



Investing for Impact: Issues and Opportunities for Social Finance in Canada

Karim Harji and Tessa Hebb

ANSER Conference

Montreal, June 3rd 2010

Abstract

This paper argues that several factors have contributed to the lack of development of social finance in Canada, and in particular the intermediaries that connect the demand and supply aspects of this market. Social investors are not able to calibrate risk and opportunity adequately, contributing to the paucity in the range of financial instruments and intentional flow of finance to this sector. In essence there is an information asymmetry problem in the social capital market that constricts the supply of capital. A supply-side analysis of social finance is a necessary complement to demand-side analysis if deliberate investment to realize social, environmental, and financial returns is to occur. Taken even further, the supply-side perspective could in fact catalyze new instruments for raising capital with which to address society's most pressing issues. The article draws on a series of semi-structured interviews with leading financial and social finance experts in Canada.

Introduction

Social finance is the deliberate and intentional application of tools, instruments, and strategies to enable capital to achieve a social, environmental, and financial ("blended value") return. Essentially, social finance addresses three separate but interconnected aspects of what we call the social capital market – the supply of capital, the demand for that capital, and the intermediaries that link the two. This article focuses on the supply side of social finance in Canada: the increasing number of investors looking for opportunities to invest in mission-driven organizations (nonprofit, for-profit, or a hybrid of the two) in order to maximize the blended value returns on their investments.

Organizations that receive such investment can be found in the non-profit and for-profit sectors or in the hybrid space between them, are mission-driven and seek to maximize blended value. Increasingly mainstream investors are seeking opportunities to invest in these organizations. The paper argues that several factors have contributed to the lack of development of the Canadian social capital market, and in particular the intermediaries that connect the demand and supply aspects of this market. Due to the information asymmetry (Arkelof 1970) inherent in the social capital market, social investors are not able to calibrate risk and opportunity adequately, contributing to the paucity in the range of financial instruments and intentional flow of finance to this sector.

Social finance requires a deeper theorization in academic literature. It is here that we make our contribution. We build on the pioneering work of Jed Emerson (2003), who coined the Blended Value Proposition, which states that "that all organizations, whether for-profit or not, create value that consists of economic, social and environmental value components—and that investors (whether market-rate, charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organizations (Emerson 2003)." To be successful such investments require a suite of financial tools, a cadre of new financial intermediaries, and a set of measurement metrics that capture the impact of these blended value returns.

The paper is laid out in the following manner. The next section provides a review of the literature on social finance detailing the structure of the social capital marketplace in Canada. It goes on to explore the motivation of impact investors and examines some of the barriers to this type of investment in Canada. The third section is drawn from a series of interviews with both mainstream and impact investors on their understanding of social finance and its application and potential. The fourth section of the paper describes a number of social finance opportunities going forward. We conclude with some final thoughts and implications for social finance in Canada going forward.

The Canadian Social Capital Market

Social finance in Canada is a nascent stage of development, and can be characterized as “uncoordinated innovation” where disparate entrepreneurial activities and business model innovations occur in response to market needs or policy incentives (Monitor Institute 2008). We suggest that Canada’s social sector remains undercapitalized relative to the needs and pressures placed on it, and only a small percentage of finance is “invested with intent” to fill this gap (Strandberg 2007, Mendell and Nogales 2008). The increased pressure faced by the non-profit sector to achieve financial sustainability with ever decreasing levels of government funding has spawned new innovation in the sector that includes a drive toward social enterprises to meet many social goals.

For many, social finance is defined narrowly as the provision of capital for social enterprises.¹ For others, social finance describes an intent on the part of the investor to actively seek both financial returns, whether at market-rates or below-market rates, together with social and/or environmental impacts that are the direct result of their investment (Monitor Institute 2008). In essence the first definition sees social finance as primarily demand driven, growing out of the capital needs of social enterprises; while the latter sees social finance as supply driven with a focus on the investor as the primary actor. We argue in favour of the latter definition. However, the differences and similarities between each of these approaches need to be more clearly understood.

Gaining a deeper understanding of social finance has not been helped by the myriad of terms applied to the concept of intentional investing for positive social impact. These terms include socially responsible investing, social investing, responsible investing, ethical investing, double and even triple bottom line investing, impact investing, and targeted investing to name a few.² Each of these terms has differing origins and approaches in their investment beliefs.

The few published works on social finance approach this theme through differing frameworks (Emerson and Bonini 2006, Defourny and Nyssens 2001, Mendell and Nogales 2008, Nicholls and Pharoah 2007). Mendell and Nogales identify two major classifications for socially responsible financing: “responsible indirect investing” and “responsible direct or proactive investing” (2008 p16). The first category includes screened SRI funds (both exclusionary screening and positive ESG screening) together with shareholder engagement or activism, while the second classification includes targeted community investing. Within the responsible direct investing Mendell and Nogales distinguish between development capital with a focus on “risk capital with socioeconomic goals (i.e. job creation, local and regional development, and environmental)” and social finance (or solidarity-based finance) that provides “financing of community economic development and social enterprises.”

It is with this dichotomy that we take issue with Mendell et al. Rather than a narrow definition that relegates social finance exclusively to the capital needs of the non-profit sector, we argue that all direct or proactive investment that actively seeks a blended return is in fact social finance. Our understanding of this concept is drawn from the needs and motivations of investors rather than restricting social finance to simply providing capital to the not-for-profit sector.

¹ Social enterprises themselves have both a narrow and wide definition. Some see these as enterprises as limited to the not-for-profit sector (Mendell and Nogales 2008, Surman 2009) others see them as mission-driven enterprises that can be in the for-profit or not-for-profit sectors (Brouard et al. 2008).

² Other terms for this investment activity include community based investment (Strandberg 2004), economically targeted investment (Fung, Hebb and Rogers 2001), ethical investment, impact investing (Monitor 2008), mission investing (Cooch and Kramer 2006, Trillium 2007), program related investment, socially responsible investment, solidarity finance (Mendell 2008), venture philanthropy, venture capital for sustainability (Christiansen and Edme 2007), social venture capital, Double Bottom Line investing (Clarke and Gaillard, 2003), and Triple Bottom Line investing (Robins, 2006).

Investor Motivations

The motivations of investors seeking blended value returns vary in line with their desired objectives and preferences. The traditional concept of “risk and return” is well-developed for commercial investing, with a number of core tenets that drive investor behaviour and resource allocation. Notably, for a given level of risk, higher returns are preferred to lower returns; risk and return move in the same direction (less risk implies less return); investors are generally risk-averse; and that there is no perfect risk/return balance – so that investors must weigh the two aspects to arrive at their optimal allocation (Shortall, 2009). Thus, the primary objective is to generate at least a market-rate risk-adjusted financial return, and investment opportunities are screened accordingly.

While traditional portfolio theory maps investments to a two-dimensional efficient frontier that balances risk and financial reward; in blended-value investing, returns are conceived along multiple dimensions that effectively seek to translate investors’ preferences around social impact into an investment thesis (WEF, 2006). Given that the motivations of social investors tend to involve some additional concern for positive social and/or environmental outcomes, investors can forego some level of financial return in exchange for social return. The extent to which investors value social outcomes may vary; for instance, the Monitor Institute (2008) report distinguishes between impact-first and financial return-first investors.

Impact investors can be broadly separated into three types, distinguished by the level of financial return they are prepared to exchange for social and/or environmental outcomes, and by their aversion to risk (Emerson 2003, Shortall 2009). The first type requires a risk-adjusted market rate of return as well as social and/or environmental returns. These investors first consider the social and environmental impacts that the venture is likely to generate. Once satisfied with these expectations, this type of investor acts very much as any venture investor would, and a full market or “reasonable rate of return” of 8-10% is sought. The second type of social investor is willing to accept below-market financial returns in exchange for greater social/environmental returns. As a result, these investors may decide to assume more risk in order to achieve higher levels of social impact. The third type of social investor seeks 100% social return and no financial return. The mission and social impact of an enterprise are the investor’s primary considerations, although its business fundamentals are also of interest, as they indicate how successfully the organization can deliver on its mission.

The instruments available to social investors reflect a similar spectrum of trade-offs between expected types of return and acceptable levels of risk. Capital for social ventures can be supplied in the form of grants, donations, tax credits, fee-for-service revenue, loans, and quasi-equity and equity investments. On the ‘traditional end’ of the spectrum, we find community-based organizations primarily financed through government and philanthropic grants. Here, the investor is motivated by social returns only, and the expected financial return is zero or a tax deduction in the case of charitable donations. At the other end, large institutional investors invest private equity in community-based initiatives in order to generate market rates of return. In between, a range of instruments can yield below-market financial returns to full market or ‘reasonable’ rates of return.

Despite the broad spectrum of instruments theoretically available for social finance, in practice an inordinate amount of attention has come to settle on a single one: the grant. For the financing of some community-based organizations, subsidies and grants will always be the vehicles of choice. But for many others, there is a need to rethink the balance and nature of funding that is required to sustain operations over the long-term. To organizations that are more mature or are looking to scale their operations, grants and subsidies may be inadequate. Instruments such as patient capital and quasi-equity may offer capital in a more appropriate volume and form, but from investors who expect a greater return (financial, social and/or environmental), commensurate with the greater risk they are taking. For most jurisdictions in Canada, however, a charitable tax deduction is the only financial value that a donor or investor may get from community

investment. As a result, there is little to attract the attention of private investors in search of a truly blended value return; or, put another way, most of the incentives for social investment appeal to only one of the three types of social investor.

Investor Challenges

With reference to a supply-side analysis of the social capital market, there are significant barriers. Strandberg (2007) identifies six areas that act as barriers to capital: low awareness of social finance opportunities, risk and return issues, high transaction costs, standardized approaches to lending in the sector the lack of a secondary market for social enterprises, and public perception of social enterprises (i.e. that they are not bankable, high risk, etc.). In addition, Nichols and Pharoah (2007) suggest the sector requires better segmentation of investment opportunities, new financial instruments that fit with multiple social and economic objectives, as well as qualities such as innovation, inclusion, growth potential and sustainable social change.

Another challenge is that there is limited coordination or co-investment among capital suppliers, making each deal relatively resource-intensive to complete (Venturesome 2008:24). This mismatch between supply and demand is compounded by the lack of efficient intermediation, with high search and transaction costs caused by fragmented demand and supply, complex deals, and a lack of understanding of risk (Monitor Institute 2008). This includes a lack of understanding of the various components of structuring deals that include non-traditional financial instruments, as well as the assessment and incorporation of social risks and returns.

The Monitor Institute report (2008) goes on to highlight the compensation system for traditional intermediaries that can prevent smaller deals from occurring. In general this report identifies barriers to social finance include a lack of enabling infrastructure for social finance deals and “a bifurcation between philanthropy (for impact) and investment (for returns).” The report goes on to say:

“Networks are underdeveloped, and a lack of reliable social metrics makes the suspected trade-off between financial and social benefits even harder to assess. Still an emerging industry, impact investing lacks the models, theories, policies, protocols, standards, and established language that would enable it to flourish. Many investors and intermediaries do not understand the implications of social and environmental considerations on the underlying risk of an investment opportunity—and there is a preconception that there must be a fundamental trade-off between financial returns and impact (ibid 2008:).”

The Monitor Report also speaks to the lack of scale in these investments that is necessary to facilitate deal flow. Taken together these barriers increase the information and transaction costs for social investors. Currently the cost of raising capital in the social capital marketplace takes roughly 22 to 43 percent of the funds raised, whereas in the for-profit capital market, companies spend between 2 and 4 percent raising capital (Meehan et al 2004).

Discussions around the supply side of social finance have disproportionately focused on large institutional investors, as they are an influential group both in terms of their size (assets under management) and their ability to influence policy and social outcomes. An increasing number of institutional investors are aligning with traditional social investors in the understanding that a good record on social performance can be in the long term best interests of investors (Smith). They are also seeing that such investment can yield market rates of return in addition to social impacts (Hebb 2006, Hagerman et al. 2007). Prominent institutional investors have embraced Responsible Investing, notably through the UN Principles for Responsible Investing (UNPRI). Others have chosen to target investment in either underserved capital markets or areas such as clean technology (Hebb 2005, Hebb 2007, Hagerman et al 2007). In these cases they have achieved both market rates of return and social impacts.

With respect to institutional investors, the fiduciary responsibilities these investors owe to their clients and beneficiaries pose an important challenge to the role and restriction faced by institutional investors. “Because intermediary investors work on behalf of the ultimate owner of the money, they are often cautious about using any considerations beyond the direct financial interests of their investors.” (Chertok et al. 2008, p.49). There are now several excellent legal opinions that stress the importance of factoring environmental, social and governance considerations into institutional investor decision-making. The Freshfields Report (2007) and Fiduciary 2 report (UNEP FI 2009) make clear that such considerations can be taken into account under fiduciary duty. In addition several rulings of the US Employee Retirement Income Security Act (ERISA) speak to the ability of pension funds to invest in market-based investments that also provide collateral community benefits. These developments profile social finance as not merely an optional and socially rewarding activity, but rather as an essential component of any investment strategy – something that public pension funds and other large institutional holders can ill afford to ignore.

The Importance of Intermediaries

As described earlier, social investors are not able to calibrate risk and opportunity adequately, contributing to the paucity in the range of financial instruments and intentional flow of finance to this sector. The theoretical underpinning of such market failures is the information asymmetry inherent in the social capital market. First described by Akerlof (1970) the sellers know more about the product than the buyers, and as a result buyers misprice risk. Therefore, there is a significant misalignment between the demand and supply sides of social finance. It would not be an exaggeration to suggest that the greatest challenge to the growth of the sector may be a lack of efficient intermediaries (Ayton and Sarver 2006, Emerson and Bonini 2004, Meehan et al. 2004).

Traditional financial intermediaries mobilize savings, evaluate projects, manage risk, and facilitate transactions. In the for-profit marketplace, finance intermediaries include banks, loan and financing companies. In the social finance marketplace, intermediaries offer the same group of services but address the specific needs of the social finance sector. These intermediaries include foundations, credit unions, and community development financial institutions (CDFIs) and play a key role in the transfer of funds from the investors to blended value enterprises (see Harji and Hebb 2009 for a detailed account of the range of intermediaries for social finance in Canada).

The challenge for social finance is on the one hand to find more sources of capital willing to target their investment for community impact, and on the other hand to develop a strong cadre of financial intermediaries to act as conduits from mainstream capital providers. Currently many of the intermediaries in this space both provide a source of capital and act as conduits in the market. Several of Canada’s leading credit unions play both roles in social finance. VanCity Credit Union, and Assiniboine Credit Union (ACU) and the Desjardins are three examples of institutions that wear both hats. VanCity aggregates individuals’ savings through a community investment GIC, and invests that money in worthwhile community development projects both in British Columbia and internationally. While Assiniboine partners with the Jubilee Fund to provide access to capital for business, community and housing projects overlooked by mainstream financial institutions. The Desjardins through its Capital régional et coopératif invests in Quebec co-operatives and regional businesses.

Identifying and putting together deals entail high search and transaction costs respectively, which have to be borne by the social investor themselves. There is a sense that the social capital market remains inefficient, slow to innovate, unstructured, and poorly segmented, in which the supply-driven agenda does not always correspond with the needs of the enterprises seeking capital investment and the funding gap arises because available financial products do not always match the specific needs of social enterprises and the demand for social finance (Mendell and Nogales 2008). While there are a large number of traditional financial intermediaries covering the entire spectrum of businesses in virtually all

geographic areas, those that serve the social capital market are not as abundant and their activities leave many social enterprises unfunded as there continue to be gaps between these intermediaries due to social focus, financial and legal structure or geographic reach (Ayton and Sarver 2006, Edery 2006).

The innovative nature of social enterprises has also called for matching financial innovation and for a customized financial sector that is different from existing financial products and instruments. However, growth on the financial innovation side for both intermediaries and financial instruments has not been as swift representing a continued challenge for the sector and the continued existence of the funding gap (Drayton 2004, Mendell and Nogales 2008, Fraser 2007, Emerson and Bonini 2004, Strandberg 2007, Nicholls and Pharoah 2007) as well as inhibiting the efforts of managers pursuing blended value to scale their ventures (Emerson 2003). In this marketplace, deals are typically smaller in size resulting in higher overhead costs as a percentage of financial returns. As a result, for social intermediaries to succeed they cannot rely exclusively on market forces and may require financial support to get underway (Emerson and Spitzer 2007). While on the demand side, there remain questions on the absorptive capacity if and when large amounts of social investment capital become accessible – that is, whether finance will be matched to opportunities that can provide desired financial and social returns.

Canadian Investors' Perspective on Social Finance

This section of the paper draws on twenty semi-structured interviews with investors, intermediaries, rating agencies, and social finance experts in Canada.³ With the exception of those interviewed who were selected for their expertise in this area, the term social finance is not well known or well understood by most investors. Many interviewees understood the term double or triple bottom line investing, others thought of this type of investing as socially responsible, ethical, or responsible investing; some even responded to the more recently-coined term impact investing. Even for those individuals familiar with this field, there was a wide range of meaning given to social finance. For some the concept can be both broad and narrow. In its broadest meaning social finance is understood as investing in any company that provides social good beyond simply financial returns. Its narrow definition restricted this to investment in social enterprises in the not-for-profit sector.

While those familiar with social finance spoke strongly in favour of the ability to achieve a 'blended value' return, investors who were not familiar with the concept were sceptical that one could do both well. Several interviewees felt that by definition the social return should be higher than the financial return. It was suggested that "such investments should generate a reasonable rate of return that could be capped at 8% for investors." One interviewee noted that the risk at start up for most social enterprises is high but financial returns do not compensate for this risk in a true market sense.

Blending of returns was seen as positive for most businesses particularly given the growing awareness of consumers who tend to reward companies who make positive social and environmental contributions and boycott those with negative social and environmental impacts. Interviewees suggested that models of blended value returns have existed over time particularly in the cooperative sector.

Most investors felt that any trade off between financial, social and environmental returns was best measured on a deal by deal basis. "Each deal is unique, and these returns can't be measured ahead of time. You have to place the money first." For many achieving social returns seems to necessitate such a trade off with financial objectives. Those who did

³ See Appendix 1 for the list of interviewees.

not see a trade off in blended value returns most often cited clean technology and other environmental investments as examples of deals where returns in both areas can and often are positive.

Often it is the size of the deals in this sector that are seen as requiring a trade off with financial returns. Here specialized intermediaries are required that can “match capital for certain types of return. It’s really about targeting capital to impact.” Because so many social and environmental costs have been externalized in the past, many interviewees suggested that it may require government intervention through “subsidy, tax incentives/disincentives and tax structures to ensure that investors do not bear the full costs of incorporating blended value enterprises in their portfolios. It may also require a “mindset change” on the part of investors. This may mean that a stronger business case must be developed for social finance. It was also suggested that a “bibliography of best practice in the field” be created in order to make investors aware of social finance options.

Structural Barriers

Our findings point to four structural barriers that must be addressed in order to encourage greater participation in the social capital market by large Canadian institutional investors. First, most institutional investors do not want to become experts in community development. As a result they seek qualified intermediaries who can sell them a standard financial product that meets their fiduciary duty and their asset allocations. Second, these intermediaries must be able to stand behind their product either through a demonstrable expertise in the field (i.e., measurable in terms of their track record and assets under management) or through an implicit or explicit guarantee or credit enhancement on the investment. Third, these opportunities must be at a scale large enough to justify the time and resources that institutional investors must devote to the necessary due diligence. As many investors indicate, “it is not worth the brain damage to undertake small scale, one-off community investments that cannot be replicated or scaled in some way.”

Finally, these investors are very conscious of their reputation in their communities. Consequently, the intermediary must insulate them from the potential risk associated with failed investments. No large institutional investor wants to “pull the plug” on a community project or program. Many would sooner avoid such investments than assume that risk. The growth of this sector in Canada requires that we move beyond the few niche players and into mainstream capital markets, in order to meet these requirements and address these constraints.

Social Finance Deal Making

Many, though not all, respondents had invested in some form of social finance. They detailed a range of investments that included integrating ESG (environmental, social and governance) factors in investments decision-making, taking environmental considerations into account in real estate and infrastructure investment, investment in medical technologies, SRI mutual fund investments, micro-loan programs and community investment deposit certificates. Few raised equity investments as examples of investment in social finance. The Quebec-based La Fiducie du Chantier de l'économie sociale Trust (Fiducie) was one exception where hybrid structures have enabled them to make equity investments in social enterprises. Another example of equity investment was the Social Venture Network and Angels Circle, both US-based organizations.

While most individual investors interviewed had not made below market investments, a few specialized intermediaries have undertaken these investments particularly in the area of community development finance. Vancity, Alterna Credit Union, and Meritas all provided details of both domestic and international investments that had been made at below market rates in order to gain the desired social impact. One benefit to such organizations is the positive branding that comes from providing much needed capital to build stronger communities and assist individuals who lack access to traditional sources of capital (i.e. micro-loan funds). Most investors indicated that a ‘reasonable’ or moderate rate of

return is needed to gain interest in social finance opportunities. “There are not enough people who will go negative in their returns” said one interviewee. But if reasonable returns can be generated, and another interviewee notes that “there is huge leverage on access to private capital as opposed to grant funding that can be deployed.”

For many investors interviewed their fiduciary duty would prevent them from making intentionally below market investments. Others said that there would be a greater incentive through the current tax structure to make donations rather than below-market investments: “The charity route is simpler and provides a tax deduction not currently available for a below-market investment.”

Although interviewees had been provided with detailed information on a number of new and innovative social finance investment opportunities most did not reference these investments when asked. Social finance experts talked about the slowness to take up these ideas, reluctance of foundations and other investors to engage. An interviewee summarizes some of these challenges, describing the problem of “raising capital for hybrid structures that are not well understood. Most investors think you have to pick one of two boxes. Either the money is for financial investment or it is for charity. They can’t understand an investment that is a hybrid structure and there is no incentive from government to incentivize this new sector.”

Responses to questions about the types of financial instruments required, barriers faced and incentives needed for social finance to grow in Canada often began with the need to generate more awareness of the potential benefits of such investments. Successful models that demonstrate these types of investment would help. Many felt that these types of investments would be of more interest to individual retail investors than to institutional investors. Here they suggested that structures similar to mutual funds targeted toward individuals would be required. Such mutual funds would be required to have transparency on what types of social enterprises were invested in and where. One suggestion was to look at an ETF (exchange traded fund) that would have similar returns to other ETFs but have a “green” focus. New intermediaries that specialize in these types of investments were clearly identified as a requirement for future growth.

While some felt government could play an important role, others wanted minimal or no government involvement. “I don’t know if it is the role of government to subsidize the inefficient deployment of capital.” Some suggested that incentives for investors such as flow-through shares similar to those available for mining sector and film industry would be helpful. Others raised the idea of lower capital gains tax rates on investment in social enterprises. For others government guarantees on investment would provide an incentive for investors in areas such as micro-loan programs. City governments can also be helpful providing land, re-zoning, and reducing costs for developers who provide social return for the city. Most interviewees wanted government to incentivize investors rather than take an active role in investment selection. Engaging governments at all levels was seen as critically important for many interviewees. Government has to understand its own strategic advantage when social and environmental issues are addressed through social finance.

Many focused on deal making as key to this sector. There is a need for imaginative deals that deploy private capital with social impacts and returns. R&D can stimulate good business ideas that have social impacts. For example “battery powered lanterns made so inexpensively that when one is purchased in North America another is sent to Africa. This social impact also helps brand the item for North American consumers.” Several interviewees suggested that investment should begin with debt instruments, then move to quasi-equity, and finally to equity structures. It was expressed that legal structures such as the UK’s Community Interest Companies can be complicated and may not be required in Canada.

Almost all respondents discussed the need for simplicity to encourage investors in this sector. This included new intermediaries and a secondary market with brokers and advisors to sell these opportunities to their clients. “Simplicity is best” was a refrain throughout all the interviews. In addition to simplification, issues of scale were also raised by a

number of respondents. “How can we make these deals large enough with streamlined due diligence to make them attractive to investors?”

Given that “this field is still nascent” several interviewees suggested there is a need for champions to promote social finance options. Such champions would require high profile and credibility to be effective spokespeople for the benefits of social finance.

Interviewees expressed a need for social return metrics, but did not uniformly identify any particular set of metrics that should be used in these deals. While some felt that rating agencies can play an important role, most thought that the deals and complexity ruled out traditional rating agencies in this sector. Some interviews mentioned LEED, ISO or GRI standards as good examples of complex metrics that are easily understood and used by investors. Others pointed to their own metrics such as the Demonstrating Value initiative, designed to drill deeper into specific investments and provide information for both investor and enterprise. Many felt that social impacts can be quantified, for example numbers of jobs created, people assisted, or environmental impacts, but the push for standard metrics must be “driven by the need for accountability from investors and intermediaries.” There is a need to “align on goals, then it’s not that hard to figure out how to measure the impacts. Organizations need to test this out and refine the metrics as needed – but not to focus on methods before goal alignment. Such standards must be simple and factual rather than bureaucratic and subjective.”

These twenty interviews provide us with a detailed picture of social finance in Canada. Clearly this field is still in its infancy. The interviews highlight the need to develop well understood definitions and back those definitions with a sound business case for social finance investment. They speak to the need for financial instruments and the necessary cadre of skilled intermediaries to facilitate social financing in Canada. For the investor seeking blended value returns, social finance investment needs to be made as simple as possible to be successful. Government incentives such as tax credits, reduced tax rates, and guarantees will help facilitate the flow of capital into this sector. However, government intervention must be targeted to investor driven decision-making to be successful. Finally, metrics that take into account financial and social impacts are critical. Such metrics must be easily understood by investors in order to be useful.

Emerging Opportunities

Engage large institutional investors

Engaging institutional investors has emerged as a prime opportunity to stimulate the flow of social finance in Canada. According to the Social Investment Organization, socially responsible investment accounts for nearly 20 per cent of assets under management in Canada – a figure of more than \$600 billion in Core and Broad SRI strategies (SIO 2009). Community investment is a core pillar of SRI, yet it has been underemphasized relative to the other pillars of screening and shareholder advocacy. One notable exception is Meritas Mutual Funds, which has committed to allocating up to 2% of their assets to community development investing for microfinance and microenterprise development in developing countries (Harji 2008a).

Among institutional investors, pension funds represent an emerging source of social investment. Through economically targeted investments (ETIs), pension funds can structure deals that generate a market rate of return as well as fill a capital gap in order to satisfy the fiduciary requirements institutional investors face (Hebb et al 2006). Twenty pension funds invested in BC-based Concert Properties that provided returns that exceeded real estate benchmarks, while creating a significant number of unionized construction jobs and affordable housing options (Hebb et al. 2006, Hebb, LaPointe and Jackson 2006). More recently, the Public Service Alliance of Canada – the pension fund of Canada’s largest

federal public service workers' union – partnered with Alterna Savings to invest in affordable housing. The \$2 million investment was structured as a Guaranteed Income Certificate (GIC) backed by Alterna, which effectively satisfied the fiduciary requirements of the fund (Harji 2008b). Alterna, in turn, has partnered with the Ottawa Community Loan Fund to develop housing loan products for the retail market.

Utilize the broader range of foundation assets

There is increasing interest among Canadian foundations to utilize the full range of their assets to achieve their social objectives, not just the 3.5% of assets that they are legally required to disburse annually. One way to implement this is through program related investments (PRIs), which leverage philanthropic dollars to support social ventures that offer a potential return on capital within an established time frame. Since they offer financial and social returns, and can include loans, loan guarantees, real estate mortgages, and equity investments in social enterprises or social businesses, PRIs have things in common with both traditional grants and with investments. Essentially, PRIs enable a foundation to carry out its mission with a wide range of financial instruments in addition to grants, and to amplify its social impact beyond traditional grantmaking.

A number of progressive Canadian foundations have already used PRIs to invest in social enterprise (Edmonton Community Foundation, Bealight Foundation and Tides Canada Foundation) and nonprofit property investments (Endswell Foundation and Muttart Foundation)(Strandberg 2008). BC-based Renewal Partners provides debt and equity investments for social enterprises, and has partnered with the Endswell Foundation to funnel investment capital and foundation assets towards social purpose real estate and nonprofit capacity building initiatives. Toronto-based Social Capital Partners, funded through the Bealight Foundation, was founded as a venture philanthropy organization to incubate and invest in social enterprises that employ populations outside the economic mainstream in Canada. Social Capital Partners' strategy has since evolved to provide growth financing and advisory services to franchisees that integrate a social mission into their human resources model, with loan conditions tied directly to the number of individuals hired through community employment agencies.

In Canada and elsewhere, notably in the US, there are a number of emerging initiatives that are seeking to clarify the legal and practical questions around PRIs. It is important to note that no other form of organization would allocate only 3.5% of its resources towards the achievement of its primary objectives, with the other 96.5% being at best neutral – and at worst, in direct contradiction to the foundation's social objectives (Emerson 2003). The Community Foundations of Canada have engaged their top 7 foundations in a Responsible Investing Pilot Project, and the McConnell Foundation recently announced that 5% of its corpus would be allocated towards PRI.

Create innovative financial vehicles

In order to draw in more capital that will be "invested for impact", transactions have to encompass larger amounts of capital and wider investor interests, and thereby reduce risk and transaction costs per dollar of investment. A number of deals have been innovative in devising structures to leverage private, public and foundation money. The Great Bear Rainforest Fund, is a \$120 million funding package for conservation management and ecologically sustainable business ventures in First Nation territories in the Great Bear Rainforest. This public-private-philanthropic partnership was structured to allow private funds (\$60 million) to flow to a conservation endowment fund, while using public funds (\$60 million) for investments in ecologically-sustainable business ventures within First Nations' territories or communities. In March 2009, the \$50 million CAPE Fund was launched by former Canadian Prime Minister Paul Martin to provide equity and quasi-equity investment in the range of \$1 million and \$7.5 million to Aboriginal businesses. The Fund included investors from private and philanthropic sectors, including strong representation from Canada's largest financial and mining companies.

Provincial governments have also been able to creatively leverage policy tools towards stimulating social investment capital. La Fiducie du Chantier de l'économie sociale Trust (Fiducie) is an innovative structured finance product to meet the needs for long-term capital investment in social economy enterprises in Quebec (Mendell 2008). The \$52.8 million patient capital (quasi-equity) fund offers loans with a 15-year capital repayment moratorium to support social enterprise and real estate investments (Chernoff 2008:15). Finance in the range of \$50,000 and \$1.5 million is offered for working capital requirements of social enterprises (including asset purchase), or to finance real estate acquisition or renovation. The three institutional investors – Fonds de solidarité (a labour-sponsored venture capital corporation), Fondation (a labour-sponsored development fund) and the Government of Québec – received a debenture in exchange for their investment, in addition to a non-repayable government grant from Canada Economic Development (ibid).

Building on these examples, there is a need for more prominent and creative deal structures. Tiered capital structures can allow commercial and social investors to co-invest in ways that meet their individual investment preferences and segment returns based on risk tolerance; for example, foundations can provide “first loss capital” that can leverage more senior debt. This requires an increased sophistication in the capability of intermediaries so that they may identify potential partners and structure creative deals that blend the various risk/reward expectations of different investors in a relatively seamless manner.

Build legislation that fosters an enabling environment

Regulation and legislation have presented significant barriers to the development of social finance in Canada. The existing legal infrastructure can be described as a “patchwork”, with inconsistent and inadequate relevant legislative and regulatory systems (Bridge 2009:3). The Canada Revenue Agency takes a very conservative view of charitable activity, which discourages innovation in financial instruments and tools to leverage the full range of foundation assets towards achieving their mission (Standberg 2008). Social enterprises, despite their increasing popularity, still face significant barriers in accessing finance due to the lack of enabling infrastructure – especially the limitations imposed through their legal status (Mendell 2008, Carter and Man 2008, Bridge and Corriveau 2009). For instance, the incentives are greatly skewed for most social enterprises to remain legally incorporated as nonprofits, even if there are significant advantages to establishing as a for-profit or hybrid structure.

Within the existing structure, however, there are a number opportunities to incentivize social finance. The PLAN (Planned Lifetime Advocacy Network) has been instrumental in the formulation of the Registered Disability Savings Plan (RDSP), a unique tax-deferred savings vehicle that allows parents to save for disabled children who will survive them. At the provincial level, other instruments have proved effective: the provinces of Nova Scotia and Manitoba have both established CED tax credit programs to encourage investment in local community-based enterprises (Chernoff 2008:53). Tax credits for investing in cooperatives have also been successful in Quebec: a 50% tax credit on investments of up to \$2,500 per taxpayer attracted \$572 million in the first five years of the program (Pearson, 2008:16). In its most recent poverty reduction plan, the Ontario government has committed to a \$20 million social venture fund to find innovative solutions to address social issues (Government of Ontario, 2008).

There are currently several proposals that aim to create a more enabling policy environment, particularly around social enterprise (Bridge and Corriveau 2009, Carter and Man 2009, Causeway 2009). Around social finance, Causeway Social Finance – a national collaborative seeking to build the Canadian social finance marketplace – is actively advocating for policy changes at the federal and provincial levels. For social enterprise specifically, Carter and Man (2008: 49) suggest some of the features of a more appropriate regulatory regime: “implementing a suitable corporate vehicle; providing attractive tax incentives for investors; ensuring the assets and resources of a social enterprise are used primary for social return rather than a profit return; addressing securities legislation issues if the new vehicle is permitted to raise capital

by issuing shares; allowing charities to “invest” in social enterprise entities with their “investments” being counted towards meeting their disbursement quota; addressing the application of provincial investment legislation; the possibility of providing full or partial tax-exemption status for social enterprises; as well as providing statutory authority to pay remuneration for directors.” Policies that encourage the flow of institutional investment into the social capital market also are necessary, and the explicit or implicit investment guarantee or credit enhancement described earlier speaks to an important role that government can and should play in creating an enabling environment for social finance.

Develop social impact metrics

The blended value proposition requires a quantification of both the financial and social impacts of investment. Yet it is not an easy process to quantify and monetize the creation of blended value. Valuation of risk and return in social finance is still an emerging industry, as it is in many other parts of the world. Along with this follows the inconsistent use of language and the “challenge to build a lexicon of valuation” (Emerson 2003). The value of a commonly-understood set of social metrics would prove useful to all stakeholders involved in social finance, despite the fact that each group may have different motivations for, and use of, these measures.

Even a brief examination of a subset of the available methods indicates that there is no accepted singular appropriate approach, let alone a single metric, to social impact measurement or the blended value that is created by all investments (Olsen and Galimidi 2008, Tuan 2008). Current methods do not demonstrate a shared understanding of the important questions around social impact analysis: who is using the measure, what are they measuring, why are they measuring it, and how are they measuring it? (Tuan 2008, Kramer et al. 2009). Many investors and intermediaries do not understand the implications of social and environmental considerations on the underlying risk of an investment opportunity – and there is a preconception that there must be a fundamental trade-off between financial returns and impact (Monitor 2008:21).

In Canada, the growth of socially-responsible investment has created the demand for more sophisticated metrics to account for economic, social and governance (ESG) factors. Janzti Research has been a pioneer in this area, with their Canadian Social Investment Database providing ESG performance ratings of approximately 300 Canadian companies and income trusts, including all constituents of the S&P/TSX Composite Index. For social enterprise in Canada specifically, there are two notable initiatives worth mentioning. The Demonstrating Value project is a funder-driven collaborative research project that has engaged social enterprise investors and operators to develop a framework for understanding, communicating and assessing the impact and performance of social enterprises in Canada (Sadownik 2009). The Réseau d'investissement Social du Quebec (RISQ) has developed a comprehensive process to screen and select potential investment opportunities, which assesses both social mission alignment with RISQ's objectives as well as the financial viability of the social economy enterprise. Finally, at the international level, the Impact Reporting and Investment Standards (IRIS) framework and the Global Impact Investing Rating System (GIIRS) may facilitate some convergence around defining, tracking and reporting the performance of capital seeking blended value returns.

Conclusion

There is no clear answer to what aspect of development of the social capital marketplace will be the “tipping point” for the emergence of a more mature industry, or even a dedicated asset class. This discussion, which also finds parallels in the UK and US, describes two scenarios: increased supply of capital seeking blended value returns will encourage the development of investment-ready opportunities on the demand side; or alternatively, significant investment-ready opportunities will be created and subsequently encourage investors seeking a combinations of returns across grants to

below-market to market rates of return. Presently, there is some evidence that the supply of impact-oriented capital may not currently be the limiting factor, with reference to growth of socially responsible investing and community investment referred to earlier in the paper. This raises a number of implications.

One is that existing finance intended for social purposes is not being packaged into appropriate products to satisfy the demand that already exists. For some social ventures, the case for some form of subsidy will always exist, and grants as the vehicle of choice. However, there is a misalignment with too many organizations providing grants and relatively few providing other forms of capital. This has contributed to both an underdevelopment of the instruments along the supply continuum, as well as a bias for (demand) organizations to prefer access to grants rather than loans. This is even more pronounced for social enterprises, which by their nature may require access to a broader range of finance similar to what is available in the private sector (Carter and Man 2008).

Governments at the federal and provincial levels have a range of policy instruments which can stimulate the flow of investments towards social finance, and a number of lessons that can be drawn from recent experience in other jurisdictions. The establishment of Community Interest Companies (CICs) in the UK has stimulated the flow of private investment capital to activities that benefit community, and a similar application to Canada could overcome an important barrier for Canadian charities and non-profit organizations: the ability to raise equity capital (Bridge and Corriveau 2009). With some modifications, Low-Profit Limited Liability Companies (L3Cs) (US legislation that provides incentives for private and foundation capital to invest in social initiatives) could be another avenue to facilitate greater supply of capital to the sector (ibid 2009). While these legal structures pose their own unique challenges, they signal that there is no need to “recreate the wheel” to construct legal structures to accommodate hybrid organizational activities.

At the present time, the Canadian social capital market is not yet calibrating risk and opportunity adequately – a trend which is not unique to this country, though amplified compared to the US and the UK (Venturesome 2008). Many traditional funders to social sector organizations are not using the full array of financial tools at their disposal – such as foundations and Program Related Investments – to achieve their social objectives. Governments must recognize that grants will remain an important part of the social finance landscape, but that there is flexibility to develop a range of mechanisms to deliver finance to address social issues. Mainstream financial institutions are still relatively insulated from the potential opportunities that exist around investing in social enterprises or social businesses, even though these may prove to be prudent investments over the long-term. All these observations underline the importance of intermediaries to be able to catalyze the development of the social finance marketplace in Canada.

Social finance cannot yet be considered a defined asset class in Canada, though this paper has indicated that there are a number of opportunities that could catalyze the emergence of an industry dedicated to generating blended value returns. There is evidence to suggest that a significant amount of capital is seeking to generate social returns, and that prominent investor groups are willing and increasingly able to incorporate an (social) impact dimension into the traditional risk/reward equation. Ultimately, what is required is the development of appropriate incentives for intermediaries in the social finance marketplace, such that they align the expectations of investors with the capital needs on the demand side.

Appendix 1: List of Interviews

Mr. Allan Broadbent, President, MayTree Foundation. Toronto.

Mr. Tim Draimin, Executive Director, Social Innovation Generation, Chair Causeway Social Finance. Toronto.

Mr. Ian Dale, Vice President, Canada Pension Plan Investment Board. Toronto.

Ms. Susan Enefer, Director, BCIMC. Vancouver

Mr. Gary Hawton, Chief Executive Officer, Meritas Mutual Funds. Toronto.

Mr. Michael Ho, Dominion Bond Rating Agency. Toronto.

Mr. Derek Gent, Executive Director, VanCity Community Foundation. Vancouver.

Mr. David Levy, President, Growthworks. Vancouver.

Rt. Hon. Paul Martin, President, Cape Fund. Montreal.

Ms. Marcia Moffat, Head of Investor Relations, Royal Bank of Canada. Toronto.

Ms. Nancy Neamtan, President/Executive Director, Chantier de l'économie sociale. Montreal.

Ms. Kimberley Ney, Vice President, Alterna Credit Union. Toronto.

Mr. Doug Pierce, Chief Executive Officer, BCIMC. Vancouver

Mr. Joel Solomon, President and CEO, Renewal Partners. Vancouver

Ms. Barbara Turley-McIntyre, Director, The Co-Operators. Guelph.

Mr. Sean Wise, Investor, CBC Dragon's Den member, Professor, Ryerson University . Toronto.

Mr. Scott Woodrow, Director, Lions Peak Capital. Toronto

Ms. Kathryn Wortsman, Partner, Social Venture Partners. Toronto.

Mr. Bill Young, President, Social Capital Partners.

Anonymous interview with venture capital firm.

Reference List

- Akerlof, George A. (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism". *Quarterly Journal of Economics* 84 (3): 488–500.
- Ayton, R., and Sarver, S. (2006), Social Lending Today: Challenges Facing Social Finance Intermediaries, Centre for the Development of Social Finance, Background Paper
- Bank of England, 2003. The Financing of Social Enterprises: A Special Report by the Bank of England. Bank of England. Available at: www.bankofengland.co.uk/publications/financeforsmallfirms/financing_social_enterprise_report.pdf
- Bridge, Richard and Stacey Corriveau. (2009). Legislative Innovations and Social Enterprise: Structural Lessons for Canada. BC Centre for Social Enterprise.
- Brouard F., Hebb T., Madill J., (forthcoming) Canadian Social Enterprises: An Empirical Exploration of Social Transformation, Financial Self Sufficiency and Innovation. *Journal of Nonprofit and Public Sector Marketing*.
- Brown, J. (2006). Equity Finance for Social Enterprises, *Social Enterprise Journal*, vol. 2, 73-81.
- Cameron, Susannah. (2003). A National Study of Community Investment in Canada. http://www.socialinvestment.ca/Survey_Results.doc
- Canadian Community Investment Network Co-operative (CCINC). (2009). *Building Local Assets: Community Investment in Canada*
- Canadian Cooperative Association (CCA). (2009). *Co-op Facts and Figures*. http://www.coopscanada.coop/en/about_co-operative/Co-op-Facts-and-Figures
- Carter, Terrance S., and Theresa L.M. Man. (2009). Business Activities and Social Enterprise: Towards a New Paradigm. 2009 National Charity Law Symposium, The Canadian Bar Association/Ontario Bar Association.
- Carter, Terrance S., and Theresa L.M. Man . (2008). Canadian Registered Charities: Business Activities and Social Enterprise - Thinking Outside the Box. National Centre on Philanthropy and the Law Annual Conference.
- Causeway Social Finance. (2009). Social Finance: Enabling social enterprise for public benefit. <http://sites.google.com/a/socialfinance.ca/causeway/social-finance-enabling-social-enterprise-for-public-benefit-march-09>
- Chernoff, Alex. (2008). Creating Capital Pools to Support Social Enterprise Development in Manitoba.
- Chertok, M., Hamaoui, J. and Jamison, E. (2008), "The Funding Gap". *Stanford Social Innovation Review*. Vol. 6, No. 2, pp. 44-51.
- Christiansen, M, and Edme, R. (2007) Venture Capitalism for Sustainability. Eurosif.
- Community Foundations of Canada (CFC). (2009). Overview. <http://www.cfc-fcc.ca/doc/ENGFactSheet10-20.pdf>
- Cooch, S. and Kramer, M. (2006). *Compounding Impact: Mission Related Investing By US Foundations*. Foundation Strategy Group
- Dees, G. (1998). Enterprising Nonprofits , *Harvard Business Review*, vol. 76, no 1, p.55-65.
- Defourny, J. (2001). From Third Sector to Social Enterprise, in Borzaga, C. and Defourny, J. (eds) *The Emergence of Social Enterprise*, London and New York: Routledge, 1-28.
- Drayton, W. (2004). Needed: a new social financial services industry, *Alliance*, 9(1), 40-41.
- Edery, Y. (2006). Ethical Developments in finance: implications for charities and social enterprises, *Social Enterprise Journal*, Vol 2.

Harji and Hebb May 15th 2010

- Emerson, J. (2003). The Blended Value Proposition: Integrating Social and Financial Returns. *California Management Review*, Vol. 45, No. 4, Summer 2003.
- Emerson J. and Bonini S. (2004). The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation. Working Paper.
- Emerson, J, and Bonini, S.(2006). Capitalism 3.0, BlendedValue.org, Available at: www.blendedvalue.org/media/pdf-capitalism-3point0.pdf
- Emerson, J. and Spitzer J. (2007). From Fragmentation to Function: Critical Concepts and Writings on Social Capital Markets' Structure, Operation, and Innovation. Skoll Centre for Social Entrepreneurship: Oxford.
- Emerson, J., Freindlich T. and Fruchterman J. (2007). Nothing Ventured, Nothing Gained: Addressing The Critical Gaps in Risk-Taking Capital for Social Enterprise. Skoll Centre for Social Entrepreneurship: Oxford.
- Fraser, S. (2007), *Finance for Small and Medium-Sized Enterprises: Comparisons of Social Enterprises and Mainstream Businesses*, UK Government Department of Trade and Industry. Available at: http://www.cabinetoffice.gov.uk/media/cabinetoffice/third_sector/assets/finance_access_report.pdf
- Fung A., Hebb T. and Rogers J. (2001) *Working Capital: The Power of Labor's Pensions*. Cornell University Press, Ithaca.
- Freshfields Report (2007) A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment. UNEP FI. New York.
- Government of Ontario. (2008). Breaking the Cycle: Ontario's Poverty Reduction Strategy. <http://www.growingstronger.ca>
- Hagerman L., Clark G. and Hebb T. (2007) Investment Intermediaries in Economic Development: Linking Public Pension Funds to Urban Revitalization. *Community Development Investment Review*, Federal Reserve Bank of San Francisco, 3(1).
- Harji, Karim. (2008a). Investing in Communities: Meritas Mutual Funds. Carleton Centre for Community Innovation: Ottawa. Case Study, Carleton Centre for Community Innovations. Ottawa.
- Harji, Karim. (2008b). Investing in Housing: The Public Service Alliance of Canada, Alterna Savings Credit Union and the Ottawa Community Loan Fund. Carleton Centre for Community Innovation: Ottawa.
- Harji, Karim and Tessa Hebb (2009) The Quest for Blended Value Returns. Working Paper, Carleton Centre for Community Innovation, Ottawa, available at http://www.carleton.ca/3ci/3ci_files/3ci_Working_Papers.htm accessed May 13th 2010.
- Hebb, Tessa (2005a) Pension Funds and Urban Revitalization California Case Study A: Private Equity CalPERS' California Initiative. Oxford University Centre for the Environment Working Paper 05-15. Oxford, UK.
- Hebb, Tessa (2005b) Pension Funds and Urban Revitalization California Case Study B: Real Estate CalPERS' California Urban Real Estate Initiative. Oxford University Centre for the Environment Working Paper 05-16. Oxford, UK.
- Hebb, Tessa. (2007) "CalSTRS Case Study: Diversity as an Investment Framework: CalSTRS Targeted Investment" Strategy Working paper, Oxford University Centre for the Environment, Working paper. Oxford UK.
- Hebb, T. , LaPointe R. and Jackson E. T. (2006). Mapping Economically Targeted Pension Fund Investing in Canada. Carleton Centre for Community Innovation. Working Paper. Ottawa.
- Hebb T., A. Wortsman, M. Mendell, N. Neimtan, and R. Rouzier, (2006) *Financing Social Economy Enterprises*, Industry Canada Report, Ottawa. March 2006.
- Hall, Michael H., Cathy W. Barr, M. Easwaramoorthy, S. Wojciech Sokolowski, and Lester M. Salamon. (2005). The Canadian Nonprofit and Voluntary Sector in Comparative Perspective. Imagine Canada.
- Kramer, Mark, Marcie Parkhurst, and Lalitha Vaidyanathan. (2009). Breakthroughs in Shared Measurement and Social Impact.
- MaRS Discovery District. (2009). Convergence in Social Venture Capital. Working Paper. MARS. Toronto.

- Meehan, W, Kilmer, D and O'Flanagan, M, 2004. Investing in Society, *Stanford Social Innovation Review*, Spring, pp34-43.
- Mendell, Marguerite and Rocío Nogales. (2008). Social enterprises in OECD Member Countries: What are the financial streams? Working paper.
- Monitor Institute, The. (2008). Investing for Social and Environmental Impact: A Design for Catalyzing An Emerging Industry.
- Nicholls, Alex and Cathy Pharoah. (2007). The Landscape of Social Investment: A Holistic Topology of Opportunities and Challenges. Skoll Centre for Social Entrepreneurship Research: Oxford.
- Olsen, Sara and Brett Galimidi. (2008). Catalog Of Approaches to Impact Measurement: Assessing social impact in private ventures.
- Pan-Canadian Community Futures Group. (2005). Accessing new opportunities for the future: Annual Report 2004. http://www.ontcfdc.com/downloads/general/2004PanCanAR_Eng.pdf
- Pearson, Rebecca. (2008). The Nonprofit Capital Market in Canada. The BC-Alberta Social Economy Research Alliance (BALTA).
- Pearson, Rebecca and Jonathan Lawrence. (2009). The Nonprofit Sector Capital Market in BC and Alberta. The BC-Alberta Social Economy Research Alliance (BALTA).
- Sadownik, Bryn. (2009). Developing the Demonstrating Value Framework - Detailed Report. <http://www.demonstratingvalue.org>
- Schoening, M. (2003), *Global Trends in Financing the Social Sector*. Geneva: Schwab Foundation.
- Sethi, P, 2005, Investing in Socially Responsible Companies is a Must for Public Pension Funds because there is no better alternative, *Journal of Business Ethics*, 56
- Shortall, J. (2009). *Introduction to Understanding and Accessing Social Investment: A Brief Guide for Social Entrepreneurs and Development Practitioners*. Small Enterprise Education and Promotion (SEEP) Network.
- Social Investment Organization (SIO). (2009). *The Canadian Socially Responsible Investment Review 2008*. <http://www.socialinvestment.ca/documents/caReview2008.pdf>
- Strandberg, Coro and Brenda Plant. (2004). *Scan of the Community Investment Sector in Canada*. National Roundtable on the Environment and the Economy. Ottawa.
- Strandberg, Coro. (2007). *The Social Purpose Capital Market: An Opportunity for the Canadian Charitable Sector*.
- Strandberg, Coro. (2008). *Primer: Responsible Investment Pilot Project*. Community Foundations of Canada. <http://www.corostrandberg.com/pdfs/2008%2008%2001%20-%20CFC%20Responsible%20Investment%20Primer.ppt>
- Tuan, Melinda. (2008). Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches.
- United Nations Environment Programme Finance Initiative (UNEP FI). (2009). Fiduciary Responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment.
- World Economic Forum. (2005). Private Investment for Social Goals: Building the Blended Value Capital Market.
- World Economic Forum. (2006). Blended Value Investing: Capital Opportunities for Social and Environmental Impact.
- Venturesome. (2008). Financing Civil Society: A Practitioner's Guide to the Social Investment Market.

About the Authors

Karim Harji is the Manager for Partnership Development at Social Capital Partners, a social finance organization which provides growth financing and advisory services to businesses that integrate a social mission into their operations. Karim is also a Senior Research Associate at the Carleton Centre for Community Innovation at Carleton University, and the co-founder of SocialFinance.ca - an online platform for the community of people and organizations that are actively trying to advance the development of a social finance market space in Canada.

Tessa Hebb is the Director of the Carleton Centre for Community Innovation, Carleton University, Canada. Her research focuses on the financial and extra-financial impact of pension fund investment in Canada and internationally with particular emphasis on Responsible Investment and Corporate Engagement and is funded by the Social Sciences and Humanities Research Council, Government of Canada. Dr. Hebb is also a senior research associate with the Oxford University Centre for the Environment and the Initiative for a Competitive Inner City. In 2008 she completed a multi-year research project revitalization funded by Rockefeller and Ford Foundations on the role of US public sector pension funds and urban revitalization, based at the [Labor and Worklife Program](#), Harvard Law School.

The Carleton Centre for Community Innovation delivers research, education and program management, to investigate, strengthen and disseminate innovation in social finance, responsible investment, community-based economic development, and local governance and administration, on the part of geographic communities and communities of interest, in Canada and around the world. We invite community leaders, policymakers, business executives, trade unionists, non-profit managers and engaged scholars to join us in producing action-oriented knowledge that will empower communities to build better lives for their citizens. As one of Canada's leading sources of expertise in social finance, 3ci has also played a leadership role in grant-making, evaluation and policy analysis in the fields of community economic development and social enterprise.

Acknowledgements

We would like to thank Robert Mittelman for his contribution to this paper. We would also like to thank all those who so generously provided us with interviews for this paper. Any errors or omissions are the sole responsibility those of the authors.