

Impact Investing for Sustainable Community Development

by

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Abstract

There is a new emerging market that redirects capital to organizations that have positive social and/or environmental objectives; it has been termed “impact investing”. This marketplace provides an avenue to address social and environmental issues while still making a financial return. This research contributes to a greater understanding of this marketplace and how impact investing contributes to sustainable community development. This research also takes an organizational lens to highlight the organizational structures and processes that are needed to implement an impact investing program. The methods used for this research include a case study and key informant interviews. The findings reveal that there is a connection between impact investing and sustainable community development as these investments provide an opportunity to address community level issues, increase the flow of dollars within a community, and help build community capital.

Keywords: Impact investing; sustainable community development; risk; foundations

Dedication

To my old colleagues at Engineers Without Borders Canada who inspired me to pursue this degree.

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Table of Contents

Approval.....	ii
Ethics Statement.....	iii
Abstract.....	iv
Dedication.....	v
Acknowledgements.....	vi
Table of Contents.....	vii
List of Tables.....	x
List of Figures.....	xi
Chapter 1. Introduction.....	1
Chapter 2. Literature Review.....	4
2.1. Sustainable Community Development.....	4
2.1.1. Introduction.....	4
2.1.2. Sustainable Development.....	4
2.1.3. Sustainable Community Development (SCD).....	6
2.1.4. Community Economic Development.....	11
2.2. Impact Investing Landscape.....	13
2.2.1. Introduction.....	13
2.2.2. Defining Impact Investing.....	13
2.2.3. Defining Impact.....	14
2.2.4. The History of Impact Investing.....	17
2.2.5. The Evolution.....	19
2.2.6. The Ecosystem.....	21
2.2.7. Opportunities & Motivations.....	22
2.2.8. Challenges & Barriers to Development.....	25
2.3. Canadian Policy Landscape.....	29
2.3.1. Introduction.....	29
2.3.2. Role of Public Policy.....	30
2.3.3. Legal Regime for the Social Sector.....	32
2.3.4. Policy Recommendations.....	35
2.3.5. Challenges for Policymakers.....	38
2.3.6. Opportunities for Policymakers.....	39
2.3.7. Future Policy Work.....	41
Chapter 3. Research Methodology.....	42
3.1. Introduction.....	42
3.2. Research Objectives and Questions.....	42
3.3. Case Study Approach.....	43
3.3.1. Case Study Design.....	43
3.3.2. Case Study Selection.....	45

	Vancity Community Foundation	46
	Role of Foundations	47
3.4.	Data Collection	48
3.4.1.	Document Review & Participant Observation	49
3.4.2.	Key Informant Interview	50
	Interview Design	50
	Participant Selection and Recruitment	52
3.5.	Data Analysis	53
3.6.	Impact Investing Implementation Framework	55
3.7.	Limitations	56
 Chapter 4. Results & Analysis		58
4.1.	Introduction	58
4.2.	Learning Stage	58
4.2.1.	Language	59
	Impact Investing	59
	Program Related Investments & Mission Related Investments	60
4.2.2.	Different Forms	61
4.2.3.	The Potential	62
4.2.4.	Barriers & Risks	63
	Barriers	63
	Risks & Mitigation Techniques	64
4.3.	Designing Stage	70
4.3.1.	People	70
4.3.2.	Plan/Approach	72
4.3.3.	Policy	77
4.3.4.	Decision-Making Process	79
4.4.	Activation Stage	81
4.4.1.	Investment Pipeline	81
4.4.2.	Evaluation	82
4.4.3.	Monitoring Performance	88
 Chapter 5. Discussion & Recommendations		91
5.1.	Introduction	91
5.2.	Key Findings	92
5.2.1.	Need for a Strong Enabling Environment	92
	Language	93
	Investment Forms	93
	Impact Measurement	94
5.2.2.	Leading Role of Foundations and the Role of Policy	96
5.2.3.	The Risks of Impact Investments	99
5.2.4.	Lack of Risk Assessment Tools	100
5.2.5.	Implementation of an Impact Investing Program	102
5.3.	Recommendations	103
5.3.1.	Define a Clear Strategic Focus	103
5.3.2.	Outline Impact Measures	103
5.3.3.	Understand that Risk is Multi-Dimensional	104
5.3.4.	Collaboration and Networking is Key	105

5.3.5. Maintain Flexibility	105
5.3.6. Still a Need for Charity	105
5.4. Direction for Future Research	106
Chapter 6. Conclusion	108
References	112

List of Tables

Table 1.	Canada’s Impact Investment Assets in Canada	19
Table 2.	Phases of Industry Evolution & Leadership	20
Table 3.	Promising Sub-Sectors for Impact Investing	24
Table 4.	Current Legal Forms and the Difficulties for Social Enterprises	33
Table 5.	Market Builder Policy Recommendations	37
Table 6.	Purchaser of Social Outcomes Policy Recommendations	37
Table 7.	Market Steward Policy Recommendations	37
Table 8.	Five Phases of Research	45
Table 9.	Key Informant Interviews	53
Table 10.	Key Risks of Impact Investing	65
Table 11.	Risk Mitigation Techniques	66
Table 12.	Common Elements of an Impact Investing Policy.....	78
Table 13.	VCF Decision-Making Process	80
Table 14.	Social Enterprise Evaluation Criteria	83

List of Figures

Figure 1. Community Capital Framework	9
Figure 2. Logic Model	15
Figure 3. Canada’s History of Impact Investing	18
Figure 4. Impact Investment Ecosystem	22
Figure 5. Policy Framework for Impact Investing Analysis	31
Figure 6. Convergence of Evidence.....	49
Figure 7. Qualitative Analysis as a Circular Process	54
Figure 8. Impact Investing Implementation Framework	56
Figure 9. Impact Investing Continuum	61
Figure 10. Geographic Approach to Impact Investments.....	74
Figure 11. VCF Investment Portfolio	75
Figure 12. VCF Geographic Approach to Investments	76
Figure 13. VCF Impact Investing Governance Structure	80
Figure 14. J.P. Morgan Impact Investing Evaluation	86

Chapter 1.

Introduction

Over the past decade there has been an ever-growing international market for redirecting capital financing to organizations that have positive social and/or environmental objectives. This concept has been coined 'impact investing'; it provides a way to address social and environmental issues while turning a profit and potentially unlocking investment capital to complement charity (Harji & Jackson, 2012). Impact investing is a financial investment that is intended to create positive social and/or environmental impacts beyond financial return (Bugg-Levine & Emerson, 2011). It is a catalyst for opportunity and reduces the adversities caused by the many challenges we face today such as climate change, poverty, and the loss of community. By positioning investments toward positive impacts, societal risks can be reduced and financial and social and/or environmental rewards can be achieved.

Community impact investing has a narrower scope that actively places capital in communities and domestic markets for financial and nonfinancial return (Thornley & Dailey, 2012). An example of this type of investment could include a private debt product that offers community loans to social enterprises or towards a specific impact activity such as affordable housing, education, ecological stewardship, or employment within a community. These types of investing practices facilitate sustainable community development (SCD) by focusing on local actions to address social, environmental and economic problems. These actions include creating economic self-reliance and local wealth, gaining community control over local resources, becoming ecologically sustainable, meeting individual needs, and building community culture (Nozick, 1999).

Impact investing, in all its forms, is an emerging marketplace and many stakeholders are concerned with the evaluation and performance measurement of these investments (Thornley & Dailey, 2012). In order to break down the barriers and scale this industry there is a critical need for accountability and data for decision-making. This includes structures and processes to ensure that proper controls are established to make investments. An important element is a systematized due diligence process that can assess the risk and returns of a specific impact investment like that of a traditional financial investment but with the additional element of impact. The government also holds a vital role in building this marketplace in Canada as they can help stimulate investment, enable the marketplace, build investor confidence, and be an active investor.

This research paper explores how impact investing contributes to SCD through the regeneration of wealth into local economies and its intention of achieving a social and/or environmental return. Given that SCD is achieved through the mobilization of a community and its different actors, this research has a functional emphasis on organizational investing strategies and practices, demonstrating how an organization can invest for both a social and financial return. The purpose of this lens is to help build the structures and processes that will move more capital into the marketplace. Specific examples will be provided throughout this paper, in addition to a specific case study.

On a theoretical level, this research contributes to a better understanding of the impact investing industry and emphasizes the link between impact investing and SCD. On a practical level, this research contributes to a better understanding of how organizations and more specifically foundations are implementing an impact investing strategy and participating in this marketplace. The focus on foundations is important because foundations are a natural driver in this market. Impact investing allows foundations to align their investments with their mission and foundations can also assume a greater amount of risk, both factors drive this market forward (Clark, Emerson & Thornley, 2015).

This paper is divided into six chapters and following this introductory chapter is a literature review. This chapter discusses the relevant literature to this study including a summary on sustainable community development, the landscape of the impact investing industry, and the Canadian policy environment for impact investing. Chapter three describes the methodology used for the research study, chapter four discusses the research findings, chapter five provides a discussion, outlines the lessons learned and offers direction for future research, and finally chapter six draws conclusions.

Chapter 2.

Literature Review

2.1. Sustainable Community Development

2.1.1. Introduction

The purpose of this section is to provide insight on the concepts of sustainable development, sustainable community development, and community economic development. This section includes relevant definitions, examples, and provides linkages between each of the concepts. The literature review including sections 2.1, 2.2, and 2.3, provides the foundation for establishing the research questions and objectives.

2.1.2. Sustainable Development

The term 'sustainable development' has become a popularized term that has developed out of awareness for the world's environmental problems, socio-economic issues, and concerns about the future health of humanity. The term became prominent in 1980 during the World Conservation Strategy that identified sustainability as the basic goal of society (LeLe, 1991; Hopwood et al., 2005). The term was most famously expressed in the Brundtland Report (LeLe, 1991; Hopwood et al, 2005; Roseland, 2012)

where it defines sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p.43).

In addition to becoming popularized, the term ‘sustainable development’ is also widely criticized for its ambiguity, which allows the concept to be interpreted in many different ways. The term recognizes that humans depend on the environment, creating a link and tension between economic growth (the capitalist market) and environmental limits. The different views or interpretations stem from how to handle this tension in order to develop sustainably. Haughton (1999) discusses many different views on how to achieve sustainable development and breaks them down into three broad categories: status quo, reform, and transformation. The status quo view is that sustainable development can be achieved within the present structures, the reform view is that fundamental reform is needed to achieve sustainable development, and finally transformation is that radical transformation is needed because the roots of the problem are the economic and power structures of society (Haughton, 1999).

It is also common to find different views placed along a continuum with weak sustainability on one end and strong sustainability on the other (Hamstead & Quinn, 2005; Roseland, 2012). Weak sustainability has the view that natural and manufactured capital is interchangeable with technology (Hopwood et al., 2005). Therefore, this view believes that environmental problems will be resolved through technological change and that continued economic growth is needed to achieve sustainable development. On the other end of the spectrum is strong sustainability, which has an opposite view that natural capital cannot be replaced by human made capital, particularly those processes that are vital to human existence (Hopwood et al, 2005). Natural capital includes both renewable and non-renewable resources that provide a flow of valuable goods and services in the future (Roseland, 2012). Therefore, this view does not support the substitution of natural capital for human made capital and in order to achieve sustainable development there must be a reduction on the demands of natural resources. This view also emphasizes the role of society and recognizes the interconnectedness of social, economic, and environmental systems (Rees, 1995).

Roseland (2012) outlines three core elements to sustainable development – embedding environmental considerations in economic decision-making, making a commitment to social equity, and understanding that ‘development’ is different than ‘growth’. The distinction between growth and development is that growth refers to a quantitative increase such as more jobs, more buildings, more equipment, more sales, etc. and in turn has negative side effects such as more pollution that can be detrimental to a community (Schaffer et al., 2006). Development refers to both a qualitative and quantitative improvement and is long-term, purposeful, implies more understanding, and creates resilience in a community (Schaffer et al, 2006). Daly (1990) points out that an economy can grow without developing and it can develop without growing.

In practice there have been many struggles trying to operationalize the concept of sustainable development. At a global scale, Agenda 21, the Johannesburg plan, the Rio+20 commitments, and the most recent 2030 Agenda demonstrate the political support for sustainable development, but there are few concrete actions that can be identified. The more concrete actions towards implementation can be observed at the local level (Roseland, 2012). Evans (2002) points out that sustainability outcomes will be dependent on what communities decide to do and there are many other researchers that support implementing action at the community level in order to achieve sustainable development. This scale of focus recognizes that this is where people live and where their actions contribute to environmental, social, and economic problems. Therefore, this view also supports developing solutions at the same scale and through community involvement. This scale of focus leads to the next section on sustainable community development.

2.1.3. Sustainable Community Development (SCD)

Sustainable community development (SCD) takes the concept of sustainable development and applies it to the level of a community. The community level is key to creating change for sustainable development because communities are interconnected. What one community engages in will affect other communities and in order to effect

change at a global scale, our communities must change first (Roseland, 2012). Each community is unique and requires continuous adjustments in order to meet the needs of its citizens and the environment. SCD acknowledges that our individual and collective actions contribute to environmental, social, and economic problems (Otto-Zimmerman, 2002) and emphasizes the importance of developing local level solutions. The goal of SCD is to build community capital through the mobilization of the community and its different actors such as government, businesses, citizens, non-profit organizations, etc (Roseland, 2012).

There are many communities that have defined their own vision of a sustainable community and to provide some examples the definitions from three communities within the province of British Columbia, the City of North Vancouver, the City of Surrey, and the City of Revelstoke, are noted below:

The City of North Vancouver defines sustainability as: “managing our communities in a way that balances the social, economic, and environmental implications of our activities in order to meet the needs of people today without compromising the ability of future generations to meet their own needs” (City of North Vancouver, n.d.).

The City of Surrey defines sustainability as: “the principle of meeting the needs of the present generation in terms of socio-cultural systems, the economy and the environment while promoting a high quality of life but without compromising the ability of future generations to meet their own needs” (City of Surrey, n.d., “Sustainability Charter”, p.12).

The City of Revelstoke defines sustainability as: “a mindset – a philosophy and approach for decision-making that permeates everything we do and choose not to do – as individuals and collectively. The core of sustainability is to achieve a good life today, and create the potential for a quality future for the next generation. A sustainable society depends upon the achievement of four conditions – not as isolated priorities, but as interconnected essentials: a vibrant, healthy and inclusive community, a healthy environment, a responsible and innovative economy, and a strong leadership collaboration in government and the community (at all levels). A sustainable community depends on everyone working together – it cannot be achieved by any one party acting alone” (City of Revelstoke, 2013, “Sustainable Community Action Plan”, p.i).

As shown above, each of these communities has defined their vision of sustainability and there are similarities among the definitions. These definitions highlight the three pillars of sustainability, which are society, economy, and the environment and their interconnectedness. All of the definitions also highlight the need for both inter- and intra-generational equity. The City of Revelstoke's definition also clearly emphasizes the importance of community involvement and collective decision-making. It is important to note that in addition to creating their own definition of sustainability, each of these cities has taken action according to their local needs and priorities. The local needs and priorities evolve over time with changes in values and contexts, which in turn change the sustainability initiatives within a given community.

The SFU Centre for Sustainable Community Development (CSCD) is a teaching and research unit that focuses on SCD. The definition that the Centre uses to describe a sustainable community is based on five principles (Roseland et al, 2007; Centre for Sustainable Community Development, n.d., "What is Sustainable Community Development?"):

1. *Equity and long-term thinking*: using resources to meet current needs while ensuring that adequate resources are available for future generations.
2. *Living within environmental limits*: maintaining nature's ability to function over time.
3. *Development*: seeking a better quality of life for all residents.
4. *Integrated governance and decision-making*: decision-making stemming from a rich civic life and shared information among community members.
5. *Systems thinking*: we are part of a living system in which human, natural and economic elements are interdependent and draw strength from each other.

CSCD also thinks of communities in terms of community capital, or a collection of assets, as the foundation for SCD (Roseland, 2012). This is not a new way of thinking because there have been several efforts to describe SCD in terms of social, economic, and environment capital, which align with the three pillars of sustainability. CSCD has

created a framework (shown in Figure 1 below) that is made up of six community capitals, natural, physical, economic, human, social, and cultural capital, and uses this framework as a way to illustrate the need for integration and to implement sustainability in different types of communities. The goal of SCD is to adopt strategies, structures and processes that mobilize citizens and their government to improve all six capitals (Roseland, 2012). Therefore, at the heart of SCD is community mobilization by having citizens participate in the decisions that affect their lives. Creating this culture of community involvement within communities can identify the values, visions, and outcomes necessary to make communities sustainable (Roseland, 2012).

Figure 1. Community Capital Framework



Source: Roseland, 2012

As mentioned above, local needs and priorities evolve over time with changing values and contexts, which in turn change the sustainability initiatives within a given community. The values and contexts are also different from one community to the next. Some examples of the actions taken or planned from the City of North Vancouver, the City of Surrey, and the City of Revelstoke are discussed below. It is clear that within these three communities sustainable development is a priority and differing actions are being taken that are dependent on their local context.

The City of North Vancouver published their 2012 sustainability achievements, which included changing zoning bylaws to increase the number of affordable housing

units, supporting local food production including regular local farmers' markets, increasing the number of alternative transportation routes to reduce the number of single occupant vehicles on the road, implementing on-street recycling programs and a green can pickup program to reduce solid wastes, and increasing community engagement through outreach programs.

The City of Surrey created a Sustainability Charter and within the charter there are socio-cultural, economic and environmental goals identified with actions for implementation including time frames and spheres of influence (corporate operations, municipal jurisdiction, and influencing other levels of government). One action within the goal of social sustainability and the sphere of municipal jurisdiction includes promoting First Nation culture and traditions through partnerships. One action within the goal of economic sustainability and the sphere of corporate operations includes utilizing the maximum funding to support the development of green infrastructure in the city. Finally, within the goal of environmental sustainability and the sphere of influencing others includes an action of advocating for improved legislation for critical wildlife habitat protection.

The City of Revelstoke created a sustainability action plan that identifies priority actions within seven different strategy or goal areas. The seven different areas include healthy ecosystems and linked open spaces, strong community capacity, compact and connected community, resilient infrastructure, responsive and caring social systems, vibrant culture, and a dynamic and local economy. Some examples of the actions for Revelstoke include pursuing opportunities for parks/green space associated with schools (healthy ecosystems and linked open space), exploring and supporting options to expand local gardening and agriculture activities (strong community capacity), and improving marketing for general recreation options available in Revelstoke (dynamic and local economy).

The next section will discuss a fundamental component of sustainable community development, which is community economic development (CED).

2.1.4. Community Economic Development

There are many definitions of CED and some themes can be captured among these definitions. CED has been described as “a very innovative approach to business that deliberately interweaves economic with social goals, especially in order to boost the power and quality of life of disadvantaged people and regions. It is about transforming whole communities from economic ‘spectators’ into players who generate benefits for themselves and many others who come into contact with them” (Gent, 2001, p.25). Similarly, the Canadian CED Network defines CED as “action by people locally to create economic opportunities that improve social conditions, particularly for those who are most disadvantaged.” It also explains that CED is an “approach that recognizes that economic, environmental and social challenges are interdependent, complex and ever-changing.” Roseland (2000) provides a working definition from the former Community Economic Development Centre (CEDC) now known as the CSCD as “the process by which communities can initiate and generate their own solutions to their common economic problems and thereby build long-term community capacity and foster the integration of economic, social and environmental objectives” (SFU CEDC, 1996). The common themes among the definitions include roots in local knowledge, locally initiated and controlled action and solutions, a long-term and holistic approach, and building capacity within a given community. Given these themes it is clear that CED is a fundamental component of SCD when the five principles outlined by the CSCD are revisited. CED provides equity and long-term thinking, considers environmental limits, seeks development and not growth, provides local level decision-making, and takes a holistic and systems approach by considering economic, social and environmental objectives. It is also important to note that the core of both CED and SCD is community mobilization and decision-making.

In the past, economic and community development were two very distinct concepts with economic development focusing on jobs, income, and business growth, and community development focusing on things like equal rights and political processes (Shaffer et al., 2006). CED brings together these two previously separate concepts. Shaffer et al. (2006) discusses different strategies for CED including increasing the flow

of dollars into a community, increasing the recirculation of dollars in a community by plugging economic leakages and actively seeking ways to spend more money locally, increasing the amount of resources available in a community, having a collaborative decision-making process with sound analysis, and changing or reinterpreting rules that can be beneficial to a community. Shaffer et al. (2006) also highlights six elements that need to be considered when trying to understand a community's economy or when trying to initiate some change, which includes: resources, markets, space, institutions and rules, culture and society, and decision-making.

There are many different examples of CED and they range from 'buy local' programs, car co-operatives such as Modo in Vancouver, increasing affordable housing supply through zoning that promote a variety of housing types as noted above in North Vancouver, community supported agriculture to preserve farmland and help farmers while also providing locally sourced food, community futures development corporations and credit unions across Canada that provide financing to small-to-mid sized businesses, community investment co-operatives such as Forks and Knives in Vancouver, and venture incubators such as Radius at SFU (Roseland, 2000). Boothroyd (1991) makes an argument that the general objective of CED is the same across communities, which is to shift some level of control from the market back into the hands of the community.

The next section (2.2) will provide insight on impact investing which can help promote SCD and CED when done at a community level. As mentioned in the introduction of this paper, community impact investing actively places capital in communities creating a shift in resources and control as explained by Boothroyd. This research paper will continue to emphasize the link between impact investing and SCD and how this practice of investing can help achieve SCD through creating more economic self-reliance and wealth, greater control over local resources, and considering economic, environmental, and social objectives.

2.2. Impact Investing Landscape

2.2.1. Introduction

As noted above, the literature review in its entirety has provided the foundation for establishing the research questions and objectives. This section reviews the landscape of the impact investing industry providing relevant definitions, how it has developed, and both its opportunities and barriers to growth.

2.2.2. Defining Impact Investing

The term impact investing was coined in 2007 by the Rockefeller Foundation (Harji & Jackson 2012) and there are many other names being used in the marketplace to describe this type of investing such as double or triple bottom line, responsible investing, ethical investing, mission related investing, program related investing, blended value, and economically targeted investing (Hebb, 2013; Freireich & Fulton, 2009; Bugg-Levine & Emerson, 2011). It falls under the field of social finance (Geobey & Weber, 2013) and it is the creation of an overlapping system where investors intentionally invest for a blended return (Bugg-Levine & Emerson, 2011).

Given that impact investing is a relatively new term there has been much discussion around its definition. However, the Canadian Task Force on Social Finance (2010) has defined it “as the active investment of capital in businesses and funds that generate positive social and/or environmental impacts, as well as financial returns (from principal to above market rate) to the investor” (Canadian Taskforce on Social Finance Report, 2010, pg. 5). Within this definition the investor has both the intention and awareness on blended returns. There are four core characteristics of impact investing that the Global Impact Investing Network (GIIN) outlines, including: (1) intentionality, (2)

investment with a return expectation, (3) a range of return expectations and asset classes, and (4) impact measurement.

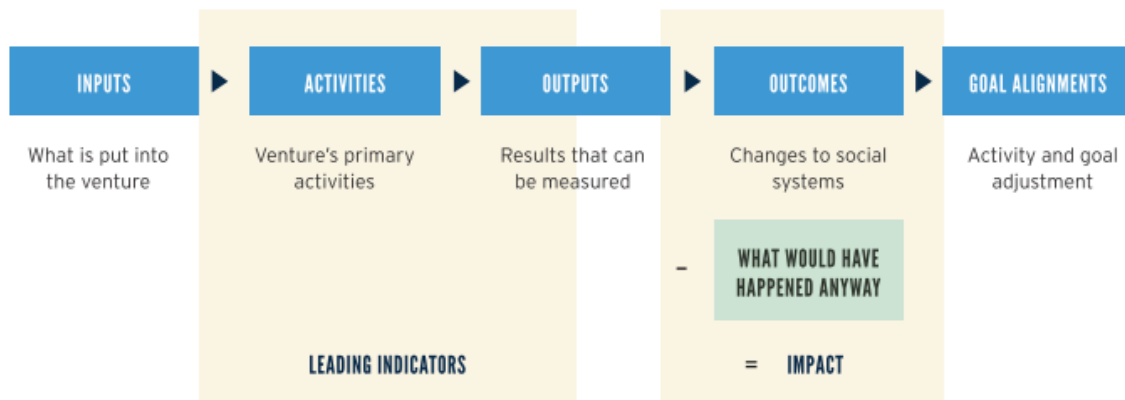
Impact investing is a broad term under which a wide range of investors can gather including the microfinance investor, the green-tech venture capitalist, and the low-income housing lender. Impact investing also expands across asset classes including real estate, private equity, infrastructure, public equities and fixed income and there are some who believe that impact investing is an emerging asset class itself (Hebb, 2013). Most importantly, impact investing is a new approach to creating innovative ways to address social needs while still making a financial return (Hebb, 2013). Martin (2013, p.4) shares the belief that “impact investing will be fundamental to the emerging imperative for sustainable growth and to the stewardship of society’s assets in the twenty-first century.” Given the positive externalities that impact investing can generate, governments are also beginning to become active partners and they hold a significant role in moving this market forward by creating structure, mitigating risk and providing financial return (Hebb, 2013), the role of government in this marketplace is discussed further in Section 2.3.

2.2.3. Defining Impact

In addition to defining impact investing it is also critical to understand what is meant by ‘impact’. As described above impact investing serves to generate both a financial return and a social and/or environmental return or ‘impact’. There are common financial indicators used to measure the financial return of different investments, to help inform and monitor investment decisions. The same common indicators do not exist for measuring social and environmental impact, but there are a number of different projects underway with goals of providing a common set of tools on social measurement (Jackson & Harji, 2012). An impact investor may provide a loan for an affordable housing project that will build 100 units and has an annual return of 5%. With this example there is no standardized way to determine the value of the 100 units of affordable housing. However, a logic model or impact value chain is one tool that can be used to describe

how a social venture creates value and where it can be measured. The logic model can help to depict and evaluate the logical relationships between inputs, activities, outputs, and outcomes of an investment opportunity, such as an investment in affordable housing. Developing a logic model can help you focus on what outcomes and impacts should be measured.

Figure 2. Logic Model



Source: Clark, C., W. Rosenzweig, D. Long and S. Olsen (2004). *Double Bottom Line Project Report: Assessing Social Impact In Double Bottom Line Ventures. Methods Catalog*. Available at http://www.community-wealth.org/_pdfs/articles-publications/social/paper-rosenzweig.pdf

Source: Clark, Rosenzweig, Long, and Olsen, 2004.

Figure 2 illustrates the basics of a logic model that also provides a specific definition for impact, “the total outcomes that happened as a result of the activities, above and beyond what would have happened anyway” (Clark, Emerson & Thornley, 2015, p.120). Going back to the example of the investment in an affordable housing project, the inputs for the investor would be the loan provided, the activity is building the affordable housing units, the outputs can include the number of units built, the short-term outcomes can include the number of people placed in more stable housing and increased affordability in the housing mix, and the long-term outcomes can include improved standard living, greater employment opportunities, reduced homelessness, and increased community vitality. To determine the real impact of a specific venture, such as an affordable housing project, this will require a randomized controlled trial, which is both very expensive and time consuming. Most social enterprises do not have

the resources available to conduct this type of experiment. In result, the theory of change is another useful tool for social enterprises to help delineate their impact (Clark, Emerson & Thornley, 2015). A theory of change analysis can use the logic model to understand the series of assumptions made between the outputs and the outcomes (Clark, Emerson & Thorley, 2015). The main idea of this analysis is that you share your assumptions and map them in a logical manner to determine if they are progressing in the way that you expect (Clark, Emerson & Thorley, 2015).

Measuring impact is a key part of impact investing, as previously noted as one of the four core characteristics of impact investing by GIIN. Impact measurement is important because investors need to have confidence that their investments will generate the returns that they are seeking in order to deploy capital (Harji and Best, 2013). In a research study conducted on social measurement of Canadian investors by Harji and Best (2013) they found that investors use social impact metrics for a variety of purposes. Some of the investors use these metrics to prove their impact and others believe that the metrics help to improve the nature of a venture. There are also many factors to consider when deciding what metrics to use and this research found that outputs are the easiest to collect and standardize and outcomes are more difficult. In addition, this research also found that investors noted that their due diligence process regularly included a mix of quantitative and qualitative metrics. It is important to note that not all social impacts can be quantified and therefore it is important to include qualitative measures in addition to quantitative measures in order to develop a deeper understanding and capture the nuanced information and indirect impacts. There is no 'right' approach to impact measurement, but the approach should be defined by the investors' risk tolerance, desired return, sector, geography, and quality of information (Harji and Best, 2013).

Impact investing can be linked back to the concept of sustainable development, which was discussed in Section 2.1, because of its creation of a social and/or environmental return, which helps to build (community) assets/capital. Section 2.1 also mentioned that the global nature of sustainable development masks the fact that outcomes or impacts are dependent on the actions of local communities (Evans, 2002). Each community will address the conflict between economic growth and environmental

limits differently and along the spectrum of weak to strong sustainability. Impact investing is one action that can be taken to help build different community capitals and this can be described using the community capital framework developed by the CSCD.

2.2.4. The History of Impact Investing

“The term ‘impact investing’ may be new, but the practice of investing in businesses that provide solutions to social challenges has been around for quite some time” (O’Donohoe et al., 2010, p. 15). This idea can connect back to the Quakers in 17th century England who wanted to connect their investment and purchase decisions with their values (Bugg-Levine & Emerson, 2011). “In one form or another, aspects of impact investing have been playing themselves out on the global stage for centuries. What we see before us today is simply its latest iteration, linking economics with social and environmental aspects of the human experience” (Bugg-Levine & Emerson, 2011, p. 6). There are many industries that have gone through the same evolution process as impact investing including microfinance, community development finance and venture capital/private equity (Freireich & Fulton, 2009).

The following figure outlines the milestones of impact investing in Canada and demonstrates its robust history dating back to the early 1900s with the introduction of Canada’s first credit union in Quebec.

Figure 3. Canada’s History of Impact Investing

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”

Source: Harji, Reynolds, Best, and Jeyaoganathan 2014.

Another important date that has not been highlighted in the above figure is the official recognition of the social economy in Canada in February 2004 in a Speech from the Throne. Within this speech the social economy (often referred to as the third sector) was defined as “the myriad not-for-profit activities and enterprises that harness civic and entrepreneurial energies for community benefit right across Canada” (Governor General Adrienne Clark, 2004).

The recent financial crisis of 2008 was also a significant event for impact investing as it highlighted the need for finance to help build a healthy society (Phillips & Hebb, 2010; Social Impact Investment Taskforce, 2014). In order to use finance “a paradigm shift in capital market thinking from two dimensions to three is required. By bringing a third dimension, impact, to the 20th century capital market dimensions of risk and return, impact investing has the potential to transform our ability to build a better society for all” (Social Impact Investment Taskforce, 2014, pg.1). The financial crisis also highlighted the importance of public policy in creating a sustainable third sector; there is a lack of effective public financing policies and regulatory frameworks for this sector

limiting the diversity of financing tools available (Phillips & Hebb, 2010). Public policy for impact investing will be discussed in more detail in Section 2.3.

In 2010, the Canadian Social Investment Organization (SIO) conducted a survey on the impact investment assets in Canada and Table 1 presented below is the findings from this research.

Table 1. Canada’s Impact Investment Assets in Canada

Impact Investment Assets by Category	Assets (millions)
Aboriginal Funds	285.7
Community Futures Development Corporations	910.60
Community Loan Funds and Social Venture Capital	348.80
Credit Unions	951.50
Foundations	32.0
International Impact Investments	5.60
Quebec - Development Capital	1,049.10
Quebec – Solidarity Finance	850.50
Total	\$4,447.80

Source: Bragg 2010

Table 1 presents only a snapshot at a particular point in time and does not speak to the potential of the Canadian marketplace. However, the State of the Nation (Canada) Report noted that a 2013 survey “indicated a 20% growth in the supply of capital from 2010 to 2012, with \$5.3B in impact investing assets in Canada” (Harji et al., 2014, p.16). However, these numbers should be taken with a grain of salt because the same report also discussed the difficulty in estimating the total market size due to a significant amount of data not available (Harji et al., 2014).

2.2.5. The Evolution

The Monitor Institute has described four phases that industries, such as the impact investing industry, can evolve through: 1) uncoordinated innovation, 2)

marketplace building, 3) capturing the value of the marketplace, and 4) maturity (Freireich & Fulton, 2009). The movement through these phases is not a linear process and the timing of each phase will differ for any given industry (Freireich & Fulton, 2009). Table 2 describes each of these four phases in more detail including how leadership can be cultivated at each stage as outlined by Bugg-Levine and Emerson (2011).

Table 2. Phases of Industry Evolution & Leadership

Phase	Uncoordinated Innovation	Marketplace Building	Capturing the Value of the Marketplace	Maturity
Description of Phase	<ul style="list-style-type: none"> - Disparate entrepreneurial activities spring up in response to market need or policy incentives. - Disruptive innovators may pursue new business models in seemingly mature industries. - The industry is characterized by a lack of competition except at top end of market. - Driven by charismatic entrepreneurs. 	<ul style="list-style-type: none"> - Centers of activity begin to develop. - Infrastructure is built that reduces transaction costs and supports a higher volume of activity. 	<ul style="list-style-type: none"> - Growth occurs as mainstream players enter a functioning market. - Entities are able to leverage the fixed costs of their previous investments in infrastructure across higher volumes of activity. - Organizations may become more specialized. 	<ul style="list-style-type: none"> - Activities reach a relatively steady state and growth rates slow. - Some consolidation may occur.
Drivers of leadership	<ul style="list-style-type: none"> - Charismatic visionaries create bold new organizations. - Effective communicators spread word about inspiring anecdotes of isolated success. 	<ul style="list-style-type: none"> - Industry-wide research and benchmarking provide evidence of larger impact. - Early pioneers band together to support industry-wide infrastructure (for example measurement standards). 	<ul style="list-style-type: none"> - “Messengers” translate compelling evidence of success to mainstream audience. - Successful investors scale rapidly by mobilizing partnerships and investment syndicates. 	<ul style="list-style-type: none"> - Large-scale players with strong brands bring credibility and awareness. - Attention turns to innovators who push the frontiers.

Source: Freireich & Fulton 2009 (Monitor Institute) & Bugg-Levine & Emerson 2011.

Impact investing was noted to be at a transitional point in its evolution in 2009 exiting the first phase of ‘uncoordinated innovation’ and moving into the ‘market building’ phase, according to the 2009 Monitor Institute Report (Freireich & Fulton, 2009). This transition was further confirmed in a 2012 report that suggested that the industry moved decisively to a sustained ‘market building’ phase (Harji & Jackson, 2012, p. xix). “Within this phase, it is also clear that the industry is shifting from a period focused on organizing itself and establishing initial infrastructure to one much more clearly focused on implementation” (Harji & Jackson, 2012, p. xix). There are achievements that help to mark the evolution of the impact investing industry including the mobilization of capital, emerging intermediaries, and the growth of innovative financial products and platforms for investors (Harji & Jackson, 2012). Harji & Jackson (2012) outline that the focus for the next five to ten years needs to be on standards, policy, innovative finance structures and financial products, investor collaboration and management capacity for investee enterprises. As shown in Table 2, the marketplace building phase includes infrastructure development to support the activities, which is also aligned with the goals and purpose of this research.

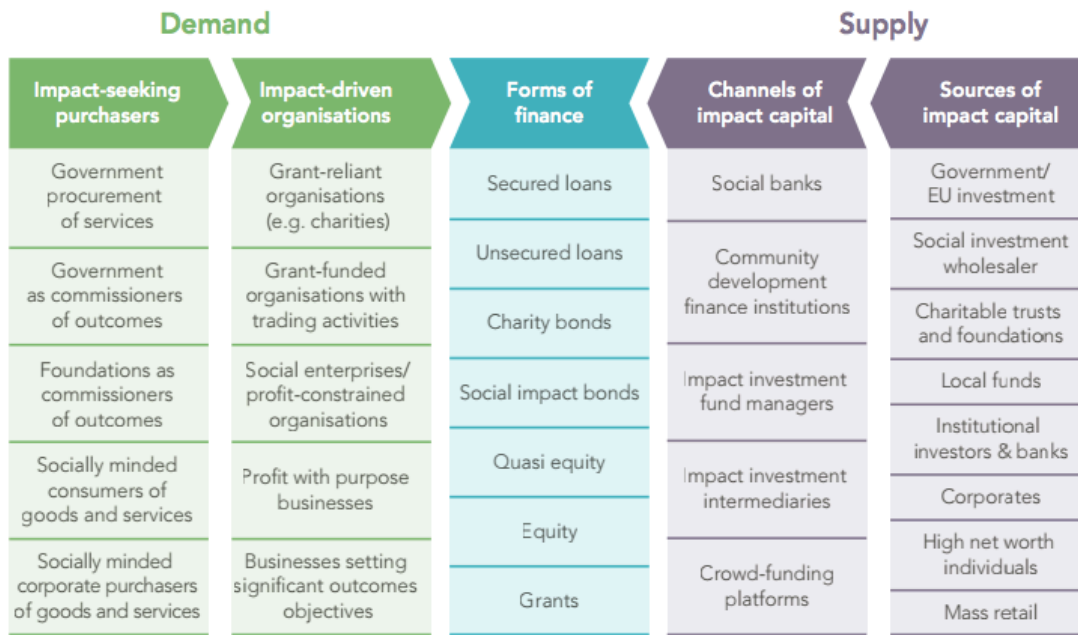
2.2.6. The Ecosystem

The impact investing marketplace, like all other markets, consists of a combination of supply, demand, and intermediaries. The Social Impact Investment Taskforce outlines the five key elements of this ecosystem listed below and examples of each element are provided in Figure 4.

1. ***Impact-seeking purchasers*** that provide revenue sources to support investment in impact-driven organizations.
2. ***Impact-driven organizations*** that have a long-term social mission, outcome objectives and measure their achievements.
3. ***Forms of finance*** that is different financial forms to meet the needs of different investment requirements.

4. **Channels of impact capital** that connect investors to impact-driven organizations.
5. **Sources of impact capital** that provide investment flows that are needed.

Figure 4. Impact Investment Ecosystem



Source: Social Impact Investment Taskforce, 2014.

The focus of this research, which is discussed in more detail in the Research Methodology, is on the supply side of the market and how more capital can be moved into the marketplace. An organizational lens is taken on impact investing practices, with a specific focus on community foundations.

2.2.7. Opportunities & Motivations

“The world is on the brink of a revolution in how we solve society’s toughest problems. The force capable of driving this revolution is ‘social impact investing’, which harnesses social entrepreneurship, innovation

and capital to power social improvement” (Social Impact Investment Taskforce, 2014, p. 1).

Over the past six years the impact investing industry has been experiencing growth with a lot of new interest and activity. This spark of interest is being fuelled by a few factors including, the failure of existing resources to address global issues such as poverty and environmental destruction, the ability to finance scalable business models that create social and environmental value, the new generation of high net worth individuals that want capital allocations aligned with their values, and the consideration of risk in investment decisions fed by the 2008 financial crisis (Jackson & Harji, 2012). In addition, there is a growing interest in capital providers due to diversification and a new investment approach, this is a vehicle for family collaboration and involving younger generations, there is a herd of talent due to the interest from young professionals, and there is early success in creating a positive reputation from microfinance, community development, and clean technology industries (Freireich & Fulton, 2009; Godeke & Pomares, 2009). “Every one of us is confronting the shared reality that regardless of who is in political office or what the latest social trend is, our social and environmental challenges are too vast and our financial resources are too limited for our current approaches to work” (Bugg-Levine & Emerson, 2011, p. 6). Due to these factors mentioned, impact investing is a provocative and disruptive industry that has the potential to create considerable social change and break our traditional investment mold.

The experimentation with this new type of investing suggests that, “using profit-seeking investment to generate social and environmental good is moving from a periphery of activist investors to the core of mainstream financial institutions” (Freireich & Fulton, 2009, p. 5). This industry is bringing together two previously separate worlds, investing and philanthropy. To be a supporter of this industry you do not have to be keen on traditional capitalism, but you do need to accept that there are some social challenges that the combined effort of government and charity cannot solve (Bugg-Levine & Emerson, 2011).

Bugg-Levine and Emerson (2011) have mentioned six subsectors for rapid exploration that may present promising opportunities for impact investors, which include:

health care, affordable housing in emerging markets, education, agriculture, distributed utilities, and restructured social spending. Table 3 below summarizes each of these six opportunities.

Table 3. Promising Sub-Sectors for Impact Investing

Sub-Sector	Reasons
Health Care	<ul style="list-style-type: none"> - Within most poor countries, individuals are already buying health care services from the private sector - Examples: Acumen Fund, African Health Fund, and International Finance Facility for Immunization
Affordable Housing	<ul style="list-style-type: none"> - > 1 billion people living in urban slums - Need for decent, low cost homes, long-term fixed rate mortgages, and resolve issues of legal title
Education	<ul style="list-style-type: none"> - Increasing demand for education and private sector is stepping up to fill gaps - Lack of access to finance prevents many schools from increasing capacity and quality
Agriculture	<ul style="list-style-type: none"> - Food price volatility - Innovative ways to capitalize local farmers by providing loan guarantees, direct investments in farms, and provide financing and expertise to local farmers
Distributed Utilities	<ul style="list-style-type: none"> - Government entities have failed at delivering basic utilities - Distributed and off-the-grid solutions are being supported
Restructured Social Spending	<ul style="list-style-type: none"> - Creative finance structures such as social impact bonds

Source: Bugg-Levine & Emerson, 2011.

In addition to the promising opportunities in the subsectors noted above, there is also a special role for organizations to play in moving this industry forward. “Some charitable foundations are beginning to see themselves as the natural drivers of impact investment, especially the kind that carries the greatest financial risk and the potential for the highest social return” (Clark, Emerson & Thorley, 2015, p.xvii). Aligning a foundation’s investments with its mission is a natural fit and strategic approach and provides the ability to have a greater impact (Clark, Emerson & Thornley, 2015). This provides the opportunity to leverage philanthropy dollars for impact investments and recycle the returns to compound the impact achieved.

A major focus of this research is on how to support these charitable foundations in implementing an impact investing policy, which in turn will move more capital into impact investments. This research uses a framework developed by Mission Investors Exchange to help community foundations implement a successful impact investing program. Mission Investors Exchange is a membership organization that has a priority of supporting organizations that want to learn or are currently using investing as a strategy for philanthropic goals. This framework outlines the structures that are needed to be successful in three different stages of developing an impact investing program, which are the learning stage, the design stage, and the activation stage. This framework will be discussed in more detail in both the Research Methodology and Analysis section of this paper.

In addition to the motivations and opportunities of the impact investing industry, there are still significant challenges and barriers to the development of the industry. The next section will discuss this in more detail.

2.2.8. Challenges & Barriers to Development

“Impact investing is not charity. It requires and demands every bit of the same disciplined approach currently being applied to traditional investing if it is to succeed” (Godeke & Pomares, 2009, p. 124).

While the opportunities and motivations are supportive to the impact investing industry, there are also barriers and challenges that are constraining the industry from moving forward. The impact investing industry operates in a world where there are two separate systems in place, one for investment or profit and the other for philanthropy, non-profit or social change. In this bifurcated world, laws and regulations, leadership development systems, value measurement systems, and institutions (also known as the enabling environment) are established to separately facilitate investors and donors; presenting barriers to the development of the impact investing industry (Bugg-Levine & Emerson, 2011). Impact investors need to change this bifurcation and create a new blended value system. “The success of impact investing will necessitate transformation

in multiple systems, from capital markets, to performance measurement, to public policy” (Bugg-Levine & Emerson, 2011, p. 148).

The 2009 Monitor Institute Report highlighted three major challenges standing in the way of moving the impact investing industry forward including, i) a lack of efficient intermediation caused by fragmented demand and supply, complex deals, and a lack of understanding of risk, ii) a lack of enabling infrastructure resulting from the bifurcated industry of philanthropy and investment, and iii) a lack of sufficient absorptive capacity of capital. In addition, Godeke and Pomares (2009) describe the barriers of development to include: having active ownership and layers of intermediaries, the disconnect between long-term investment objectives and short-term evaluations of consultants, the lack of consensus on how to measure impact, the lack of investment infrastructure, and the lack of understanding of the impact theory between the investor and advisor. The following discusses the details of these challenges under the three headings adapted from the 2009 Monitor Institute report.

i) Lack of Intermediation or Moving Capital

The lack of efficient intermediation is mainly the result of the divide between philanthropy and investment. Some of the fund managers are reluctant to seek more than financial return inhibiting the growth of impact investments (Freireich & Fulton, 2009). “The lack of intermediation also makes the technical complexity of deals more of a challenge. Some investors are discouraged by impact investing because of the difficulty involved in trying to have a positive social and environmental impact and to structure deals with different types of capital and investors” (Freireich & Fulton, 2009, p. 21). Impact investing is less appealing to those investors that have to invest the additional effort in sourcing and conducting the due diligence on their investments (Freireich & Fulton, 2009).

Jackson and Harji (2012) found that “placing and managing capital has proven to be more difficult than raising capital” (Jackson & Harji, 2012, p. xiv). The difficulties are

in result to the lack of exit strategies, the lack of products offered, the models of risk assessment, and high transaction costs (Jackson & Harji, 2012).

ii) Lack of Infrastructure or Enabling Environment

As impact investing is “still an emerging industry, it lacks the models, theories, policies, protocols, standards, and established language that would enable it to flourish. The market environment and infrastructure (e.g., regulatory, legal, tax) is highly structured around conventional investing, which constrains actors who are trying to engage in impact investing” (Freireich & Fulton, 2009, p. 21).

Impact investors do not understand the risks and trade-offs required for these types of investments and there are no standardized metrics, risk assessment frameworks, performance measures, or rating agencies established or well-accepted to make them more transparent (Freireich & Fulton, 2009; Mendell & Barbosa, 2013; Evans 2013). It is also very difficult to communicate about the investment opportunities because of the lack of a universal language (Freireich & Fulton, 2009). In regards to impact reporting, there is a number of global projects and smaller decentralized projects underway that are gaining significant momentum with a shared goal of providing a common set of tools on social measurement (Jackson & Harji, 2012).

Governments can play a critical role in creating an enabling environment by “encouraging impact investing through appropriate investment rules, targeted co-investment, taxation, subsidies and procurement, as well as corporate legislation and capacity development that enable the efforts of investors, intermediaries and enterprises in this space” (Jackson & Harji, 2012, p. xvii). Policy in impact investing can intervene on both the supply and demand side of the market by increasing the amount of capital for investment, increasing the availability or strengthening the capacity of capital receivers, or adjusting the terms of trade, market norms, or prices (Thornley, et al., 2011). The industry must have market coordination and collaboration in order to push for policy changes and gain government involvement. Section 2.3 will discuss the role of public policy in more detail.

The current legal form of non-profit organizations is a barrier to the market development as these organizations are not able to issue shares and therefore their options for capitalization are limited to debt (Mendell & Barbosa, 2013). In result, there has been an effort underway in many countries to create a new legal entity for social enterprises that is distinct and not profit maximizing or nonprofit (Florek, 2013). The purpose of the new legal form is to allow social enterprises to bypass some of the regulatory burden of non-profits, to make investments in these organizations easier, to create a more standardized industry, and to allow for a more quantitative assessment of the performance for these organizations (Florek, 2013). Section 2.3 will also discuss the legal regime of the social sector.

The role of government presents top down measures that can create change but there also needs to be a corresponding change in the attitudes and values of individuals and decision-makers within organizations. Maretich (2014) reiterates this point by saying that “the top-down measures proposed by the taskforce report are needed, but without a corresponding change in the attitude of the decision-makers inside many organizations, they aren’t enough to turn impact into the force for global change we hoped it could be. And without more public engagement by small “retail” investors, impact investing is destined to remain the hobby of a small financial elite, rather than become, as it might, a true evolution of market finance.”

iii) Lack of Absorptive Capacity of Capital or Demand for Capital

“Some investors are finding that there are few businesses with proven investable business models and that they are stopping at the same 50 doors as other investors” (Freireich & Fulton, 2009, p. 22). Given that there are only a few readily investable social enterprises and the fact that impact investors are chasing the same deals, this is fundamentally problematic due to the principle of additionality (Bugg-Levine & Emerson, 2011). “The principle of additionality calls on impact investors to target businesses that would not otherwise be capitalized by private investors” (Bugg-Levine & Emerson, 2011, p. 31). If capital is going to be additional, this pipeline for investments needs to expand

and investors need to launch mentoring programs, business-plan competitions, and joint pools of seed-stage funding (Bugg-Levine & Emerson, 2011).

“To address the challenges related to the demand for capital this can be met by broadening the themes and subsectors of impact investing; achieving models of capacity building for investment readiness that themselves are scalable; and creating incentives for industry networks on the demand side to collect, analyze, vet and distribute good, timely information on specific market opportunities to establish and grow specific businesses” (Jackson & Harji, 2012, p. xvi).

Finally, another challenge that has not been discussed under the above three categories is the potential displacement of traditional philanthropy and the stigma of creating private sector solutions to social challenges (Bugg-Levine & Emerson, 2011). There is a lot of excitement and hype around impact investing that is encouraging market-based approaches for all activities and sectors (Bugg-Levine & Emerson, 2011). However, it is important to remember that market-based approaches will not fit for everything and that there is still a need for traditional charity.

2.3. Canadian Policy Landscape

2.3.1. Introduction

The purpose of this section is to build on the previous sections with relevant literature to deepen the understanding of impact investing from a public policy perspective. Without public policy there will be a significant hindrance on raising capital and growing the impact investing marketplace (Mendell, 2010). There are many ways that governments can benefit and play an active role in impact investing and this section will highlight some of these areas.

This section focuses on impact investing in Canada and will progress with the role of public policy for impact investing, the legal regime for the social sector, policy recommendations, challenges and opportunities for policymakers, and finally a summary of the future of policy work. With a focus on the organizational perspective, this chapter will help to develop some context around how organizations operate in the social sector and the laws and policies that they must adhere to.

2.3.2. Role of Public Policy

Public policy can play a significant role in channelling capital to impact investments but there is a risk of creating barriers to these investments if the policy is poorly designed (Wood et al., 2013). There are many ways that policy can be used to catalyze this marketplace including clarifying fiduciary duties, setting impact targets, providing incentives for social benefit, creating performance standards, creating procurement policies, supporting new intermediaries, creating disclosure requirements for social impact, and disseminating information on impact investing (Wood et al., 2013). Many recent reports have been released including a report from the Canadian Task Force on Social Finance and a report from the Canadian National Advisory Board to the Social Impact Investment Taskforce that outline key priorities for Canadian policymakers to support the growth of impact investing. Both of these advisory board recommendations are discussed later in this chapter.

Wood et al. (2013) have outlined a policy framework for impact investing that outlines three specific areas where policy can intervene: 1) the supply of capital, 2) directing existing capital, and 3) the demand of capital (Wood et al. 2013). Figure 5 below illustrates this policy framework and includes where government can influence and where government can have direct participation in the impact investing marketplace.

Figure 5. Policy Framework for Impact Investing Analysis

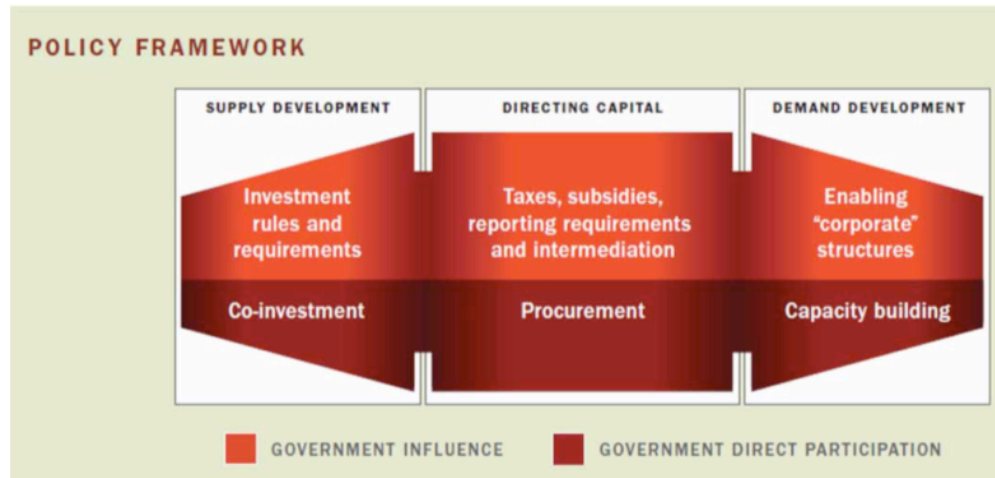


Figure 1. Policy framework for impact investing analysis.
Source: Thornley et al. (2011).

Source: Wood et al. 2013

In developing a supply of impact capital, governments can influence the market by creating regulatory frameworks that govern investment decisions such as outlining fiduciary duties (Wood et al., 2013) and ensuring that CRA regulations provide an enabling environment. Governments can also have direct participation in the supply of capital by creating co-investment opportunities such as creating a large impact investment fund (Wood et al., 2013).

Governments can influence the direction of existing capital by making the products more attractive by affecting the terms or price of a transaction (Wood et al., 2013). They can also have direct involvement through their own procurement practices.

Finally, governments can help develop the demand of capital by creating enabling 'corporate structures' (Wood et al., 2013) such as the creation of British Columbia's new Community Contribution Company. In addition, they can have direct involvement through capacity building (Wood et al., 2013) such as providing technical assistance and learning networks.

The policy recommendations that have been made for Canada, discussed below, will link back to this policy framework.

2.3.3. Legal Regime for the Social Sector

The Canadian regulatory environment is an important factor in shaping the growth of social enterprises and ultimately the impact investing marketplace. The term ‘social enterprise’ has a wide variety of definitions and interpretations. The more common definition references revenue generating and business-like activities to accomplish something of social benefit (Manwaring, Valentine, & Thomson, 2011). This definition encompasses a wide range of organizational forms including for-profit businesses, non-profits and charities. It also has a direct link to impact investing as these enterprises have the ability to generate revenue with the potential to create a financial return in addition to creating a social and/or environmental return.

The Canadian regulatory environment has been described as a “mish-mash of federal and provincial statutes and regulation” (O’Connor, 2014), each with its own rules. Under the Constitution the federal government has the authority over taxation and the provincial government has the authority over the incorporation of companies within the province. Social enterprises within Canada use a variety of legal forms, which only until recently were designed for social enterprises (O’Connor, 2014). The existing legal forms are representative of the bifurcation in the marketplace with a split between organizations that serve a social purpose and those that are designed to maximize profit (O’Connor, 2014). Working with the existing legal forms is not a perfect fit because those organizations that serve a social purpose are faced with limited opportunities to earn income and access financing while the for-profit structures make it difficult to pursue a social purpose (O’Connor, 2014). The legal forms that social enterprises have been trying to fit within include not-for-profit, co-operative, charity, or for-profit structures.

Table 4 outlines the current legal forms (as listed above) that exist in Canada, not including the new hybrid forms that have recently been introduced, and some of the difficulties that social enterprises are faced with when trying to fit within these forms.

Table 4. Current Legal Forms and the Difficulties for Social Enterprises

Legal Forms	Difficulties
Not-for-profit	<ul style="list-style-type: none"> - Restrictive federal regulation on generating new sources of revenue - Access to equity capital - Availability of debt capital (lack of assets) - Not a qualified donee (limits funding access) - Cannot issue tax receipts - Formed provincially but tax exempt status handled federally - Surpluses scrutinized by federal government
Charities	<ul style="list-style-type: none"> - Must fit within the four areas of a charity - Restrictive federal regulation on generating new sources of revenue - Access to equity capital - Strict CRA guidelines – related and unrelated businesses
Co-operatives	<ul style="list-style-type: none"> - Availability of debt capital (lack of assets) - Mass membership - Commitment from members to run enterprise
For profit structures	<ul style="list-style-type: none"> - Maximization of shareholder value - Pursuit of social purpose

Source: Adapted from Markey et al., 2011; O'Connor, 2014.

The role of the law depends on both the intent of the law and the context (Markey et al., 2011). In the case of a new legal structure for social enterprises the intent would include, “supporting innovation, providing clarity to words or definitions, facilitating the formation of specific types of social economy organizations, increasing the ability of government to collect data, and increasing the ability of social economy businesses to raise private funds” (Markey et al., 2011, p.10). The context would include the many different structures that have been discussed above (Markey et al., 2011). It is also important to highlight that laws can result in unintended consequences and that is why it is important to use the law only when the intent and context is clear (Markey et al., 2011). Finally, laws that have an impact on social systems need to be constructed in a

collaborative way (Markey et al, 2011). This would include collaboration among the different actors such as government, businesses, investors, and consumers.

Several countries across the world have created new hybrid corporate structures including the US, UK, Italy, and two provinces in Canada. Both British Columbia and Nova Scotia have recently created a new hybrid legal structure for social enterprises to assist with accessing capital and to encourage their growth (Phillips & Hebb, 2010). Both of these were modeled off of the UK Community Interest Company that has a built in social purpose to its legal structure (O'Connor, 2014).

British Columbia's Community Contribution Company came into effect in July 2013 and there are several requirements that must be met to adopt this legal form including a community purpose that is broader than charitable purposes, asset lock therefore capping dividends and restricting asset transfers, and submitting an annual report on its activities (O'Connor, 2014). Nova Scotia's Community Interest Companies received royal assent in December 2012 but regulations outlining the specific details are still being worked out (O'Connor, 2014). This hybrid form is very similar to BC's new form but there is a difference in the regulatory oversight as Nova Scotia has created a Registrar for their oversight and in BC there is no dedicated regulatory body (O'Connor, 2014).

Given that these are very recent regulatory changes in Canada there is not a lot of data available to assess their success on growing and developing social enterprises. However, both the Canadian Taskforce on Social Finance and the Canadian National Advisory Board to the Social Impact Investment Taskforce have made recent recommendations to policymakers to further explore these new hybrid corporate structures for social enterprises in Canada. There is evidence that other provinces are now exploring this option, for example in January 2015 the Ontario government put out a public consultation form on whether a new hybrid form should be introduced.

2.3.4. Policy Recommendations

As mentioned and discussed above there has been new policy changes and recommendations made to help facilitate the impact investing marketplace in Canada. Most of the policy changes that have been made are being done at the provincial level including the creation of a new hybrid corporate form or the creation of new tax incentives. There are many different groups that are providing or have provided policy recommendations in Canada including the Social Finance Taskforce, the National Advisory Board, different provincial councils, and other organizational groups such as Imagine Canada.

The Canadian Taskforce on Social Finance was a national partnership of organizations and had a goal of presenting different international examples of social finance and highlighting those that are effective scalable models (Canadian Taskforce on Social Finance, 2010). From this research, the Taskforce created seven recommendations in 2010 to help Canada build a more robust impact investing marketplace (Canadian Taskforce on Social Finance, 2010). More recently, Canada established a National Advisory Board (NAB) for the Social Impact Investment Taskforce. Following the June 2013 G8 Social Impact Investment Forum in London, the Social Impact Investment Taskforce was launched and had a goal of helping to develop the global impact investment marketplace (Social Impact Investment Taskforce, 2014). Eight National Advisory Boards (NAB) were formed as well as four international expert Working Groups to review the challenges of measuring impact, asset allocation, mission in business, and international development (Social Impact Investment Taskforce, 2014). The eight NAB countries included: Australia, Canada, France, Germany, Italy, Japan, UK, and USA (Social Impact Investment Taskforce, 2014). Each of these boards, including Canada, published their own reports on how to accelerate impact investing within their respective country (Social Impact Investment Taskforce, 2014).

In addition to the national working groups discussed above, there are also provincial working groups that provide policy recommendations to provincial governments. For example, in 2011 British Columbia established the BC Social

Innovation Council to assist the provincial government in finding ways to best maximize social innovation, emphasizing social finance and social entrepreneurship (BC Social Innovation Council, 2012). This Council included a range of different community actors such as government, academics, credit unions, foundations, First Nations, businesses, investors, and social entrepreneurs (BC Social Innovation Council, 2012). In April 2012, this Council provided eleven recommendations to the BC Government and to implement this action plan the BC Partners for Social Impact was created.

Table 5, Table 6, and Table 7 outline the policy recommendations made from different working groups including the Social Impact Investment Taskforce (that summarizes all of the G8 recommendations), the Canadian National Advisory Board, the Canadian Taskforce on Social Finance, the BC Social Innovation Council, and Imagine Canada. The recommendations have been categorized into three groups – market builder, purchaser of social outcomes, and market steward – and are consistent with the categories used by the Social Impact Investment Taskforce Report. In addition, each recommendation has also been aligned with the policy framework previously discussed. Therefore each recommendation has been categorized as either an area where policy can intervene the supply of capital, direct existing capital, or the demand of capital. Each recommendation is also categorized on whether it is an area where government can have influence or direct participation.

Some of the recommendations shown in the tables below have been summarized and placed into an appropriate category to limit the length of the list. It is also important to note that these reports were written over different timelines and the recommendations made were tailored to different audiences. For example, the national level reports provide a broader scale of policy recommendations than the report targeted to the BC government. Overall, these recommendations provide insight on how governments (both provincial and federal) can help to create a more enabling environment for the impact investing marketplace.

Table 5. Market Builder Policy Recommendations

Recommendation	Capacity building grants	Expand SME support	Tax incentives	Impact investment wholesaler funded with unclaimed assets
Policy Framework Category	Demand of capital	Demand of capital	Directing capital	Supply of capital
Government Influence/ Participation	Participation	Influence	Influence	Participation

Recommendation	Access to stock market exchange	Provide early stage support (training and seed capital)	Regulatory incentives	Impact Measures
Policy Framework Category	Directing capital	Demand of capital	Directing capital	Directing capital
Government Influence/ Participation	Influence	Participation	Influence	Influence

Table 6. Purchaser of Social Outcomes Policy Recommendations

Recommendation	Pay for success commissioning (SIBs)	Finance Matching or First-loss Facilities (Mitigate Risk)	Consolidate domestic outcome funds	Procurement to support social enterprises
Policy Framework Category	Supply of capital	Supply of capital	Directing capital	Directing capital
Government Influence/ Participation	Participation	Participation	Influence	Participation

Table 7. Market Steward Policy Recommendations

Recommendation	New legal forms (protect social mission)	Relax regulations on revenue generation in the social sector	Define/clarify fiduciary responsibilities
Policy Framework Category	Demand of capital	Demand of capital	Supply of capital
Government Influence/ Participation	Influence	Influence	Influence

Recommendation	Reduce restrictions on retail market (crowd-funding)	Mandatory disclosure of responsible investing	Engagement between province and federal gov't to support NPOs and charities
Policy Framework Category	Supply of capital	Directing capital	Demand of capital
Government Influence/ Participation	Influence	Influence	Influence/Participate

2.3.5. Challenges for Policymakers

As demonstrated through the list of recommendations above, the government can play a vital role in helping to build and accelerate the impact investing marketplace in Canada. Martin (2013) outlines that the role of government is an enabler and stimulator. Public policy is also a key to building confidence and raising investor security in addition to credit enhancement and liquidity generation (Mendell & Barbosa, 2013). In addition, policy can also “drive the development and implementation of initiatives designed to improve social and economic outcomes for individuals and communities” (Doyle & Carneige, 2014, p.8).

In order to build and create a strong marketplace there are some significant challenges that must be faced, as discussed in the previous chapter. One challenge that Canada faces is a fragmented marketplace in comparison to the US and the UK through a piecemeal approach to financing with individual funds financing businesses within the social economy (Bragg, 2010). There is also fragmentation between the provincial and federal government and how both charities and non-profits struggle with different provincial regulations across the country, in addition to restrictive federal regulations on their ability to generate revenue (Markey et al., 2011). At the federal level, the Canada Revenue Agency has the responsibility of regulating charities but has a mandate of tax collection. “Until the community sector is accorded a more central place in government

thinking, there will be little attention and less support to facilitate its contribution to improving Canadians' well-being" (Broadhead, 2010, p.50).

The aforementioned challenges highlight the need for policy coordination between the federal and provincial government, which will be significant to overcome due to limited jurisdictional responsibilities (Mendell, 2010). Canada also has a deep-rooted welfare state culture and for the most part Canadians resist the privatization of public services (Mendell, 2010). This makes it very difficult to address social enterprises in Canada because of its regional diversity and mixed economic landscape (Mendell, 2010). Any innovative policies are coming from a provincial level (Mendell, 2010). Finally, as mentioned in the chapter above, it is also important to keep in mind that not everything can be a revenue generating activity and placing an emphasis on market-based approaches can bring about mission-drift (Phillips & Hebb, 2010).

2.3.6. Opportunities for Policymakers

There are many opportunities for the Canadian government to accelerate this marketplace as mentioned in the recommendations outlined above. There are some policy initiatives that can be adopted by all levels of government to develop the market such as procurement practices (Mendell, 2010). There are also many examples of policy initiatives that work or have not worked internationally that can highlight important lessons for the Canadian government. As previously discussed, the UK Community Interest Company was used as model for both the new hybrid legal forms in British Columbia and Nova Scotia. The UK has a range of additional policy tools that can be further analyzed in addition to the US, while keeping in mind that these have been developed in a different political environment.

As previously mentioned, foundations hold a catalytic role in this marketplace and the government can play a role in facilitating the flow of capital from foundations. "Foundations exist to make a positive impact on their communities and the charitable issues they support by mobilizing all forms of capital – human, social, knowledge and

financial. Impact investing is a way to put more of foundation financial capital to work to help make our communities and our country vital and resilient” (Martin, 2012, pg.2). The common business model for foundations includes an endowment invested in the capital market, which earns income and is then used to support granting and operations. The Canada Revenue Agency has an annual disbursement quota requiring foundations to disburse a minimum of 3.5% of the value of the foundation’s assets on its charitable activities. Currently, there is a shift taking place in the investing practices of foundations in result to a recommendation made by the Canadian Taskforce on Social Finance in 2010 recommending that foundations invest at least 10% of their capital in mission-related investments by 2020 (Canadian Taskforce on Social Finance, 2010). The 2008 financial crisis also facilitated moving mission related investing up the agenda for charitable foundations by causing a re-evaluation of risk and asset allocation. The crisis made it clear “that planning reliable operating and granting budgets in light of increasing market volatility and financial upheaval was getting very difficult. Foundations found their effectiveness almost entirely at the mercy of the markets, meaning that just when grant dollars and foundation leadership were most needed, foundations were most constrained financially” (Martin, 2012, p.4).

Foundations are currently faced with barriers at both the federal and provincial level of governments. The barriers at the provincial level include being a prudent investor and having a balanced and diversified portfolio (Martin, 2012). The barriers at the federal level include the regulatory regime allowing program related investments to qualified donees but requiring market rates for all loans or investments made to other enterprises that are mission related (Martin, 2012). In addition, the Income Tax Act prohibits foundations from investing in limited partnerships, which is how many investment opportunities are structured (Martin, 2012). Martin (2012) outlines opportunities or ways that governments can increase the flow of capital in the market with a lens for foundations and these include: enabling the creation of bigger pools of capital, exploring options to provide credit enhancements, facilitating a regulatory overview, and raising awareness, education, and training.

Canada has made significant steps forward in building an impact investing marketplace and this includes the creation of different advisory boards, the creation of a

list of collaborative policy recommendations, new hybrid corporate forms, the Toronto Social Stock Exchange, the Mars Centre for Impact Investing, the creation of loss reserves and other credit enhancements, but there is still a significant amount of work that needs to happen to move this market forward.

2.3.7. Future Policy Work

There has been a significant amount of work done through many different advisory boards and organizations addressing where public policy can help move this marketplace forward. As outlined above there is a vast list of recommendations made to the different levels of government in Canada. Most of these recommendations are fairly recent, particularly with the National Advisory Board recommendations released in September of 2014. Therefore little to no implementation has been made on these recommendations and this is a specific area that future research will need to focus on. It is important to determine what changes will be made and what impacts those changes will have on the impact investing marketplace. One of the four core characteristics of impact investing is impact measurement and a good place to start would be in measuring the success of public policy in moving this marketplace forward.

Chapter 3.

Research Methodology

3.1. Introduction

This chapter describes the methodology selected for this research. It outlines the research objectives and questions. It introduces the case study approach adopted and the reasons for selecting the specific case study. It also summarizes the data collection methods used including key informant interviews, how the data was analyzed and lastly the limitations associated with the research methods.

3.2. Research Objectives and Questions

The literature review has identified the lack of academic research on the impact investing industry and that most literature on this topic comes from industry reports outside of Canada, which is consistent with the findings from Hebb (2013). This research was structured around the objective of building knowledge of this industry and its importance to SCD. In addition, this research takes an organizational lens on impact investing practices in order to outline some of the structures and processes to strengthen the organizational environment and move more capital into the marketplace. The case study selected for this research is a community foundation and as mentioned above, foundations hold a catalytic role in this marketplace. Risk management is also

emphasized because of the challenge of adding a third dimension of impact to risk and return.

An overarching research question in addition to operational research questions guided this research. The questions were as follows:

Overarching Research Question:

How can impact investing further the goals of sustainable community development?

Operational Research Questions:

1. What is impact investing and how is it related to sustainable community development?
2. How can organizations implement an impact investment strategy/program?
3. How can organizations consider managing different risk factors when making an impact investment?
4. How can organizations use different risk evaluation or management tools to manage the risk of impact investing?

3.3. Case Study Approach

3.3.1. Case Study Design

Initially, the literature review provided the foundation for the development of the context, rationale, and focus of this research. A case study design was used to conduct the research and to understand the impact investing marketplace and its link to SCD. Yin

(2009) has explained that a case study is an empirical inquiry that investigates a current phenomenon in depth and relies on multiple sources of evidence. Babbie and Benaquisto (2010) have explained that a case study is conducted to focus attention on a social phenomenon, focusing on the specificities of a case to provide rich and detailed data. A case study can also be combined with a number of different methods to collect data (Babbie & Benaquisto, 2010). Yin outlined three conditions that should be considered when selecting the proper research methodology. The conditions include the type of research question, the extent of control over behavioural events, and the degree of focus on contemporary events. Yin explained that case studies have an advantage over other methods when a “how” and “why” question is being asked about a contemporary set of events over which an investigator has little or no control. This method allows the researcher to maintain a holistic view of the actual events taking place (Yin, 2009). Using Yin’s methodology evaluation, the foundation for an explanatory case study is provided. “How” research questions (as shown above) are asked about a contemporary set of events over which the researcher had little or no control.

A case study often favours qualitative methods such as participant observation and interviewing (Bryman, 2008). Both of these methods, in addition to document review, were used in this research and the interviews were semi-structured where interview participants were asked for their expert opinions. The researcher’s ability to manipulate their responses, beyond the framing of questions, was minimal.

A common concern regarding a case study is its external validity or generalizability, ‘how can a single case be representative of other cases?’ (Bryman, Bell & Teevan, 2012). The fact is that the case study cannot be generalized because identifying a typical case that can be representative of other cases is too difficult and may not be possible given the state of the impact-investing marketplace. The aim of the case study was to provide a thorough examination of one case, which may or may not be used for theoretical analysis. The reasons for selecting the one case study for this research are explained below and included meeting four criteria – commitment, accessibility, community focus, and implementation.

This research was conducted in five different phases, as listed in Table 8, and these phases were not necessarily linear across time.

Table 8. Five Phases of Research

Research Stage	Explanation
1. Literature review	Build an understanding of sustainable community development, impact investing, and the impact investing policy landscape.
2. Criteria for evaluation	Based on the literature review, adapt a decision making framework to evaluate the case implementation of an impact investing strategy/program.
2. Case study selection	Select an organization based on a set of criteria.
3. Case study research Interviews Data analysis of case	a) Build an understanding of the organization selected. b) Recruit and interview key experts that participate in the impact investing marketplace. c) Perform data analysis, supported by coding done in NVivo to identify connections.
4. Analysis of case according to criteria established in Stage 2	Evaluate the case study based on the criteria established in Stage 2.
5. Conclusions (results/findings) and Discussion (implications and future research)	a) Provide findings from the analysis performed and any implications from this research. b) Outline future research that would be valuable to perform.

3.3.2. Case Study Selection

The goal of the case study was to explore how impact investing can further SCD and what key organizational success factors and tools are needed to participate in the impact investing marketplace. Therefore the case selection was based on the following four criteria:

1. **Commitment:** the organization needs to have an explicit impact investing goal or policy.
2. **Accessibility:** the organization needs to be physically accessible for the researcher.
3. **Community focus:** the organization needs to be focused on community development.
4. **Implementation:** the organization needs to have an established impact investment strategy and have placed capital.

Vancity Community Foundation

Vancity Community Foundation (VCF) was selected as the case study for this research because it met all of the criteria outlined above. VCF holds a pioneering role in the field of impact investing within Canada and they are **committed** to making impactful investments. They are currently trying to expand their impact portfolio, which as of May 2013 was approximately 19% of their assets, and by 2018 they have a goal of reaching 50% (internal memo, May 30, 2013). VCF has placed capital in the marketplace and have stated that increasing their impact investments is a focused priority area in their 2014 operational plan, therefore meeting the **implementation** criteria.

VCF is a community foundation with a “mandate to enrich the community while building on the values of the Vancity Savings Credit Union” (“VCF: History”) and therefore has a specific **community focus** within Vancouver and its surrounding area. Their theory of change is building community assets (“VCF: Theory of Change”). There are seven community assets outlined to gauge their success including financial capital, social capital, natural capital, human capital, built capital, political capital, and cultural capital (“VCF: Building Community Assets”). Finally, the last criterion, **accessibility**, has also been met given its geographic location and interest in this topic. VCF is seeking more structure and systematized tools to use for these types of investments to help guide their decision-making, and in turn made this research mutually beneficial.

VCF is in a unique position in this marketplace because of its connection with Vancity Savings Credit Union and its control over Greater Vancouver Community Assistance Foundation (GVCAF). Both of these organizations also participate in the impact investing marketplace by making investments and creating capital mobility. Therefore, these connections provide access to more resources and the ability to develop a deeper understanding of the marketplace.

Role of Foundations

In 2007, the investments held by the Gates Foundation were scrutinized and became national headlines across the United States including “Dark cloud over good works of Gates Foundation” from the Los Angeles Times and “Report: Gates Foundation Causing Harm With the Same Money It Uses To Do Good” from Democracy Now. Through an investigation done by the Los Angeles Times, it was found that the Gates Foundation endowment investments that earn a financial return and support the work of the foundation were actually undermining its mission (Piller, Sanders & Dixon 2007). The Gates Foundation, like most other foundations, operated by investing all their assets in mainstream investments without any consideration for their impact. With the earnings from these investments a foundation can provide grants and/or support their programming. Bugg Levine and Emerson (2011) have branded this type of philanthropy as the traditional approach to philanthropy or “transactive philanthropy”. In Canada, the disbursement quota for foundations is 3.5% of their assets, which translates to only three and a half cents of every dollar being used to achieve its mission in a given year (Bugg-Levine & Emerson, 2011). The remaining ninety-six and a half cents are invested and could potentially undermine the mission of the organization, “such as when a foundation uses grants to fund antismoking programs while its endowment invests in tobacco companies” (Bugg-Levine & Emerson, 2011, p. 192).

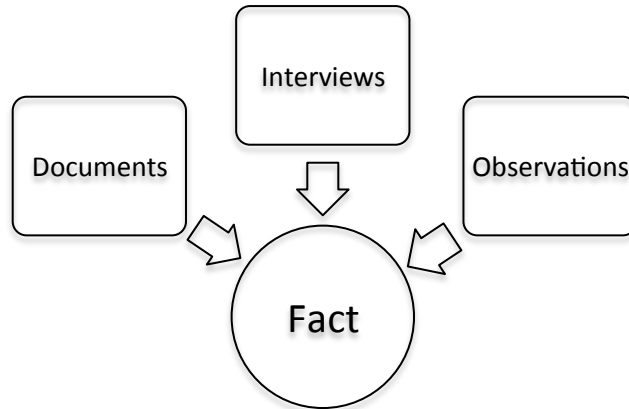
Foundations have been noted in multiple pieces of literature as key actors and the natural driver for impact investing given their social mission and ability to provide a first layer of risk capital (Clark et al., 2015, Rodin & Brandenburg, 2014, and Bugg-Levine & Emerson, 2011). Using the philanthropic capital held by foundations is also a

strategic approach to align a foundation's investments with its mission. Bugg-Levine and Emerson (2011) have termed this strategic deployment as total foundation asset management (TFAM). This is where impact investing can be unlocked and accelerated as it focuses on investments instead of granting. TFAM is gaining momentum in Canada as the Canadian Task Force on Social Finance has made a recommendation to Canadian foundations that in order to maximize their impact they should "invest at least 10% of their capital through mission-related investing strategies by 2020 and report annually to the public on their activity" (Harji et al., 2014, p. 22).

3.4. Data Collection

As explained above, the common concerns with case study research include validity and generalizing too broadly (Yin, 2009 and Stake, 1995). Triangulation of multiple sources of data is one approach to address the concerns of validity as multiple measures of the same phenomenon are provided (Yin, 2009). Coding (discussed further in the data analysis section) is one approach that can be used to address the concerns of generalization. The data collection for this research relied on multiple sources including document review, participant observation, and key respondent interviews. Figure 6 shows the convergence of the multiple data sources used in this research

Figure 6. Convergence of Evidence



Source: Yin, 2009.

3.4.1. Document Review & Participant Observation

Bryman (2008) explains how internal documents are often used by organizational researchers and need to be evaluated using four criteria to assess their quality – authenticity, credibility, representativeness, and meaning/comprehension. These data sources are important because they are unobtrusive and non-reactive and remove a common threat to validity, as the subjects don't know they are being studied (Bryman, Bell & Teevan, 2012). The internal documents reviewed included relevant board minutes, finance committee minutes, finance/investment committee planning documents, investment tracking spreadsheets, investment policies, consultant reports, annual reports, operational plans, a risk framework, terms of reference, and impact guidelines. In addition to document review, participant observation was also used to collect data and the researcher attended board meetings, finance/investment meetings, and a microfinance meeting.

3.4.2. Key Informant Interview

The third and final data source was key informant interviews, which is probably the most widely used method (interviewing) in qualitative research (Bryman, Bell, & Teevan, 2012). Key informant interviews are an important source of evidence for case study research because they target well-connected and informed industry experts that can provide insights on a particular issue (Yin, 2009). These industry experts, with their knowledge and understanding, can provide explanations based on their experiences. Both the interview design and participant selection and recruitment is discussed in detail below.

Interview Design

Each potential participant was contacted through an introductory email that stated an interest in conducting an interview, in addition to an explanation of the research study. If the participant responded positively to the introductory email, a second email was sent with the consent form, and a list of specific questions to discuss during the interview. Each participant was asked to sign a research consent form or provide verbal consent during the interview after reading the consent form approved by the ethics board at Simon Fraser University. The interviews varied in time from a minimum of 30 minutes to a maximum of 60 minutes and followed a three-part structure. This included an introduction from the interviewer, which covered a brief description of the research study, the purpose of the interview, a discussion of the consent form (if necessary), and an opportunity for the interviewee to ask any questions about the research. The second-part of the interview was the main part of the interview where questions were posed associated with the research questions. In addition, clarifying questions were also asked during this time if the responses were not clear or further clarification was needed. The final and third part of the interview concluded the interview and provided the final wrap-up. The final questions of the interview provided the interviewee with an opportunity to add any final remarks, ask any follow-up questions and provide insight on the usefulness of the research.

A semi-structured interview design with open-ended questions was used to allow for a more natural conversation to take place and to provide more flexibility in exploring different responses. This structure allowed themes that are important and relevant to the respondents to emerge and given the lack of academic research conducted on this topic, these themes may provide further insight for future studies. The interviews shared the same common framework of questions, however additional questions were added for specific participants based on their role and/or need for clarification and/or documents provided. This type of interview design is aligned with other qualitative interviewing designs, which tend to be flexible and respond to the direction of the interviewees (Bryman, Bell & Teevan, 2012). Bryman et al. (2012) explain that the semi-structure interview process is designed to bring out how interviewees interpret and make sense of issues. They also explain the importance of maintaining flexibility in questioning in order to pursue leads offered by the respondents but also establish a certain order and a familiar language.

The main interview questions included:

1. What is your role within the organization?
2. What role does your organization play in the impact investing marketplace and how has this changed over time?
3. How do you/your organization define impact investing?
4. What is the organization's impact investing strategy? What about a policy or guidelines and are these publicly available, if applicable?
5. How does the organization assess the risk of its impact investments, what is the process? What tools are in place, if any?
6. What additional risks for impact investments has the organization identified, if any? And how are these being mitigated?
7. How does the organization measure the impact on its investments? What approach/tool/metrics are being used to do so?

8. What are some useful resources that you would recommend or can share?
9. What final remarks or questions would you like to add?
10. What information can be provided from this research that you believe would be useful?

In order for the researcher to be alert and focus on the responses of the interviewees as recommended by Bryman et al. (2012), the interviews were audio recorded with the permission of the participant and then transcribed verbatim. The primary researcher solely performed all of the recording and transcribing. The transcriptions were done with care and if possible the interviews were transcribed within a day or two from the actual interview. Participant names and any additional identifiable material were removed from the transcript and replaced by pseudonyms. If the interviews were not recorded because permission was not granted or the recording device had technical difficulties (one interview experienced technical difficulties), detailed notes were taken during the interview.

Participant Selection and Recruitment

Purposive sampling, a non-probabilistic approach was used to select the participants for the key informant interviews. This sampling method did not generate a representative sample. It was based on selecting individuals who have expertise, connections and useful insight on the direction of future research in this emerging marketplace. Given the case study selection of Vancity Community Foundation and the driving role that foundations play in the impact investing marketplace (as explained above) the selection of key informants were targeted at other foundations, credit unions, consultants/advisors for foundations, and investment funds that foundations are currently investing in. The respondents were individuals who are managing or advising impact investments, ensuring that the participants possessed knowledge of the practices including the processes and structures established specifically for impact investments. These participants, with their knowledge and understanding, provided insights on investment practices and explanations on their own experiences.

The participants were identified through publicly available websites and recommendations from other key informants. Some of the key informants contacted did not return interview request emails. However, the ones that did participate represented key stakeholders in the marketplace. The total number of key informant interviews conducted was seventeen and Table 9 summarizes the type of respondent.

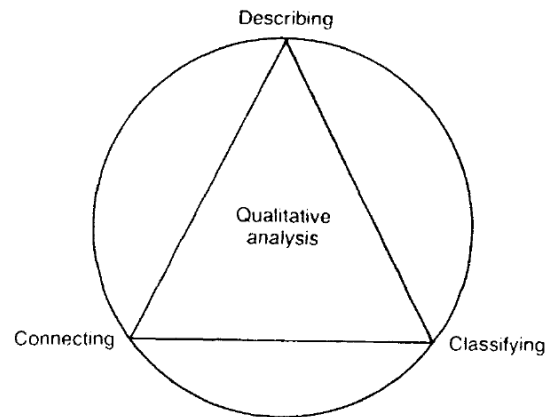
Table 9. Key Informant Interviews

Type of Respondent	# of Respondents Interviewed	CAD	US
Public Foundations	4	2	2
Private Foundations	2	1	1
Credit Union	3	3	0
Investment Fund	4	3	1
Advisor/Consultant	4	4	0
Total # of Interviews	17	13	4

3.5. Data Analysis

All of the data collected was coded and categorized using the computer software program, NVivo. As explained by Dey (1993) and Babbie and Benaquisto (2010) the core of qualitative analysis is in a three-step process: (1) describing the context surrounding the data, 2) classifying the data into relevant categories, and 3) analyzing the connections between the concepts. This process is a circular process meaning that describing the context leads to classifying the data, which in turn leads to analyzing the connections between concepts, this is shown in Figure 7 below.

Figure 7. Qualitative Analysis as a Circular Process



Source: Dey, 1993.

For this research the data analysis followed the three-step process. The first step, describing, provided background for the analyses and an understanding of what might be influencing the data. The second step, classifying, involved developing categories from the raw data. This began with broad categories structured around both the interview and research questions that were refined through a process of sub-categorization and grounded on the data collected. Once the categories were established, the content was assigned to these categories, which like the previous steps was an iterative process. Finally, based on the categories and content within each category, relationships and patterns were revealed by comparing the content assigned to each category. This continuing process of categorizing data that illustrate ideas and concepts and refining concepts and categories that sustain emerging themes and patterns is the process of coding (Babbie & Benaquisto, 2010). One other tool that was used in the software program NVivo, was memoing, which allowed the researcher to record descriptions, definitions, relationships between codes, ideas for further study, or any other relevant note. As mentioned above, this iterative process addresses the concern of generalizing too broadly. The process of categorizing and making connections is well supported with evidence and a sound process.

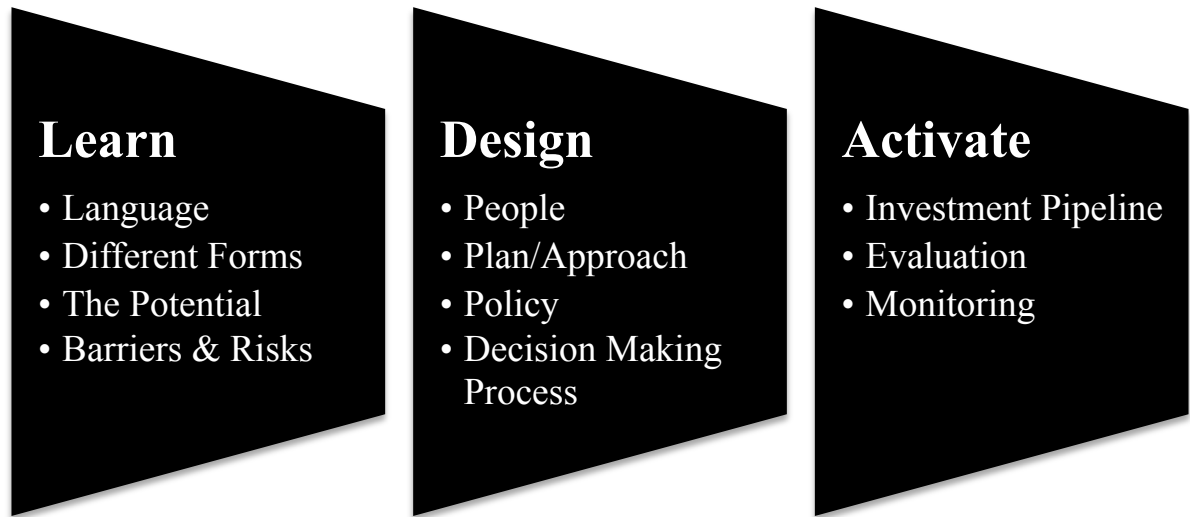
3.6. Impact Investing Implementation Framework

As highlighted in the literature review, impact investing is an emerging industry and still in its market building phase. The enabling environment lacks many key aspects like a universal language, performance measures, standardized metrics, and risk assessment frameworks. This research helps to develop the enabling environment specifically for community foundations as it focuses on the structures needed to successfully implement an impact investing program. This focus on community foundations is key because of their natural fit of aligning investments with a foundation's mission in order to have a greater impact. Community foundations also serve to improve the lives of people within a defined geographic area that can possibly help to build a more a sustainable community that they serve.

Mission Investors Exchange developed a guide for impact investing for community foundations through the input of leading community foundations, advisors, and funds working in the impact investing sector. This guidebook outlines a framework, as mentioned in the literature review, to successfully implement an impact investing program at a community foundation, as shown in Figure 8. Community foundations are relevant to this research because the case study selected is also a community foundation.

This framework was used to assist with the analysis of the research to determine the structures that are needed to have a successful impact investing program and to highlight any differences that exist across organizations. The research addresses each area outlined in the framework but takes a more comprehensive lens on the area of risk identification and risk management.

Figure 8. Impact Investing Implementation Framework



Adapted from Berliner & Spruill, 2013

The first section of this framework focuses on developing an understanding of impact investing and the potential that it could have for a given organization. The second section focuses on designing the structures, policies, and systems necessary to implement an impact investing program. Finally, the third section focuses on the tools to run an effective program.

This framework was used to investigate how organizations can implement an impact investing strategy/program and provides a deep dive into the organizational structures and practices around impact investing. All of the data collected including interviews, documents, and observations were factored into this process.

3.7. Limitations

A number of limitations were presented in conducting this research that may affect the validity of the results. This includes not being able to make generalizations

based solely on the one case study conducted. However, comparisons with other impact investors can still be made.

Similar to most qualitative research, the qualitative researcher was the main instrument of data collection so the data collected and the area of concentration was a product of the researcher's predilections (Bryman, 2008). The data collected through key informant interviews was limited to the content provided through the interviews and the inferences made. There was a possibility of misinterpretations of the interviewees' responses and bias through human interaction. Participation was also voluntary for interviewees and therefore those who chose to participate may only represent a subset of the population.

Finally, the framework used to assess how organizations can implement an impact investing program has a focus on community foundations and this may limit any generalizations outside of this organizational structure.

Chapter 4.

Results & Analysis

4.1. Introduction

This chapter presents the main findings from the case study and key informant interviews. The findings identified in both investigations are presented collectively. The purpose of this research was to build knowledge about the impact investing industry and take an organizational lens on the processes and structures needed to strengthen the organizational environment. This chapter consists of three main sections that are broken down according to the impact investing implementation framework shown in Figure 8.

4.2. Learning Stage

The first stage of the implementation framework focuses on building an understanding of impact investing within an organizational setting. This includes understanding the language, understanding the different forms of impact investments, understanding the potential for impact investing within an organization, and identifying the barriers and risks.

4.2.1. Language

Impact Investing

The language and terminology around impact investing is a problem and this issue was highlighted in both the literature review and case study. An interview question was posed to key respondents about their definition for impact investing and there was a range of definitions provided across the respondents with some that had a clear definition and others that did not.

There were some consistencies found with the respondents that provided a clear definition including five different respondents emphasizing that impact investing needs to have the intention of creating a positive social and/or environmental return and a financial return. In addition, there were four respondents that aligned their definition and understanding of impact investing closely with the GIIN definition, which also emphasizes intentionality. The GIIN definition defines impact investing as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” In addition, the GIIN definition outlines four core characteristics of impact investing and includes: (1) intentionality, (2) investment with a return expectation, (3) a range of return expectations and asset classes, and (4) impact measurement.

On the other end of the spectrum there was evidence that the terminology is not well defined or understood, even with those respondents that provided a clear definition. Interview respondents highlighted the ever-changing and vast terminology being used. In result, some organizations did not adhere to a strict or formal definition because they stated that impact is always changing and to establish a formal definition would be limiting. One respondent noted that it is more important to get behind the term and look at what people are actually doing to determine whether it is impactful. Other respondents expanded their definition to include investments in non-financial resources and investment strategies in addition to financing.

The GIIN definition of impact investing highlights impact measurement as one of the four core characteristics. Impact measurement will be discussed further in the “Activation Stage” of the framework, but it is important to highlight that there was a range of responses in regards to impact measurement. All respondents indicated that they had an intention of measuring their impact at some point in time. There are some organizations currently using an established measurement framework while others are using anecdotal evidence and others are not completing any type of measurement. This will be discussed in further detail in Section 6.4.3.

Vancity Community Foundation has clearly outlined that increasing their impact investing portfolio is a priority area for the organization. In December 2012, VCF set an ambitious target of investing 50% of their assets in impact investments by 2018. They have also continued to develop their definition of an impact investment and share Vancity Credit Union’s principles for defining an impact investment or transaction. In order to label an investment as an ‘impact investment’ they use both guidelines and a process because they state that impact is not constant and changes over time. They believe that this provides additional rigor and a deeper understanding of the impact that they are trying to achieve that changes over time. The guidelines and process align with the intention of achieving both a financial and a social and/or environmental return on their investments. The guidelines outline different impact businesses and sectors. For impact businesses this includes business structures such as not-for-profit organizations, social enterprises, and co-operatives. For impact sectors this includes sectors such as affordable housing, green buildings, and clean technology. In addition to these guidelines, a working group for impact investments has been established and for VCF this would consist of both the finance/investment committee and the Board. This is where discussions take place around investments that do not clearly fit within the guidelines outlined.

Program Related Investments & Mission Related Investments

Given that VCF is a foundation and the key informants include foundations, consultants/advisors for foundations, and investment funds that foundations are currently

investing in, two other important terms were continuously brought up throughout this research. These terms are program related investments (PRI) and mission related investments (MRI). Foundations can pursue both PRIs and MRIs under the umbrella of impact investing. The understanding of these investments is guided by the Income Tax Act legislation. PRIs are meant to achieve charitable purposes and have a tolerance for below market returns. MRIs are meant to achieve mission-related objectives and earn market rate returns.

4.2.2. Different Forms

The four core characteristics of impact investing outlined by GIIN include investments with a return expectation, and a range of return expectations and asset classes. A spectrum of impact investments, shown in Figure 9, has been developed by the F.B. Heron Foundation and is shown in many pieces of literature. VCF has used this spectrum to show the different asset classes and returns that can be achieved within their impact investments.

Figure 9. Impact Investing Continuum



Source: The F.B. Heron Foundation

When reviewing this spectrum of asset classes and returns there was a few conflicting responses about whether public equities are considered to be impact investments given the strategy pursued. Some community focused or place based organizations discussed that in order to create impact the investments needed to be

directly in their communities and therefore public equities do not meet this requirement. However, there was one organization that defined impact investing as not only impact investments but also impact investing strategies that intentionally generate some social and environmental returns that are broadly translated to societal returns. The emphasis on impact investing strategies was in result to investments in public equities and therefore looking at the strategy and impact at the corporate level. Section 6.3.2 outlines some of the approaches that can be adopted for an impact investing program, which can also address the geographic focus and asset classes that are being targeted.

The investments made by VCF span across many of the asset classes outlined in Figure 9 and at this point in time public equities are not included in their classification of impact investments. However, it is not clear that these investments would be prohibited from their impact investing portfolio, but they are very much a place-based organization trying to drive change in their community. Many of the key respondents and literature discussed that the current market-rate opportunities in Canada are focused on private equity and many impact investors are investing in the same opportunities, which was apparent in the examples provided. This also highlights one of the barriers discussed in section 2.2.8, investors investing in the same opportunities and therefore failing to provide additionality.

4.2.3. The Potential

Part of the process of establishing an impact investing program is understanding its potential within a given organizational setting and answering the question, ‘why should we do this?’ The Mission Investor Guidebook outlines many reasons why an organization should start an impact investing program and there is also a specific section outlining the unique role that community foundations can play.

VCF has articulated the reasons why they have started an impact investing program and why they are increasing the proportion of their impact investments. VCF believes that impact investing will achieve a greater impact and is mission-aligned. VCF

holds a unique position in the marketplace because of their relationship with Vancity Credit Union and the tools and capacity that this relationship provides. They have mentioned that impact investing will allow them to participate in new partnerships and their two focus areas on social enterprise and community owned real estate lend themselves well to impact investing opportunities.

There was no direct interview question that asked respondents to outline why they are adopting an impact investing program but some of the reasons came out naturally when discussing their impact investing strategy. One common response from each Canadian foundation was in result to the recommendation made by the Canadian Taskforce on Social Finance for all foundations to invest 10% of their assets in impact investments by 2020. In addition, other reasons included deploying more capital to support the organization's mission and increasing the amount of capital available to the community. These reasons are very much aligned with the catalytic role that foundations can play in this marketplace as discussed above in the literature review.

4.2.4. Barriers & Risks

Barriers

Like most new programs there are significant hurdles that need to be overcome for a successful implementation. The interview respondents were not directly asked what barriers exist but a few themes were presented throughout the responses. One barrier that was a common theme was capacity, which has also been identified by VCF. Impact investing requires resources and commitment on many different levels. One respondent stated that "capacity is a barrier because structuring and making these investments takes time and work and most community foundations have very limited staff capacity and they have not really been built with this area of expertise in mind so they tend to have grant makers on staff as opposed to investment experts" (Interviewee #9). The staffing structure will be discussed further in the design of an impact investing program. One respondent also noted that there are many small foundations that have a huge

amount of interest in this space but are limited given the resources that they have available. Within the same category as capacity, the lack knowledge was also mentioned as a barrier.

Financial risk tolerance was another common theme. However, there is controversy about whether impact investing means taking concessionary returns (Emerson, n.d.). Some believe that this is a real risk and others believe that it is a perceived risk. Within the foundation setting, a foundation relies on investment returns to fund both its operations and mandated granting and one respondent mentioned the difficulty in making a decision on whether it is a real or perceived risk. The belief that it is a risk, whether it is real or perceived, creates a barrier.

The other barriers that were mentioned throughout the interviews included creating market solutions for everything when there is still a need for charity, product and deal flow, and trying to mirror a mainstream portfolio.

Risks & Mitigation Techniques

An interview question that was asked to the key respondents was ‘what are the additional risks of impact investing and how are these being mitigated?’ The two most common risks that were identified were reputation and impact risk. The common definition provided for reputation risk was the risk of an investment that fails and in turn implicates your reputation. One respondent provided the example of how repossessing the assets of a charity would impact the reputation of an investor. Impact risk was described as an investment not producing the expected social return and failing to meet the social mission. Some respondents identified impact risk as the biggest risk for a foundation in the impact investing space.

The additional risks discussed included capacity risk, financial risk, business risk, talent/management risk, entrepreneur risk, board risk, fiduciary risk, political/community risk, and environmental risk. Table 10 outlines each of the risks identified by the key respondents and its corresponding definition.

Table 10. Key Risks of Impact Investing

Risks	Definition of Risk
Reputation risk	The risk that an investment fails and in turn implicates your reputation.
Impact risk	The risk that an investment does not produce the expected social return and the social mission is not met.
Capacity risk	The risk of not having enough resources or using too many resources on impact investing that the program is unsuccessful or implicates another aspect of the organization in a negative way.
Financial risk	The more traditional risk of what could happen to the nuts and bolts of the financial statements and day-to-day operations of an investment that could impair the financial return including the loss of the original investment amount.
Exit/liquidity risk	The risk that the investment does not have an exit plan or sufficient liquidity to meet cash flow needs.
Business risk	The risk of the business model of an investment not working as planned.
Talent/management risk	The risk of an investment not having the right people and/or skill set in management.
Entrepreneur risk	The risk of an investment not having the right entrepreneur team and/or skill set in place and/or the risk of the entrepreneur not having the commitment or being able to devote enough attention to the business.
Board risk	The risk of an investment not having a strong board with the proper skills to achieve the goals of the organization.
Technical risk	The risk of an investment being too technical to evaluate properly.
Fiduciary risk	The risk of not taking any additional or unnecessary risks.
Political/community risk	The risk of investment returns suffering because of political changes and/or the lack of community support.
Environmental risk	The risks of an investment ignoring environmental impacts that will impose additional costs to the business.

One resource recommended by two interview respondents to help identify and manage the risks for impact investing is a report written by Bridges Ventures called “A De-risking Toolkit for Impact Investments”. Most the risks identified above overlap with the risks mentioned in this report. However, this report outlined only five key risks for impact investments including capital risk (which aligns with the financial risk above), exit risk, unquantifiable risk, transaction cost risk, and impact risk. The two risks that are not mentioned in Table 10 are unquantifiable risk and transaction cost risk. Unquantifiable risk in this report is defined as the risk factors that are unknown and given that impact investing is not a mainstream strategy quantifying this risk can be a challenge.

Transaction cost risk aligns with capacity risk but also adds the element that smaller transactions can carry a greater risk because of the work involved in completing the transaction.

After identifying the risks the next step and line of interview questioning was finding ways to mitigate these risks. VCF, the key respondents, and the Bridges Ventures report provided different approaches to do so and have been outlined in Table 11. Some of the approaches provided by the interview respondents were not associated with a particular risk factor and therefore have been added to the most appropriate one based on its definition above.

Table 11. Risk Mitigation Techniques

Risks	Mitigation Technique
Reputation risk	<p>Reputational risk can fall under the category of unquantifiable risk and therefore can be mitigated through some of the recommendations provided below in the unquantifiable risk category.</p> <p>Some of the key mitigation factors include developing partnerships, reviewing track records, and understanding the technical aspects of the investment.</p>
Impact risk	<p>Including impact metrics and specific goals for borrowers is critical to mitigating the impact risk of an investment. If the metrics or goals are not achieved/met then the option to reduce the commitment or extend the maturity date can be re-evaluated. Using impact metrics can also serve as a screening tool to assess the investment to ensure that the investment is already yielding a desired social return or demonstrate the potential to yield these returns. Impact metrics can also be used for monitoring and reporting to understand the progress of the impact. Impact assessment can be technical and therefore it is important to ensure that technical experts are accessible, well-trained and trustworthy.</p> <p>Additional or complementary ways to mitigate impact risk include:</p> <p>Ensuring that the investment has a clear impact strategy and a credible assessment methodology being used to track progress against the expectations that have been set.</p> <p>Reviewing the cost effectiveness of the investment product in delivering outcomes relative to comparable options to ensure that the social issue is being addressed as efficiently as possible (there was some controversy with this technique that is discussed in more detail below).</p>

	<p>For foundations, bringing additional capacity for impact evaluation from the programming side who have experience assessing the social returns from programming and granting.</p> <p>Reviewing who the main partners of the investment, which can raise different flags on the sustainability of the organization and on the capacity to deliver impact.</p>
Capacity/transaction cost risk	<p>It is important to ensure that there is a leader within the investing organization driving and managing the impact investing program to ensure that the capacity is available to adequately assess the different investment opportunities (this will be discussed within the design stage). As discussed within impact risk, a foundation can also use their programming staff for additional capacity to assess the impact of investments.</p> <p>Bundling products is a mitigation technique because it includes buying a single product that offers two or more different underlying investments. This approach can scale through a multi-asset portfolio and allow a range of investments that are of the same asset class but also create exposure to diverse sectors or geographies providing greater diversification and requiring less resources.</p>
Financial risk	<p>Some of the same traditional approaches can be used to address the financial risk of an investment. This includes looking for security, evaluating the revenue sources, ensuring that the business has a strong understanding of their revenue stream, reviewing the assets and liabilities, reviewing the financial statements, reviewing a number of years of historical audited financial statements, reviewing financial ratios, reviewing cash flow projections, running asset mix models, and increasing interest rates for riskier investments within an appropriate range.</p> <p>Some investors mentioned that they go through the process of taking security on almost everything including intellectual property (something that more traditional financier would not do) as a reminder that this is not a grant.</p> <p>A few investors noted that they do not require Board members to sign personal guarantees but others do assess personal net worth and take personal security.</p> <p>One investor discussed how they run different asset mix models and make adjustments to their overall portfolio to compensate for what is happening in their impact portfolio.</p> <p>Other approaches to address financial risk can include establishing downside protection through capital stacking such as using grant and</p>

	<p>program funding. Bundling is another option, as discussed above, which can provide more diversified investment products that provide diversified financial and impact exposure.</p>
Exit/liquidity risk	<p>To ensure the liquidity of an investment opportunity, it is important to make sure that the product is a tradable product. This can include looking at whether the opportunity is listed on a widely used exchange or on a secondary market that matches buyers and sellers. However, this can be challenging as this type of market infrastructure is not well-developed in Canada.</p> <p>Other approaches include ensuring that the documentation facilitates easy ownership transfer and bundling (as discussed above).</p>
Business risk	<p>Reviewing and driving into the business model of an investment is critical to assess the business risk. The business will need to demonstrate evidence of planning, sound estimates, a good understanding of their risks (everything from products, suppliers, customers, and competition), and have quality personnel in place. Taking an active investor approach can help to assess these risks by conducting site visits and meeting the major stakeholders including customers and suppliers.</p>
Talent/management risk	<p>All of the management team of an investment should be met and the experience levels should be reviewed to ensure that they have the capacity and commitment to be able to carry out what they are proposing to do. This can include conducting background checks, character and reference checks, and talking with previous board members that the team members have been on or were governed by. The team should also demonstrate a clear understanding of their weaknesses.</p> <p>To mitigate this risk skill gaps and weak areas that have been identified can be addressed by adding additional team members through the networks the investor has available.</p>
Entrepreneur risk	<p>The same mitigation techniques used for the talent/management risk can be applied here. However, replacing the entrepreneur with someone in your network is not an option but offering training or mentoring can be considered.</p>
Board risk	<p>The same mitigation techniques used for the talent/management risk can be applied here.</p>
Technical risk	<p>As mentioned in the impact risk, there can be some technical aspects of an investment that are difficult to assess. This would require the use of technical experts or business specialists.</p>
Fiduciary risk	<p>Adopting an impact investing strategy will require Board approval in addition to the proper policies and processes established to ensure that there is structures and a clear understanding of the program.</p>
Political/community risk	<p>The investor should stay engaged with their community and donor base</p>

	to ensure that investments are aligned with what the community needs and supports. Also staying engaged with government and policy decisions is important to ensure that there is political support for the investments being made.
Environmental risk	Environmental risk has a direct link to impact risk and the same mitigation techniques can be adopted. Investors will need to ensure that the environmental impact of an investment is being properly assessed and if it is too technical that the proper expertise is being used.
Unquantifiable risk	Assessing the track record on both the financial and social aspects of an investment can be used as a mitigation technique for unquantifiable risk. However, this may be difficult given the newness of the industry and its fragmented state. Technical assistance can also be used to address the complexity or performance gaps that an impact lens might add to an investment. Technical assistance to investments can be funded through grant dollars and can take many different forms such as training staff, financial controls, upgrading management information systems, improving governance, impact assessment training, testing new markets, and implementing new systems and procedures. Using partnerships (both public and private) for collaboration can be another tactic to provide different levels of support and gain a better understanding of the technical aspects and the overall marketplace.

In addition to the list of mitigation techniques outlined in Table 11, one common theme that respondents discussed was that impact investing requires investors to be ‘active investors’. Some of the techniques outlined above demonstrate what is meant by being an ‘active investor’ including such things as taking a board position or being in touch regularly with the company or project that you are invested in. Being an active investor therefore means being actively involved in the investment after placing capital. Others identified impact investing as ‘relationship lending’ because it is heavily based on the qualities of the people/team that you are investing in.

Table 11 discusses techniques for investments that can be made either as direct investments or investments through a lender or intermediary, which are two different investment approaches that can be adopted. With these two different approaches there are some different risk mitigation techniques offered. For example, an investment to a lender (such as an impact fund) can provide the option of bundling and increased diversification, which a direct investment would not provide.

As mentioned in Table 11 within the impact risk mitigation techniques, there is some controversy around one specific technique that was highlighted in the research. The Bridges Venture Report stated that one way to mitigate impact risk is using a value for money approach; reviewing the cost effectiveness of how a product delivers outcomes relative to other comparable options to ensure that the social issue is being addressed as efficiently as possible. Interviewee #6 explained that this is not how they approach impact risk because they assess each opportunity as it comes in and if it is a good fit then they proceed with the opportunity. They do not set targets, then look for opportunities and then assess a number of different opportunities and decide which one is best by doing a cost benefit analysis. After reviewing the techniques of other respondents the approach of assessing opportunities as they come in was the common approach adopted. This might be indicative of the nascent marketplace with only a limited amount of opportunities to choose from.

4.3. Designing Stage

The second stage of the implementation framework is creating the structures and processes to have an effective and well-designed impact investing program. This stage includes identifying a leader, providing training, creating plans, policies, and processes, and building the appropriate systems.

4.3.1. People

The Mission Investor Guidebook discusses the importance of having a champion or champions within the organization to take the lead on developing a successful impact investing program. This person(s) can act as the internal advocate who understands the potential of adopting an impact investing program. After asking the interview respondents about their own role and how the role of their organization in the impact investing space has changed over time some of these key individuals were identified.

The main finding from this line of questioning is that there is no right person for this role and some of the respondents identified board members, donors, and staff members as key individuals leading the impact investing program. To provide an example, the leader at VCF is the Executive Director. He has been with the foundation since 2008 and previously worked with Vancity Credit Union's venture capital arm and served as the first manager of Social Responsibility at Coast Capital Savings.

A leader is important to an organization but to drive the program from inception to practice additional structures need to be established. Having Board buy in and approval is needed and it is common that an investment committee is developed to move the program forward and report to the Board of Directors (Berliner & Spruill, 2103). Some organizations have created a new impact investment committee and others have merged impact investing responsibilities with their current investment committees. The most important part is ensuring that the committee members have the proper skill set to drive an impact investing program forward (Berliner & Spruill, 2103). For a community foundation this will include key community members that have experience in community development, members with experience in social finance, and members with experience in key priority areas such as affordable housing, green energy, education, etc. VCF merged the responsibilities of its impact investing focus with its finance/investment committee. However, an assessment of the committee's skills was undertaken and a new committee member was added that has significant experience in social finance.

Education and training at all levels of the organization should take place to ensure that there is a clear understanding of the impact investing program and its potential (Berliner & Spruill, 2103). The interview respondents discussed a range of levels that their impact investing program sits at within their organization. One respondent discussed how their organization went through a consolidation process merging both their investment and program staff into one capital deployment team creating a holistic approach to philanthropy and investing. Another interview respondent discussed how the organization has created a separate team for social finance that develops strategies for capital deployment. Other respondents discussed how their impact investing program sits with their investment committee or that they have a separate loan fund managed outside of the organization.

The impact investing program at VCF sits in the hands of the Executive Director, the investment committee, and GVCAF. However, VCF has a unique relationship with Vancity Credit Union, which adds an additional layer of complexity to their impact investing program. The Credit Union provides additional capacity to the Foundation when deploying capital and shares investment opportunities that may fit well with its priority areas. VCF also has a network with other foundations across Canada that share resources and help build capacity and understanding in this space.

Overall, there is no right answer on who should be managing an impact investing program and what staffing structures should be established. However, as noted above, one common practice is to have a separate investment committee for impact investing that presents their recommendations to the Board of Directors. In addition, the proper skill set is required to support the program and this is different than what a traditional investment manager can provide. Typically the work of managing investments is kept separate from programmatic work, but impact investing requires these two worlds to merge, as it requires oversight of both social and financial returns. Therefore, the team involved with managing the impact investing program will need to have a multidisciplinary skill set.

4.3.2. Plan/Approach

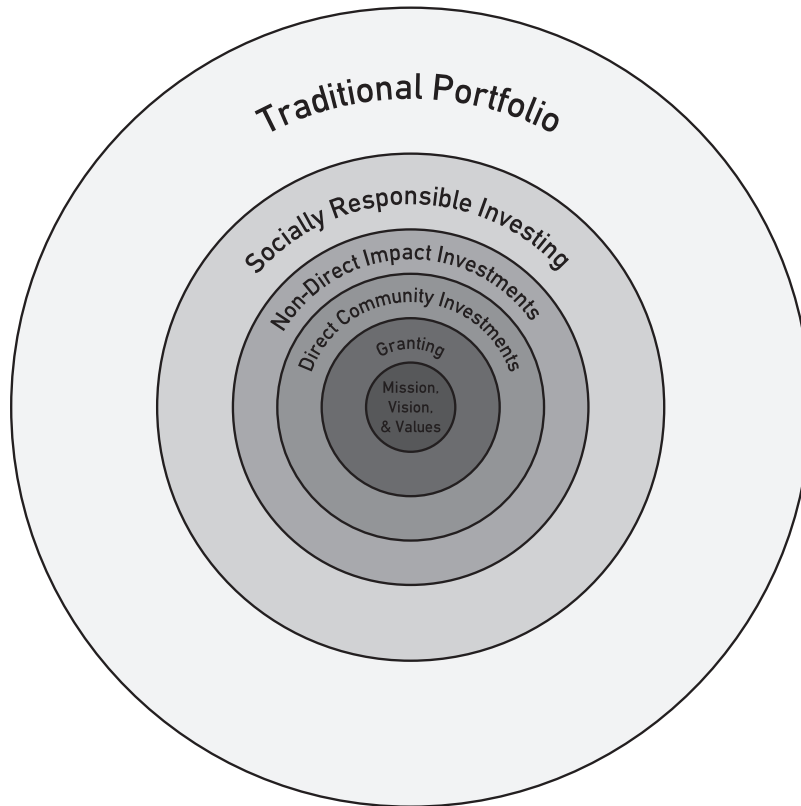
Organizations adopt different approaches for their impact investing program according to the goals that they hope to achieve with the program (Berliner & Spruill, 2103). A particular approach will be dependent on the money that is available, the program areas that have the most potential for impact investments, the early successes, how donors can be engaged, and where there are resource and capacity within an organization.

When interview respondents were asked about their organization's impact investing strategy different approaches were outlined. Each organization had a different approach for their impact investments; some only provided funding to non-profit

organizations and others to both non-profit and for-profit organizations, some created a revolving loan fund, and each had a different focus/sectors that they invested in such as clean energy, poverty relief, innovation, employment, etc. There was a common and fitting theme among the place-based organizations that were interviewed, including VCF, that was a geographic focus within the communities they served. The place-based organizations wanted to focus and invest in their communities and build out from there.

Interviewee #5 described their geographic approach to impact investing by trying to create a circular map. They started by looking at their mission, vision, and values as the core of their circle and around that is their granting and community leadership work, which is critical to the work that they do and most aligned with their mission. The next ring around the core is the direct community investments that are also aligned with their mission, vision, and values. These investments are described as the most resource intensive, have a longer implementation window, and fill a gap that is not being served by financial institutions. The next ring is impact investments that move outside of their community but are still consistent with their mission, vision, and values. These investments have been made through impact investment funds and are highly mission aligned, catalytic in nature, provide some liquidity, and preferably involve real assets. The next ring is their socially responsible investment fund, which aims to get corporations doing well in their communities, wherever that might be. The last ring is the traditional portfolio. The goal is have the rings grow and to squeeze down the traditional/public market piece as tight as possible. Figure 10 is a re-creation of this circular geographic map.

Figure 10. Geographic Approach to Impact Investments



As outlined above in the risk mitigation techniques, an investment approach can include the use of investments through lenders and/or direct investments. Some interview respondents describe direct investments as opportunities for taking a more focused lens that is mission aligned. On the other hand, investments through lenders provide a broader lens with more diversity. In addition, direct investments require an active investor approach and are more resource intensive. A few of the Canadian organizations interviewed mentioned the use of the Community Forward Fund to help discover direct investment opportunities in their community and to provide due diligence support for these investments.

As mentioned above, VCF has a geographic focus and has identified that impact investing can align well with its priority areas in community owned real estate and social

enterprises. VCF uses a mix of both direct investments and non-direct investments through lenders but has not identified the ideal balance for these two different investment approaches. When it comes to sourcing deals VCF uses its relationship with Vancity Credit Union and its own relationships within the community. Figure 11 shows the breakdown of VCF's investment portfolio by percentage of direct investment, non-direct investment, and SRI portfolio as at August 31, 2014. Figure 12 has recreated Figure 10 shown above for the geographic approach to VCF's investments building out from its mission.

Figure 11. VCF Investment Portfolio

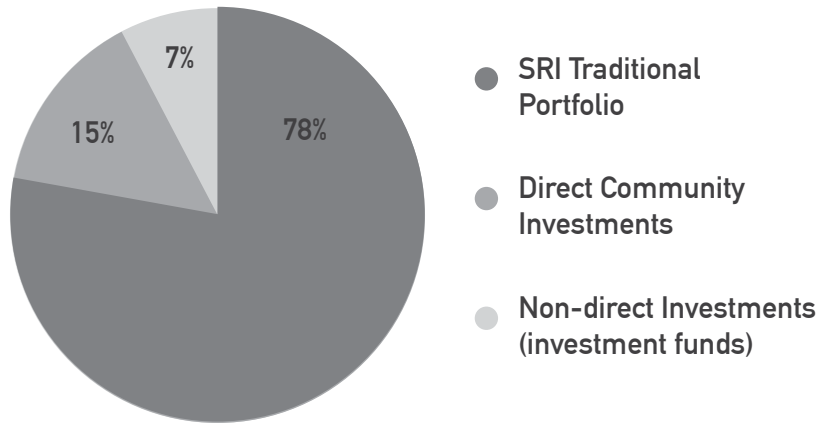
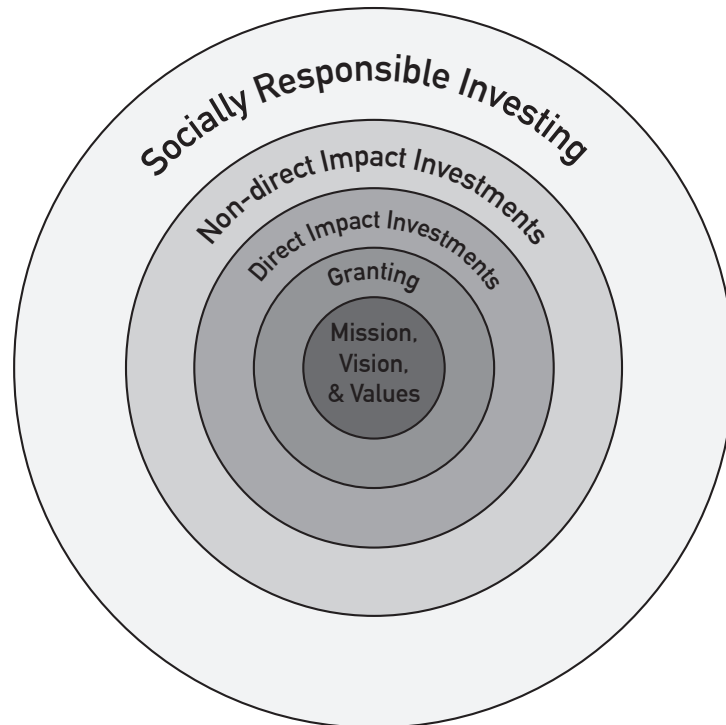


Figure 12. VCF Geographic Approach to Investments



All of the Canadian interview respondents, including VCF mentioned that their goals for their impact investment portfolio have been influenced by the recommendation made by the Canadian Taskforce on Social Finance. All of these foundations are working towards achieving the 10% allocation that the Taskforce recommended for foundations by 2020 and some like VCF are trying to achieve this goal earlier and allocate more than 10%. Interviewee #9 discussed how they believe that using direct investments to achieve the 10% allocation is not a sustainable approach because of how labour intensive direct investments can be. They recommended that a successful and sustainable portfolio at the 10% mark would need to include a mix of both direct investments and market-based approaches.

Some other approaches that were described by the interview respondents include making investments at certain stages in an enterprise's life such as seed investors or early stage investors. Interviewee #13 discussed how they have created a

model for patient capital investing in poverty alleviation and how this is focused on innovation and finding entrepreneurs that are doing something unique. Interviewee #15 found it useful to place their approach along a spectrum with social returns on one end and financial return on the other end to find where they sit along this spectrum. Interviewee #4 discussed how their organization does not believe that it is necessary to take concessionary financial returns in order to achieve impact because there is world of securities to choose from. They believe that in order to fulfill your fiduciary responsibility as an impact investor you need to maximize your financial return and achieve your impact requirement.

Finally, the Mission Investor Guidebook outlined some of the lessons learned by the Vermont Community Foundation that established an impact investing program in 2002. These lessons include starting slow and modestly, recognizing the value of the investment program, paying attention to the outcomes and sharing the numbers (such as the number of jobs and affordable housing units), partnering with other foundations, and understanding your skill sets and where you may need help.

4.3.3. Policy

The Mission Investor Guidebook outlines that developing an impact investing policy is the clearest way to translate strategic goals for impact investing into an implementation plan. The policy can provide general principles and can also provide specifics about the design and investment parameters. The interview respondents were asked whether they have an impact investing policy in place and whether it is publicly accessible. There was a range of responses including having no policy, having guidelines developed but no policy, a draft policy that still needs Board approval, a policy that is not publicly accessible, and a policy that is publicly accessible.

VCF currently does not have a separate impact investing policy established. However, their current investment policy does guide and set some parameters for impact investments. Included in their permitted investments is community development lending,

program related investments, community real estate assets, and other mission based investment products. The investment policy outlines the ethical screening applied to all investments and outlines the decision-making process applied to the abovementioned impact investments. Finally the policy also outlines that additional risk can be taken for program related investments that are consistent with CRA guidelines.

Five different impact investing policies were reviewed, three provided by the interview respondents and two others found through internet searches. One policy was developed just for direct community investments and the other policies were more general for all impact investments made by a given organization. Table 12 outlines the common elements that were included in these impact investing policies.

Table 12. Common Elements of an Impact Investing Policy

Elements	Description
Purpose	- Outline the purpose of the policy
Definitions	- Definitions of impact investing and other associated definitions such as mission related investments (MRIs) and program related investments (PRIs)
Asset Allocation	- % of assets invested (some broke out their allocations to specific asset categories and broader asset categories such as MRIs and PRIs)
Financial Objectives	- Financial goals (such as when market rate returns will be sought and when below market rate returns will be acceptable)
Social Objectives	- Social and/or environmental impact themes (such as affordable housing, social enterprises, financial capacity of community organizations, green technology, etc)
Risk Management	- Risk management techniques and process - Risk tolerance levels for specific investments (ex. MRIs and PRIs may have different risk levels of acceptable risk)
Performance Measurement	- How success will be measured - How the investments will be monitored - Benchmarks
Decision Making Process & Responsibilities	- Authorization levels - Role and responsibility of investment committee - Role and responsibility of Board of Directors - Role and responsibility of staff members
Policy Review	- Reasons and frequency of policy review

Both VCF and some of the interview respondents discussed their concerns with creating an impact investing policy given the newness of this marketplace. There was hesitancy expressed around creating a policy that is too proscriptive that it becomes limiting. However, the policies reviewed have found ways to create structure but not limit the opportunities. One key factor is in respect to the asset allocations and return expectations. All of the policies reviewed, with the exception of one, did not include strict asset allocations, targets, or return expectations. Instead of using a top down approach through a mandated policy these are done using a bottom up approach on a case-by-case basis. Another useful point that was discussed by those who have an impact investment policy was to ensure that specific goals for social and/or environmental returns are outlined. By doing so, they have suggested that better evaluation and monitoring can occur as there is clear definitions of success.

4.3.4. Decision-Making Process

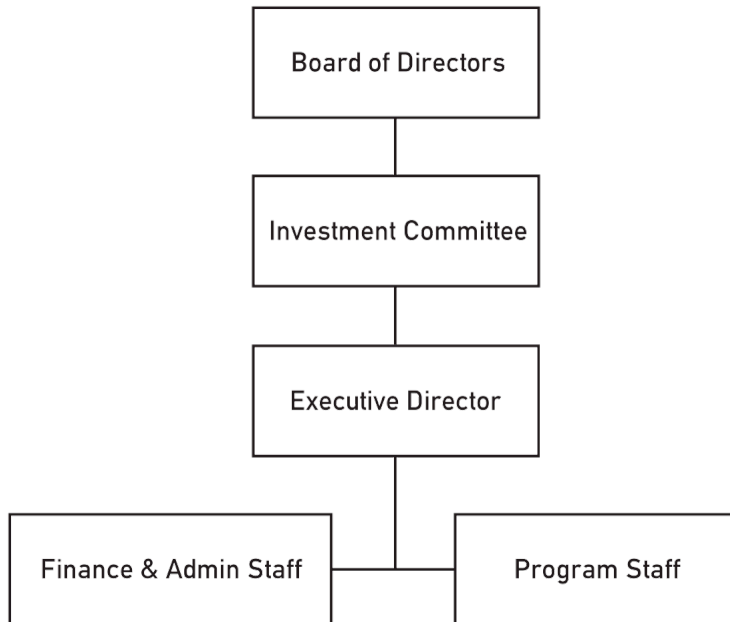
As mentioned in the impact investment policy it is important to outline a decision-making process and implement a governance structure. This is one element that is included in the impact investing policy. This process will also be different for each organization depending on the structures that are in place. The Mission Investor Guidebook outlines three different decision-making stages for impact investments including, 1) screening impact investments, 2) reviewing potential investments, and 3) program oversight. However, there should also be one additional stage for approval of impact investments.

Given that each organization will have a different governance structure in place, a typical process cannot be outlined. However, the decision making process for VCF can serve as an example using the four stages aforementioned and shown in Table 13. VCF's governance structure has also been outlined in Figure 13.

Table 13. VCF Decision-Making Process

Stages	Roles and Responsibility
Screening Impact Investments	The staff at VCF hold the role of performing the initial screen of impact investments before taking the opportunity to the investment committee. This includes determining whether an investment is a good fit with the mission and values of the organization.
Reviewing Impact Investments	The due diligence on investments is done by the staff at the Foundation and this is also where Vancity Credit Union can provide additional capacity.
Program Oversight	The investment committee selects and reviews investment opportunities before presenting them to the Board for approval.
Approval of Impact Investments	The Board holds the role and responsibility of both approving impact investments and the investment policy.

Figure 13. VCF Impact Investing Governance Structure



4.4. Activation Stage

The final stage of the implementation framework is activating the plan and making the investments. This includes building an investment pipeline, evaluating investments, and monitoring their performance.

4.4.1. Investment Pipeline

The first step in activating an impact investing program is developing the pipeline of investment opportunities (Berliner & Spruill, 2103). Given that this a relatively new way of investing the interview respondents have mentioned that there is a limited amount of opportunities to choose from but it is continuing to grow. The Mission Investor Guidebook recommends that foundations use a number of tools to develop their pipeline including reviewing their granting portfolio, using databases and networks, convening stakeholders and potential investees, making requests for proposals, and using granting as a capacity building tool to make investable opportunities in the future.

As mentioned multiple times in this paper, VCF has a unique relationship with Vancity Credit Union, which provides an additional avenue for deal sourcing through their lending practices. VCF also uses some of the tools that the Guidebook has outlined such as their granting portfolio, their community network, and using granting as a capacity building tool.

Interview respondents were not asked about how they develop their pipeline but some respondents discussed this when they were asked what role their organization plays in the impact investing marketplace. A few respondents mentioned that they were using the Community Forward Fund as a way to source deals within their communities in addition to their expertise on due diligence. There were two respondents that have implemented a revolving loan fund within their respective communities and with this

approach they make a call for proposals. Interviewee #6 discussed how they use granting and deploying a combination of assets as way to build capacity for future investment opportunities. To be more specific, this respondent discussed how they are complementing a grant for capacity building with a convertible grant that will become a PRI for credit enhancement in the short term and plan to become regular investors provided that there is a proof of concept. This particular investment is also in partnership with the government, which other respondents have also pursued. Finally, a common theme that was highlighted with both the key respondents and VCF was the use of impact investment funds and financial intermediaries such as the Community Forward Fund. This approach provides product diversity through bundling and is a tool for risk mitigation as previously discussed in Section 4.2.4 and Table 11.

4.4.2. Evaluation

The key informants were asked about the performance, monitoring and risk mitigation techniques of their impact investments. In order to evaluate potential investments the proper due diligence needs to be conducted to identify and analyze the risks and confirm that the investment meets the right criteria for the impact an organization is seeking to achieve (Berliner & Spruill, 2103). Many of the due diligence procedures were mentioned in the discussion of risk mitigation techniques outlined in Table 11. This section will take this one step further and outline different due diligence tools that are currently being used in the marketplace.

The interview respondents were asked about how their organization assesses the risk of impact investments and what tools they have in place. There were seven different respondents that discussed the development of an in-house risk rating tool used to conduct their due diligence. However, some of these respondents did not provide much detail on their tool because its proprietary nature, which is consistent with the limited resources found in the literature review regarding these tools. There were some common themes from the description of the tools established by the interview respondents. Each tool considered multiple factors and scored these factors on a scale

of either 1-5 or 1-10. The common factors included in these tools were management capacity/quality, financial risk, financial return, and social and/or environmental impact. Other factors that were mentioned included strategic fit, deal structure, value proposition, impact risk, upside or growth potential, position in the field, and reporting function. Each of these factors represents a broad category that is made up of additional sub-categories, which no interview respondent discussed in detail. With a risk rating tool, each of these factors are scored and depending on whether a certain threshold is reached the investment is considered acceptable or not. The factors may also be weighted differently according to the different risk tolerance levels of an organization. Some respondents also discussed that this rating tool was a way to periodically monitor the performance of their investments and their aggregate portfolio.

Two interview respondents mentioned the use of a resource developed by RISQ that helped them to develop their risk rating tool. The resource is an analytical model for social enterprises that outlines how to establish a profile to make an investment decision while considering the features of a social enterprise (non-profit organizations and co-operatives). This tool assesses the sustainability of an organization by looking at how well rooted they are in their community and reviews non-traditional metrics. There are ten main criteria that are scored on a scale of 1-10 and weighted on a scale of 1-4, providing a more precise measurement. Table 14 outlines both the ten main criteria and the sub-criteria.

Table 14. Social Enterprise Evaluation Criteria

Main Criteria	Sub-criteria
Social Objectives	<ul style="list-style-type: none"> - Democratic process - Collective participation in management - Social objectives of production of goods and services - Sense of community and redistribution of wealth
Grounded in the Community	<ul style="list-style-type: none"> - Community support - Links with local development plan - Community involvement in decision-making - Financing partners - Technical supervision and support
Management Team	<ul style="list-style-type: none"> - Control over mission and policies

	<ul style="list-style-type: none"> - Expertise in the sector - Management style - Team members - Team meetings - Elements of success - Image
Board of Directors	<ul style="list-style-type: none"> - Support from leadership team - Board meetings - Knowledge of dossiers - Expertise - Expression of interest
Human Resources	<ul style="list-style-type: none"> - Personnel involvement with the mission - Participation in management - Sustainable jobs - Training - Wages and working conditions - Support for labour market integration
Market	<ul style="list-style-type: none"> - Market share - Leadership position - Clientele growth - Stability of service contracts - Promotion and marketing strategy - Influence on sales price - Competition
Operations	<ul style="list-style-type: none"> - Control of raw materials - Control of distribution networks - Productivity - Technology - Workforce experience - Business plan
Viability	<ul style="list-style-type: none"> - Surplus earnings - Profitability - Sales growth
Financial Structure	<ul style="list-style-type: none"> - Funding - Debt - Repayment capacity - Liquidity

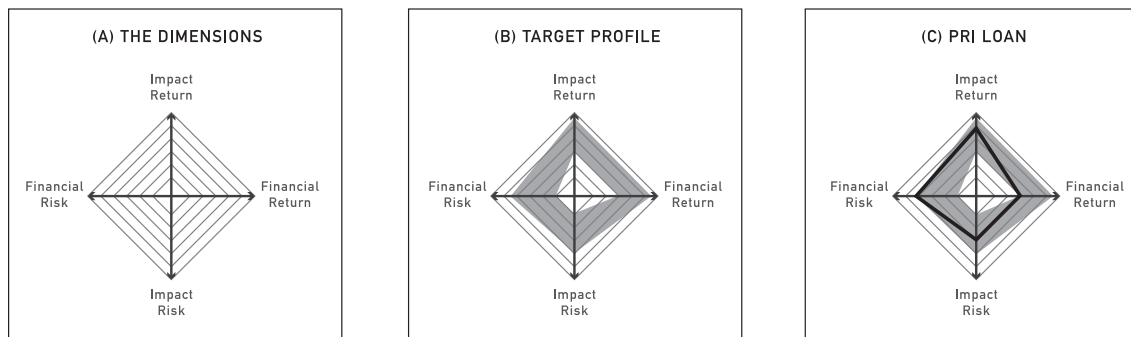
	- Capacity for reinvestment
Quality of Assets	- Resale value - Quality - Maintenance - New - Modern - Technology

Soure: RISQ (n.d.)

The criteria outlined in Table 14 overlaps with each of the common factors outlined by the interview respondents; management capacity/quality (including management, board, and staffing), financial risk, financial return, and social and/or environmental impact. However, this tool adds the element of community that is important to both the social enterprise model of non-profits and co-operatives.

Two interview respondents also mentioned the use of a tool developed by J.P. Morgan (shown in Figure 14) to evaluate their impact investments in an addition to a risk rating tool. This tool uses a three dimensional chart that creates a triangular graph on financial risk, financial return, and impact. However, one respondent expanded this tool to include four dimensions; financial risk, financial return, impact risk, and impact return. Each of these dimensions/factors is rated on a scale in order to map it to the graph. A target portfolio is first established and mapped along the dimensions and each investment opportunity is overlaid on this map to compare the investment to the target. The aggregate portfolio can also be mapped and compared to the target. The target profiles can provide ranges for each type of asset class and can also vary if the investment is a mission related investment seeking a market rate return or a program related investment with a higher tolerance for below market returns. In addition to evaluating potential investments, this tool can also serve as a monitoring tool to periodically review the investments made. Figure 14 provides an example of how this tool works.

Figure 14. J.P. Morgan Impact Investing Evaluation



Adapted from Saltuk (2012)

VCF has created their own in-house tools to evaluate their investments. They have two tools in place including an evaluation checklist for each impact investment and a matrix to assess community real estate investments (that is used in addition to the checklist). The evaluation checklist assesses multiple factors and rates them using different scales and according to whether certain factors exist. The different factors include financial return, financial risk, investment horizon, liquidity, donor funding, Vancity Credit Union contribution/connection, non-profit owned, collaborative investors/partners, innovation and learning, community support, management strength, governance strength, narrative strength, impact area, future growth, organization or sector strength, and portfolio fit.

VCF's second matrix is specific to real estate deals because this is a priority area that fits well with impact investing. The matrix includes both social factors and a financial factor. The social factors are affordability, community ownership, and social value creation and these are scored on scale of 1 to 11, with 1 being negligible and 11 being catalytic. The financial factor is the return on investment that is scored on a scale of 1 to 5, with 1 being no repayment and 5 being repaid plus a market return. The social factors and the financial factor are then mapped on a matrix to determine whether the investment meets both the financial and social factors and provides an acceptable investment opportunity.

The Mission Investor Guidebook discusses how the due diligence process for impact investments can be more rigorous than traditional due diligence conducted on investments, which aligns with how some interview respondents describe their own due diligence process. The guidebook also discusses that the typical process includes a checklist of needed financial and programmatic information, in addition to direct contact with the investee and other external parties. Therefore, the two main areas of inquiry outlined are program review and business and financial review. The RISQ tool adds the additional element of community support to this line of inquiry for non-profit and co-operative investments.

Overall, there are a variety of ways to evaluate an impact investment and the process of evaluation is typically more rigorous than traditional investing; hence the capacity and transaction cost risk outlined in Table 11. There are common elements found in this evaluation that focus on programmatic, business and financial information including team quality (management/Board/staff), financial risk, financial return, and impact return (and for some impact risk). However, there is no right process that will fit the needs of each investor and as VCF demonstrates specific tools can be developed to assess deals of a certain theme or sector. It is hard (maybe even impossible) to develop a standard risk assessment tool because of the variability between investments, asset classes, sectors, and within a portfolio. The process is highly subjective and is less about risk as a singular factor and more about reviewing different parameters. There is no scientific method to the evaluation and the approach taken is very different than the traditional market. Risk no longer means the same thing given the additional element of impact to consider. Interviewee #4 discussed how their organization thinks of risk and how financial risk and impact risk are not independent of each other. They firmly believe that in order to have a sustainable impact, financial viability must be achieved. If financial viability is not achieved then the social good is limited.

Interviewee #6 discussed how all of the tools being developed for impact investments adapt practices to suit investor's needs. The respondent discussed how these tools should go both ways and how we should be looking to adapt and reassess our definitions; specifically regarding risk. Interviewee #6 stated that, "a lot of the risk identified is not real risk, it is more perceived and it is easy to say that foundations

should come in for risk reduction, mitigation, and credit enhancement, but if it was never an issue then why are we doing it that way? This is not helping to shift the market as whole. We need to think about how we plug in numbers and score and train everyone else to be able to look at things differently.”

4.4.3. Monitoring Performance

The final step after placing capital is monitoring both the financial and social performance of the investments. As mentioned in the Mission Investor Guidebook the investment agreement should lay out specific financial metrics, impact metrics, and the frequency of reporting that is required. The investor should also monitor the level of risk of its investments and can be done so using the tools mentioned in the previous section such as a risk rating tool. A risk rating tool can also help to establish a level of loss reserve for protection against potential future losses.

Monitoring the financial performance of an investment is straightforward and aligned with the monitoring that takes place for market investments. Given the straightforward nature of financial performance the details will not be discussed in this section. Social performance will be the focus as it is significantly harder to monitor because of the difficulties in its measurement.

The interview respondents were asked about how their organizations’ measure the impact on their investments and whether they use any tools or specific metrics. It is important to note that social measurement links back to the previous section on evaluation because the social impact would need to be evaluated before the investment was made and monitored. When it comes to evaluating the social impact of an investment the investor may look at whether a measurement tool is being used to evaluate the impact and whether it is an acceptable tool. In addition, to evaluating the impact of the investment, the investor will also want to evaluate the impact of providing capital. For example, the donors of a foundation will want to know what impact their donor dollars are having on the impact investing program. Therefore, impact needs to be

measured and reported on at both the investment and investor level. The focus here will be on the investor level but the tools that are discussed are applicable at both levels.

The most common response from the interview respondents was the use of anecdotal evidence. Six different respondents discussed how they are constructing their impact in an anecdotal way and some are doing so because they noted a lack of trust in the other forms of analysis. Included in this conversation is the use of storytelling and how stories can resonate and capture the nuances of impact that other forms of analyses fail to do. In addition to anecdotal evidence, six interview respondents mentioned that they are using IRIS metrics, some fulsomely and others to compare against their in-house metrics. IRIS is a set of metrics developed by the Global Impact Investing Network (GIIN) used to create a standardized way to compare impact investments. However, some respondents noted frustration when using IRIS because of its size and that it only provides a glossary of metrics and does not outline how to conduct the measurement. The other tools mentioned in this research included SROI, BCorp, Co-op Metrics, and ESG screens.

The interview respondents provided mixed reviews regarding impact measurement; some are measuring impacts and others are not. Some respondents discussed how they were too busy placing capital to perform any impact measurement and that this is specifically an issue with private equity because of the long time delays before any results can be comprehended. One respondent discussed the need to first create the pathways for investing before determining how much impact an investment has and expressed concern that if measurement is the starting place it will take a long time to start placing capital. Similarly, a comment was made on the mere fact of using capital with the intention to do good as the starting point and from there things will only get more sophisticated. Interviewee #9 shared that “if you have money invested in the oil sands and you make an investment in clean energy or a local coffee shop that hires disadvantaged individuals then ultimately you know that you are doing more good with your dollars.”

Overall, when it comes to impact measurement and monitoring, both VCF and the interview respondents discussed a general intention to measure their investments. Many of the respondents that are currently measuring impact mentioned that they are doing so in a way that is as painless and valuable as possible. They are either tracking metrics that are already being measured or ones that can easily be measured. However, there is no standardized or hard fast way to measure impact, even though some tools are trying to create a level of standardization. The one common theme in the marketplace is that there are a lot of different tools being used, which is creating a market for experimentation, reiteration, and value judgments (Harji et al., 2014). In result to this, the marketplace is not setup to assess investments based on which one has more or less impact; linking back to the conflict noted on one of the impact risk mitigation techniques noted in Section 4.2.4.

When it comes to impact investing there is a strong need for measurement because being an impact investor requires you to achieve both an impact and a financial return. As some respondents noted, impact measurement is not the place to start when implementing an impact investing program but it is a needed element for this marketplace to grow. Some impact investors strongly believe that the social metrics are material to the valuation of a company; that social responsibility impacts the financial performance of an investment in the long-term. These same investors would like to see social and environmental sustainability incorporated into a company's charter and financial statements requiring them to report out (Interviewee #4, Interviewee #10 & Interviewee #11). With this level of requirement the impact measurement could become more standardized like that of financial measurement.

Chapter 5.

Discussion & Recommendations

5.1. Introduction

Conducting the case study and key informant interviews accomplished the main objective of the study, which was to build knowledge on the impact investing industry through an organizational lens and highlight its importance to sustainable community development. Using VCF as a case study and interviewing other impact investors, including other place-based organizations, revealed a clear link between impact investing and sustainable community development. This link is mentioned throughout the findings but discussed in further detail in the conclusion chapter of this paper. Taking an organizational lens, with a focus on foundations, is important to help build the enabling environment of the impact investing market by outlining some of the structures and processes needed to enter this marketplace. The focus on foundations is key to this research because impact investing is a natural fit allowing foundations to align their investments with their mission. This chapter presents the key findings from the research, some recommendations, and future research directions.

5.2. Key Findings

Since this study was an exploratory examination on the impact investing industry through an organizational lens, these findings warrant further investigation. However, some of the findings are confirmed through the literature review. The key findings include: 1) the need for a strong enabling environment including clarity on the language, clarity on investment forms, and the development of impact measures; 2) the leading role of foundations and the role of policy; 3) the common risks associated with impact investing; 4) the lack of risk assessment tools; and 5) the implementation an impact investing program.

5.2.1. Need for a Strong Enabling Environment

This research confirms that the impact investing industry has entered the market-building phase as noted by the Monitor Institute. This stage was explained in the literature review as the stage following uncoordinated innovation that is marked by the development of centers of activity and the building of infrastructure as well as industry-wide research, benchmarking and collaboration among the early pioneers. This research provides examples to help mark this evolution including the key respondents use of intermediaries, such as the Community Forward Fund and Renewal Funds, the investors mobilization of capital, the development of innovative financial products such as revolving loan funds, policy changes that have influenced the behavior in this market place, and collaboration among the current impact investors.

This research has helped identify key areas for developing a strong enabling environment within this phase. These include developing a universal language, clarifying investment forms, building capacity, standardization specifically around impact measurement, and the creation and sharing of new models for risk assessment. Additional developments may be needed but these are the areas noted from this

research that have been influenced by the both the framework and line of interview questioning.

Language

As noted above developing a universal language is a key area for the development of a strong enabling environment. This language should begin with a definition of 'impact investing'. The results of this research reveal that there is no commonly accepted definition of impact investing across the key respondents. The most commonly accepted definition is the definition developed by GIIN that defines impact investing as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." In addition, the GIIN definition outlines four core characteristics of impact investing and includes: (1) intentionality, (2) investment with a return expectation, (3) a range of return expectations and asset classes, and (4) impact measurement. There were respondents that did not provide a clear definition and the one reason provided was due to the fact that impact is not a static term and changes over time. However, this fact should not effect the definition of 'impact investing' given the broad nature of the impact investing definitions that have been articulated. This is more relevant to the definition of 'impact' within an organization and notably more for placed-based organizations, such as Vancity Credit Union and Vancity Community Foundation. Revisiting the literature on sustainable community development makes this clear as it notes that each community is unique and requires continuous adjustments in order to meet the needs of its citizens and environment. This means that local needs and priorities evolve over time, which in turn changes what the community defines as impactful.

Investment Forms

The results show that there were conflicting views on the types of investment forms considered to be impactful. Some respondents expanded their definition of impact investments to include investment strategies and non-financial resources in addition to financing. The one respondent that expanded their definition to include investment

strategies explained that they have done so because they include public equities in their impact investing portfolio. Including public equities as an impact investment is where the conflicting views arose. This issue is specifically relevant for place-based organizations that have a mandate to serve and benefit their communities. Public equities are less likely to provide a direct benefit to a community because of their global nature. This funding is more likely to be leaving a community and not recirculating, failing to meet one of the community economic development strategies discussed in the literature review by Shaffer et al. (2006). Therefore, these investments may not be mission aligned and may fail to meet the definition of impact set by an organization. In addition, including public equities as a form of impact investing for any impact investor makes it difficult to meet the principle of additionality that Bugg-Levine and Emerson (2001) consider key to impact investments. This principle calls on impact investors to target businesses that would not otherwise be capitalized, which a business issuing public equity does not face. Finally, the impact achieved from public equities is more difficult to measure (a core characteristic of impact investments outlined by GIIN) and monitor over time unless the shareholder holds significant influence or a controlling interest and can influence decision-making.

Overall, these conflicting views on the types of impact investments makes it difficult to evaluate and compare different portfolios held by organizations. Having clear standards can improve this understanding and strengthen the enabling environment of the marketplace.

Impact Measurement

Impact measurement was another key area in this research that is also part of developing the enabling environment for impact investing. Impact measurement is one of the four core characteristics of impact investing highlighted by GIIN. It is a core characteristic because impact investments have the 'intention' to create a positive impact and in order to assess the impact potential of an investment and it needs to be measured and monitored, just like the financial return of an investment. There is also a

need for standardization and benchmarking in order to compare the returns of impact investments, just like the standardized metrics for financial return.

This research shows a range of responses regarding impact measurement, which was expected given the lack of standardization in the marketplace. Some respondents are measuring impact and others are not. Those who are not measuring impact have noted that they lack tools and resources, lack trust in the resources available, lack capacity internally, and have little time due to placing capital (specifically private equity). Other respondents that are measuring impact are using qualitative and quantitative measures and some are only using qualitative (including anecdotally) or only using quantitative. However, all of the respondents indicated an intention of measuring impact, even those who are currently not measuring, which is aligned with impact measurement being a core part of impact investing. The literature on impact measurement notes that investors regularly include a mix of qualitative and quantitative metrics (Harji & Best, 2013). Using both types of these measures provides a deeper understanding and captures the nuances of impact.

Six of the key respondents indicated that they are using IRIS, Impact Reporting and Investment Standards, in different capacities. IRIS is a standardized set of impact metrics by sector and intends to provide a common language among impact investors. This is a large step towards standardization in the marketplace but the respondents noted some flaws including its large size, the lack of guidance on how to conduct the measurement, and a gap in the metrics for social innovation beyond market building and market based products and services such as policy change and network development. In addition to these flaws, IRIS also provides metrics for only outputs, which in turn need to be translated into outcomes as explained in Section 2.2.3. Harji and Best (2013) found that outputs are the easiest to collect and standardize and outcomes are more difficult. However, measuring outputs is not a clear indication of the impact achieved. For example, revisiting the example of the affordable housing investment provided in Section 2.2.3, the outputs can include building 100 affordable housing units but there may only be 80 tenants occupying the units. Therefore, despite the 100 units built, only 80 units are the impact-relevant outcome. From this research, it is not clear if there is an

understanding amongst impact investors of how to measure outcomes and impact because this line of questioning was not asked.

This research shows that the respondents understand the importance of measurement given their unanimous intent of measurement. In addition, some respondents shared their belief that social metrics are material to the valuation of a company and would like to see impact measurement become more standardized like that of financial statements. Overall, the impact investing marketplace is still in its market-building phase and developing impact measures is a key component. Currently, the market lacks sophistication in measuring impact and investors cannot assess investments based on which one has more or less impact. Furthermore, those investors that are not measuring impact on their investments will have a difficult time doing so. Without clarifying the expectation of a social return when making an investment, there will be no starting point, which is needed to measure the outcomes against to determine the change.

5.2.2. Leading Role of Foundations and the Role of Policy

The literature review and the case study selection explain the key role that foundations have in the impact investing marketplace. The literature notes that foundations are a natural driver for impact investments because it allows foundations to align their investments with their mission providing the ability to achieve a greater impact. Martin (2012) explains that impact investing is way for foundations to put more capital to work to have a positive impact on communities and charitable issues. The traditional business model for a foundation includes an endowment that is invested in the capital market and earns a return to support granting and operations. By shifting the endowment to investments aligned with a foundation's mission is a strategic approach and has been termed total foundation asset management by Bugg-Levine and Emerson (2011). This research has confirmed the key role that foundations have in this marketplace and has provided support for the case study selection. Many respondents when discussing their impact investments confirmed that they are taking this path in

order to align their investments with their mission. For example, one respondent shared that “the Foundation has the mandate to look at first and foremost the integration of foundation assets to advance the foundation’s mission. What that means is that we are developing the strategies to be able to integrate our grant making with our impact investing as well as align our endowment to programs of the foundation and broadly to its mission” (Interviewee #6).

The selection of VCF as the case study for this research is described in Section 3.3.2 and includes its commitment to impact investing, accessibility, community focus, and placement of capital in addition to being a foundation. VCF believes that they have the potential to hold a unique leadership position in the impact investing market because of the relationships they have with GVCAF and Vancity Credit Union. These relationships provide VCF with extra capacity and the potential to leverage additional resources and participate in new partnerships (Internal document, May 2013). VCF is a place-based organization and believes that the larger proportion of assets invested in impact investments will drive a larger change in the community than conventional investing does. In addition, they have made an assumption that impact investments will yield larger, longer term, and sustainable community impacts (Internal document, May 2013). As previously mentioned, VCF has a focus area of investing in social enterprises and community owned real estate and they believe that these two priorities support a path towards enhanced sustainability (Internal document, May 2013). In Section 3.3.2, VCF’s theory of change is noted, which is to build community assets and these assets are broken down into seven categories, financial capital, social capital, natural capital, human capital, built capital, political capital, and cultural capital. These categories are very much aligned with the Community Capital Framework discussed in Section 2.1.3 and used to assess a community’s sustainability. As VCF increases their impact investments in social enterprises and community owned real estate its theory of change can be assessed by looking at the change in community capitals.

Place-based organizations have a limited geographic focus and a defined mandate to serve that geographic area. The interviews with place-based organizations or the advisors working with place-based organizations discussed that direct community investments are the most mission aligned investments for these organizations because

they are invested directly in the communities that the organizations are serving. The following is direct quote from Interviewee #5 in relation to their direct community investments:

“We would like to maximize that (direct community investments), and at this point we are not sure what the limit is yet. We are still learning and growing. If I went back to the Board with a successful track record from the direct community investments stating that we need more funding then I think that could unfold. In a perfect world if we could have all our assets aligned with our mission, then absolutely that would be our goal. This is an iterative process, where the sector is fairly new.... There is a steep learning curve in the sector around how to mobilize capital.”

Overall, the impact investments made by place-based organizations that are mission aligned have a direct link to increasing community assets or capitals in a specific community, and therefore potentially increasing the community’s sustainability. However, the impact of these investments must be measured to determine the change. The link between impact investing and sustainable community development is discussed in further detail in the conclusion.

In addition to achieving mission alignment, key respondents from Canada also noted that a driving factor of entering the market was the recommendations provided by the Canadian Taskforce on Social Finance. The Canadian Taskforce on Social Finance was a national partnership that created seven recommendations in 2010 to build a more robust impact investing marketplace. One recommendation was made to Canadian Foundations to invest at least 10% of their capital in mission-related investments by 2020. Here is a direct quote from Interviewee #15 in regards to their response to this recommendation:

“What the Foundation Board did to the original Canadian Taskforce on Social Finance, their report that was issued in December of 2010, we responded the following year to their call for foundations to invest up to 10% of their assets by 2020. We decided in 2011 to make that commitment only our intention was to do it immediately or in any case not to wait until 2020. So we have formally committed to invest 10% of our assets in impact investing, I guess is what we are calling it these days. It seems to change every year or two. When we made that commitment we

were much smaller so we were looking at \$25M, now we are much bigger and so 10% of our assets is more like \$45M, we still have a ways to go but we are working towards that.”

The recommendation clearly influenced the respondents to enter this market or to increase the amount of their impact investments. This is an indication of the significant role that public policy can play in building and accelerating the impact investing marketplace. Section 2.3 outlines many ways that policy can be used as a catalyst in this market. From a foundation perspective, there are many barriers in this marketplace including being a prudent investor and having a balanced and diversified portfolio and introducing policy changes can help increase the flow of capital in the market from foundations and help to build a stronger enabling environment.

5.2.3. The Risks of Impact Investments

The identification of risk and risk management tools was a key area in this research and key respondents identified some of the risks associated with making an impact investment. The two most commonly reported risks of impact investing from the respondents are impact risk and reputation risk. Impact risk is the risk that an investment does not produce the expected social return and the social mission is not met. Reputation risk is the risk that an investment fails and in turn implicates your reputation. Additional risks such as capacity risk, financial risk, entrepreneur risk, and fiduciary risk have also been mentioned and are outlined and defined in Table 11.

Risk mitigation techniques are summarized in Table 11 for each of the risks identified. For impact risk this includes using impact metrics and specific goals for borrowers in order to screen, monitor, and report on the investments. For reputation risk this includes developing partnerships, reviewing track records, and understanding the technical aspects of the investments (which can include the impact metrics).

It is interesting to note that impact risk is one of the most common risks identified by the interview respondents but as previously noted in Section 4.4.3 some respondents do not conduct any impact measurement in order to mitigate this risk. The reasons provided for not doing so include a lack of resources, lack of trust in the resources available, and lack of time due to placing capital. The identification of impact risk as one of the key risks echoes the importance of developing standardized impact measures and a strong enabling environment specifically around impact measurement.

5.2.4. Lack of Risk Assessment Tools

As noted in Section 5.2.3, risk identification and management for impact investing was a key focus in this research. The key respondents were asked how they assess the risks of their impact investments and what tools they use for risk assessment. The literature has indicated that there are no risk assessment frameworks or rating agencies for impact investments (Freireich & Fulton, 2009; Mendell & Barbosa, 2013; Evans 2013), and the results of this research support that there are limited resources available. The responses regarding risk assessment tools primarily focused on tools developed in-house, which were proprietary and therefore put a constraint on the discussion. However, four respondents noted two publicly available resources used to develop their risk assessment tools. One resource explains how to establish a profile for an investment decision while considering the features of a social enterprise and these evaluation criteria are provided in Table 14. The other resource is an evaluation tool for impact investments using a three dimensional chart for financial risk, financial return, and impact as shown in Figure 12.

The discussion around risk assessment tools reveals that risk assessment for impact investments is much different than traditional investing because risk integrates an additional element of impact. The following is a direct quote regarding the element of impact in regards to risk from Interviewee #4:

“Obviously the traditional definition of risk in investing is the permanent impairment of capital, we look at risk with a broader lens here. We look at

the financial risk of every investment and we look at what we call the impact risk of every investment. This goes back to the whole double bottom line investing, you can't just look at one or you can't just look at the other. In fact, when we are looking at the impact risk of an investment we factor in the financial risk because we very firmly believe that if you are going to have social impact and sustainable social impact you need to be financially viable. If you are not financially viable, you are not going to be doing social good for very long. The financial risk rating that we give every investment actually factors into the calculation for the impact risk rating as well, which is an in-house system that we developed. We actually feel quite comfortable with and strongly about. It feeds into this idea that you can't just assess risk on one axis and when you are looking at impact risk it cannot be isolation of financial risk because the two run in tandem very closely."

Impact for each investor is defined differently and therefore assessed differently. The tools developed by VCF, explained in Section 4.4.2, illustrates that different risk assessments can be developed on specific themes or sectors such as community real estate, an impact theme chosen by VCF. Therefore, this provides an additional challenge in creating standardized risk assessment tools for the marketplace. Risk for impact investments is not a single numeric figure but is multi-dimensional and requires analysis of different parameters. This concept of risk being multi-dimensional challenges the traditional portfolio theory that defines risk as a single number, volatility of returns (Christian, 2011). This new multi-dimensional risk incorporates a deeper understanding of the threats and opportunities to the impact of an investment and does not have a scientific methodology such as that in conventional investing.

Overall, there is a clear lack of resources available for risk assessment in the impact investing marketplace. Interviewee #2 also notes "...the risk of impact is something that is developing but I think the Canadian market is not there yet." This lack of resources creates a need for collaboration and knowledge sharing amongst impact investors to assist in the development of this marketplace. If each impact investor is expected to develop their own in-house tool, this may deter entry into the marketplace because of the capacity constraint faced by many investors.

5.2.5. Implementation of an Impact Investing Program

This research took an organizational lens on impact investing strategies and practices to demonstrate how an organization, specifically a foundation, can enter the impact investing market. The purpose of this lens is to provide more structure and understanding around implementing an impact investing program and ultimately moving more capital into the market. As previously mentioned the impact investing market lacks a strong enabling environment as outlined in Section 5.2.1. Therefore, providing this organizational lens is a valuable approach to those organizations wanting to enter this market but not knowing where to start and what steps are needed. Interviewee #2 touches on this subject for small foundations, stating:

“One of the biggest issues in the foundation space in general, you know very few foundations are as big as Vancity or some of the five biggest community foundations. There are hundreds of small private and community foundations, and from a small foundation perspective there is a huge amount interest in this topic but also a huge amount of concern about what tools and systems are available because they don’t have the same level of resourcing to figure this out.”

The focus on foundations is a strategic approach in this market due to their natural fit that aligns their investments with their mission, as highlighted in Section 5.2.2. The framework shown in the results section is a useful guide for foundations when implementing an impact investing program. The three stages of learning, designing, and activating outline organizational structures and practices to consider while moving through the different stages. Through this research, it became clear that the process of moving through these stages is not linear and requires iteration and flexibility. For example, VCF has placed 22% of their investments into impact investing without creating a separate policy for impact investments. In addition, many of the respondents started placing capital without impact measures in place. However, there is a level of learning that needs to take place before designing, and some level of designing that needs to take place before activating a program. Interviewee #9 shares that the perfect

investment opportunity in a community may be the driving factor for a foundation to start an impact investing portfolio.

5.3. Recommendations

The recommendations or lessons learned from this research include: 1) defining a clear strategic focus; 2) outlining impact measures; 3) understanding that risk is multi-dimensional; 4) collaboration and networking is key; 5) maintaining flexibility; and 6) there is still a need for charity.

5.3.1. Define a Clear Strategic Focus

It is important that impact investors have clear strategy for making impact investments. This point has been emphasized throughout this research and also highlighted in much of the literature on impact investing. In developing a strategy an impact theme and/or geographic focus needs to be determined, for example VCF has a geographic focus in Vancouver and more broadly British Columbia and also invests in social enterprises and community owned real estate. Having clarity on the impact makes the measurement of that impact easier. By outlining the expectation of social return when an investment is made, a starting point for measurement is created, which is needed to measure the outcomes against to determine the change created by the investment.

5.3.2. Outline Impact Measures

In relation to Section 5.3.1, outlining impact metrics in order to measure impact is a key part of impact investing. From this research, impact measurement is not the first

place that impact investors plan. However, the importance and intention of measurement is present. This is a key piece of the impact investing market, as it is one of four core characteristics of an impact investment outlined by GIIN. The importance of impact measurement is similar to financial measurement for conventional investing. Imagine making a conventional investment not knowing the financial return or monitoring the financial return over time. Measuring and reporting on the social returns of an investment has the potential to move this market forward by gaining investor confidence by communicating the actual returns achieved.

Impact measurement should not be pushed to the back burner. Some respondents noted that they are measuring impacts and doing so in a way that is painless by either including metrics that are already being measured or introducing easily measurable metrics. This is an excellent approach when entering this new market that has no standardized metrics in place. As noted above, in order to grow this market, gain investor confidence, and communicate that impact investing is creating the 'impact' that is planned then impact metrics must be introduced. Maybe it is not the first place to start but the process of learning and incorporating measures needs to be a priority.

5.3.3. Understand that Risk is Multi-Dimensional

The risks involved in impact investing are different than the risk for conventional investing that is defined as a single numeric number. The risk for impact investments is multi-dimensional; in addition to financial risk, impact risk also needs to be considered. Impact risk is the risk of not achieving the desired outcome or mission. One key respondent from an organization that has done a significant amount of work in regards to risk considers both impact risk and financial risk related. The financial risk rating provided for each investment is a factor considered for their impact risk rating because they believe that in order to have social impact you need to be financial viable. Whether you agree that financial and impact risk are related, impact investing introduces a new component to the concept of risk that needs to be included in an investment's risk assessment.

5.3.4. Collaboration and Networking is Key

The impact investing industry is in its market-building phase and has a significant amount of work to do on creating a strong enabling environment, as explained in Section 5.2.1. Therefore, organizations that are entering this market need to collaborate and share knowledge with each other. This can include attending conferences, networking with like-minded organizations, hiring consultants, and developing working groups. VCF is great example on collaboration as they maintain an affinity working group to share knowledge and they have a strong partnership with Vancity Credit Union that helps to build their investment pipeline, provides partnerships on deals, and assists with due diligence.

5.3.5. Maintain Flexibility

Maintaining flexibility is important in this marketplace given the lack of an enabling environment and the fact that investors are learning while doing. The key respondents shared their need for flexibility when discussing the development of an impact investing policy. Many respondents have not created a policy because they do not want to be limited by their policy. This approach provides flexibility but also may provide too much flexibility that can create unclear goals. A policy can provide general guiding principles, which can be adapted over time as more structure is created or changes are made. The policy should outline definitions, objectives, performance measures (impact and financial), and any additional structure or process that has been established such as risk assessment or decision-making.

5.3.6. Still a Need for Charity

Impact investing is based on developing new scalable market-based approaches. However, it is important to note that market-based approaches will not fit for everything

and there is still a need for traditional charity. For example, providing basic healthcare and educational services to regions of the world where there is no purchasing power cannot be done through market-based approaches. Currently, the need for charity is greater than the funding that is available and the success of the impact investing industry can open the doors to provide more focused charitable dollars to the issues that cannot be solved by market-based approaches.

5.4. Direction for Future Research

The exploratory nature of this research on the emerging impact investing industry and the use of a single case study limits the ability to generalize the research findings. Additional studies on impact investors is required to accurately state the findings of this research. Therefore, the results of this research are most useful in identifying the direction of future research.

The respondents in this study were largely foundations and advisors to foundations that have entered and placed capital in the impact investing market. Focusing on these foundations that have entered this market and placed capital is useful in determining the processes and structures needed to implement a program. However, this may not address the market barriers that other (smaller) foundations face. A study that is focused on these (smaller) foundations that are interested in entering the market but are facing difficulties could potentially assist in identifying the barriers and opening the doors to more investors.

The importance of impact measurement is a major theme in the findings of this research. However, it is undetermined whether impact investors understand the difference between outputs and outcomes as explained in the logic model in Section 2.2.3. A future study that researches whether there is an understanding of how to measure impact is useful for the development of this industry given that IRIS metrics, a standardized metric glossary available to impact investors, measure only outputs and

additional work is required to determine the outcomes. This research would be beneficial to the creation of a strong enabling environment. In addition, a study focusing on organizations that are conducting impact measurement and report on their performance could assist with a deeper understanding of the process needed to conduct measurement and the type of metrics that are used to determine baselines, outputs and outcomes. Finally, a study focused on place-based impact investors conducting impact measurement would help to determine the social and environmental returns that a community receives from impact investing.

This research highlighted the significant role that public policy can play in establishing the impact investing marketplace. There have been significant shifts in the public policy realm over the last five years and a study that focuses on how these policy decisions are affecting the impact investing market could help inform the role of policy and what additional policy changes might be needed.

Finally, this research introduced risk for impact investments as multi-dimensional, with the additional element of impact added. Conventional investors assess risk as a single numeric figure that relates to the volatility of returns. Over time it will be interesting to study if the concept of multi-dimensional risk has an effect on conventional investing and if there are any shifts in the concept of risk.

Chapter 6.

Conclusion

This research set out to provide a better understanding of the impact investing industry and the link between impact investing and SCD. To better understand the industry, this research focused on how foundations are implementing an impact investing program and participating in this marketplace by examining current practices within an implementation framework. The focus was on organizational structures and processes. Taking an organizational lens is important to help build this marketplace, as there is interest from other organizations, such as small foundations, that do not have the resources or guidance on how to enter this marketplace. The focus on foundations is also important given their natural fit in the marketplace. Impact investing provides foundations with the opportunity to invest in a mission-aligned manner and remove the risk of investing in a manner that may undermine their mission. What this means is that a foundation, such as VCF, can move more of its capital into impact investments and earn not only a financial return but also a social and/or environmental return that aligns with the mandate of their organization. For VCF, this would align with building more community capital. Therefore, this provides the opportunity to leverage philanthropy dollars for impact investments and achieve a greater impact. This research confirmed that the respondents from foundations do understand their natural fit in this marketplace. This research also identified that this marketplace is in its market-building phase and key structures still need to be developed. This includes the language, impact measurement, risk assessment tools, and the different investment forms that qualify as impact investments.

SCD was previously introduced in the literature review as taking the concept of sustainable development to the level of a community. The community level is important

for sustainable development because this is the scale where people live and where their actions contribute to societal problems. Therefore, SCD supports the development of local level solutions. The literature also explained that CED is a fundamental component of SCD. CED is a process whereby communities can create solutions to their own economic problems and integrate economic, social, and environmental objectives (SFU CEDC, 1996). Some CED strategies include increasing the flow of dollars into a community, recirculating dollars into a community by plugging economic leakages, and increasing the amount of resources available in a community.

This research found a direct link between impact investing done at a community level and CED. Placed-based organizations, such as VCF, have a mission to serve their communities and therefore entering the impact investing market allows them to invest in a mission-aligned manner. This means that these organizations can move dollars invested in the capital market directly into investments in their communities with a goal of achieving both a financial and social return. This facilitates CED and SCD because the investing is focused on creating a local solution to social, environmental, and economic problems. This recirculates wealth, creates economic self-reliance, and increases community resources. Interviewee #6 provided an example of an impact investment made to a reserve community where they offer housing loans, which are typically dependent on government subsidies. Commercial investors have not provided similar financing opportunities to this reserve community because of the inability to claim land. This investment has initially been made as a grant and convertible to a PRI for credit enhancement. The interviewee noted that in the long run they intend to become regular investors once the track record has been established. This is one example of how capital is being deployed using a combination of assets in the impact investing market to help build community assets; in this example housing (or built capital) to a reserve community.

As previously noted, VCF has a mandate to enrich their community and a belief that investing a larger proportion of their assets in impact investments will drive a larger change than conventional investing. They have made an assumption that impact investments will yield larger, longer term, sustainable community impacts (Internal document, May 2013). VCF also has a theory of change of building community assets

and these assets are broken down into seven categories – financial capital, social capital, natural capital, human capital, built capital, political capital, and cultural capital. As explained in Section 2.3.3, a theory of change is a tool used to map and explain the progression of impact by sharing assumptions and mapping them in a logical manner. VCF's theory of change of building community assets aligns well with the Community Capital Framework discussed in section 2.1.3. This is a tool used to assess a community's sustainability and in turn can be used to chart the progression of building community assets through impact investing. In addition to the future research directions noted in Section 5.4, a future study using a tool like the Community Capital Framework may assist in measuring and communicating the impact from placed based organizations. For example, the investment in reserve housing can be mapped by tracking the built or physical capital in a community, in addition to any other change in community capitals to evaluate whether it is helping the community become more sustainable. Overall, placed-based organizations making impact investments in their communities have a direct link to increasing community capital, and therefore potentially increasing the community's sustainability, but the change must be measured. This research did not measure the impact of specific investments within a community and therefore the direct community benefits cannot be commented on. However, as previously noted, direct community impact investments are a form of CED as it provides an increase in the flow of dollars, redistributes wealth, and increases the resources available to a community.

An important conclusion from this research is that impact investing cannot define risk the same way that conventional investing does because of the additional element of impact. Impact investors strive to achieve more than just a financial return on their investments but also a social return. Therefore, impact investments place utility (a level of satisfaction) on the nature and quality of returns being achieved, which challenges modern portfolio theory (Christian, 2011). Modern portfolio theory assumes higher utility is achieved with higher expected financial returns and that investors place no utility on the nature and quality of the returns (Christian, 2011). The introduction of this new utility on societal returns provides a direct link to the principles of SCD introduced in section 2.1. Impact investors find utility in knowing that their investments are contributing to a social return and provide a long-term economic value. Therefore, impact investing has a

holistic view that factors in ecological limits and long-term impacts of the investments being made.

Overall, this research is limited by its methodology and cannot make broad generalizations on the processes and structures of the impact investing industry. However, this research has contributed to the limited lack of academic research available, provides knowledge to other organizations entering this new marketplace, provides future directions for research, and makes a connection between impact investing and SCD.

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