and improving social and environmental conditions.

Realizing Potential: Enterprising Non-Profits (ENP) promotes and supports social enterprise development and growth as a means to build strong non-profit organizations and healthier communities. ENP provides educational resources to support social enterprise development, and works at the national and regional levels to support research and development within the field.

P

For government
Governments at all levels will continue to be important for impact investing, either through direct participation or indirect influence. There are many effective strategies that governments can adopt; we recommend that they:

We recommend that government:
1. Share their successes with co-investment and procurement (at all levels of government) more widely so that other jurisdictions can learn from their experiences.
2. Clarify and simplify the rules to allow charities and non-profits to harness revenue-generating activities that link to mission fulfillment.
3. Provide incentives to integrate and strengthen the practice of impact measurement.
4. Provide signalling to impact-investing, either by direct participation (risk mitigation through first loss) or by contributing to enabling infrastructure (reduce costs of doing business for everyone).
5. Clarify fiduciary duties for institutional investors to enable participation in the impact investing market.

Realizing Potential: B.C. Social Innovation Council was established in January 2011, and included individuals drawn from government, Aboriginal and community organizations, and business agencies with an interest in social entrepreneurship. Its mandate is to explore how social innovation, with an emphasis on social finance and social enterprise, can be utilized to strengthen the resiliency of British Columbia.

Ecosystem development

In order for the sum of activity in the market to be greater than its constituent parts, there will need to be intentional efforts to bridge traditional divides between the groups above. Specific organizations or collaborative groups may need to step up and play the role of convenor, or purpose-built networks may need to be built to make this happen. In order to further develop the impact investing ecosystem, we recommend that organizations:

1. Define impact investing in a manner that balances inclusivity and specificity
2. Improve access to and sophistication of data, in order to facilitate deals and track growth, including market-sizing, accurate and timely reporting, and verification of realized financial and social performance.
3. Recognize the need to facilitate and animate sector-specific and/or region-specific activity, in order to account for the diversity of activity across the country.
4. Share stories of successful impact investments, as well as those that have been less successful, more widely in order to strengthen the practice of prudent investment analysis, decisions and monitoring.
5. Make progress on each of the Canadian Task Force on Social Finance recommendations and share successes and lessons.

CONCLUSION

Impact investing in Canada is growing in profile, activity and sophistication. While it remains a relatively small segment of the overall capital markets, recent activity has been encouraging in terms of new development around increased transaction activity, intentional policy and regulation efforts, enhanced marketplace coordination, and greater mainstream profile and awareness. Our analysis of current activity also highlights significant opportunity for further growth in impact investing in the coming years, which is consistent with global trends.

As we look forward, we expect the supply-side, demand-side and intermediary actors to work together more closely to demonstrate results in terms of successful transactions, tangible impact and demonstrated capacity enhancement. Individual, political and organizational leadership is required to catalyze the growth of impact investing in Canada. Across the country, leaders from the public, private and community sectors have emerged to advance systemic changes to the way capital is invested. They have done this by:

- testing, learning and adapting new forms of finance and business practices in order to create positive social or environmental impact with financial returns;
- advancing change in public and institutional policy in order to facilitate the flow and placement of capital; and,
- strengthening the pipeline of investment ready non-profit and for-profit social enterprises and impact initiatives.

USEFUL TERMINOLOGY

B Corporation: A certified business that meets standards of social and environmental performance, accountability and transparency, as governed by B Lab.

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

Capital matching platforms: Connect impact ventures, funds, investors and service providers by providing due diligence as well as matching services.

Community Bond: The community bond is an interest-bearing loan that is accessible to unaccredited investors and can only be issued by non-profit organizations.

Crowdfunding platforms allow social ventures and entrepreneurs to raise funds through contributions from unaccredited investors. These take the form of donations and pre-sales; outside of Canada there are also some debt and equity offerings.

Financial-first investors: Investors who prioritize a financial return over a desirable social or environmental objective(s), such as commercial investors seeking close-to-market-rate returns with an intended social or environmental good.

Impact-first investors: Investors who target social or environmental good as their primary objective. May allow a lower-than-market rate return in order to reach tougher social or environmental objective.

Impact investing: An impact investment is an investment in a project, business or financial vehicle with the explicit intention to create a positive impact and generate a financial return. Impact investors seek to move beyond "doing no harm," and toward intentionally deploying capital in businesses and projects that can provide solutions to social and environmental problems.

Mission-Related Investing: Mission investments seek opportunities to align a foundation's financial investments with the mission of the organization, while maintaining targeted financial returns.

Patient capital: Allows for a long-term investment that may include flexible terms.

Program-related Investments (PRI): Investments, rather than grants, made to a qualified donee. They are funded with money from a foundation's endowment funds, and for the primary purpose, not of income generation, but of furthering the foundation's charitable purposes. This type of investment can apply toward meeting the foundation's disbursement quota.

Social enterprise: Organizations that employ market-based strategies to accomplish a social or environmental mission. Like conventional enterprises, social enterprises can provide goods or services (or both), and can operate in any number of sectors. They also take a variety of forms: they can be structured as a for-profit or non-profit organization, a co-operative, a mutual organization or a social business.

Social finance: A broad approach to finance that includes investment strategies such as responsible investing, socially responsible investing, community investing, microfinance, social enterprise lending, venture philanthropy and impact investing.

END NOTES

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